Chapter 12

Global Marketing Management:

PLANNING AND ORGANIZATION

CHAPTER OUTLINE

Global Perspective: The British Sell Another Treasure

Global Marketing Management

- The Nestlé Way: Evolution Not Revolution
- Benefits of Global Marketing

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- International Commitment
- The Planning Process

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Organizing for Global Competition

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CHAPTER LEARNING OBJECTIVES

What you should learn from Chapter 12:

LO1 How global marketing management differs from international marketing management

LO2 The need for planning to achieve company goals

LO3 The important factors for each alternative market-entry strategy

LO4 The increasing importance of international strategic alliances

Global Perspective

THE BRITISH SELL ANOTHER TREASURE

The mating dance has been unusually long, but then again, the deal was unusually large. Kraft first proposed to purchase the British institution Cadbury for a price of almost $17 billion in early September. Then it had until November 9 to make a formal offer or give up the fight. The courtship unleashed a barrage of bad puns (e.g., "Cadbury gags on Kraft bid"). It also stirred up atavistic fears across Britain of a faceless American conglomerate wrecking a great British institution and forcing Britons to give up Dairy Milk chocolate and Creme Eggs in favor of Cheez Whiz and Jell-O.

A succession of studies has shown that three-quarters of mergers and acquisitions fail to produce any benefits for shareholders, and more than half actually destroy shareholder value (e.g., Quaker and Snapple, Daimler-Benz and Chrysler, Time Warner and AOL). The danger is particularly pronounced in hostile bids that cross borders and involve much loved brands.

A Kraft–Cadbury deal sounds designed for failure. Todd Stitzer, Cadbury's boss, argues that his firm is an embodiment of a distinctive style of "principled capitalism" that was inspired by its Quaker founders nearly two centuries ago and has been woven into its fabric ever since. Destroy that tradition and "you risk destroying what makes Cadbury a great company."

Chocolate companies as a breed also have a peculiarly intimate relationship with their customers, partly because chocolate is involved in so many childhood, romantic, and festive rituals, and partly because people acquire their chocolate preferences at their mothers' knees. Most Britons would rather eat scorpions than Hershey bars. The giants of the chocolate business have all dominated their respective regions for decades. Britons have been stuffing themselves with Dairy Milk since 1905, Creme Eggs since 1923, and Crunchies since 1929.

A Kraft–Cadbury combination also would create a rotten-toothed behemoth, with $50 billion in annual sales, a significant presence in every market worthy of the name, and a real chance of making up lost ground in China. Kraft has a strong position in mainland Europe and operations in 150 countries. Cadbury is worshipped wherever the British empire once held sway (the company commands 70 percent of the chocolate market in India, for example), and a lot of other places besides (notably, Brazil and Mexico). It also has an unrivalled distribution system among small shops in India and parts of Africa. Skeptics are right to point out that grandiose mergers more often destroy brands than strengthen them, particularly when those brands are such delicate confections as chocolate bars and gooey eggs, but then again, few mergers offer the chance to establish a global empire of taste.

The mating dance was finally consummated in January 2010, for some $19 billion in cash and stock. Of course, such a large acquisition will have to undergo scrutiny by antitrust officials on both sides of the Atlantic before final approval. Among those who do not appreciate this latest marital arrangement was Warren Buffett, whose Berkshire Hathaway group owns 9.4 percent of Kraft. Had he been able, he would have voted against the $19 billion dowry that Kraft paid as too much.

Sources: "Food Fight," *The Economist*, November 7, 2009, p. 63; Graeme Wearden, "Warren Buffett Blasts Kraft's Takeover of Cadbury," guardian.co.uk, January 20, 2010.

Confronted with increasing global competition for expanding markets,[1] multinational companies are changing their marketing strategies[2] and altering their organizational structures. Their goals are to enhance their competitiveness and to ensure proper positioning to capitalize on opportunities in the global marketplace. Comprehensive decisions must be made regarding key strategic choices, such as standardization versus adaptation, concentration versus dispersion, and integration versus independence.[3] Particularly as national borders become less meaningful, we see the rise of greater international corporate collaboration networks yielding new thinking about traditional concepts of competition and organization.[4]

A recent study of North American and European corporations indicated that nearly 75 percent of the companies are revamping their business processes, that most have formalized strategic planning programs, and that the need to stay cost competitive was considered the most important external issue affecting their marketing strategies. Change is not limited to the giant multinationals but includes midsized and small firms as well.

In fact, the flexibility of a smaller company may enable it to reflect the demands of global markets and redefine its programs more quickly than larger multinationals. Acquiring a global perspective is easy, but the execution requires planning, organization, and a willingness to try new approaches—from engaging in collaborative relationships to redefining the scope of company operations.

This chapter discusses global marketing management, competition in the global marketplace, strategic planning, and alternative market-entry strategies. It also identifies the elements that contribute to an effective international or global organization.

Global Marketing Management

LO1

How global marketing management differs from international marketing management

In the 1970s, the market segmentation argument was framed as "standardization versus adaptation." In the 1980s, it was "globalization versus localization," and in the 1990s, it was "global integration versus local responsiveness." The fundamental question was whether the global homogenization of consumer tastes allowed global standardization of the marketing mix. The Internet revolution of the 1990s, with its unprecedented global reach, added a new twist to the old debate.

Even today, some companies are calling "global" the way to go. For example, executives at Twix Cookie Bars tried out their first global campaign with a new global advertising agency, Grey Worldwide. With analysis, perhaps a global campaign does make sense for Twix. But look at the companies that are going in the other direction. Levi's jeans have faded globally in recent years. Ford has chosen to keep only one acquired nameplate, Mazda, but also will sell the Fiesta worldwide.[5] And perhaps the most global company of all, Coca-Cola, is peddling two brands in India—Coke and Thums Up. Coke's CEO explained, "Coke has had to come to terms with a conflicting reality. In many parts of the

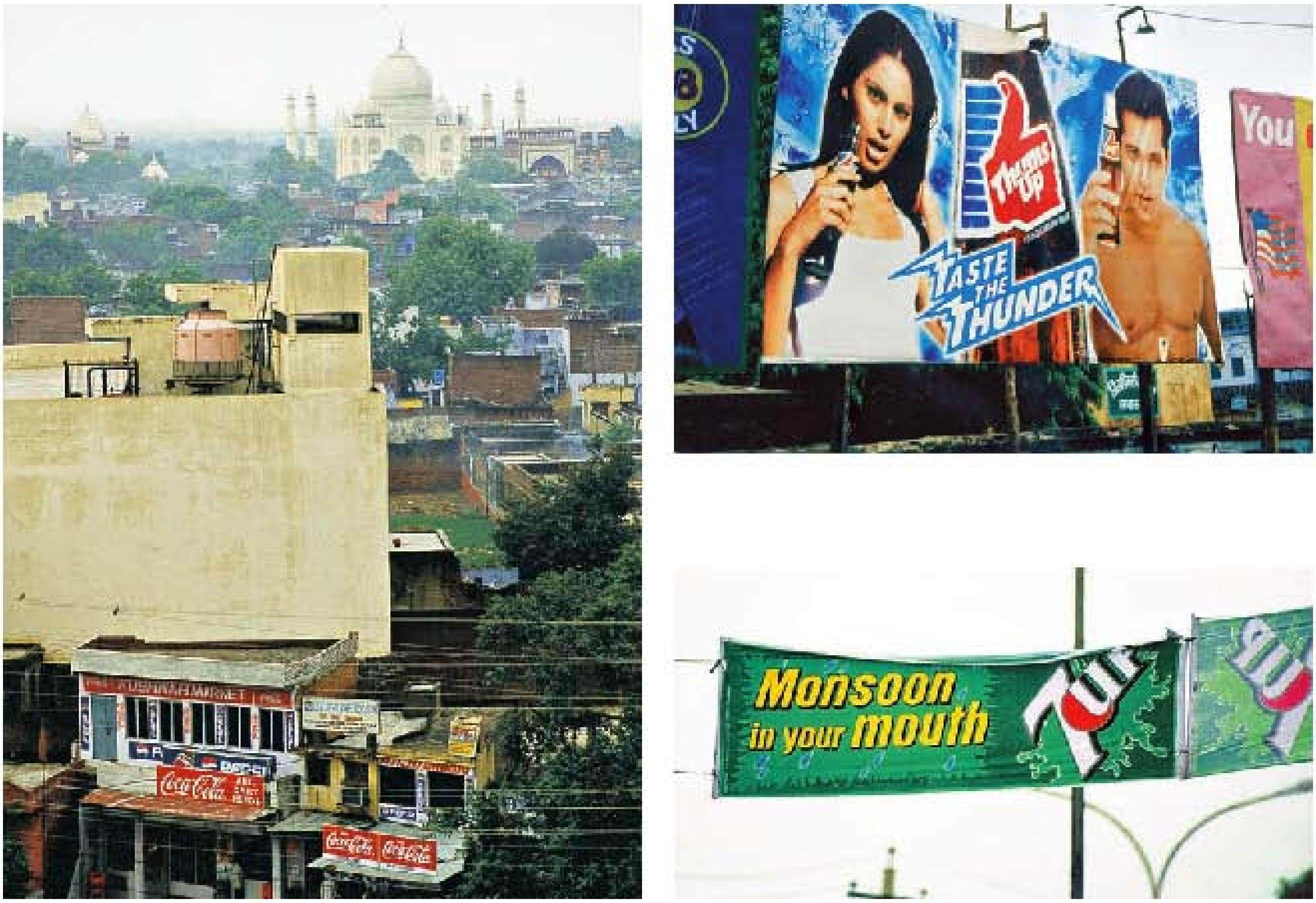
[1]Yadong Luo and Rosalie Tung, "International Expansion of Emerging Market Enterprises: A Springboard Perspective," *Journal of International Business Studies* 38 (2007), pp. 481–98; Peter J. Buckley, L. Jeremy Clegg, Adam R. Cross, Xiin Liu, Hinrich Voss, and Ping Zheng, "The Determinants of Chinese Outward Foreign Direct Investment," *Journal of International Business Studies* 38 (2007), pp. 499–518; Daphne W. Yiu, ChingMing Lau, and Garry D. Bruton, "International Venturing by Emerging Economy Firms: The Effects of Firm Capabilities, Home Country Networks, and Corporate Entrepreneurship," *Journal of International Business Studies* 38 (2007), pp. 519–40; Igor Filatotchev, Roger Strange, Jennifer Piesse, and Yung-Chih Lien, "FDI by Firms from Newly Industrialized Economies in Emerging Markets: Corporate Governance, Entry Mode, and Location," *Journal of International Business Studies* 38 (2007), pp. 556–72.

[2]Thomas Hutzschenreuter and Florian Grone, "Product and Geographic Scope Changes of Multinational Enterprises in Response to International Competition," *Journal of International Business Studies* 40, no. 7 (2009), pp. 1149–72; Yaron Timmor, Samuel Rabino, and Jehiel Zif, "Defending a Domestic Position against Global Entries," *Journal of Global Marketing* 22, no. 4 (2009), pp. 251–66.

[3]Lewis K. S. Lim, Frank Acito, and Alexander Rusetski, "Development of Archetypes of International Marketing Strategy," *Journal of International Business Studies* 37 (2006), pp. 499–524.

[4]B. Elango and Chinmay Pattnaik, "Building Capabilities for International Operations through Networks: A Study of Indian Firms," *Journal of International Business Studies* 38 (2007), pp. 541–55; Victor K. Fung, William K. Fung, and Yoram (Jerry) Wind, *Competing in a Flat World* (Upper Saddle River, NJ: Wharton School Publishing, 2008).

[5]David Kiley, "One Ford for the Whole Wide World," *BusinessWeek*, June 15, 2009, pp. 58–60.



The competition among soft drink bottlers in India is fierce. Here Coke and Pepsi combine to ruin the view of the Taj Mahal. Notice how the red of Coke stands out among its competitors in the picture. Of course, now Coca-Cola has purchased Thums Up, a prominent local brand—this is a strategy the company is applying around the world. But the red is a substantial competitive advantage both on store shelves and in outdoor advertising of the sort common in India and other developing countries. We're not sure who borrowed the "monsoon/thunder" slogans from whom.

world, consumers have become pickier, more penny-wise, or a little more nationalistic, and they are spending more of their money on local drinks whose flavors are not part of the Coca-Cola lineup."

Part of this trend back toward localization is caused by the efficiencies of customization made possible by the Internet and increasingly flexible manufacturing processes. Indeed, a good example of the "mass customization" is Dell Computer Corporation, which maintains no inventory and builds each computer to order. Also crucial has been the apparent rejection of the logic of globalism by trade unionists, environmentalists, and consumers so well demonstrated in Seattle during the World Trade Organization meetings in 2000. Although there is a growing body of empirical research illustrating the risks and difficulties of global standardization,[6] contrary results also appear in the literature.[7] Finally, prominent among firms' standardization strategies is Mattel's unsuccessful globalization of blonde Barbie.

[6]Carl Arthur Solberg, "The Perennial Issue of Adaptation or Standardization of International Marketing Communication: Organizational Contingencies and Performance," *Journal of International Marketing* 10, no. 3 (2002), pp. 1–21; Marios Theodosiou and Leonidas C. Leonidou, "Standardization versus Adaptation of International Marketing Strategy: An Integrative Assessment of the Empirical Research," *International Business Review* 12 (2003), pp. 141–71; Joan Enric Ricart, Michael J. Enright, Panjak Ghemawat, Stuart L. Hart, and Tarun Khanna, "New Frontiers in International Strategy," *Journal of International Business Studies* 35, no. 3 (2004), pp. 175–200.

[7]Oliver Schilke, Martin Reimann, and Jacquelyn S. Thomas, "When Does International Marketing Standardization Matter to Firm Performance?" *Journal of International Marketing* 17, no. 4 (2009), pp. 24–46.

Items in the Disney Princess collection are on display at the Licensing International show at New York's Javits Convention Center. It will be interesting to see Barbie's (Mattel's) competitive response to the ethnic breadth of the Disney line.

We correctly predicted in a previous edition of this book that a better approach was that of Disney, with its more culturally diverse line of "Disney Princesses" including Mulan (Chinese) and Jasmine (Arabic). Even though Bratz and Disney Princesses won this battle of the new "toy soldiers," the question is still not completely settled. Relatedly, Mattel has recently won a lawsuit against MGA, the maker of Bratz, for stealing its design. But a federal court in California is allowing Bratz to be sold during the appeal process.[8]

Indeed, the debate about standardization versus adaptation is itself a wonderful example of the ethnocentrism of American managers and academics alike. That is, from the European or even the Japanese perspective, markets are by definition international, and the special requirements of the huge American market must be considered from the beginning. Only in America can international market requirements be an afterthought.

Moreover, as the information explosion allows marketers to segment markets ever more finely, it is only the manufacturing and/or finance managers in companies who argue for standardization for the sake of economies of scale. From the marketing perspective, customization is always best.[9] The ideal market segment size, if customer satisfaction is the goal, is *one*. According to one expert, "Forward-looking, proactive firms have the ability and willingness . . . to accomplish both tasks [standardization and localization] simultaneously."[10]

We believe things are actually simpler than that. As global markets continue to homogenize and diversify simultaneously, the best companies will avoid the trap of focusing on *country* as the primary segmentation variable. Other segmentation variables are often more important—for example, climate, language group, media habits, age,[11] or income, as exemplified in our discussion about the diversity within China in Chapter 11. The makers of Twix apparently think that media habits (that is, MTV viewership) supersede country, according to their latest segmentation approach. At least one industry CEO concurred

[8]Ann Zimmerman, "Maker of Bratz Dolls Wins a Legal Reprieve," *The Wall Street Journal*, December 11, 2009, p. B10.

[9]Peggy A. Cloninger and Ziad Swaidan, "Standardization, Customization and Revenue from Foreign Markets," *Journal of Global Marketing* 20 (2007), pp. 57–70.

[10]Masaaki Kotabe, "Contemporary Research Trends in International Marketing: The 1960s," Chapter 17 in *Oxford Handbook of International Business*, 2nd edition, Alan Rugman (ed.) (Oxford: Oxford University Press, 2008). Also consistent are the findings of Shouming Zou and S. Tamer Cavusgil, "The GMS: A Broad Conceptualization of Global Marketing Strategy and Its Effect on Firm Performance," *Journal of Marketing* 66, no. 4 (October 2002), pp. 40–57.

[11]Dannie Kjeldgaard and Soren Askegaard, "The Glocalization of Youth Culture: The Global Youth Segment as Structures of Common Difference," *Journal of Consumer Research* 33 (2006), pp. 21–27.

regarding media-based segmentation: "With media splintering into smaller and smaller communities of interest, it will become more and more important to reach those audiences wherever [whichever country] they may be. Today, media companies are increasingly delivering their content over a variety of platforms: broadcast—both TV and radio—and cable, online and print, big screen video, and the newest portable digital media including 3-D. And advertisers are using the same variety of platforms to reach their desired audience." Finally, perhaps a few famous Italian brands are the best examples: Salvatore Ferragamo shoes, Gucci leather goods, and Ferrari cars sell to the highest-income segments globally. Indeed, for all three companies, their U.S. sales are greater than their Italian sales.

In the 21st century, standardization versus adaptation is simply not the right question to ask.[12] Rather, the crucial question facing international marketers is what are the most efficient ways to segment markets.[13] Country has been the most obvious segmentation variable, particularly for Americans. But as better communication systems continue to dissolve national borders, other dimensions of global markets are growing in salience.

The Nestlé Way: Evolution Not Revolution

Nestlé certainly hasn't been bothered by the debate on standardization versus adaptation. Nestlé has been international almost from its start in 1866 as a maker of infant formula. By 1920, the company was producing in Brazil, Australia, and the United States and exporting to Hong Kong. Today, it sells more than 8,500 products produced in 489 factories in 193 countries. Nestlé is the world's biggest marketer of infant formula, powdered milk, instant coffee, chocolate, soups, and mineral water. It ranks second in ice cream, and in cereals, it ties Ralston Purina and trails only Kellogg Company. Its products are sold in the most upscale supermarkets in Beverly Hills, California, and in huts in Nigeria, where women sell Nestlé bouillon cubes alongside homegrown tomatoes and onions. Although the company has no sales agents in North Korea, its products somehow find their way into stores there, too.

The "Nestlé way" is to dominate its markets. Its overall strategy can be summarized in four points: (1) think and plan long term, (2) decentralize, (3) stick to what you know, and (4) adapt to local tastes. To see how Nestlé operates, take a look at its approach to Poland, one of the largest markets of the former Soviet bloc. Company executives decided at the outset that it would take too long to build plants and create brand awareness. Instead, the company pursued acquisitions and followed a strategy of "evolution not revolution." It purchased Goplana, Poland's second-best-selling chocolate maker (it bid for the No. 1 company but lost out) and carefully adjusted the end product via small changes every two months over a two-year period until it measured up to Nestlé's standards and was a recognizable Nestlé brand. These efforts, along with all-out marketing, put the company within striking distance of the market leader, Wedel. Nestlé also purchased a milk operation and, as it did in Mexico, India, and elsewhere, sent technicians into the field to help Polish farmers improve the quality and quantity of the milk it buys through better feeds and improved sanitation.

Nestlé's efforts in the Middle East are much longer term. The area currently represents only about 2 percent of the company's worldwide sales, and the markets, individually, are relatively small. Furthermore, regional conflicts preclude most trade among the countries. Nevertheless, Nestlé anticipates that hostility will someday subside, and when that happens, the company will be ready to sell throughout the entire region. Nestlé has set up a network of factories in five countries that can someday supply the entire region with different products. The company makes ice cream in Dubai and soups and cereals in Saudi Arabia. The Egyptian factory makes yogurt and bouillon, while Turkey produces chocolate. And a factory in Syria makes ketchup, a malted-chocolate energy food, instant noodles, and other

[12]Aviv Shoham, Maja Makovec Brencic, Vesna Virant, and Ayalla Ruvio, "International Standardization of Channel Management and Its Behavioral and Performance Outcomes," , 16, no. 2 (2008), pp. 120–51.

[13]Amanda J. Broderick, Gordon E. Greenley, and Rene Dentiste Mueller, "The Behavioral Homogeneity Evaluation Framework: Multi-Level Evaluations of Consumer Involvement in International Segmentation," 38 (2007), pp. 746–63.

Benefits of Global Marketing

Journal

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CROSSING BORDERS 12.1 Swedish Takeout

Fifty years ago in the woods of southern Sweden, a minor revolution took place that has since changed the concept of retailing and created a mass market in a category where none previously existed. The catalyst of the change was and is IKEA, the Swedish furniture retailer and distributor that virtually invented the idea of self-service, takeout furniture. IKEA sells reasonably priced and innovatively designed furniture and home furnishings for a global marketplace.

The name was registered in Agunnaryd, Sweden, in 1943 by Ingvar Kamprad—the IK in the company's name. He entered the furniture market in 1950, and the first catalog was published in 1951. The first store didn't open until 1958 in Almhult. It became so incredibly popular that a year later the store had to add a restaurant for people who were traveling long distances to get there.

IKEA entered the United States in 1985. Although IKEA is global, most of the action takes place in Europe, with about 85 percent of the firm's $7 billion in sales. Nearly one-fourth of that comes from stores in Germany. This level compares with only about $1 billion in NAFTA countries.

One reason for the relatively slow growth in the United States is that its stores are franchised by Netherlands-based Inter IKEA Systems, which carefully scrutinizes potential franchisees—individuals or companies—for strong financial backing and a proven record in retailing. The IKEA Group, based in Denmark, is a group of private companies owned by a charitable foundation in the Netherlands; it operates more than 100 stores. The Group also develops, purchases, distributes, and sells IKEA products, which are available only in company stores. The items are purchased from more than 2,400 suppliers in 65 countries and shipped through 14 distribution centers. The goal of sourcing 30 percent of timber in both China and Russia has not yet been reached, but the efforts continue.

Low price is built into the company's lines. Even catalog prices are guaranteed not to increase for one year. The drive to produce affordable products inadvertently put IKEA at the forefront of the environmental movement several decades ago. In addition to lowering costs, minimization of materials and packing addressed natural resource issues. Environmentalism remains an integral operational issue at IKEA. Even the company's catalog is completely recyclable and produced digitally rather than on film.

On the day that Russia's first IKEA store opened in 2000, the wait to get in was an hour. Highway traffic backed up for miles. More than 40,000 people crammed into the place, picking clean sections of the warehouse. The store still pulls in more than 100,000 customers per week. IKEA has big plans for Russia. Company officials are placing IKEA's simple shelves, kitchens, bathrooms, and bedrooms in millions of Russian apartments that haven't been remodeled since the Soviet days. And now IKEA has opened five new stores in China's biggest cities.

Sources: Colin McMahon, "Russians Flock to IKEA as Store Battles Moscow," Chicago Tribune, May 17, 2000; "IKEA to March into China's Second-tier Cities [Next]," SinoCast China Business Daily News, August 6, 2007, p. 1; "IKEA Struggles to Source Sustainable Timber," Environmental Data Services, July 2009, p. 22.

Diversity of markets served carries with it additional financial benefits.[17] Spreading the portfolio of markets served brings important stability of revenues and operations to many global companies.[18] Companies with global marketing operations suffered less during the Asian market downturn of the late 1990s than did firms specializing in the area. Firms that market globally are able to take advantage of changing financial circumstances in other ways as well. For example, as tax and tariff rates ebb and flow around the world, the most global companies are able to leverage the associated complexity to their advantage.

[17]N. Capar and M. Kotabe have noted that for services firms, the relationship between international diversification and firm performance can be curvilinear (that is, both not enough and too much are bad); see "The Relationship between International Diversification and Performance in Service Firms," *Journal of International Business Studies* 34, no. 4 (2003), pp. 345–55; Protiti Dastidar, "International Corporate Diversification and Performance: Does Firm Self-Selection Matter?" *Journal of International Business Studies* 40, no. 1 (2009), pp. 71–85.

[18]Lee Li, Gongming Qian, and Zhengming Qian, "Product Diversification, Multinationality, and Country Involvement: What Is the Optimal Combination?" *Journal of Global Marketing* 20 (2007), pp. 5–25; Tess Stynes and Paul Ziobro, "McDonald's Sales Rise Despite U.S. Weakness," *The Wall Street Journal*, February 9, 2010, online.

CROSSING BORDERS 12.2 Apple Shops for Partners around the World

Apple has moved fast since its introduction of the iPhone, making distribution deals with U.S. and European operators. Now Steve Jobs is turning east, making plans to enter Japan, one of the biggest and most sophisticated mobile phone markets in the world.

People familiar with the situation say Jobs recently met with NTT DoCoMo Inc.'s president, Masao Nakamura, to discuss a deal to offer the iPhone in Japan through the nation's dominant mobile operator. These informants said Apple also has been talking to the No. 3 operator, Softbank Corp., and that executives from both companies have made multiple trips to Apple's Cupertino, California, headquarters. For Apple, finding a wireless partner soon in Japan is an important step in the company's oft-stated goal of gaining a 1 percent share of the global cell phone business by shipping about 10 million iPhones between the product's launch in late June 2007 and the end of 2008.

The world's second-largest economy, after the United States, is an attractive market because it not only has a strong base of iPod fans, but its nearly 100 million mobile phone users buy new phones every two years on average. Japanese consumers also are accustomed to shelling out hundreds of dollars for expensive phones with advanced capabilities, such as digital television, cameras, and music.

Yet Japan could be a difficult market to crack for Apple. More than 10 domestic mobile phone makers work closely with the three major operators to develop phones tailored to Japanese consumers' tastes. In the past, foreign mobile phone makers have not been willing to go to such lengths and generally have met with little success in selling their phones, especially when those phones do not contain essential Japanese features, such as the operators' proprietary mobile Internet technology or e-mail software that Japanese consumers are used to having.

The iPhone has been successful thus far in countries where it has been launched. Apple sold a total of 1.4 million iPhones by late September 2007. And though sales of the product did not quite meet some of the most bullish Wall Street forecasts, the iPhone has been one of the top-selling smart phones in the United States, where it is sold only through AT&T Inc., the nation's largest carrier by subscribers.

In the end, Apple has partnered with Softbank in Japan and China Unicom and is expecting the momentum to continue well into the future.

Sources: John Markoff, "A Personal Computer to Carry in a Pocket," The New York Times, January 8, 2007, pp. C1, C3; Yukari Iwatani and Nick Wingfield, "Apple Meets with DoCoMo, Softbank on Launching iPhone in Japan," The Wall Street Journal (online), December 18, 2007; Philip Michaels, "Apple: What Recession?" Macworld, January 2010, p. 16.

Planning for Global Markets

Planning is a systematized way of relating to the future. It is an attempt to manage the effects of external, uncontrollable factors on the firm's strengths, weaknesses, objectives, and goals to attain a desired end. Furthermore, it is a commitment of resources to a country market to achieve specific goals. In other words, planning is the job of making things happen that might not otherwise occur.

Planning allows for rapid growth of the international function, changing markets, increasing competition, and the turbulent challenges of different national markets. The plan must blend the changing parameters of external country environments with corporate objectives and capabilities to develop a sound, workable marketing program.[19] A strategic plan commits corporate resources to products and markets to increase competitiveness and profits.

Planning relates to the formulation of goals and methods of accomplishing them, so it is both a process and a philosophy. Structurally, planning may be viewed as corporate, strategic, or tactical. International **corporate planning** is essentially long term, incorporating generalized goals for the enterprise as a whole. **Strategic planning** is conducted at the highest levels of management and deals with products, capital, research, and the long- and short-term goals of the company. **Tactical planning**, or market planning, pertains to specific actions and to the allocation of resources used to implement strategic planning goals

[19] Wade M. Danis, Dan S. Chiaburu, and Majorie A. Lyles, "The Impact of Managerial Networking Intensity and Market-Based Strategies on Firm Growth during Institutional Upheaval: A Study of Small and Medium-Sized Enterprises in a Transition Economy," *Journal of International Business Studies* 41, no. 2 (2010), pp. 287–307.

in specific markets. Tactical plans are made at the local level and address marketing and advertising questions.

A major advantage for a multinational corporation (MNC) involved in planning is the discipline imposed by the process. An international marketer who has gone through the planning process has a framework for analyzing marketing problems and opportunities and a basis for coordinating information from different country markets. The process of planning may be as important as the plan itself, because it forces decision makers to examine all factors that affect the success of a marketing program and involves those who will be responsible for its implementation. Another key to successful planning is evaluating company objectives, including management's commitment and philosophical orientation to international business. Finally, the planning process is a primary medium of organizational learning.

Company Objectives and Resources

Defining objectives clarifies the orientation of the domestic and international divisions, permitting consistent policies. The lack of well-defined objectives has found companies rushing into promising foreign markets only to find activities that conflict with or detract from the companies' primary objectives.

Foreign market opportunities do not always parallel corporate objectives; it may be necessary to change the objectives, alter the scale of international plans, or abandon them. One market may offer immediate profit but have a poor long-run outlook, while another may offer the reverse. Only when corporate objectives are clear can such differences be reconciled effectively.

International Commitment

The planning approach taken by an international firm affects the degree of internationalization to which management is philosophically committed. Such commitment affects the specific international strategies and decisions of the firm. After company objectives have been identified, management needs to determine whether it is prepared to make the level of commitment required for successful international operations—commitment in terms of dollars to be invested, personnel for managing the international organization, and determination to stay in the market long enough to realize a return on these investments.[20]

A company uncertain of its prospects is likely to enter a market timidly, using inefficient marketing methods, channels, or organizational forms, thus setting the stage for the failure of a venture that might have succeeded with full commitment and support by the parent company. Any long-term marketing plan should be fully supported by senior management and have realistic time goals set for sales growth. Occasionally, casual market entry is successful, but more often than not, market success requires long-term commitment.[21]

Finally, a new series of studies is demonstrating a strong regional preference for multinational companies as they expand their operations.[22] Part of this preference is due to the challenges associated with cultural distance[23] and part with physical distance,[24] particularly

[20]Orly Levy, Schon Beechler, Sully Taylor, and Nakiey A. Boyacigiller, "What We Talk about When We Talk about 'Global Mindset': Managerial Cognition in Multinational Corporations," *Journal of International Business Studies* 38 (2007), pp. 231–58.

[21]Thomas Hutzschenreuter, Torben Pedersen, and Henk W. Voldberda, "The Role of Path Dependency and Managerial Intentionality: A Perspective on International Business Research," *Journal of International Business Studies* 38 (2007), pp. 1055–68.

[22]Luis Felipe Lages, Sandy D. Jap, and David A. Griffith, "The Role of Past Performance in Export Ventures: A Short-Term Reactive Approach," *Journal of International Business Studies* 39 (2008), pp. 304–25.

[23]John H. Dunning, Masataka Fujita, and Nevena Yakova, "Some Macro-Data on the Regionalization/Globalization Debate: A Comment on the Rugman/Verbeke Analysis," *Journal of International Business Studies* 38 (2007), pp. 177–99; Ricardo G. Flores and Ruth V. Aguilera, "Globalization and Location Choice: An Analysis of U.S. Multinational Firms in 1980 and 2000," *Journal of International Business Studies* 38 (2007), pp. 1187–210; Simon Collinson and Alan M. Rugman, "The Regional Nature of Japanese Multinational Business," *Journal of International Business Studies* 39 (2008), pp. 215–30.

[24]Jody Evans, Felix T. Mavondo, and Kerrie Bridson, "Psychic Distance: Antecedents, Retail Strategy Implications, and Performance Outcomes," *Journal of International Marketing* 16, no. 2 (2008), pp. 32–63.

that related to the difficulties of doing business across time zones.[25] As we mentioned previously, most countries and companies trade most with their neighbors. Others report that firms also gain competitive advantages from clustering operations in specific regions.[26] Yet to some disagree,[27] researchers question the existence of global strategies, maintaining that only nine American *Fortune* 500 companies deserve the term "global" with respect to their operational coverage of the planet.[28] We can agree that strategic choices currently favor regional foci, but the trend is toward steadily increasing globalization of trade agreements, trade, and company strategies, as we mentioned in the previous chapter. Competition and the new ease of global communications is forcing managers around the world to make greater commitments to global marketing.

The Planning Process

LO2

The need for planning to achieve company goals

Whether a company is marketing in several countries or is entering a foreign market for the first time, planning is essential to success. The first-time foreign marketer must decide what products to develop, in which markets, and with what level of resource commitment. For the company that is already committed, the key decisions involve allocating effort and resources among countries and product(s), deciding on new market segments to develop or old ones to withdraw from, and determining which products to develop or drop. Guidelines and systematic procedures are necessary for evaluating international opportunities and risks and for developing strategic plans to take advantage of such opportunities.[29] The process illustrated in Exhibit 12.1 offers a systematic guide to planning for the multinational firm operating in several countries.

Phase 1: Preliminary Analysis and Screening—Matching Company and Country Needs. Whether a company is new to international marketing or heavily involved, an evaluation of potential markets is the first step in the planning process. A critical first step in the international planning process is deciding in which existing country market to make a market investment. A company's strengths and weaknesses, products, philosophies, modes of operation,[30] and objectives must be matched with a country's constraining factors and market potential.[31] In the first part of the planning process, countries are analyzed and screened to eliminate those that do not offer sufficient potential for further consideration. Emerging markets pose a special problem because many have inadequate marketing infrastructures, distribution channels are underdeveloped, and income levels and distribution vary among countries.

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[25]Lazlo Tihanyi, David A. Griffith, and Craig J. Russell, "The Effect of Cultural Distance on Entry Mode Choice, International Diversification, and MNE Performance: A Meta-Analysis," *Journal of International Business Studies* 36 (2005), pp. 270–83; Thomas Hutzschenreuter and Johannes C. Voll, "Performance Effects of 'Added Cultural Distance' in the Path of International Expansion: pp. 53–70. The Case of German Multinational Enterprises," *Journal of International Business Studies* 39 (2008), pp. 53–70.

[26]Joseph Johnson and Gerard J. Tellis, "Drivers of Success for Market Entry into China and India," *Journal of Marketing* 72, no. 3 (2008), pp. 1–13; Jennifer D. Chandler and John L. Graham, "Relationship-Oriented Cultures, Corruption, and International Marketing Success," *Journal of Business Ethics* 92, no. 2 (2010), pp. 251–67.

[27]Elizabeth Maitland, Elizabeth L. Rose, and Stephen Nicholas, "How Firms Grow: Clustering as a Dynamic Model of Internationalization," *Journal of International Business Studies* 36 (2005), pp. 435–51; Gongming Qian, Lee Li, Ji Li, and Zhengming Qian, "Regional Diversification and Firm Performance," *Journal of International Business Studies* 39 (2008), pp. 197–214; Stephanie A. Fernhaber, Brett Anitra Gilbert, and Patricia P. McDougall, "International Entrepreneurship and Geographic Location: An Empirical Examination of New Venture Internationalization," *Journal of International Business Studies* 39 (2008), pp. 267–90.

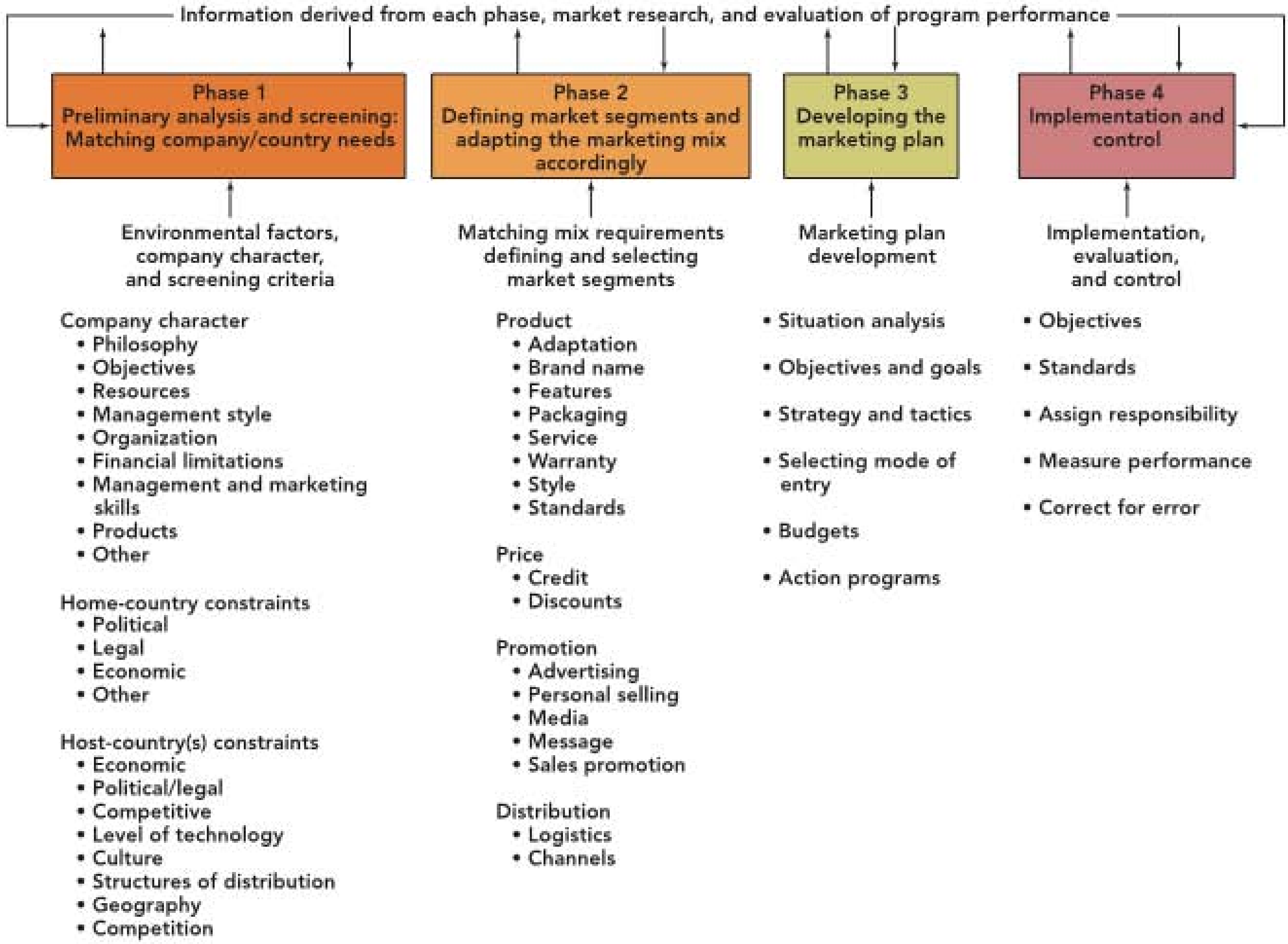
[28]Thomas Osegowitsch and Andre Sammartino, "Reassessing (Home-) Regionalization," *Journal of International Business Studies* 39 (2008), pp. 184–96.

[29]Alan M. Rugman and Alain Verbeke, "The Theory and Practice of Regional Strategy: A Response to Osegowitsch and Sammartino," *Journal of International Business Studies* 39 (2008), pp. 326–32.

[30]Gabriel R.G. Benito, Bent Petersen, and Lawrence S. Welch, "Towards More Realistic Conceptualizations of Foreign Operation Modes," *Journal of International Business Studies* 40, no. 9 (2009), pp. 1455–70.

[31]Namrata Malhotra and C. R. (Bob) Corredoira, "An Organizational Model for Understanding Internationalization Processes," *Journal of International Business Studies* 41, no. 2 (2010), pp. 330–49.

Exhibit 12.1
International Planning Process



The next step is to establish screening criteria against which prospective countries can be evaluated. These criteria are ascertained by an analysis of company objectives, resources, and other corporate capabilities and limitations. It is important to determine the reasons for entering a foreign market and the returns expected from such an investment. A company's commitment to international business and its objectives for going international are important in establishing evaluation criteria. Minimum market potential, minimum profit, return on investment, acceptable competitive levels, standards of political stability, acceptable legal requirements, and other measures appropriate for the company's products are examples of the evaluation criteria to be established.[32]

Once evaluation criteria are set, a complete analysis of the environment within which a company plans to operate is made. The environment consists of the uncontrollable elements discussed previously and includes both home-country and host-country constraints, marketing objectives, and any other company limitations or strengths that exist at the beginning of each planning period. Although an understanding of uncontrollable environments is important in domestic market planning, the task is more complex in foreign marketing, because each country under consideration presents the foreign marketer with a different set of unfamiliar environmental constraints. This stage in the planning process, more than anything else, distinguishes international from domestic marketing planning.

[32]Kevin Zheng Zhou, James R. Brown, Chekitan S. Dev, and Sanjeev Agarwal, "The Effects of Customer and Competitor Orientations on Performance in Global Markets: A Contingency Analysis," *Journal of International Business Studies* 38 (2007), pp. 303–19.

The results of Phase 1 provide the marketer with the basic information necessary to evaluate the potential of a proposed country market, identify problems that would eliminate the country from further consideration, identify environmental elements that need further analysis, determine which part of the marketing mix can be standardized and which part of and how the marketing mix must be adapted to meet local market needs, and develop and implement a marketing action plan.

Information generated in Phase 1 helps companies avoid the kinds of mistakes that plagued Radio Shack Corporation, a leading merchandiser of consumer electronic equipment in the United States, when it first went international. Radio Shack's early attempts at international marketing in western Europe resulted in a series of costly mistakes that could have been avoided had it properly analyzed the uncontrollable elements of the countries targeted. The company staged its first Christmas promotion in anticipation of December 25 in Holland, unaware that the Dutch celebrate St. Nicholas Day and give gifts on December 6. Furthermore, legal problems in various countries interfered with some plans. German courts promptly stopped a free flashlight promotion in German stores because giveaways violated German sales laws. In Belgium, the company overlooked a law requiring a government tax stamp on all window signs, and poorly selected store sites resulted in many of the new stores closing shortly after opening.

With the analysis in Phase 1 completed, the decision maker faces the more specific task of selecting country target markets and segments, identifying problems and opportunities in these markets, and beginning the process of creating marketing programs.

Phase 2: Defining Target Markets and Adapting the Marketing Mix Accordingly. A more detailed examination of the components of the marketing mix is the purpose of Phase 2. Once target markets are selected, the marketing mix must be evaluated in light of the data generated in Phase 1. Incorrect decisions at this point lead to products inappropriate for the intended market or costly mistakes in pricing, advertising, and promotion. The primary goal of Phase 2 is to decide on a marketing mix adjusted to the cultural constraints imposed by the uncontrollable elements of the environment that effectively achieves corporate objectives and goals.[33]

The process used by the Nestlé Company is an example of the type of analysis done in Phase 2. Each product manager has a country fact book that includes much of the information suggested in Phase 1. The country fact book analyzes in detail a variety of culturally related questions. In Germany, the product manager for coffee must furnish answers to a number of questions. How does a German rank coffee in the hierarchy of consumer products? Is Germany a high or a low per capita consumption market? (These facts alone can be of enormous consequence. In Sweden the annual per capita consumption of coffee is 12.6 kilograms, in the United States 4.4, and in Japan it's only 3.6.)[34] How is coffee used—in bean form, ground, or powdered? If it is ground, how is it brewed? Which coffee is preferred—Brazilian Santos blended with Colombian coffee, or robusta from the Ivory Coast? Is it roasted? Do the people prefer dark roasted or blonde coffee? (The color of Nestlé's instant coffee must resemble as closely as possible the color of the coffee consumed in the country.)

As a result of the answers to these and other questions, Nestlé produces 200 types of instant coffee, from the dark robust espresso preferred in Latin countries to the lighter blends popular in the United States. Almost $50 million a year is spent in four research laboratories around the world experimenting with new shadings in color, aroma, and flavor. Do the Germans drink coffee after lunch or with their breakfast? Do they take it black or with cream or milk? Do they drink coffee in the evening? Do they sweeten it? (In France, the answers are clear: In the morning, coffee with milk; at noon, black coffee—that is, two totally different coffees.) At what age do people begin drinking coffee? Is it a traditional beverage, as in France; is it a form of rebellion among the young, as in England, where coffee drinking has been taken up in defiance of tea-drinking parents; or is it a gift, as in

[33]Thomas L. Powers and Jeffrey J. Loyka, "Adaptation of Marketing Mix Elements in International Markets," *Journal of Global Marketing* 23, no. 1 (2010), pp. 65–79.

[34]International Coffee Organization, http://www.ico.org, 2008.

As they say, as one door closes, another opens up—indeed, sometimes two! Given all the tea in China, it's particularly amazing that for almost eight years you could buy a mocha frappuccino in the Forbidden City in Beijing. The yellow roof symbolizes Imperial grounds, but we don't think the Emperor had grounds of the coffee sort in mind when he built the place in the 1400s. China joining the WTO some six centuries later opened up the market in new ways to franchisers from around the world. However, unlike the other 240 Starbucks stores in China, this one stirred strong protests by the local media and was eventually closed in the summer of 2007. Meanwhile, about one month after the Forbidden City store was forbidden in China, the company's first Russian store opened in Moscow. On a cold afternoon in Moscow, Russians and foreign tourists can choose between grabbing a cappuccino at either Starbucks or McDonald's McCafe. The two are just a couple of blocks from each other on Moscow's most famous traditional shopping street, the Arbat. The American companies were smart enough this time around not to try locating in Red Square.

Japan? There is a coffee boom in tea-drinking Japan, where Nescafé is considered a luxury gift item; instead of chocolates and flowers, Nescafé is toted in fancy containers to dinners and birthday parties. With such depth of information, the product manager can evaluate the marketing mix in terms of the information in the country fact book.

Phase 2 also permits the marketer to determine possibilities for applying marketing tactics across national markets. The search for similar segments across countries can often lead to opportunities for economies of scale in marketing programs. This opportunity was the case for Nestlé when research revealed that young coffee drinkers in England and Japan had identical motivations. As a result, Nestlé now uses principally the same message in both markets.

Frequently, the results of the analysis in Phase 2 indicate that the marketing mix will require such drastic adaptation that a decision not to enter a particular market is made. For example, a product may have to be reduced in physical size to fit the needs of the market, but the additional manufacturing cost of a smaller size may be too high to justify market entry. Also, the price required to be profitable might be too high for a majority of the market to afford. If there is no way to reduce the price, sales potential at the higher price may be too low to justify entry.

The answers to three major questions are generated in Phase 2:

1. Are there identifiable market segments that allow for common marketing mix tactics across countries?
2. Which cultural/environmental adaptations are necessary for successful acceptance of the marketing mix?
3. Will adaptation costs allow profitable market entry?

Based on the results in Phase 2, a second screening of countries may take place, with some countries dropped from further consideration. The next phase in the planning process is the development of a marketing plan.

Phase 3: Developing the Marketing Plan. At this stage of the planning process, a marketing plan is developed for the target market—whether it is a single country or a global market set. The marketing plan begins with a situation analysis and culminates in the selection of an entry mode and a specific action program for the market. The specific plan establishes what is to be done, by whom, how it is to be done, and when. Included are budgets and sales and profit expectations. Just as in Phase 2, a decision not to enter a specific market may be made if it is determined that company marketing objectives and goals cannot be met.

Phase 4: Implementation and Control. Although we present the model as a series of sequential phases, the planning process is a dynamic, continuous set of interacting variables with information continuously building among phases. The phases outline a crucial path to be followed for effective, systematic planning.

A "go" decision in Phase 3 triggers implementation of specific plans and anticipation of successful marketing. However, the planning process does not end at this point. All marketing plans require coordination and control during the period of implementation.[35] Many businesses do not control marketing plans as thoroughly as they could, even though continuous monitoring[36] and control could increase their success. An evaluation and control system requires performance-objective action, that is, bringing the plan back on track should standards of performance fall short. Such a system also assumes reasonable metrics of performance are accessible. A global orientation facilitates the difficult but extremely important management tasks of coordinating and controlling the complexities of international marketing.

Utilizing a planning process and system encourages the decision maker to consider all variables that affect the success of a company's plan. Furthermore, it provides the basis for viewing all country markets and their interrelationships as an integrated global unit. By following the guidelines presented in Part Six of this text, "The Country Notebook—A Guide for Developing a Marketing Plan," the international marketer can put the strategic planning process into operation.

With the information developed in the planning process and a country market selected, the decision regarding the entry mode can be made. The choice of mode of entry is one of the more critical decisions for the firm because the choice will define the firm's operations and affect all future decisions in that market.

Alternative Market-Entry Strategies

A company has four different modes of foreign market entry from which to select: exporting, contractual agreements, strategic alliances, and direct foreign investment. The different modes of entry can be further classified on the basis of the equity or nonequity requirements of each mode. The amount of equity required by the company to use different modes affects the risk, return, and control that it will have in each mode. For example, indirect exporting requires no equity investment and thus has a low risk, low rate of return, and little control, whereas direct foreign investment requires the most equity of the four modes and creates the greatest risk while offering the most control and the potential highest return.

Companies most often begin with modest export involvement. As sales revenues grow, the firms often proceed down through the series of steps listed in Exhibit 12.2.[37] Successful smaller firms are often particularly adept at exploiting networks of personal and commercial relationships to mitigate the financial risks of initial entry. Also, experience[38]

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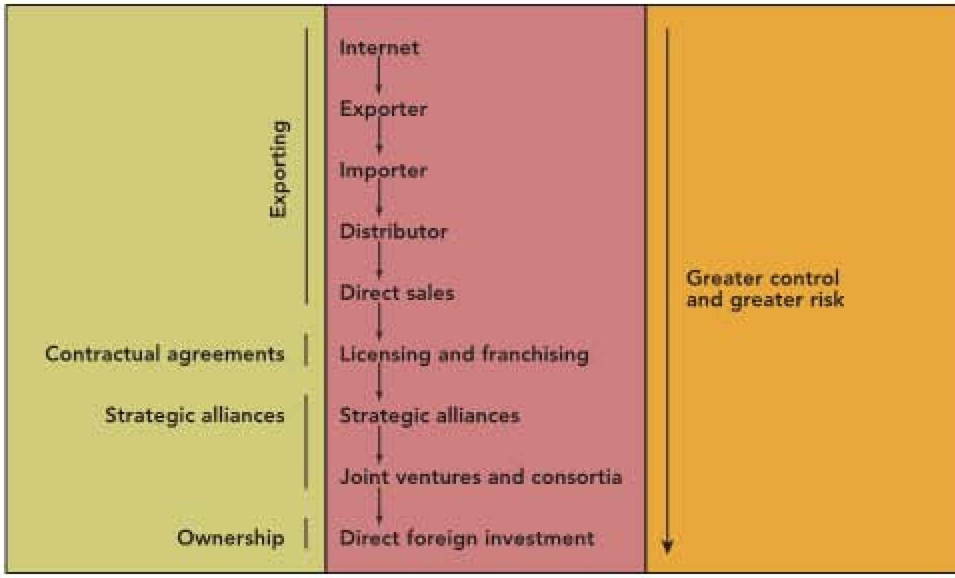
[35] Luis Filipe Lages, Carmen Lages, and Cristiana Raquel Lages, "Bringing Export Performance Metrics into Annual Reports: The APEV Scale and the PERFEX Scorecard," *Journal of International Marketing* 13 (2005), pp. 79–104; David Smith, "A Cross-Cultural Classification of Service Export Performance Using Artificial Neural Networks: Japan, Germany, United States," *Journal of Global Marketing* 20 (2006), pp. 5–20; Rosane K. Gertner, David Gertner, and Dennis Guthery, "The Implications of Export Performance Measurement for the Significance of the Determinants of Export Performance: An Empirical Investigation of Brazilian Firms," *Journal of Global Marketing* 20 (2006), pp. 21–38; Adamantios Diamantopoulos and Nikolaos Kakkos, "Managerial Assessments of Export Performance: Conceptual Framework and Empirical Illustration," *Journal of International Marketing* 15 (2007), pp. 1–31.

[36] Christian Homburg, Joseph P. Cannon, Harley Krohmer, and Ingo Kiedaisch, "Governance of International Business Relationships: A Cross-Cultural Study on Alternative Governance Methods," *Journal of International Marketing* 17, no. 3 (2009), pp. 1–20.

[37] Harry G. Barkema and Rian Drogendijk, "Internationalizing in Small, Incremental or Large Steps?" *Journal of International Business Studies* 39 (2008), pp. 1132–48.

[38] Susan Freeman, Ron Edwards, and Bill Schroder, "How Smaller Born-Global Firms Use Networks and Alliances to Overcome Constraints to Rapid Internationalization," *Journal of International Marketing* 14 (2006), pp. 33–63; Nicole E. Coveillo, "The Network Dynamics of International New Ventures," *Journal of International Business Studies* 37 (2006), pp. 713–31.

Exhibit 12.2
Alternative Market-Entry Strategies



in larger numbers of foreign markets can increase the number of entry strategies used. In fact, a company in several country markets may employ a variety of entry modes because each country market poses a different set of conditions.[39] For example, JLG Industries in Pennsylvania makes self-propelled aerial work platforms (cherry pickers) and sells them all over the world. The firm actually manufactured in Scotland and Australia beginning in the 1970s, but it was forced to close the plants in the 1990s. However, the company's international sales have burgeoned again. The growth in European business is allowing for a simplification of distribution channels through the elimination of middlemen; dealerships have been purchased in Germany, Norway, Sweden, and the United Kingdom. JLG set up dealership joint ventures in Thailand and Brazil, and sales have been brisk despite volatility problems in those countries. The company also has established sales and service businesses from scratch in Scotland, Italy, and South Africa.

Exporting

LO3

The important factors for each alternative market-entry strategy

Exporting accounts for some 10 percent of global economic activity.[40] Exporting can be either direct or indirect. With **direct exporting**, the company sells to a customer in another country. This method is the most common approach employed by companies taking their first international step because the risks of financial loss can be minimized. In contrast, **indirect exporting** usually means that the company sells to a buyer (importer or distributor) in the home country, which in turn exports the product. Customers include large retailers such as Walmart or Sears, wholesale supply houses, trading companies, and others that buy to supply customers abroad.

Early motives for exporting often are to skim the cream from the market or gain business to absorb overhead. Research recommends that a more focused[41] and learning-based approach[42] to a few international markets will work best for new exporters. Early involvement may also be opportunistic and come in the form of an inquiry from a foreign customer

[39] Taewon Suh, Mueun Bae, and Sumit K. Kundu, "Smaller Firms' Perceived Cost and Attractiveness in International Markets," *Journal of Global Marketing* 21 (2007), pp. 5–18; Anna Nadolska and Harry G. Barkema, "Learning to Internationalise: The Pace and Success of Foreign Acquisitions," *Journal of International Business Studies* 38 (2007), pp. 1170–86.

[40] Nicholas C. Williamson, Nir Kshetri, Tim Heijwegen, and Andreea Fortuna Schiopu, "An Exploratory Study of the Functional Forms of Export Market Identification Variables," *Journal of International Marketing* 14 (2006), pp. 71–97.

[41] Lance Eliot Brouthers, George Nakos, John Hadarcou, and Keith D. Brouthers, "Key Factors for Successful Export Performance for Small Firms," *Journal of International Marketing* 17, no. 3 (2009), pp. 21–38.

[42] Joseph Johnson, Eden Yin, and Hueiting Tsai, "Persistence and Learning: Success Factors of Taiwanese Firms in International Markets," *Journal of International Marketing* 17, no. 3 (2009), pp. 39–54.

The Internet.

Direct Sales.

Contractual Agreements

Contractual agreements

Journal

of International Business Studies

Licensing. A means of establishing a foothold in foreign markets without large capital outlays is **licensing**. Patent rights, trademark rights, and the rights to use technological processes are granted in foreign licensing. It is a favorite strategy for small and medium-sized companies, though by no means limited to such companies. Common examples of industries that use licensing arrangements in foreign markets are television programming and pharmaceuticals. Not many confine their foreign operations to licensing alone; it is generally viewed as a supplement to exporting or manufacturing, rather than the only means of entry into foreign markets. The advantages of licensing are most apparent when capital is scarce, import restrictions forbid other means of entry, a country is sensitive to foreign ownership, or patents and trademarks must be protected against cancellation for nonuse. The risks of licensing are choosing the wrong partner, quality and other production problems, payment problems, contract enforcement, and loss of marketing control.

Although licensing may be the least profitable way of entering a market, the risks and headaches are less than those for direct investments. It is a legitimate means of capitalizing on intellectual property in a foreign market, and such agreements can also benefit the economies of target countries. Licensing takes several forms. Licenses may be granted for production processes, for the use of a trade name, or for the distribution of imported products. Licenses may be closely controlled or be autonomous, and they permit expansion without great capital or personnel commitment if licensees have the requisite capabilities. Not all experiences with licensing are successful because of the burden of finding, supervising, and inspiring licensees. The duration of licensing agreements depends to a large degree on technology and market uncertainties—more uncertainty favors shorter contracts.[44]

Franchising. **Franchising** is a rapidly growing form of licensing in which the franchiser provides a standard package of products, systems, and management services, and the franchisee provides market knowledge, capital, and personal involvement in management. The combination of skills permits flexibility in dealing with local market conditions and yet provides the parent firm with a reasonable degree of control. The franchiser can follow through on marketing of the products to the point of final sale. It is an important form of vertical market integration. Potentially, the franchise system provides an effective blending of skill centralization and operational decentralization; it has become an increasingly important form of international marketing. In some cases, franchising is having a profound effect on traditional businesses. In England, for example, annual franchised sales of fast foods are estimated at nearly $2 billion, which accounts for 30 percent of all foods eaten outside the home. The key factors that influence success of franchising approaches are monitoring costs (based on physical and cultural distances), the principal's international experience, and the brand equity in the new market.

[44] Marshall S. Jiang, Preet S. Aulakh, and Yigang Pan, "Licensing Duration in Foreign Markets: A Real Options Perspective," *Journal of International Business Studies* 40, no. 4 (2009), pp. 559–77.

Maybe they can help you find a home with a view of the Black Sea here at the Century 21 office in Istanbul, Turkey. We know they'll be happy to sell you a piece of chicken from the Colonel's place in Eilat, Israel, just across the Red Sea from Aqaba, Jordan.

CROSSING BORDERS 12.3 The Men Who Would Be Pizza Kings

In more senses than one, pizza outlets are mushrooming all over India. The wait for pizza lovers in places like Surat, Kochi, and Bhubaneshwar is finally over. Domino's, the home delivery specialist, now has 180 stores across the nation, and Pizza Hut, a part of Yum! Brands, has increased its number of restaurants to 163. Chennai-based Pizza Corner, having established itself in the south, has now boldly ventured into the north—it has already opened three outlets in Delhi and is planning to increase the number to eight.

While Domino's is trying to dish out a pizza for every ethnic group, Pizza Hut is trying to expose Indians to the pizza's Chinese cousin. It has come up with the "Oriental," which has hot Chinese sauce, spring onions, and sesame seeds as its toppings. It was developed based on the Indian fondness for Chinese food. This is not to say that Pizza Hut does not pay heed to the spice-soaked Indian version. Apart from the Oriental, it is also dishing out a spicy paneer tikka pizza. Milk shakes are on the menu, too. Most recently an Indian dairy company has been earning market share in both pizzas and ice cream. Things are getting interesting there fast. And, in spite of Kipling's prophesy that the two streams shall never meet, the Indianization of the pizza is truly here.

Sources: Smita Tripathi, "Butter Chicken Pizza in Ludhiana," Business Standard, June 17, 2000, p. 2; Rahul Chandawarkar, "Collegians Mix Money with Study Material," Times of India, June 22, 2000; Thomas L. Friedman, The World Is Flat (New York: Farrar, Straus, and Giroux, 2005); "Dominos Pizza India Plans 500 Stores in Country," Indian Business Insight, February 14, 2008, p. 20; Julie Jargon and Arlene Chang, "Yum Brands Bets on India's Young for Growth," The Wall Street Journal, December 12, 2009, p. B1.

Prior to 1970, international franchising was not a major activity. A survey by the International Franchising Association revealed that only 14 percent of its member firms had franchises outside of the United States, and the majority of those were in Canada. Now hundreds of thousands of franchises of U.S. firms are located in countries throughout the world. Franchises include soft drinks, motels (including membership "organizations" like Best Western International), retailing, fast foods, car rentals, automotive services, recreational services, and a variety of business services from print shops to sign shops. Canada is the dominant market for U.S. franchisers, with Japan and the United Kingdom second and third in importance. The Asia Pacific Rim has seen rapid growth as companies look to Asia for future expansion.

Despite temporary setbacks during the global economic downturn right after the turn of the millennium, franchising is still expected to be the fastest growing market-entry strategy. Franchises were often among the first types of foreign retail business to open in the emerging market economies of eastern Europe, the former republics of Russia, and China. McDonald's is in Moscow (its first store seated 700 inside and had 27 cash registers), and KFC is in China (the Beijing KFC store has the highest sales volume of any KFC store in the world). The same factors that spurred the growth of franchising in the U.S. domestic economy have led to its growth in foreign markets. Franchising is an attractive form of corporate organization for companies wishing to expand quickly with low capital investment. The franchising system combines the knowledge of the franchiser with the local knowledge and entrepreneurial spirit of the franchisee. Foreign laws and regulations are friendly toward franchising because it tends to foster local ownership, operations, and employment.

Lil'Orbits,[45] a Minneapolis-based company that sells donut-making equipment and ingredients to entrepreneurs, is an example of how a small company can use licensing and franchising to enter foreign markets. Lil'Orbits sells a donut maker that turns out 1.5-inch donuts while the customer waits. The typical buyer in the United States buys equipment and mix directly from the company without royalties or franchise fees. The buyer has a small shop or kiosk and sells donuts by the dozen for takeout or individually along with a beverage.

Successful in the United States, Lil'Orbits ran an advertisement in *Commercial News USA*, a magazine showcasing products and services in foreign countries, that attracted

[45]Ikechi Ekeledo and K. Sivakumar, "The Impact of E-Commerce on Entry-Mode Strategies of Services Firms: A Conceptual Framework and Research Propositions," *Journal of International Marketing* 12, no. 4 (2004), pp. 46–70.

400 inquiries. Pleased with the response, the company set up an international franchise operation based on royalties and franchise fees. Now a network of international franchised distributors markets the machines and ingredients to potential vendors. The distributors pay Lil'Orbits a franchise fee and buy machines and ingredients directly from Lil'Orbits or from one of the licensed vendors worldwide, from which Lil'Orbits receives a royalty. This entry strategy has enabled the company to enter foreign markets with minimum capital investment outside the home country. The company has over 20,000 franchised dealers in 85 countries. About 60 percent of the company's business is international.

Although franchising enables a company to expand quickly with minimum capital, there are costs associated with servicing franchisees. For example, to accommodate different tastes around the world, Lil'Orbits had to develop a more pastrylike, less sweet mix than that used in the United States. Other cultural differences have had to be met as well. For example, customers in France and Belgium could not pronounce the trade name Lil'Orbits, so Orbie is used instead. Toppings also had to be adjusted to accommodate different tastes. Cinnamon sugar is the most widely accepted topping, but in China, cinnamon is considered a medicine, so only sugar is used. In the Mediterranean region, the Greeks like honey, and chocolate sauce is popular in Spain. Powdered sugar is more popular than granulated sugar in France, where the donuts are eaten in cornucopia cups instead of on plates.

Strategic International Alliances

LO4

The increasing importance of international strategic alliances

A **strategic international alliance (SIA)** is a business relationship established by two or more companies to cooperate out of mutual need and to share risk in achieving a common objective. Strategic alliances have grown in importance over the last few decades as a competitive strategy in global marketing management. Strategic international alliances are sought as a way to shore up weaknesses and increase competitive strengths—that is, complementarity is key.[46] Firms enter into SIAs for several reasons: opportunities for rapid expansion into new markets, access to new technology,[47] more efficient production and innovation, reduced marketing costs, strategic competitive moves, and access to additional sources of products[48] and capital. Finally, evidence suggests that SIAs often contribute nicely to profits.[49]

Perhaps the most visible SIAs are now in the airline industry. American Airlines, Cathay Pacific, British Airways, Japan Airlines, Finnair, Mexicana, Malev, Iberia, LAN, Royal Jordanian, and Quantas are partners in the Oneworld Alliance, which integrates schedules and mileage programs. Competing with Oneworld are the Star Alliance (led by United, Continental, and Lufthansa) and SkyTeam (led by Air France, Delta, and KLM). These kinds of strategic international alliances imply that there is a common objective; that one partner's weakness is offset by the other's strength; that reaching the objective alone would be too costly, take too much time, or be too risky; and that together their respective strengths make possible what otherwise would be unattainable. For example, during the recent turmoil in the global airline industry, Star Alliance began moving in the direction of buying aircraft, a new strategic innovation. Relationships appear particularly strong in times of troubles—Japan Airlines leans heavily in the direction of American Airlines (both Oneworld members) rather than "outsider" Delta in its current merger/acquisition/investment talks.[50]

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[46]Eric Fang and Shaoming Zou, "Antecedents and Consequences of Marketing Dynamic Capabilities in International Joint Ventures," *Journal of International Business Studies* 39, no. 1 (2008), pp. 1–27.

[47]http://www.lilorbits.com, 2005.

[48]John Hagedoorn, Danielle Cloodt, and Hans van Kraneburg, "Intellectual Property Rights and the Governance of International R&D Partnerships," *Journal of International Business Studies* 36 (2005), pp. 175–86; Marjorie A. Lyles and Jane E. Salk, "Knowledge Acquisition from Foreign Parents in International Joint Ventures: An Empirical Examination of the Hungarian Context," *Journal of International Business Studies* 38 (2007), pp. 3–18; Masaaki Kotabe, Denise Dunlap-Hinkler, Ronaldo Parente, and Harsh A. Mishra, "Determination of Cross-National Knowledge Transfer and Its Effect on Innovation," *Journal of International Business Studies* 38 (2007), pp. 259–82.

[49]Janet Y. Murray, Masaaki Kotabe, and Joe Nan Zhou, "Strategic Alliance–Based Sourcing and Market Performance: Evidence from Foreign Firms Operating in China," *Journal of International Business Studies* 36, no. 2 (2005), pp. 187–208.

[50]Mariko Sanchanta and Mike Esterl, "JAL Stays in AMR Alliance, Delta Out," *The Wall Street Journal*, February 7, 2010, online.

In the SkyTeam strategic alliance, U.S.-based Northwest Airlines and Dutch KLM shared several aspects of their operations, including ticketing and reservations, catering, cargo, and airport slots. As the global airline industry continues to consolidate, more strategic partnerships are being formed and disappearing. Indeed, Delta Airlines has now acquired Northwest, and soon, Delta jets will be sharing the tarmac with KLM at Schiphol Airport in Amsterdam.

An SIA with multiple objectives involves C-Itoh (Japan), Tyson Foods (United States), and Provemex (Mexico). It is an alliance that processes Japanese-style yakitori (bits of marinated and grilled chicken on a bamboo stick) for export to Japan and other Asian countries. Each company had a goal and made a contribution to the alliance. C-Itoh's goal was to find a lower-cost supply of yakitori; because it is so labor intensive, it was becoming increasingly costly and noncompetitive to produce in Japan. C-Itoh's contribution was access to its distribution system and markets throughout Japan and Asia. Tyson's goal was new markets for its dark chicken meat, a byproduct of demand for mostly white meat in the U.S. market. Tyson exported some of its excess dark meat to Asia and knew that C-Itoh wanted to expand its supplier base. But Tyson faced the same high labor costs as C-Itoh. Provemex, the link that made it all work, had as its goal expansion beyond raising and slaughtering chickens into higher value-added products for international markets. Provemex's contribution was to provide highly cost-competitive labor.

Through the alliance, they all benefited. Provemex acquired the know-how to bone the dark meat used in yakitori and was able to vertically integrate its operations and secure a foothold in a lucrative export market. Tyson earned more from the sale of surplus chicken legs than was previously possible and gained an increased share of the Asian market. C-Itoh had a steady supply of competitively priced yakitori for its vast distribution and marketing network. Thus, three companies with individual strengths created a successful alliance in which each contributes and each benefits.

Many companies also are entering SIAs to be in a strategic position to be competitive and to benefit from the expected growth in the single European market. As a case in point, when General Mills wanted a share of the rapidly growing breakfast-cereal market in Europe, it joined with Nestlé to create Cereal Partners Worldwide. The European cereal market was projected to be worth hundreds of millions of dollars as health-conscious Europeans changed their breakfast diet from eggs and bacon to dry cereal. General Mills's main U.S. competitor, Kellogg, had been in Europe since 1920 and controlled about half of the market.

For General Mills to enter the market from scratch would have been extremely costly. Although the cereal business uses cheap commodities as its raw materials, it is both capital and marketing intensive; sales volume must be high before profits begin to develop. Only recently has Kellogg earned significant profits in Europe. For General Mills to reach its goal alone would have required a manufacturing base and a massive sales force. Furthermore, Kellogg's stranglehold on supermarkets would have been difficult for an unknown to breach easily. The solution was a joint venture with Nestlé. Nestlé had everything General Mills lacked—a well-known brand name, a network of plants, and a powerful distribution system—except for the one thing that General Mills could provide: strong cereal brands.

The deal was mutually beneficial. General Mills provided the knowledge in cereal technology, including some of its proprietary manufacturing equipment, its stable of proven brands, and its knack for pitching these products to consumers. Nestlé provided its name on the box, access to retailers, and production capacity that could be converted to making General Mills's cereals. In time, Cereal Partners Worldwide intends to extend its marketing effort beyond Europe. In Asia, Africa, and Latin America, Cereal Partners Worldwide will have an important advantage over the competition because Nestlé is a dominant food producer.

As international strategic alliances have grown in importance, more emphasis has been placed on a systematic approach to forming them. Most experts in the field agree that the steps outlined in Exhibit 12.3 will lead to successful and high-performance strategic alliances. In particular, we note the wide agreement regarding the importance of building trust in the interpersonal and institutional relationships as a prerequisite of success.[51] Of course,

[51] Robert E. Spekman, Lynn A. Isabella, with Thomas C. MacAvoy, *Alliance Competence* (New York: Wiley, 2000).

Exhibit 12.3
Building Strategic Alliances

Primary Relationship Activity	Typical Actions, Interactions, Activities	Key Relationship Skill
Dating	Senior executives leveraging personal networks Wondering how to respond to inquiries Wondering how to seek out possibilities	Good radar; good relationship self-awareness
Imaging	Seeing the reality in possibilities Creating a shared vision from being together Involving trusted senior managers	Creating intimacy
Initiating	Bringing key executives into action Creating trust through face-to-face time	Trust building
Interfacing	Facilitating the creating of personal relationships at many levels Traveling to partner facilities and engaging in technical conversations Blending social and business time	Partnering
Committing	Demonstrating that managers are fully committed to the alliance and each other Managing the conflict inherent in making hard choices Accepting the reality of the alliance and its relationships	Commitment
Fine-tuning	Relying on mature and established relationships Facilitating interaction and relationships with future successors	Growing with another

Source: Adapted from Robert E. Spekman, Lynn A. Isabella, with Thomas C. MacAvoy, Alliance Competence (New York: Wiley, 2000), p. 81. Reproduced with permission of John Wiley & Sons, Inc.

in international business there are no guarantees; the interface between differing ethical and legal systems often makes matters more difficult.[52] And a key activity in all the steps outlined in the exhibit is international negotiation, the subject of Chapter 19.[53]

International Joint Ventures. International joint ventures (IJVs) as a means of foreign market entry have accelerated sharply during the last 30 years. Besides serving as a means of lessening political and economic risks by the amount of the partner's contribution to the venture, IJVs provide a way to enter markets that pose legal and cultural barriers that is less risky than acquisition of an existing company.

A **joint venture** is different from other types of strategic alliances or collaborative relationships in that a joint venture is a partnership of two or more participating companies that have joined forces to create a separate legal entity. Joint ventures are different from minority holdings by an MNC in a local firm.

Four characteristics define joint ventures: (1) JVs are established, separate, legal entities; (2) they acknowledge intent by the partners to share in the management of the JV;

[52]Alaka N. Rao, Jone L. Pearce, and Katherine Xin, "Governments, Reciprocal Exchange and Trust among Business Associates," 36 (2005), pp. 104–18; David A. Griffith, Matthew B. Myers, and Michael G. Harvey, "An Investigation of National Culture's Influence on Relationship and Knowledge Resources in Interorganizational Relationships between Japan and the United States," 14 (2006), pp. 1–36; Srilata Zaheer and Akbar Zaheer, "Trust across Borders," 37 (2006), pp. 21–29.

[53]Kam-hon Lee, Gong-ming Qian, Julie H. Yu, and Ying Ho, "Trading Favors for Marketing Advantage: Evidence from Hong Kong, China, and the United States," 13 (2005), pp. 1–35.

(3) they are partnerships between legally incorporated entities, such as companies, chartered organizations, or governments, and not between individuals; and (4) equity positions are held by each of the partners.

However, IJVs can be hard to manage. The choice of partners and the qualities of the relationships between the executives are important factors leading to success. Several other factors contribute to their success or failure as well: how control is shared,[54] relations with parents,[55] institutional (legal) environments,[56] marketing capabilities,[57] experience,[58] and the extent to which knowledge is shared across partners.[59] Despite this complexity, nearly all companies active in world trade participate in at least one international joint venture somewhere; many companies have dozens of joint ventures. A recent Conference Board study indicated that 40 percent of *Fortune* 500 companies were engaged in one or more IJVs. Particularly in telecommunications and Internet markets, joint ventures are increasingly favored.

Around the Asia Pacific Rim, where U.S. companies face unfamiliar legal and cultural barriers, joint ventures are preferred to buying existing businesses. Local partners can often lead the way through legal mazes and provide the outsider with help in understanding cultural nuances. A JV can be attractive to an international marketer when it enables a company to utilize the specialized skills of a local partner, when it allows the marketer to gain access to a partner's local distribution system, when a company seeks to enter a market where wholly owned activities are prohibited, when it provides access to markets protected by tariffs or quotas, and when the firm lacks the capital or personnel capabilities to expand its international activities.

In China, a country considered to be among the most challenging in Asia,[60] more than 50,000 joint ventures have been established in the 30 years since the government began allowing IJVs there. Among the many reasons IJVs are so popular is that they offer a way of getting around high Chinese tariffs, allowing a company to gain a competitive price advantage over imports. Manufacturing locally with a Chinese partner rather than importing achieves additional savings as a result of low-cost Chinese labor. Many Western brands are manufactured and marketed in China at prices that would not be possible if the products were imported.

Consortia. Consortia are similar to joint ventures and could be classified as such except for two unique characteristics: (1) They typically involve a large number of participants and (2) they frequently operate in a country or market in which none of the participants is

[54]Chris Styles and Lis Hersch, "Relationship Formation in International Joint Ventures: Insights from Australian-Malaysian International Joint Ventures," *Journal of International Marketing* 13 (2005), pp. 105–34.

[55]Jeffrey Q. Bardon, H. Kevin Steensma, and Marjorie A. Lyles, "The Influence of Parent Control Structure on Parent Conflict in Vietnamese IJVs: An Organizational Justice–Based Contingency Approach," *Journal of International Business Studies* 36, no. 2 (2005), pp. 156–74.

[56]Barden, Steensma, and Lyles, "The Influence of Parent Control Structure on Parent Conflict"; Yaping Gong, Oded Shenkar, Yadong Luo, and Mee-Kau Nyaw, "Human Resources and International Joint Venture Performance: A System Perspective," *Journal of International Business Studies* 36 (2005), pp. 505–18; Rene Belderbos and Jianglei Zou, "On the Growth of Foreign Affiliates: Multinational Plant Networks, Joint Ventures, and Flexibility," *Journal of International Business Studies* 38 (2007), pp. 1095–112.

[57]Eric (Er) Fang and Shaoming Zou, "Antecedents and Consequences of Marketing Dynamic Capabilities in International Joint Ventures," *Journal of International Business Studies* 40, no. 5 (2009), pp. 742–61.

[58]Sengun Yeniyurt, Janell D. Townsend, S. Tamer Cavusgil, and Pervez Ghauri, "Mimetic and Experiential Effects in International Marketing Alliance Formations of U.S. Pharmaceuticals Firms: An Event History Analysis," *Journal of International Business Studies* 40, no. 2 (2009), pp. 301–20.

[59]Yadong Luo, "Transactional Characteristics, Institutional Environment, and Joint Venture Contracts," *Journal of International Business Studies* 36, no. 2 (2005), pp. 209–30; Changhui Zhou and Jing Li, "Product Innovation in Emerging Market-Based International Joint Ventures: An Organizational Ecology Perspective," *Journal of International Business Studies* 39, no. 7 (2008), pp. 1114–32; Jean-Paul Roy and Christine Oliver, "International Joint Venture Partner Selection: The Role of the Host-Country Legal Environment," *Journal of International Business Studies* 40, no. 5 (2009), pp. 779–802.

[60]Timothy J. Wilkinson, Andrew R. Thomas, and Jon M. Hawes, "Managing Relationships with Chinese Joint Venture Partners," *Journal of Global Marketing* 22, no. 2 (2009), pp. 109–20.

currently active. Consortia are developed to pool financial and managerial resources and to lessen risks. Often, huge construction projects are built under a consortium arrangement in which major contractors with different specialties form a separate company specifically to negotiate for and produce one job. One firm usually acts as the lead firm, or the newly formed corporation may exist independently of its originators.

Without a doubt, the most prominent international consortium has been Airbus, Boeing's European competitor in the global commercial aircraft market. Airbus Industrie was originally formed when four major European aerospace firms agreed to work together to build commercial airliners. In 2000, the four agreed to transform the consortium into a global company to achieve operations efficiencies that would allow it to compete better against Boeing. Meanwhile, Boeing is joining together with its own consortium to develop new 787 Dreamliner aircraft.[61]

Sematech, the other candidate for most prominent consortium, was originally an exclusively American operation. Sematech is an R&D consortium formed in Austin, Texas, during the 1980s to regain America's lead in semiconductor development and sales from Japan. Members included firms such as IBM, Intel, Texas Instruments, Motorola, and Hewlett-Packard. However, at the turn of the millennium even Sematech went international. Several of the founding American companies left and were replaced by firms from Taiwan, Korea, Germany, and the Netherlands (still none from Japan). The firm is also broadening its own investment portfolio to include a greater variety of international companies.

All strategic international alliances are susceptible to problems of coordination. For example, some analysts blamed the international breadth of Boeing's 787 Dreamliner consortium for the costly delays in manufacturing the new jet. Further, circumstances and/or partners can change in ways that render agreements untenable, and often such corporate relationships are short lived. Ford and Nissan launched a joint venture minivan in 1992 called the Mercury Villager/Nissan Quest. The car was mildly successful in the U.S. market, but in 2002 the joint venture stopped producing the cars—that's two years earlier than the original contract called for. Now that Nissan is controlled by French automaker Renault, it began producing its own minivan in 2003 for sale in the United States. When General Motors formed a joint venture with Daewoo, its purpose was to achieve a significant position in the Asian car market. Instead, Daewoo used the alliance to enhance its own automobile technology, and by the time the partnership was terminated, GM had created a new global competitor for itself.

Nestlé has been involved in a particularly ugly dissolution dispute with Dabur India. The Swiss firm owned 60 percent and the Indian firm 40 percent of a joint venture biscuit company, Excelcia Foods. Following months of acrimony, Dabur filed a petition with the Indian government accusing Nestlé of indulging in oppression of the minority shareholder and of mismanaging the JV company. In particular, Dabur alleged that Nestlé was purposefully running Excelcia into bankruptcy so that Nestlé could wriggle out of its "non-compete obligations and go after the India-biscuit market using another brand." Nestlé countered that the problem had more to do with the partners' inability to agree on a mutually acceptable business plan. The dispute was eventually settled out of court by Nestlé buying Dabur's 40 percent interest, shortly after which Excelcia was closed in lieu of restructuring.

Direct Foreign Investment

A fourth means of foreign market development and entry is *direct foreign investment*, that is, investment within a foreign country. Companies may invest locally to capitalize on low-cost labor, to avoid high import taxes, to reduce the high costs of transportation to market, to gain access to raw materials and technology, or as a means of gaining market entry.[62]

[61] Yan Zhang, Haiyang Li, Michael A. Hitt, and Geng Cui, "R&D Intensity and International Joint Venture Performance in an Emerging Market: Moderating Effects of Market Focus and Ownership Structure," *Journal of International Business Studies* 38 (2007), pp. 944–60.

[62] Sunil Venaik, David F. Midgley, and Timothy M. Devinney, "Dual Paths to Performance: The Impact of Global Pressures on MNC Subsidiary Conduct and Performance," *Journal of International Business Studies* 36 (2005), pp. 655–75; Tony S. Frost and Changhui Zhou, "R&D Co-Practice and 'Reverse' Knowledge Integration in Multinational Firms," *Journal of International Business Studies* 36 (2005), pp. 676–87.

Firms may either invest in or buy local companies or establish new operations facilities. The local firms enjoy important benefits aside from the investments themselves, such as substantial technology transfers[63] and the capability to export to a more diversified customer base.[64] As with the other modes of market entry, several factors have been found to influence the structure and performance of direct investments: (1) timing—first movers have advantages but are more risky; (2) the growing complexity and contingencies of contracts; (3) transaction cost structures; (4) technology and knowledge transfer;[65] (5) degree of product differentiation; (6) the previous experiences and cultural diversity of acquired firms;[66] and (7) advertising and reputation barriers. This mix of considerations and risks makes for increasingly difficult decisions about such foreign investments. But as off-putting legal restrictions[67] continue to ease with WTO and other international agreements, more and more large firms are choosing to enter markets via direct investment.

The growth of free trade areas that are tariff-free among members but have a common tariff for nonmembers creates an opportunity that can be capitalized on by direct investment. Similar to its Japanese competitors, Korea's Samsung has invested some $500 million to build television tube plants in Tijuana, Mexico, to feed the already huge NAFTA television industry centered there. Kyocera Corporation, a Japanese high-tech company, bought Qualcomm's wireless consumer phone business as a means of fast entry into the American market. Yahoo! paid $1 billion for a 40 percent stake in Chinese competitor Alibaba. Finally, Nestlé is building a new milk factory in Thailand to serve the ASEAN Free Trade Area.

A hallmark of global companies today is the establishment of manufacturing operations throughout the world.[68] This trend will increase as barriers to free trade are eliminated and companies can locate manufacturing wherever it is most cost effective. The selection of an entry mode and partners are critical decisions, because the nature of the firm's operations in the country market is affected by and depends on the choices made. The entry mode affects the future decisions because each mode entails an accompanying level of resource commitment, and changing from one entry mode to another without considerable loss of time and money is difficult.

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[63]Donna L. Paul and Rossitza B. Wooster, "Strategic Investments by US Firms in Transition Economies," *Journal of International Business Studies* 39 (2008), pp. 249–66.

[64]Jasjit Singh, "Asymmetry of Knowledge Spillovers between MNCs and Host Country Firms," *Journal of International Business Studies* 38 (2007), pp. 764–86.

[65]Hongxin Zhao, Yadong Luo, and Taewon Suh, "Transaction Cost Determinants and Ownership-Based Entry Mode Choice: A Meta-Analytic Review," *Journal of International Business Studies* 35, no. 6 (2004), pp. 524–44; Henrik Bresman, Julian Birkinshaw, and Robert Nobel, "Knowledge Transfer in International Acquisitions," *Journal of International Business Studies* 41, no. 1 (2010), pp. 5–20; Julian Birkinshaw, Henrik Bressman, and Robert Nobel, "Knowledge Transfer in International Acquisitions: A Retrospective," *Journal of International Business Studies* 41, no. 1 (2010), pp. 21–26.

[66]Lilach Nachum and Cliff Wymbs, "Product Differentiation, External Economies, and MNE Location Choices: M&A Global Cities," *Journal of International Business Studies* 36 (2005), pp. 415–34; Rajesh Chakrabarti, Swasti Gupta-Mukherjee, and Narayanan Jayaraman, "Mars-Venus Marriages: Culture and Cross-Border M&A," *Journal of International Business Studies* 40, no. 2 (2009), pp. 216–36; Jonas F. Puck, Dirk Holtbrugge, and Alexander T. Mohr, "Beyond Entry Mode Choice: Explaining the Conversion of Joint Ventures into Wholly Owned Subsidiaries in the People's Republic of China," *Journal of International Business Studies* 40, no. 3 (2009), pp. 388–404; Mary Yoko Brannen and Mark F. Peterson, "Merging without Alienating: Interventions Promoting Cross-Cultural Organizational Integration and Their Limitations," *Journal of International Business Studies* 40, no. 3 (2009), pp. 468–89; Taco H. Reus and Bruce T. Lamont, "The Double-Edged Sword of Cultural Distance in International Acquisitions," *Journal of International Business Studies* 40, no. 8 (2009), pp. 128–36; Bulent Aybar and Aysun Ficici, "Cross-Border Acquisitions and Firm Value: An Analysis of Emerging-Market Multinationals," *Journal of International Business Studies* 40, no. 8 (2009), pp. 1317–38; Udo Zander and Lena Zander, "Opening the Grey Box: Social Communities, Knowledge, and Culture in Acquisitions," *Journal of International Business Studies* 41, no. 1 (2010), pp. 27–37.

[67]Desislava Dikova, Padma Roa Sahib, and Arjen van Witteloostuijn, "Cross-Border Acquisition Abandonment and Completion: The Effect of Institutional Differences and Organizational Learning in the International Business Service Industry, 1981-2001," *Journal of International Business Studies* 41, no. 2 (2010), pp. 223–45.

[68]Jason Dean and Jonathan Cheng, "Meet Jack Ma, Who Will Guide Yahoo in China," *The Wall Street Journal*, August 12, 2005, pp. B1, B3.

Organizing for Global Competition

An international marketing plan should optimize the resources committed to company objectives. The organizational plan includes the type of organizational arrangements and management process to be used and the scope and location of responsibility. Because organizations need to reflect a wide range of company-specific characteristics—such as size, level of policy decisions, length of chain of command, staff support, source of natural, personnel, and vendor resources,[69] degree of control, cultural differences in decision-making styles,[70] centralization, and type or level of marketing involvement—devising a standard organizational structure is difficult.[71] Many ambitious multinational plans meet with less than full success because of confused lines of authority, poor communications, and lack of cooperation between headquarters and subsidiary organizations.[72]

A single organizational structure that effectively integrates domestic and international marketing activities has yet to be devised.[73] Companies face the need to maximize the international potential of their products and services without diluting their domestic marketing efforts. Companies are usually structured around one of three alternatives: (1) global product divisions responsible for product sales throughout the world; (2) geographical divisions responsible for all products and functions within a given geographical area; or (3) a matrix organization consisting of either of these arrangements with centralized sales and marketing run by a centralized functional staff, or a combination of area operations and global product management.

Companies that adopt the global product division structure are generally experiencing rapid growth and have broad, diverse product lines. General Electric is a good example, having reorganized its global operations into six product divisions—infrastructure, industrial, commercial financial services, NBC Universal, healthcare, and consumer finance.[74] Geographic structures work best when a close relationship with national and local governments is important.

The matrix form—the most extensive of the three organizational structures—is popular with companies as they reorganize for global competition. A matrix structure permits management to respond to the conflicts that arise among functional activity, product, and geography. It is designed to encourage sharing of experience, resources, expertise, technology, and information among global business units. At its core is better decision making, in which multiple points of view affecting functional activity, product, and geography are examined and shared. A matrix organization can also better accommodate customers who themselves have global operations and global requirements.

A company may be organized by product lines but have geographical subdivisions under the product categories. Both may be supplemented by functional staff support. Exhibit 12.4 shows such a combination. Modifications of this basic arrangement are used by a majority of large companies doing business internationally.

The turbulence of global markets requires flexible organizational structures though. Forty-three large U.S. companies studied indicated that they planned a total of 137

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[69] Zuohao Chun Zhang and Flora F. Gu, "Intra- and Interfirm Coordination of Export Manufacturers: A Cluster Analysis of Indigenous Chinese Exporters," *Journal of International Marketing* 16, no. 3 (2008), pp. 108–35.

[70] Shichun Xu, S. Tamer Cavusgil, and J. Chris White, "The Impact of Strategic Fit among Strategy, Structure, and Processes on Multinational Corporation Performance: A Multi-Method Assessment," *Journal of International Marketing* 14 (2006), pp. 1–31.

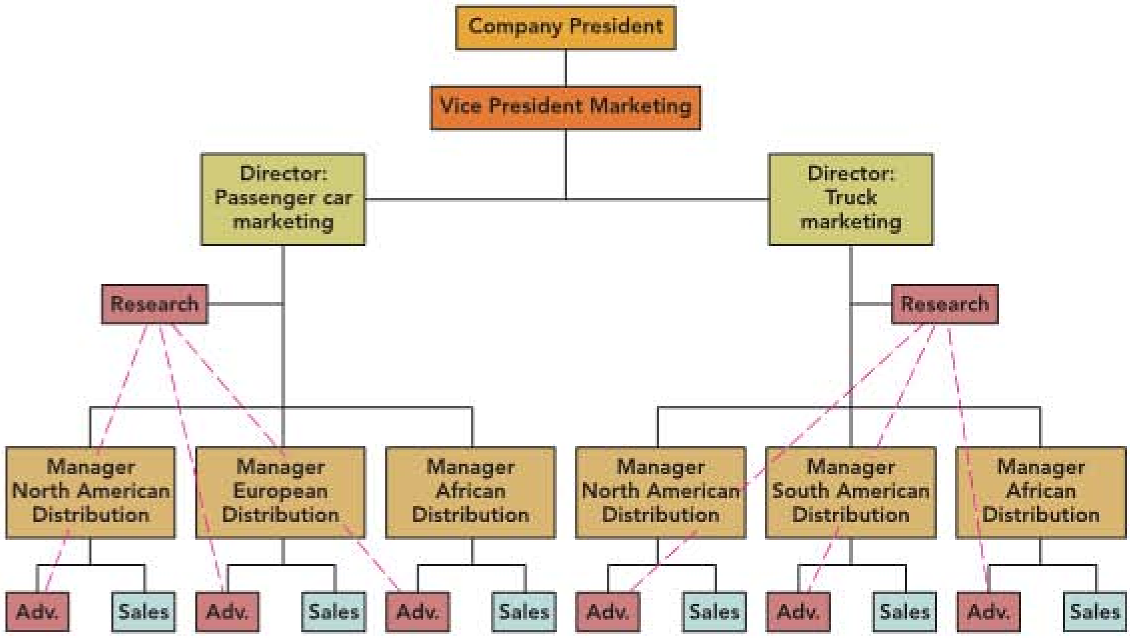
[71] Gerald Albaum, Joel Herche, Julie Yu, Felicitas Evangelista, Brian Murphy, and Patrick Poon, "Differences in Marketing Managers' Decision Making Styles within the Asia-Pacific Region: Implications for Strategic Alliances," *Journal of Global Marketing* 21 (2007), pp. 63–72; Alain Verbke and Thomas P. Kenworthy, "Multidivisional vs. Metanational Governance of the Multinational Enterprise," *Journal of International Business Studies* 39, no. 6 (2008), pp. 940–56; Beibei Dong, Shaoming Zou, and Charles R. Taylor, "Factors that Influence Multinational Corporations' Control of Their Operations in Foreign Markets: An Empirical Investigation," *Journal of International Marketing* 16, no. 1 (2008), pp. 98–119.

[72] Ingmar Bjorkman, Carl F. Fey, and Hyeon Jeong Park, "Institutional Theory and MNC Subsidiary HRM Practices: Evidence from a Three-Country Study," *Journal of International Business Studies* 38 (2007), pp. 430–46.

[73] Claude Obadia and Irena Vida, "Endogenous Opportunism in Small and Medium-Sized Enterprises' Foreign Subsidiaries: Classification and Research Propositions," *Journal of International Marketing* 14 (2006), pp. 57–86.

[74] Kelly Hewett and William O. Bearden, "Dependence, Trust, and Relational Behavior on the Part of Foreign Subsidiary Marketing Operations: Implications for Managing Global Marketing Operations," *Journal of Marketing* 65, no. 4 (October 2001), pp. 51–66.

Exhibit 12.4
Schematic Marketing Organization Plan Combining Product, Geographic, and Functional Approaches



organizational changes for their international operations over a five-year period. Included were such changes as centralizing international decision making, creating global divisions, forming centers of excellence, and establishing international business units. Bausch & Lomb, one of the companies in the study, revamped its international organizational structure by collapsing its international division into a worldwide system of three regions and setting up business management committees to oversee global marketing and manufacturing strategies for four major product lines. Bausch & Lomb's goal was to better coordinate central activities without losing touch at the local level.

To the extent that there is a trend, two factors seem to be sought, regardless of the organizational structure: a single locus for direction and control and the creation of a simple line organization that is based on a more decentralized network of local companies.

Locus of Decision

Considerations of where decisions will be made, by whom, and by which method constitute a major element of organizational strategy. Management policy must be explicit about which decisions are to be made at corporate headquarters, which at international headquarters, which at regional levels, and which at national or even local levels. Most companies also limit the amount of money to be spent at each level. Decision levels for determination of policy, strategy, and tactical decisions must be established. Tactical decisions normally should be made at the lowest possible level, without country-by-country duplication. This guideline requires American headquarters' managers to trust the expertise of their local managers.

Centralized versus Decentralized Organizations

An infinite number of organizational patterns for the headquarters' activities of multinational firms exist, but most fit into one of three categories: centralized,[75] regionalized,[76] or decentralized organizations. The fact that all of the systems are used indicates that each has certain advantages and disadvantages. The chief advantages of centralization are the availability of

[75]Rajdeep Grewal, Murali Chandrashekaran, and Robert F. Dwyer, "Navigating Local Environments with Global Strategies: A Contingency Model of Multinational Subsidiary Performance," *Marketing Science* 27, no. 5 (2008), pp. 886–902.

[76]Jean-Luc Arregle, Paul W. Beamish, and Louis Hebert, "The Regional Dimension of MNE's Foreign Subsidiary Localization," *Journal of International Business Studies* 40, no. 1 (2009), pp. 86–107.

experts at one location, the ability to exercise a high degree of control on both the planning and implementation phases, and the centralization of all records and information.

Some companies effect extreme decentralization by selecting competent local managers and giving them full responsibility for national or regional operations. These executives are in direct day-to-day contact with the market but lack a broad company view, which can mean partial loss of control for the parent company.

In many cases, whether a company's formal organizational structure is centralized or decentralized, the informal organization reflects some aspect of all organizational systems. This reflection is especially true relative to the locus of decision making. Studies show that even though product decisions may be highly centralized, subsidiaries may have a substantial amount of local influence in pricing, advertising, and distribution decisions. If a product is culturally sensitive, the decisions are more likely to be decentralized.

Summary

Expanding markets around the world have increased competition for all levels of international marketing. To keep abreast of the competition and maintain a viable position for increasingly competitive markets, a global perspective is necessary. Global competition also requires quality products designed to meet ever-changing customer needs and rapidly advancing technology. Cost containment, customer satisfaction, and a greater number of players mean that every opportunity to refine international business practices must be examined in light of company goals. Collaborative relationships, strategic international alliances, strategic planning, and alternative market-entry strategies are important avenues to global marketing that must be implemented in the planning and organization of global marketing management.

Key Terms

Corporate planning	Direct exporting	Franchising	Joint venture
Strategic planning	Indirect exporting	Strategic international alliance (SIA)	
Tactical planning	Licensing		

Questions

1. Define the key terms listed above.
2. Define strategic planning. How does strategic planning for international marketing differ from that for domestic marketing?
3. Discuss the benefits to an MNC of accepting the global market concept. Explain the three points that define a global approach to international marketing.
4. Discuss the effect of shorter product life cycles on a company's planning process.
5. What is the importance of collaborative relationships to competition?
6. In Phases 1 and 2 of the international planning process, countries may be dropped from further consideration as potential markets. Discuss some of the conditions that may exist in a country that would lead a marketer to exclude a country in each phase.
7. Assume that you are the director of international marketing for a company producing refrigerators. Select one country in Latin America and one in Europe and develop screening criteria to use in evaluating the two countries. Make any additional assumptions that are necessary about your company.
8. "The dichotomy typically drawn between export marketing and overseas marketing is partly fictional; from a marketing standpoint, they are but alternative methods of capitalizing on foreign market opportunities." Discuss.
9. How will entry into a developed foreign market differ from entry into a relatively untapped market?
10. Why do companies change their organizations when they go from being an international to a global company?
11. Formulate a general rule for deciding where international business decisions should be made.
12. Explain the popularity of joint ventures.
13. Compare the organizational implications of joint ventures versus licensing.
14. Visit the Web sites of General Motors and Ford, both car manufacturers in the United States. Search their sites and compare their international involvement. How would you classify each—as exporter, international, or global?
15. Using the sources in Question 14, list the different entry modes each company uses.
16. Visit the Nestlé Corporation Web site (www.nestle.com/) and the Unilever Web site (www.unilever.com/). Compare their strategies toward international markets. In what ways (other than product categories) do they differ in their international marketing?

Chapter 13

Products and Services for Consumers

CHAPTER OUTLINE

Global Perspective: China—Disney Rolls the Dice Again

Quality

- Quality Defined
- Maintaining Quality
- Physical or Mandatory Requirements and Adaptation
- Green Marketing and Product Development

Products and Culture

- Innovative Products and Adaptation
- Diffusion of Innovations
- Production of Innovations

Analyzing Product Components for Adaptation

- Core Component
- Packaging Component
- Support Services Component

Marketing Consumer Services Globally

- Services Opportunities in Global Markets
- Barriers to Entering Global Markets for Consumer Services

Brands in International Markets

- Global Brands
- National Brands
- Country-of-Origin Effects and Global Brands
- Private Brands

CHAPTER LEARNING OBJECTIVES

What you should learn from Chapter 13:

LO1 The importance of offering a product suitable for the intended market

LO2 The importance of quality and how quality is defined

LO3 Physical, mandatory, and cultural requirements for product adaptation

LO4 The need to view all attributes of a product to overcome resistance to acceptance

LO5 Country-of-origin effects on product image

Global Perspective

CHINA—DISNEY ROLLS THE DICE AGAIN

With the opening of Disneyland in Anaheim in 1955, the notion of the modern theme park was born. The combination of the rides, various other attractions, and the Disney characters has remained irresistible. Tokyo Disneyland has also proved to be a success, making modest money for Disney through licensing and major money for its Japanese partners. Three-fourths of the visitors at the Tokyo park are repeat visitors, the best kind.

Then came EuroDisney. Dissatisfied with the ownership arrangements at the Tokyo park, the EuroDisney deal was structured very differently. Disney negotiated a much greater ownership stake in the park and adjacent hotel and restaurant facilities. Along with the greater control and potential profits came a higher level of risk.

Even before the park's grand opening ceremony in 1992, protestors decried Disney's "assault" on the French culture. The location was also a mistake—the Mediterranean climate of the alternative Barcelona site seemed much more attractive on chilly winter days in France. Managing both a multicultural workforce and clientele proved daunting. For example, what language was most appropriate for the Pirates of the Caribbean attraction—French or English? Neither attendance nor consumer purchases targets were achieved during the early years: Both were off by about 10 percent. By the summer of 1994, EuroDisney had lost some $900 million. Real consideration was given to closing the park.

A Saudi prince provided a crucial cash injection that allowed for a temporary financial restructuring and a general reorganization, including a new French CEO and a new name, Paris Disneyland. The Paris park returned to profitability, and attendance increased. However, the temporary holiday on royalties, management fees, and leases is now expired, and profits are dipping again. Disney's response was to expand with a second "Disney Studios" theme park and an adjacent retail and office complex at the Paris location. Again in 2005, the Saudi prince injected another $33 million into the park.

In 2006 Hong Kong Disneyland opened for business. The Hong Kong government provided the bulk of the investment for the project (almost 80 percent of the $3 billion needed). As in Europe, the clientele is culturally diverse, though primarily Chinese. Performances are done in Cantonese (the local dialect), Mandarin (the national language), and English. The park drew 5.2 million visitors in 2006, but attendance fell sharply to about 4 million in 2007. Disney has had to renegotiate its financial structure and schedule as a consequence. On the positive side of the ledger, the firm and the Hong Kong government are still talking about expanding the park, and Disney inked a new joint venture agreement for the online delivery of entertainment services to customers in China. In 2009 the Chinese government approved a new park in Shanghai to be managed by the Hong Kong groups with a price tag of some $4 billion. Indeed, it continues to be quite interesting to follow Mickey's international adventures; you might say it's been a rollercoaster ride.

Sources: http://www.disney.go.com; "Disney to Build Hong Kong Theme Park; Euro Disney's Profit Slumped," *Dow Jones News Service*, November 2, 1999; Richard Verrier, "Saudi Prince Helps Out EuroDisney," *Los Angeles Times*, January 12, 2005, p. C2; "Hong Kong Disney Crowds Disappoint for Second Year," *Reuters News*, December 12, 2007; Ethan Smith and James T. Areddy, "China Backs Disney Shanghai," *The Wall Street Journal*, November 11, 2009, online.

The opportunities and challenges for international marketers of consumer goods and services today have never been greater or more diverse. New consumers are springing up in emerging markets in eastern Europe, the Commonwealth of Independent States, China and other Asian countries, India, Latin America—in short, globally. Although some of these emerging markets have little purchasing power today, they promise to be huge markets in the future. In the more mature markets of the industrialized world, opportunity and challenge also abound as consumers' tastes become more sophisticated and complex, and as increases in purchasing power provide them with the means of satisfying new demands.

As described in the Global Perspective, Disney is the archetypal American exporter for global consumer markets. The distinction between products and services for such companies means little. Their DVDs are *products*, whereas cinema performances of the same movies are *services*. Consumers at the theme parks (including foreign tourists at domestic sites) pay around $100 to get in the gate, but they also spend about the same amount on hats, T-shirts, and meals while there. And the movies, of course, help sell the park tickets and the associated toys and clothing. Indeed, this lack of distinction between products and services has led to the invention of new terms encompassing both products and services, such as *market offerings*[1] and *business-to-consumer (B2C) marketing*. However, the governmental agencies that keep track of international trade still maintain the questionable product–service distinction, and thus so do we in this chapter and the next.[2] The reader should also note that when it comes to U.S. exports targeting consumers, the totals are about evenly split among the three major categories of durable goods (such as cars and computers), nondurable goods (mainly food, drugs, toys), and services (for example, tourism and telecommunications).

The trend for larger firms is toward becoming global in orientation and strategy. However, product adaptation is as important a task in a smaller firm's marketing effort as it is for global companies. As competition for world markets intensifies and as market preferences become more global, selling what is produced for the domestic market in the same manner as it is sold at home proves to be increasingly less effective. Some products cannot be sold at all in foreign markets without modification; others may be sold as is, but their acceptance is greatly enhanced when tailored specifically to market needs. In a competitive struggle, quality products and services that meet the needs and wants of consumers at an affordable price should be the goal of any marketing firm.

Quality

LO1

The importance of offering a product suitable for the intended market

Global competition is placing new emphasis on some basic tenets of business. It is shortening product life cycles and focusing on the importance of quality, competitive prices, and innovative products. The power in the marketplace is shifting from a sellers' to a customers' market, and the latter have more choices because more companies are competing for their attention. More competition and more choices put more power in the hands of the customer, and that of course drives the need for quality. Gone are the days when the customer's knowledge was limited to one or at best just a few different products. Today the customer knows what is best, cheapest, and highest quality, largely due to the Internet. It is the customer who defines quality in terms of his or her needs and resources. For example, cell phones that don't roam don't sell in Japan at any price, but in China they do very well indeed. Just ask the folks at UTStarcom, a California firm that has sold low-cost, nonroaming mobile phones in India and Vietnam, as well as China.

American products have always been among the world's best, but competition is challenging us to make even better products. In most global markets, the cost and quality of a product are among the most important criteria by which purchases are made. For consumer

[1]For example, see Philip Kotler and Kevin Lane Keller, *Marketing Management*, 13th ed. (Upper Saddle River, NJ: Prentice Hall, 2008).

[2]We hope that it is obvious that many of the points we make regarding the development of consumer products are pertinent to consumer services as well, and vice versa. Of course, some distinctions are still substantive. These are focused on in the section entitled "Marketing Consumer Services Globally" later in this chapter.

and industrial products alike, the reason often given for preferring one brand over another is better quality at a competitive price. Quality, as a competitive tool, is not new to the business world, but many believe that it is the deciding factor in world markets. However, we must be clear about what we mean by quality.

Quality Defined

LO2

The importance of quality and how quality is defined

Quality can be defined on two dimensions: market-perceived quality and performance quality. Both are important concepts, but consumer perceptions of a quality product often have more to do with market-perceived quality than performance quality. The relationship of quality (of course, relative to price) conformance to customer satisfaction is analogous to an airline's delivery of quality. If viewed internally from the firm's perspective (performance quality), an airline has achieved quality conformance with a safe flight and landing. But because the consumer expects performance quality to be a given, quality to the consumer is more than compliance (a safe flight and landing). Rather, cost, timely service, frequency of flights, comfortable seating, and performance of airline personnel from check-in to baggage claim are all part of the customer's experience that is perceived as being of good or poor quality. Considering the number of air miles flown daily, the airline industry is approaching zero defects in quality conformance, yet who will say that customer satisfaction is anywhere near perfection? These market-perceived quality attributes are embedded in the total product, that is, the physical or core product and all the additional features the consumer expects.

Products are not used in the same ways in all markets. Here, a boy in an eastern Mexican village is prepared for a "Jaguar dance" to bring rain. Clay, ashes, and the globally ubiquitous Coke bottle make for the best cat costumes. Perhaps our favorite example comes from India; in the Punjab region, lassi bars, a popular yoghurt drink, are often prepared in top-load washing machines!

In a competitive marketplace in which the market provides choices, most consumers expect performance quality to be a given. Naturally, if the product does not perform up to their standards, it will be rejected. Compare hybrid gas-electric systems for example—Toyota's is designed to save fuel in city driving; General Motors's performs best on the highway during long trips. Which drive system offers higher quality depends on the consumer's needs. Japanese consumers find themselves stuck in traffic more frequently, whereas Americans tend toward road trip types of activities.[3] When there are alternative products, all of which meet performance quality standards, the product chosen is the one that meets market-perceived quality attributes. Interestingly, China's leading refrigerator maker recognized the importance of these market-perceived quality attributes when it adopted a technology that enabled consumers to choose from 20 different colors and textures for door handles and moldings. For example, a consumer can design an off-white refrigerator with green marble handles and moldings. Why is this important? Because it lets consumers "update their living rooms," where most Chinese refrigerators are parked. The company's motive was simple: It positioned its product for competition with multinational brands by giving the consumer another expression of quality.

Quality is also measured in many industries by objective third parties. In the United States, J.D. Power and Associates has expanded its auto quality ratings, which are based on consumer surveys, to other areas, such as computers. Customer satisfaction indexes developed first in Sweden are now being used to measure customer satisfaction across a wide variety of consumer products and services.[4] Finally, the U.S.

[3]Joseph B. White, "One System, Two Visions," *The Wall Street Journal* (online), May 7, 2007.

[4]Claes Fornell, Michael D. Johnson, Eugene W. Anderson, Jaesung Cha, and Barbara Everitt Bryant, "The American Consumer Satisfaction Index: Nature, Purpose, and Findings," *Journal of Marketing* 60, no. 4 (October 1996), pp. 35–46; http://www.cfigroup.com, 2008.

CROSSING BORDERS 13.1 The Quality of Food Is a Matter of Taste

Food preferences vary not only across countries but within them as well. For example, many Vietnamese still have to eat whatever they can lay their hands on. Pet birds and dogs are kept indoors to save them from the cooking pot. In 1998, the government tried to reduce the consumption of snakes and cats by banning their sale because the exploding rat population was damaging crops. Instead, peasants simply took to eating rats as well. The dwindling number of rats, in turn, has caused an explosion in the numbers of another tasty treat: snails.

Meanwhile, in nearby Ho Chi Minh City, the country's commercial capital, a recent survey found that 13.5 percent of children were obese—and the figure is rising. Local restaurants vie with one another in expense and luxury. Hoang Khai, a local businessman, recalls how his family always celebrated at home when he was young, because there was nowhere to go out. He decided to change all that by plowing the returns from his textile business into a restaurant lavish enough to suit the city's business elite. The result is Au Manoir de Khai, a colonial villa smothered in gilt and silk where a meal with imported wine can set you back more than most Vietnamese earn in a year.

One has to wonder how ice cream from Fugetsudo, a small confectionary shop in northern Japan, would sell in either neighborhood in Vietnam. You can get fish, sea slug, whale meat, turtle, or cedar chip–flavored ice cream there. Fugetsudo's competition sells pickled-orchid, chicken-wing, shrimp, eel, and short-necked clam flavors. Mmmm! Baskin Robbins competes with its 31 flavors in Japan, but among its 32 countries served around the world, Vietnam is not among them. The average American consumes over 12 liters of ice cream per year and the Japanese less than half that. Vietnamese? Only half a liter.

Sources: "Eating Out in Vietnam," The Economist, December 21, 2002, pp. 49–50; Phred Dvorak, "Something Fishy Is Going On in Japan in the Ice-Cream Biz," The Wall Street Journal, September 4, 2002, p. 1; Eric Johnston, "Savour the Whale," The Guardian, July 4, 2005, p. 6; Euromonitor International, 2010; http://www.baskinrobbins.com, 2010.

Department of Commerce annually recognizes American firms for the quality of their international offerings—the Ritz Carlton Hotel chain has won the prestigious award twice.

Maintaining Quality

Maintaining performance quality is critical,[5] but frequently a product that leaves the factory with performance quality is damaged as it passes through the distribution chain. This damage is a special problem for many global brands for which production is distant from the market and/or control of the product is lost because of the distribution system within the market. When Mars Company's Snickers and other Western confectioneries were introduced to Russia, they were a big hit. Foreign brands such as Mars, Toblerone, Waldbaur, and Cadbury were the top brands—indeed, only one Russian brand placed in the top ten. But within five years, the Russian brands had retaken eight of the top spots, and only one U.S. brand, Mars's Dove bars, was in the top ten.

Red October brand chocolate (on the left) still competes well against foreign rivals Nestlé and Mars on Moscow store shelves. One advertising executive in Moscow reports that Russians are experiencing a renewed nationalism in product preferences as their economy continues to surge along with world oil prices. We have no idea what the "for Men" appeal is all about, but it apparently works in Moscow.

What happened? A combination of factors caused the decline. Russia's Red October Chocolate Factory got its act together; modernized its packaging, product mix, and equipment; and set out to capture the market. Performance quality was also an issue. When the Russian market opened to outside trade, foreign companies eager to get into the market dumped surplus out-of-date and poor-quality products. In other cases, chocolates were smuggled in and sold on street corners and were often mishandled in the process. By the time they made it to consumers, the chocolates were likely to be misshapen or discolored—poor quality compared with Russia's Red October chocolate.

[5] Duncan I. Simester, John R. Hauser, Birger Wernerfelt, and Roland T. Rust, "Implementing Quality Improvement Programs Designed to Enhance Customer Satisfaction: Quasi-Experiments in the United States and Spain," *Journal of Marketing Research* 37 (February 2000), pp. 102–12; Mark Landler, "Missteps Haunt Smart Car," *International Herald Tribune*, April 2–3, 2005, pp. 1, 4.

Market-perceived quality was also an issue. Russian chocolate has a different taste because of its formulation—more cocoa and chocolate liqueur are used than in Western brands, which makes it grittier. Thus, the Red October brand appeals more to Russian tastes, even though it is generally priced above Western brands. As evinced by this example, quality is not just desirable, it is essential for success in today's competitive global market, and the decision to standardize or adapt a product is crucial in delivering quality.

Toyota has long been known for its high-quality automobiles. But in 2009, at the height of its dominance of the global automobile industry (GM relinquished the global market-share title that year, during its bankruptcy), it suffered a quality maintenance *tsunami*. Sticky gas pedals appeared to contribute to unintended, sudden acceleration in Toyotas sold in the United States. The quality problem was linked to 34 deaths in the United States since 2000 by interrogators at Congressional hearings, which included testimony by Akio Toyoda, the Japanese CEO of Toyota Motor Corporation. This linking of deaths to quality problems will be a matter for the U.S. courts to decide however, and facts in such cases—such as driver error versus mechanical problems—are hard to pin down. Indeed, Ford actually received more complaints about the sudden unintended acceleration problem than Toyota between 2004 and 2009, according to National Highway Traffic Safety Administration figures. But one of the main topics discussed during the Congressional hearings was Toyota's consumer complaint handling and internal communications between the U.S. sales subsidiary and decision makers in Japan. The length of time between consumer complaints and the 6 million-car recall was a central issue. In his Japanese-style apology (see Chapter 5) to the American people during the hearings, Toyoda stated, "I myself, as well as Toyota, am not perfect. We never run away from our problems or pretend we don't notice them." But, not "noticing them" was a chief complaint voiced by the firm's critics. As the lawsuits around this issue play out in the years to come, it will be interesting to see the impact of his apology on juries. And of course, the impact of this quality problem and the "late" recall will be determined by the jury of public opinion and the previously loyal customers of the brand.[6]

Physical or Mandatory Requirements and Adaptation

LO3

Physical, mandatory, and cultural requirements to product adaptation

A product may have to change in a number of ways to meet the physical or mandatory requirements of a new market, ranging from simple package changes to total redesign of the physical core product. In many countries, the term **product homologation** is used to describe the changes mandated by local product and service standards. A recent study reaffirmed the often-reported finding that mandatory adaptations were more frequently the reason for product adaptation than adapting for cultural reasons.

Some needed changes are obvious with relatively little analysis; a cursory examination of a country will uncover the need to rewire electrical goods for a different voltage system, simplify a product when the local level of technology is not high, or print multilingual labels where required by law. Electrolux, for example, offers a cold-wash-only washing machine in Asian countries where electric power is expensive or scarce. Other necessary changes may surface only after careful study of an intended market.

Legal, economic, political, technological, and climatic requirements of the local marketplace often dictate product adaptation. During a period in India when the government strongly opposed foreign investment, PepsiCo. changed its product name to Lehar-Pepsi (in Hindi, *lehar* means "wave") to gain as much local support as possible. The name returned to Pepsi-Cola when the political climate turned favorable. Laws that vary among countries usually set specific package sizes and safety and quality standards. The World Health Organization is only beginning to regulate the marketing of high-carcinogen American cigarettes. But videogame content is regulated around the world according to violence levels and sexual content.

The less economically developed a market is, the greater degree of change a product may need for acceptance. One study found that only one in ten products could be marketed in developing countries without modification of some sort. To make a purchase more affordable in low-income countries, the number of units per package may have to be reduced from the typical quantities offered in high-income countries. Razor blades, cigarettes,

[6] Several articles on the topic including Joseph B. White and Peter Landers, "Toyoda is Wary Star of Kabuki at Capitol," *The Wall Street Journal*, February 25, 2010, pp. A1, A7.

chewing gum, and other multiple-pack items are often sold singly or two to a pack instead of the more customary 10 or 20. Cheetos, a product of PepsiCo.'s Frito-Lay, is packaged in 15-gram boxes in China so it can be priced at 1 yuan, or about 12 cents. At this price, even children with little spending money can afford Cheetos.

Changes may also have to be made to accommodate climatic differences.[7] General Motors of Canada, for example, experienced major problems with several thousand Chevrolet automobiles shipped to a Middle Eastern country; GM quickly discovered they were unfit for the hot, dusty climate. Supplementary air filters and different clutches had to be added to adjust for the problem. Similarly, crackers have to be packaged in tins rather than cardboard boxes for humid areas.

Perhaps our favorite example of product homologation comes from China. Oreos were first introduced there in 1996, but the company didn't adapt them to Chinese tastes until 9 years later. Now they're the top-selling biscuit in the country, after consumer research suggested reducing the sugar content and reducing package sizes and prices. Of course, the integrated marketing communications campaign also helped[8]—we detail that in Chapter 16. Because most products sold abroad by international companies originate in home markets and require some form of modification, companies need a systematic process to identify products that need adaptation.[9]

Green Marketing and Product Development

A quality issue of growing importance the world over, especially in Europe and the United States, is green marketing. Europe has been at the forefront of the "green movement," with strong public opinion and specific legislation favoring environmentally friendly marketing and products. **Green marketing** is a term used to identify concern with the environmental consequences of a variety of marketing activities. The European Commission has passed legislation to control all kinds of packaging waste throughout the European Union. Two critical issues that affect product development are the control of the packaging component of solid waste and consumer demand for environmentally friendly products.

In the United States, Japanese car manufacturers took advantage of their gas-guzzling American cousins as consumers became more concerned about the environmental effects of SUVs like General Motors's Hummer. Indeed, even in the United States the Hummer has largely died a timely death. Four-dollar gasoline and the bankruptcy of General Motors in 2009 killed the beast, and not even a Chinese bailout could save the behemoth.[10]

The European Commission issued guidelines for ecolabeling that became operational in 1992. Under the directive, a product is evaluated on all significant environmental effects throughout its life cycle, from manufacturing to disposal—a cradle-to-grave approach. A detergent formulated to be biodegradable and nonpolluting would be judged friendlier than a detergent whose formulation would be harmful when discharged into the environment. Aerosol propellants that do not deplete the ozone layer are another example of environmentally friendly products. No country's laws yet require products to carry an ecolabel to be sold, however. The designation that a product is "environmentally friendly" is voluntary, and environmental success depends on the consumer selecting the ecology-friendly product.

Since the introduction of the ecolabel idea, Hoover washing machines have been the only products that have gained approval for the ecolabel. Interestingly enough, the benefits of winning the symbol have resulted in Hoover tripling its market share in Germany and doubling its share of the premium sector of the U.K. washing-machine market. The approval process seems to be deterring many European manufacturers, many of which are using their own, unofficial symbols. The National Consumer Council, a consumer watchdog group,

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[7]Philip M. Parker and Nader T. Tavossoli, "Homeostasis and Consumer Behavior across Cultures," *International Journal of Research in Marketing* 17, no. 1 (March 2000), pp. 33–53.

[8]Julie Jargon, "Kraft Reformulates Oreo, Scores in China," *The Wall Street Journal*, May 1, 2008, pp. B1, B7.

[9]Magnus Hultman, Matthew J. Robson, and Constantine S. Katsikeas, "Export Product Strategy Fit and Performance: An Empirical Investigation," *Journal of International Marketing* 17, no. 4 (2009), pp. 1–23.

[10]Nick Bunkley, "G.M. Deal for Hummer Falls Apart," *The New York Times*, February 25, 2010, pp. B1, B4.

CROSSING BORDERS 13.2

In Germany, Video Games Showing Frontal Nudity Are OK, but Blood Is Verboten

Video game heroine Lara Croft is an adrenaline junkie unafraid of getting bloody. But in Germany, the buxom starlet of the "Tomb Raider" series doesn't bleed—even if she's being mauled by a tiger.

Although the $25 billion video game industry is global, the games themselves aren't. They reflect the distinct cultures and traditions of different markets, and game publishers carefully tweak their titles and other details to tone down offensive materials. And "offensive" varies from country to country.

Red blood in a game sold in the United States turns green in Australia. A topless character in a European title acquires a bikini top in the United States. Human enemies in an American game morph into robots in Germany. Violent sex scenes in a Japanese game disappear in the American versions.

Of all countries, Germany is one of the trickiest to tackle, publishers say. The country has spent five decades developing one of the world's strictest decency standards for virtually all media, from books and comics to music and games.

If a game features blood splatterings, decapitations, or death cries, it runs the risk of being placed on a government list known as "the index." Being indexed means it can't be sold to anyone under 18, displayed in stores, or advertised on television, in newspapers, or in magazines. Games containing pornography or glorifications of war, Nazism, and racial hatred face the same fate. Most recently the government has announced plans to forbid the sales of such graphic video games to minors.

Finally we note that the Germans are taking another tack against the games—a study there has shown that assigning more homework reduces time spent on games!

Sources: A. Phan and S. Sandell, "In Germany, Video Games Showing Frontal Nudity Are OK, but Blood Is Verboten," Los Angeles Times, June 9, 2003, p. C1; "Germany Plans Crackdown on Violent Video Games, Films," Deutsche Welle, October 12, 2007; Karen Moltenbrey, "Video Game Violence: How Much Is Too Much?" Computer Graphics World, November 2009, p. 4; Jiri Zuzanek, "Students' Study Time and Their 'Homework Problem,'" Social Indicators Research 93, no. 1 (2009), pp. 111–15.

reports that many consumers are so confused and cynical about the myriad symbols that they are giving up altogether on trying to compare the green credentials of similar products.

Laws that mandate systems to control solid waste, while voluntary in one sense, do carry penalties. The EU law requires that packaging material through all levels of distribution, from the manufacturer to the consumer, be recycled or reused. Currently, between 50 percent and 65 percent of the weight of the packaging must be recovered, and between 25 percent and 45 percent of the weight of the totality of packaging materials contained in packaging waste will be recycled.

Each level of the distribution chain is responsible for returning all packaging, packing, and other waste materials up the chain. The biggest problem is with the packaging the customer takes home; by law the retailer must take back all packaging from the customer if no central recycling locations are available. For the manufacturer's product to participate in direct collection and not have to be returned to the retailer for recycling, the manufacturer must guarantee financial support for curbside or central collection of all materials. The growing public and political pressure to control solid waste is a strong incentive for compliance.

Although the packaging and solid waste rules are burdensome, there have been successful cases of not only meeting local standards but also being able to transfer this approach to other markets. Procter & Gamble's international operations integrated global environmental concerns as a response to increasing demands in Germany. It introduced Lenor, a fabric softener in a superconcentrated form, and sold it in a plastic refill pouch that reduced packaging by 85 percent. This move increased brand sales by 12 percent and helped set a positive tone with government regulators and activists. The success of Lenor was transferred to the United States, where P&G faced similar environmental pressures. A superconcentrated Downy, the U.S. brand of fabric softener, was repackaged in refill pouches that reduced package sizes by 75 percent, thereby costing consumers less and actually increasing Downy market share. The global marketer should not view green marketing as a European problem; concern for the environment is worldwide and similar legislation is sure to surface elsewhere. This discussion is yet another example of the need to adapt products for global marketing.

Products and Culture

To appreciate the complexity of standardized versus adapted products, one needs to understand how cultural influences are interwoven with the perceived value and importance a market places on a product.[11] A product is more than a physical item: It is a bundle of satisfactions (or *utilities*) that the buyer receives. These utilities include its form, taste, color, odor, and texture; how it functions in use; the package; the label; the warranty; the manufacturer's and retailer's servicing; the confidence or prestige enjoyed by the brand; the manufacturer's reputation; the country of origin; and any other symbolic utility received from the possession or use of the goods. In short, the market relates to more than a product's physical form and primary function.[12] The values and customs within a culture confer much of the importance of these other benefits. In other words, a product is the sum of the physical and psychological satisfactions it provides the user.

A product's physical attributes generally are required to create its primary function. The primary function of an automobile, for example, is to move passengers from point A to point B. This ability requires a motor, transmission, and other physical features to achieve its primary purpose. The physical features or primary function of an automobile generally are in demand in all cultures where there is a desire to move from one point to another by ways other than by foot or animal power. Few changes to the physical attributes of a product are required when moving from one culture to another. However, an automobile has a bundle of psychological features that are as important in providing consumer satisfaction as its physical features. Within a specific culture, other automobile features (color, size, design, brand name, price) have little to do with its primary function—the movement from point A to B—but do add value to the satisfaction received.

The meaning and value imputed to the psychological attributes of a product can vary among cultures and are perceived as negative or positive. To maximize the bundle of satisfactions received and to create positive product attributes rather than negative ones, adaptation of the nonphysical features of a product may be necessary. Coca-Cola, frequently touted as a global product, found it had to change Diet Coke to Coke Light when it was introduced in Japan. Japanese women do not like to admit to dieting, because the idea of a diet implies sickness or medicine. So instead of emphasizing weight loss, "figure maintenance" is stressed. Anti-American sentiment is also causing Coke problems with Muslim consumers. At least four new competitors have popped up recently—Mecca Cola, Muslim Up, Arab Cola, and Cola Turka. McDonald's is also responding to such problems with its new McArabia sandwich.

Cola Turka holds a surprisingly large percentage of shelf space vis-à-vis Coke and Pepsi in this supermarket in Istanbul. The 2-liter bottle is priced at 2.00 lira, just under Coke's 2.05 lira. Cola Turka's TV ads, initially featuring American actor Chevy Chase speaking Turkish, seem to have worked well.

Adaptation may require changes of any one or all of the psychological aspects of a product. A close study of the meaning of a product shows the extent to which the culture determines an individual's perception of what a product is and what satisfaction that product provides.

The adoption of some products by consumers can be affected as much by how the product concept conforms with their norms, values, and behavior patterns as by its physical or mechanical attributes. For example, only recently have Japanese consumers taken an interest in dishwashers—they simply didn't have room in the kitchen. However, very compact designs by Mitsubishi, Toto (a Japanese toilet company), and others are making new inroads into Japanese kitchens. A novelty always comes up against a closely integrated cultural pattern, and this conflict is primarily what determines whether, when, how, and in what form it gets adopted. Some financial services have been difficult to introduce into Muslim countries because the pious have claimed they promoted usury and gambling, both explicitly forbidden in the Koran. The Japanese have always found all body jewelry repugnant. The Scots have a decided resistance to pork and all its associated products, apparently from days long ago when such taboos were founded on fundamentalist interpretations of the Bible. Filter cigarettes have failed in at least one Asian country because a very low life expectancy hardly places people in the age bracket most prone to fears of lung cancer—even supposing that they shared Western attitudes about death. All these sorts of problems require product offering adaptation by international marketers.

[11]Julien Dayla and Giana M. Eckhardt, "Asian Brands and the Shaping of a Transnational Imagined Community," *Journal of Consumer Research* 35 (2008), pp. 216–30.

[12]C. K. Prahalad, *The Fortune at the Bottom of the Pyramid* (Philadelphia: Wharton School Publishing, 2005).

CROSSING BORDERS 13.3

Seeds of Fashion: Eastern vs. Western Counter-Culture Movements and A Look at the Gothic Lolitas of Harajuku, Japan

Where do new ideas come from? Since its origin, the Gothic Lolita subculture of Harajuku has continued to fascinate people around the world. This group is just one example of the counterculture fashion movements that have emerged from the Harajuku district of Japan, each group identified by a specific look that conveys a visual message. Gothic Lolita fashion infuses Victorian-era clothing with elements of Goth and Japanese anime to create a unique form of dress. Adherents take notes from the Gothic & Lolita Bible (a quarterly magazine with an estimated circulation of 100,000) and rely on their distinctive appearance to proclaim their subcultural identity. As in other counterculture movements, youths' fantasies of liberation, rebellion, and revolution have become embedded in the cultural mode of a changing nation.

By examining the fashion of the Harajuku, we can gain a more in-depth understanding of group affiliation and construction of self in counterculture movements. Definitive of a counterculture, the Gothic Lolita's in-group behavior and fashion evokes opposition and displays a symbolic rebellion against mainstream Japanese culture. These attitudes are reflected in norm-breaking and attention-grabbing styles.

In the past, youth subcultures generally have emerged from Western society and diffused globally. But the Harajuku subculture began in the East and is moving West, marking a shift in the cultural current. The Harajuku subculture is also an example of the difference between Eastern and Western counterculture movements. Whereas maturity in Western cultures is associated with authority and individuality, in Confucian Japan, maturity is the ability to cooperate with a group, accept compromises, and fulfill obligations to society. Therefore, rebellion in Japanese youth culture means rebellion against adulthood as well. Rather than engaging in sexually provocative or aggressive behaviors to emphasize their maturity and independence, as occurs among Western rebels, Japanese Gothic Lolitas display themselves in a childlike and vulnerable manner to emphasize their immaturity and inability to meet the social responsibilities and obligations of adulthood.

Japanese women in an ad for Angelic Pretty fashions appearing in the Gothic & Lolita Bible.

Likely because of this refusal to cooperate with social expectations, mainstream Japan views the subculture as selfish, especially considering its indulgent consumption behaviors. Unlike contemporary Western youth cultures, such as punk and grunge, the Gothic Lolita subculture does not condemn materialism or other aspects of modern consumer culture. Instead, one outfit (as seen in the accompanying photo) can cost as much as \$300–\$1,000! Because personal consumption is regarded as both antisocial and immoral in Japanese society, the subculture opposes normative social values by indulging in the conspicuous consumption.

Most participants (aged 13–30 years) are students or have jobs that require them to wear a uniform every day. On Sundays, they feel they have reached the time they can truly be themselves. Their lifestyle is frowned upon, making it is very common to see teenagers carrying bags with their "harajuku outfit" on the train and changing at the park so their parents never see their outfits. Others wear the clothing as their normal daily dress, but the vast majority save it for Sundays, when they congregate at Jingu Bridge and Yoyogi Park to show off their fashions, hang out, and meet others like them. Some go just to have their pictures taken by the subculture's magazine photographers, who search for shots of new trends, or by tourists.

Source: Kristen San Jose, working paper, Paul Merage School of Business, University of California, Irvine, 2010.

When analyzing a product for a second market, the extent of adaptation required depends on cultural differences in product use and perception between the market the product was originally developed for and the new market. The greater these cultural differences between the two markets, the greater the extent of adaptation that may be necessary.

When instant cake mixes were introduced in Japan, the consumers' response was less than enthusiastic. Not only do Japanese reserve cakes for special occasions, but they prefer the cakes to be beautifully wrapped and purchased in pastry shops. The acceptance of instant cakes was further complicated by another cultural difference: Many Japanese homes do not have ovens. An interesting sidebar to this example is the company's attempt to correct for that problem by developing a cake mix that could be cooked in a rice cooker, which all Japanese homes have. The problem with that idea was that in a Japanese kitchen, rice and the manner in which it is cooked have strong cultural overtones, and to use the rice cooker to cook something other than rice is a real taboo. Of course, cake mixes were not readily accepted in the United States when they were introduced in 1949. For housewives, it didn't seem like they were baking if all they did was add water. Changing the formula to require adding eggs made the process feel more substantial, and the housewives were won over.

Examples are typically given about cultures other than American, but the need for cultural adaptation is often necessary when a foreign company markets a product in the United States, too. A major Japanese cosmetics company, Shiseido, attempted to break into the U.S. cosmetic market with the same products sold in Japan. After introducing them in more than 800 U.S. stores, the company realized that American taste in cosmetics is very different from Japanese tastes. The problem was that Shiseido's makeup required a time-consuming series of steps, a point that does not bother Japanese women. Success was attained after designing a new line of cosmetics as easy to use as American products.

The problems of adapting a product to sell abroad are similar to those associated with the introduction of a new product at home. Products are not measured solely by their physical specifications. The nature of the new product is what it does to and for the customer—habits, tastes, and patterns of life. The problems illustrated in the cake mix example have little to do with the physical product or the user's ability to make effective use of it and more with the fact that acceptance and use of the cake mixes would have required upsetting behavior patterns considered correct or ideal.

Finally, there are some interesting surprises in the area of adaptation. An interesting example is Harry Potter. About 20 percent of the sales of his last adventure book in Japan were in English. Japanese consumers were looking for ways to augment English lessons, and the books and associated audiotapes filled that particular need very well. For them Potter is not just entertainment; it's education.

Innovative Products and Adaptation

An important first step in adapting a product to a foreign market is to determine the degree of newness as perceived by the intended market.[13] How people react to newness and how new a product is to a market must be understood. In evaluating the newness of a product, the international marketer must be aware that many products successful in the United States, having reached the maturity or even decline stage in their life cycles, may be perceived as new in another country or culture and thus must be treated as innovations. From a sociological viewpoint, any idea perceived as new by a group of people is an **innovation**.

Whether or not a group accepts an innovation, and the time it takes to do so, depends on the product's characteristics.[14] Products new to a social system are innovations, and knowledge about the **diffusion** (i.e., the process by which innovation spreads) of innovation is helpful in developing a successful product strategy. Sony's marketing strategies for the U.S. introduction of its PlayStation 2 were well informed by its wild successes achieved six months earlier during the product's introduction in Japan. Marketing strategies can guide and control, to a considerable degree, the rate and extent of new product diffusion because successful new product diffusion is dependent on the ability to communicate relevant product information and new product attributes.

A U.S. cake mix company entered the British market but carefully eliminated most of the newness of the product. Instead of introducing the most popular American cake mixes, the company asked 500 British housewives to bake their favorite cake. Since the majority baked a simple, very popular dry sponge cake, the company brought to the market a similar easy mix. The sponge cake mix represented familiar tastes and habits that could be translated into a convenience item and did not infringe on the emotional aspects of preparing a fancy product for special occasions. Consequently, after a short period of time, the second

[13]Junfeng Zhang, C. Anthony Di Benedetto, and Scott Hoenig, "Product Development Strategy, Product Innovation Performance, and the Mediating Role of Knowledge Utilization: Evidence from Subsidiaries in China," *Journal of International Marketing* 17, no. 2 (2009), pp. 42–58.

[14]Changhui Zhou and Jing Li, "Product Innovation in Emerging Market-Based International Joint Ventures: An Organizational Ecology Perspective," *Journal of International Business Studies* 39, no. 7 (2008), pp. 1114–32.

company's product gained 30 to 35 percent of the British cake mix market. Once the idea of a mix for sponge cake seemed acceptable, the introduction of other flavors became easier.

The goal of a foreign marketer is to gain product acceptance by the largest number of consumers in the market in the shortest span of time. However, as discussed in Chapter 4 and as many of the examples cited have illustrated, new products are not always readily accepted by a culture; indeed, they often meet resistance. Although they may ultimately be accepted, the time needed for a culture to learn new ways, to learn to accept a new product, is of critical importance to the marketer because planning reflects a time frame for investment and profitability. If a marketer invests with the expectation that a venture will break even in three years and seven are needed to gain profitable volume, the effort may have to be prematurely abandoned. The question comes to mind of whether the probable rate of acceptance can be predicted before committing resources and, more critically, if the probable rate of acceptance is too slow, whether it can be accelerated. In both cases, the answer is a qualified yes. Answers to these questions come from examining the work done in diffusion research—research on the process by which innovations spread to the members of a social system.

Diffusion of Innovations

Everett Rogers noted that "crucial elements in the diffusion of new ideas are (1) an innovation, (2) which is communicated through certain channels, (3) over time, (4) among the members of a social system."[15] Rogers continued with the statement that it is the element of time that differentiates diffusion from other types of communications research. The goals of the diffusion researcher and the marketer are to shorten the time lag between introduction of an idea or product and its widespread adoption.

Rogers and others[16] give ample evidence of the fact that product innovations have varying rates of acceptance. Some diffuse from introduction to widespread use in a few years; others take decades. Patterns of diffusion also vary substantially, and steady growth is the exception—high-tech products often demonstrate periods of slow growth interspersed with performance jumps[17] or early declines followed by broader takeoffs. As mentioned in Chapter 8, cultural and other national differences affect the takeoff of new products.[18] Also, spillover effects from adopters in neighboring countries can influence diffusion rates. Analyses of both factors can suggest ideal countries for new product introduction. One study suggests Hong Kong and the United States as candidates for such classification.[19]

Patterns of alcoholic beverage consumption converge across Europe only when a 50-year time frame is considered. Microwave ovens, introduced in the United States initially in the 1950s, took nearly 20 years to become widespread; the contraceptive pill was introduced during that same period and gained acceptance in a few years. In the field of education, modern math took only five years to diffuse through U.S. schools, whereas the idea of kindergartens took nearly 50 years to gain total acceptance. A growing body of evidence suggests that an understanding of diffusion theory may suggest ways to accelerate the process of diffusion. Knowledge of this process also may provide the foreign marketer with the ability to assess the time it takes for a product to diffuse—before a financial commitment is necessary. It also focuses the marketer's attention on features of a product that provoke resistance, thereby providing an opportunity to minimize resistance and hasten product acceptance.

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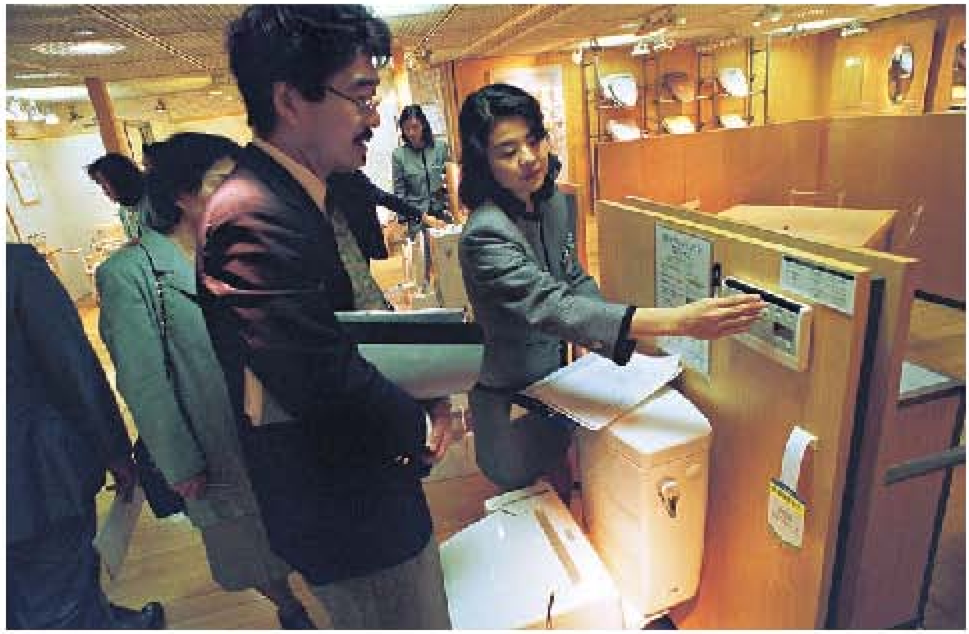
[15] Everett M. Rogers, *Diffusion of Innovations*, 5th ed. (New York: The Free Press, 2003). This book should be read by anyone responsible for product development and brand management, domestic or international.

[16] Marnik G. Dekimpe, Philip M. Parker, and Miklos Sarvary, "Global Diffusion and Technological Innovations: A Couple-Hazard Approach," *Journal of Marketing Research* 38 (February 2000), pp. 47–59; Gerard J. Tellis, Stefan Stremersch, and Eden Yin, "The International Takeoff of New Products: The Role of Economics, Culture, and Country Innovativeness," *Marketing Science* 22, no. 2 (2003), pp. 188–208; Sean Dwyer, Hani Mesak, and Maxwell Hsu, "An Exploratory Examination of the Influence of National Culture on Cross-National Product Diffusion," *Journal of International Marketing* 13, no. 2 (2005), pp. 1–27.

[17] Ashish Sood and Gerard J. Tellis, "Technological Evolution and Radical Innovation," *Journal of Marketing* 69 (2005), pp. 152–68.

[18] Deepa Chandrasekaran and Gerard J. Tellis, "Global Takeoff of New Products: Culture, Wealth, or Vanishing Differences," *Marketing Science* 27, no. 5 (2008), pp. 844–60.

[19] Yvonne van Everdingen, Dennis Fok, and Stefan Stremersch, "Modeling Global Spillover of New Product Takeoff," *Journal of Marketing Research* 46 (2009), pp. 637–52.



The Japanese and the Dutch are the world's champions in toilet innovations. Japan's long history of crowding has prompted the culture to focus on cleanliness, frequent bathing, and high-tech bathrooms. Thus, Matsushita's toilet reads your body weight, temperature, and blood pressure. Soon you will also be able to get a readout on glucose and protein levels in your urine! The Dutch are also worried about plumbing—much of their country is below sea level. Sphinx in Maastricht produces a urinal for women and a fly imbedded in the porcelain for their men's urinal. The latter reduces maintenance costs, as the company's research has shown that most men will aim for the fly, which is strategically placed to minimize splash. Both Dutch innovations can be seen in the Schiphol Airport outside of Amsterdam.

At least three extraneous variables affect the rate of diffusion of an object: the degree of perceived newness, the perceived attributes of the innovation, and the method used to communicate the idea.[20] The more innovative a product is perceived to be, the more difficult it is to gain market acceptance. That is, at a fundamental level, innovations are often disruptive.[21] Consider alternative-fuel cars in the United States. Although they are popular with consumers, dealers did not appreciate their low maintenance requirements, which reduced after-sale service revenues. Furthermore, the infrastructure to support hydrogen fuel cell cars has been expensive to build. Thus, some suggest that the technology is inappropriate for the United States, whereas China, without an established infrastructure, could leapfrog

[20] Anita Elberse and Jehoshua Eliashberg, "Demand and Supply Dynamics for Sequentially Released Products in International Markets: The Case of Motion Pictures," *Marketing Science* 22, no. 3 (2003), pp. 329–54.

[21] Jared Diamond, *Collapse* (New York: Viking, 2005).

CROSSING BORDERS 13.4 Selling Coffee in Tea-Drinking Japan

My first meeting with Nestlé executives and their Japanese advertising agency was very instructive. Their strategy, which today seems absurdly wrong, but wasn't as obviously so in the 1970s, was to try to convince Japanese consumers to switch from tea to coffee. Having spent some time in Japan, I knew that tea meant a great deal to this culture, but I had no sense of what emotions they attached to coffee. I decided to gather several groups of people together to discover how they imprinted the beverage. I believed there was a message there that could open a door for Nestlé.

I structured a three-hour session with each of the groups. In the first hour, I took on the persona of a visitor from another planet, someone who had never seen coffee before and had no idea how one "used" it. I asked for help understanding the product, believing their descriptions would give me insight into what they thought of it.

In the next hour, I had them sit on the floor like elementary school children and use scissors and a pile of magazines to make a collage of words about coffee. The goal here was to get them to tell me stories with these words that would offer further clues.

In the third hour, I had participants lie on the floor with pillows. There was some hesitation among members of every group, but I convinced them I wasn't entirely out of my mind. I put on soothing music and asked the participants to relax. What I was doing was calming their active brainwaves, getting them to that tranquil point just before sleep. When they reached this state, I took them on a journey back from their adulthood, past their teenage years, to a time when they were very young. Once they arrived, I asked them to think again about coffee and to recall their earliest memory of it, the first time they consciously experienced it, and their most significant memory of it (if that memory was a different one).

I designed this process to bring participants back to their first imprint of coffee and the emotion attached to it. In most cases, though, the journey led nowhere. What this signified for Nestlé was very clear. While the Japanese had an extremely strong emotional connection to tea (something I learned without asking in the first hour of the sessions), they had, at most, a very superficial imprint of coffee. Most, in fact, had no imprint of coffee at all.

Under these circumstances, Nestlé's strategy of getting these consumers to switch from tea to coffee could only fail. Coffee could not compete with tea in the Japanese culture if it had such weak emotional resonance. Instead, if Nestlé was going to have any success in the market at all, they needed to start at the beginning. They needed to give the product meaning in this culture. They needed to create an imprint for coffee for the Japanese.

Armed with this information, Nestlé devised a new strategy. Rather than selling instant coffee to a country dedicated to tea, they created desserts for children infused with the flavor of coffee but without the caffeine. The younger generation embraced these desserts. Their first imprint of coffee was a very positive one, one they would carry throughout their lives. Through this, Nestlé gained a meaningful foothold in the Japanese market.

Coffee consumption initially burgeoned, and Starbucks might have thanked Nestlé for the help! But since 2005 per capita coffee consumption has leveled off in both Japan and the U.S. while tea drinking has inched upward. Indeed, you might say the demand for hot drinks is "fluid."

Source: Clotaire Rapaille, The Culture Code (New York: Broadway Books, 2006); Euromonitor International, 2010.

the older, gasoline-fueled options.[22] Additionally, the perception of innovation can often be changed if the marketer understands the perceptual framework of the consumer, as has certainly proved to be the case with the fast global diffusion of Internet use, e-tailing, and health- and beauty-related products and services.

Analyzing the five characteristics of an innovation can assist in determining the rate of acceptance or resistance of the market to a product. A product's (1) *relative advantage* (the perceived marginal value of the new product relative to the old), (2) *compatibility* (its compatibility with acceptable behavior, norms, values, and so forth), (3) *complexity* (the degree of complexity associated with product use), (4) *trialability* (the degree of economic and/or social risk associated with product use), and (5) *observability* (the ease with which the product benefits can be communicated) affect the degree of its acceptance or resistance. In general, the rate of diffusion can be postulated as positively related to relative advantage, compatibility, trialability, and observability but negatively related to complexity.

[22] Jane Lanhee Lee, "The Leapfrog Strategy: Fuel-Cell Advocates Say China Is Uniquely Positioned to Jump Past Petroleum," *The Wall Street Journal*, July 25, 2005, p. R6.

The evaluator must remember that it is the perception of product characteristics by the potential adopter, not the marketer, that is crucial to the evaluation. A market analyst's self-reference criterion (SRC) may cause a perceptual bias when interpreting the characteristics of a product. Thus, instead of evaluating product characteristics from the foreign user's frame of reference, the marketer might analyze them from his or her frame of reference, leading to a misinterpretation of the product's cultural importance.

Once the analysis has been made, some of the perceived newness or causes for resistance can be minimized through adroit marketing. The more congruent product perceptions are with current cultural values, the less resistance there will be and the more rapid product diffusion or acceptance will be. Finally, we should point out that the newness of the product or brand introduced can be an important competitive advantage; the pioneer brand advantage often delivers long-term competitive advantages in both domestic and foreign markets.[23]

Production of Innovations

Some consideration must be given to the inventiveness of companies[24] and countries.[25] For example, it is no surprise that most of the new ideas associated with the Internet are being produced in the United States.[26] The 227 million American users of the Internet far outnumber the 92 million Japanese users.[27] Similarly, America wins the overall R&D expenditure contest. Expenditures are about the same across member countries of the Organization for Economic Cooperation and Development, at about 2 to 3 percent of GDP, so America's large economy supports twice the R&D spending as does Japan, for example. This spending yields about three times the number of U.S. patents granted to American firms versus Japanese firms. One study suggests that national culture influences innovativeness (individualism enhances creativity[28]), but another argues that corporate culture, not national culture, is key.[29] The Japanese government diagnosed the problem as a lack of business training. Japanese engineers are not versed in marketing and entrepreneurship, and American-style educational programs are being created at a record pace to fill the gap. However, we do note a disturbing trend: The growth of American R&D spending is slower than most other competitive countries. Russia, India, and China are experiencing double-digit growth compared with America's four percent annual growth rate over the last five years.[30] Moreover, in 2009, for the first time in history, more patents were registered by foreign residents in the United States than by U.S. residents.[31]

Many Japanese firms also take advantage of American innovativeness by establishing design centers in the United States—most notable are the plethora of foreign auto design centers in Southern California. At the same time, American automobile firms have established design centers in Europe. Recent studies have shown that innovativeness varies across cultures, and companies are placing design centers worldwide. Indeed, the Ford Taurus, the car that saved Ford in the 1980s, was a European design.

Research is also now focusing on the related issue of "conversion-ability" or the success firms have when they take inventions to market. Three main factors seem to favor

[23]Gerald Young Gao, Yigang Pan, David K. Tse, and Chi Kin (Bennett) Yim, "Market Share Performance of Foreign and Domestic Brands in China," *Journal of International Marketing* 14 (2006), pp. 32–51.

[24]Rohit Deshpandé and John U. Farley, "Organizational Culture, Innovativeness, and Market Orientation in Hong Kong Five Years after Handover: What Has Changed?" *Journal of Global Marketing* 17, no. 4 (2004), pp. 53–75.

[25]Anyone interested in a wonderful book on this topic should read the Pulitzer Prize–winning *Guns, Germs, and Steel: The Fates of Human Societies* by Jared Diamond (New York: Norton, 1999); also see Subin Im, Cheryl Nakata, Heungsooa Park, and Young-Won Ha, "Determinants of Korean and Japanese New Product Performance: An Interrelational and Process View," *Journal of International Marketing* 11, no. 4 (2003), pp. 81–113. Also, one approach to innovation is copying—see Dexter Roberts, "Did Spark Spark a Copycat?" *BusinessWeek*, February 7, 2005, p. 64.

[26]Thomas L. Friedman, *The World Is Flat* (New York: Farrar, Straus, and Giroux, 2005).

[27]Euromonitor International, 2010.

[28]Jack A. Goncalo and Barry M. Staw, "Individualism—Collectivism and Group Creativity," *Organizational Behavior and Human Decision Processes* 100 (2006), pp. 96–109.

[29]Gerard J. Tellis, Jaideep C. Prabhu, and Rajesh K. Chandy, "Radical Innovation across Nations: The Preeminence of Corporate Culture," *Journal of Marketing* 73, no. 1 (2009), pp. 3–23.

[30]Euromonitor International, 2010.

[31]Michael Arndt, "Ben Franklin, Where Are You?" Bloomberg *BusinessWeek*, January 4, 2010, p. 29.

conversion, at least in the global pharmaceutical industry: patience (nine years seems optimal for taking a newly patented drug to approval), focus on a few important innovations, and experience.[32] Another study demonstrates that strengthening patent protections tends to favor firms in developed countries differentially more than firms in developing countries.[33] If evidence continues to accumulate in this vein, policy makers will have to reconsider the current global application of a "one-size-fits-all" intellectual property system.

Analyzing Product Components for Adaptation

LO4

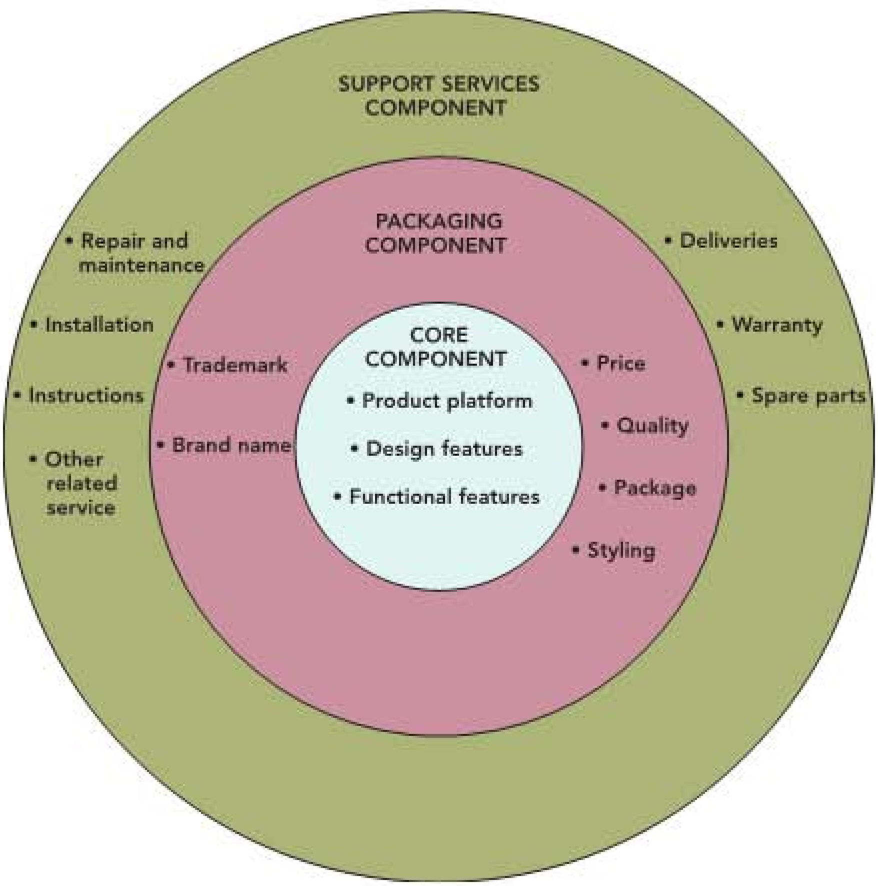
The need to view all attributes of a product to overcome resistance to acceptance

A product is multidimensional, and the sum of all its features determines the bundle of satisfactions (utilities) received by the consumer. To identify all the possible ways a product may be adapted to a new market, it helps to separate its many dimensions into three distinct components, as illustrated by the **Product Component Model** in Exhibit 13.1. By using this model, the impact of the cultural, physical, and mandatory factors (discussed previously) that affect a market's acceptance of a product can be focused on the core component, packaging component, and support services component. These components include all a product's tangible and intangible elements and provide the bundle of utilities the market receives from use of the product.

Core Component

The *core component* consists of the physical product—the platform that contains the essential technology—and all its design and functional features. It is on the product platform that product variations can be added or deleted to satisfy local differences. Major adjustments in the platform aspect of the core component may be costly, because a change

Exhibit 13.1
Product Component Model



[32]Rajesh Chandy, Brigitee Hpostaken, Om Narasimhan, and Jaideep Prabhu, "From Invention to Innovation: Conversion Ability in Product Development," *Journal of Marketing Research* 43 (2006), pp. 494–508.

[33]Brent B. Allred and Walter G. Park, "Patent Rights and Innovative Activity: Evidence from National and Firm-Level Data," *Journal of International Business Studies* 38 (2007), pp. 878–900.

in the platform can affect product processes and thus require additional capital investment. However, alterations in design, functional features, flavors, color, and other aspects can be made to adapt the product to cultural variations. In Japan, Nestlé originally sold the same kind of corn flakes it sells in the United States, but Japanese children ate them mostly as snacks instead of for breakfast. To move the product into the larger breakfast market, Nestlé reformulated its cereals to more closely fit Japanese taste. The Japanese traditionally eat fish and rice for breakfast, so Nestlé developed cereals with familiar tastes—seaweed, carrots and zucchini, and coconut and papaya. The result was a 12 percent share of the growing breakfast cereal market.

For the Brazilian market, where fresh orange juice is plentiful, General Foods changed the flavor of its presweetened powdered juice substitute, Tang, from the traditional orange to passion fruit and other flavors. Changing flavor or fragrance is often necessary to bring a product in line with what is expected in a culture. Household cleansers with the traditional pine odor and hints of ammonia or chlorine popular in U.S. markets were not successful when introduced in Japan. Many Japanese sleep on the floor on futons with their heads close to the surface they have cleaned, so a citrus fragrance is more pleasing. Rubbermaid could have avoided missteps in introducing its line of baby furniture in Europe with modest changes in the core component. Its colors were not tailored to European tastes, but worst of all, its child's bed didn't fit European-made mattresses!

Functional features can be added or eliminated depending on the market. In markets where hot water is not commonly available, washing machines have heaters as a functional feature. In other markets, automatic soap and bleach dispensers may be eliminated to cut costs or to minimize repair problems. Additional changes may be necessary to meet safety and electrical standards or other mandatory (homologation) requirements. The physical product and all its functional features should be examined as potential candidates for adaptation.

Packaging Component

The *packaging component* includes style features, packaging, labeling, trademarks, brand name, quality, price, and all other aspects of a product's package. Apple Computer found out the hard way how important this component can be when it first entered the Japanese market. Some of its Macintosh computers were returned unused after customers found the wrapping on the instruction manual damaged! As with the core component, the importance of each of the elements in the eyes of the consumer depends on the need that the product is designed to serve.

Packaging components frequently require both discretionary and mandatory changes. For example, some countries require labels to be printed in more than one language, while others forbid the use of any foreign language. Meanwhile, one study has found that consumers in the United States respond negatively to bilingual packaging.[34] At Hong Kong Disneyland, the jungle cruise ride commentary is delivered in Cantonese, Mandarin, and English. Several countries are now requiring country-of-origin labeling for food products. Elements in the packaging component may incorporate symbols that convey an unintended meaning and thus must be changed. One company's red-circle trademark was popular in some countries but was rejected in parts of Asia, where it conjured up images of the Japanese flag. Yellow flowers used in another company trademark were rejected in Mexico, where a yellow flower symbolizes death or disrespect.

A well-known baby-food producer that introduced small jars of baby food in Africa, complete with labels featuring a picture of a baby, experienced the classic example of misinterpreted symbols: The company was absolutely horrified to find that consumers thought the jars contained ground-up babies. In China, though not a problem of literacy per se, Brugel, a German children's cereal brand that features cartoon drawings of dogs, cats, birds, monkeys, and other animals on the package, was located in the pet foods section of a supermarket. The label had no Chinese, and store personnel were unfamiliar with the

[34]Mahesh Gopinath and Myron Glassman, "The Effect of Multiple Language Product Descriptions on Product Evaluations," *Psychology & Marketing* 25, no. 3 (2008), pp. 233–61.

CROSSING BORDERS 13.5 D'oh! Or Just Dough in Dubai?

When the Dubai-based Arab satellite TV network MBC decided to introduce Fox's The Simpsons to the Middle East, it knew the Simpson family would have to make some fundamental lifestyle changes.

"Omar Shamshoon," as he is called on the show, looks like the same Homer Simpson, but he has given up beer and bacon, which are both against Islam, and he no longer hangs out at "seedy bars with bums and lowlifes." In Arabia, Homer's beer is soda, and his hot dogs are barbequed Egyptian beef sausages. And the donut-shaped snacks he gobbles are the traditional Arab cookies called kahk.

An Arabized Simpsons—called Al Shamshoon—made its debut in the Arab world just in time for Ramadan, a time of high TV viewership. It uses the original Simpsons animation, but the voices are dubbed into Arabic, and the scripts have been adapted to make the show more accessible, and acceptable, to Arab audiences.

The family remains, as the producers describe them, "dysfunctional." They still live in Springfield, and "Omar" is still lazy and works at the local nuclear power plant. Bart (now called "Badr") is constantly cheeky to his parents and teachers and is always in trouble. Providing the characters' voices are several popular Egyptian actors, including Mohamed Heneidy, considered the Robert DeNiro of the Middle East.

Al Shamshoon is currently broadcast daily during an early-evening prime-time slot, starting with the show's first season. If it is a hit, MBC envisions Arabizing the other 16 seasons. But there's no guarantee of success. Many Arab blogs and Internet chat sessions have become consumed with how unfunny Al Shamshoon is: "They've ruined it! Oh yes they have, *sob*. . . . Why? Why, why oh why?!!!!" wrote a blogger, "Noors," from Oman.

Few shows have more obsessed fans than The Simpsons , and the vast online community is worried about whether classic Simpsons' dialogue can even be translated. One blogger wrote, "'Hi-diddly-ho, neighbors!' How the h— are they going to translate that? Or this great quote: Mr. Burns: 'Oooh, so Mother Nature needs a favor?! Well maybe she should have thought of that when she was besetting us with droughts and floods and poison monkeys! Nature started the fight for survival, and now she wants to quit because she's losing. Well I say, hard cheese'."

A blogger, who uses the name "Nibaq," wrote, "I am sure the effort [of] the people who made this show to translate it to Arabic could have made a good original show about an Egyptian family living in Egypt, dealing with religion, life and work and trying to keep a family together. That way they can proudly say Made in Egypt, instead of Made in USA Assembled in Egypt."

The Simpson's movie broke records worldwide in 2007. And Spanish retailer Bershka is now offering upscale Simpsons T-shirts across Latin America, Europe, and the Middle East. Indeed, it will be interesting to keep watching "D'oh!" being converted into dough in Dubai.

Sources: Yasmine El-Rashidi, "D'oh! Arabized Simpsons Aren't Getting Many Laughs," The Wall Street Journal, October 14, 2005, pp. B1, B2; "Microsoft Launches New Arabized Solutions and Localized Windows XP Theme Packs at Gitex 2005," AME Info/Middle East Company News, September 27, 2005; Frank Segers, "'Simpsons Movie' Reigns at Overseas Boxoffice," Hollywood Reporter, August 6, 2007; "Twentieth Century Fox L&M Launches The Simpsons with Bershka," License Magazine , March 2009, p. 15.

product. It is easy to forget that in low-literacy countries, pictures and symbols are taken literally as instructions and information.

Care must be taken to ensure that corporate trademarks and other parts of the packaging component do not have unacceptable symbolic meanings. Particular attention should be given to translations of brand names and colors used in packaging. When Ford tried to sell its Pinto automobile in Brazil, it quickly found out that the car model's name translated to "tiny male genitals." White, the color symbolizing purity in Western countries, is the color for mourning in others. In China, P&G packaged diapers in a pink wrapper. Consumers shunned the pink package—pink symbolized a girl, and in a country with a one-child-per-family rule where boys are preferred, you do not want anyone to think you have a girl, even if you do.

Reasons a company might have to adapt a product's package are countless. In some countries, laws stipulate specific bottle, can, and package sizes and measurement units. If a country uses the metric system, it will probably require that weights and measurements conform to the metric system. Such descriptive words as "giant" or "jumbo" on a package or label may be illegal. High humidity or the need for long shelf life because of extended distribution systems may dictate extra-heavy packaging for some products. As is frequently mentioned, Japanese attitudes about quality include the packaging of a product. A poorly packaged product conveys an impression of poor quality to the Japanese. It is also important to determine if the packaging has other uses in the market. Lever Brothers sells Lux soap in stylish boxes in Japan because more than half of all soap cakes there are purchased during the two gift-giving seasons. Size of the package is also a factor that may make a difference to success in Japan. Soft drinks are sold in smaller-size cans than in the United States to accommodate the smaller Japanese hand. In Japan, most food is sold fresh or in clear packaging, while cans are considered dirty. So when Campbell introduced soups to the Japanese market, it decided to go with a cleaner, more expensive pop-top opener.

Labeling laws vary from country to country and do not seem to follow any predictable pattern. In Saudi Arabia, for example, product names must be specific. "Hot Chili" will not do; it must be "Spiced Hot Chili." Prices are required to be printed on the labels in Venezuela, but in Chile putting prices on labels or in any way suggesting retail prices is illegal. Coca-Cola ran into a legal problem in Brazil with its Diet Coke. Brazilian law interprets *diet* to have medicinal qualities. Under the law, producers must give the daily recommended consumption on the labels of all medicines. Coca-Cola had to get special approval to get around this restriction. Until recently in China, Western products could be labeled in a foreign language with only a small temporary Chinese label affixed somewhere on the package. Under the new Chinese labeling law, however, food products must have their name, contents, and other specifics listed clearly in Chinese printed directly on the package—no temporary labels are allowed.

Labeling laws create a special problem for companies selling products in various markets with different labeling laws and small initial demand in each. In China, for example, there is demand for American- and European-style snack foods even though that demand is not well developed at this time. The expense of labeling specially to meet Chinese law often makes market entry costs prohibitive. Forward-thinking manufacturers with wide distribution in Asia are adopting packaging standards comparable to those required in the European Union by providing standard information in several different languages on the same package. A template is designed with space on the label reserved for locally required content, which can be inserted depending on the destination of a given production batch.

Support Services Component

The *support services* component includes repair and maintenance, instructions, installation, warranties, deliveries, and the availability of spare parts. Many otherwise successful marketing programs have ultimately failed because little attention was given to this product component. Repair and maintenance are especially difficult problems in developing countries. In the United States, a consumer has the option of obtaining service from the company or from scores of competitive service retailers ready to repair and maintain anything from automobiles to lawn mowers. Equally available are repair parts from company-owned or licensed outlets or the local hardware store. Consumers in a developing country and in many developed countries may not have even one of the possibilities for repair and maintenance available in the United States, and independent service providers can be used to enhance brand and product quality.[35]

In some countries, the concept of routine maintenance or preventive maintenance is not a part of the culture. As a result, products may have to be adjusted to require less frequent maintenance, and special attention must be given to features that may be taken for granted in the United States.

The literacy rates and educational levels of a country may require a firm to change a product's instructions. A simple term in one country may be incomprehensible in another. In rural Africa, for example, consumers had trouble understanding that Vaseline Intensive Care lotion is absorbed into the skin. *Absorbed* was changed to *soaks into*, and the confusion was eliminated. The Brazilians have successfully overcome the low literacy and technical skills of users of the sophisticated military tanks it sells to Third World countries. The manufacturers include videocassette players and videotapes with detailed repair

[35]Ikechi Ekeledo and Nadeem M. Firoz, "Independent Service Providers as a Competitive Advantage in Developing Economies," *Journal of Global Marketing* 20 (2007), pp. 39–54.

CROSSING BORDERS 13.6 So, Your Computer Isn't Working?

Most people have two options when the desk beast starts acting up: Call the service center or read the manual. Both are becoming cross-cultural activities. With increasing frequency, service call centers are being staffed by folks in the Philippines, India, the Caribbean, and other developing countries where English is commonly spoken. The savings for the companies can be in the 90 percent range. But for consumers, it was tough enough bridging the technician–layperson gap. Now a cross-cultural layer is being added to the interaction.

At least many manufacturers are getting more adept at adapting user manuals. In some countries, the manuals are treasured for their entertainment value. Mike Adams of the translation and marketing firm Arial Global Reach explains, "Japanese people really enjoy reading documentation, but that's because Japanese documentation is actually fun to look at." Japanese manuals are often jazzed up with creative cartoons. Even program interfaces are animated. Microsoft's much-maligned Clippy the Paperclip was replaced in Japan with an animated dolphin, "And even highly technical Japanese engineers don't feel at all childish when they view or interact with these animations."

Put those cute characters in manuals in other countries and the customer will doubt the seriousness of the firm. Mark Katib, general manager of Middle East Translation Services, says most customers in that part of the world, as do Americans, prefer uncluttered, nontechnical explanations. He spends most of his time making sure that information is presented in an acceptable manner, not impinging on people's beliefs.

Apparently you cannot give an Italian a command such as "never do this." The consequences for that kind of language are calls from Italians who have broken their machines by doing exactly "this." Instead, Italian manuals must use less demanding language, like "you might consider . . . ."

The Germans will reject manuals with embedded humor. Hungarians like to fix things themselves, so their manuals are more like machine shop guides. Finally, one software maker that developed a WAN (wide-area network) used a flowing stream of text, "WAN WAN WAN WAN" on the package. To a Japanese that's the sound a dog makes, and in Japan no one would buy a product advertising itself by a barking dog.

The main point here is that "technobabble" is hard to translate in any language.

Sources: Michelle Delio, "Read the F***ing Story, then RTFM," Wired News , http://www.wired.com, June 4, 2002; Pete Engardio, Aaron Bernstein, and Manjeet Kripalani, "Is Your Job Next?" BusinessWeek, February 3, 2003, pp. 50–60; Alli McConnon, "India's Competition in the Caribbean," BusinessWeek, December 24, 2007, p. 75; Rudy Hirschheim, "Offshoring and the New World Order," Communications of the ACM 12, no. 11 (2009), pp. 132–35.

instructions as part of the standard instruction package. They also minimize spare parts problems by using standardized, off-the-shelf parts available throughout the world. And, of course, other kinds of cultural preferences come into play even in service manuals.

Complementary products must be considered increasingly in the marketing of a variety of high-tech products. Perhaps the best example is Microsoft's Xbox and its competitors. Sales of the Xbox had lagged those of Sony's and Nintendo's game consoles in Japan. Microsoft diagnosed the problem as a lack of games that particularly attract Japanese gamers and therefore developed a series of games to fill that gap. An early offering, a role-playing game called *Lost Odyssey*, was developed by an all-Japanese team.[36]

The Product Component Model can be a useful guide for examining the adaptation requirements of products destined for foreign markets. A product should be carefully evaluated on each of the three components to determine any mandatory and discretionary changes that may be needed.

Marketing Consumer Services Globally

As mentioned at the beginning of the chapter, much of the advice regarding adapting products for international consumer markets also applies to adapting services. Moreover, some services are closely associated with products. Good examples are the support services just described or the customer services associated with the delivery of a Big Mac to a consumer in Moscow. However, services are distinguished by

[36]Yukari Iwatani Kane, "Microsoft Makes Big Push to Woo Japanese with New Xbox Games," *The Wall Street Journal* (online), September 12, 2007.

four unique characteristics—intangibility, inseparability, heterogeneity, and perishability—and thus require special consideration.

Products are often classified as tangible, whereas services are *intangible*. Automobiles, computers, and furniture are examples of products that have a physical presence; they are things or objects that can be stored and possessed, and their intrinsic value is embedded within their physical presence. Insurance, dry cleaning, hotel accommodations, and airline passenger or freight service, in contrast, are intangible and have intrinsic value resulting from a process, a performance, or an occurrence that exists only while it is being created.

The intangibility of services results in characteristics unique to a service: It is *inseparable* in that its creation cannot be separated from its consumption;[37] it is *heterogeneous* in that it is individually produced and is thus unique; and it is *perishable* in that once created it cannot be stored but must be consumed simultaneously with its creation. Contrast these characteristics with a tangible product that can be produced in one location and consumed elsewhere, that can be standardized, whose quality assurance can be determined and maintained over time, and that can be produced and stored in anticipation of fluctuations in demand.

As is true for many tangible products, a service can be marketed as both an industrial (business-to-business) and a consumer service, depending on the motive of, and use by, the purchaser. For example, travel agents and airlines sell industrial or business services to a business traveler and a consumer service to a tourist. Financial services, hotels, insurance, legal services, and others may each be classified as either a business or a consumer service. As one might expect, the unique characteristics of services result in differences in the marketing of services and the marketing of consumer products.

Services Opportunities in Global Markets

International tourism is by far the largest services export of the United States, ranking behind only capital goods and industrial supplies when all exports are counted. Spending by foreign tourists visiting American destinations such as Orlando or Anaheim is roughly double that spent by foreign airlines on Boeing's commercial jets. Worldwide, tourists spent some $3.5 trillion last year, and an agency of the United Nations projects that number will grow by four times by 2020. The industry employs some 200 million people all around the world. Furthermore, the same U.N. agency predicts that China will be followed by the United States, France, Spain, Hong Kong, Italy, Britain, Mexico, Russia, and the Czech Republic as the most popular destinations in the next century. Currently, France, Spain, the United States, Italy, and China are numbers one through five. Most tourists will be, as they are today, Germans, Japanese, and Americans; Chinese will be the fourth largest group. Australians, Belgians, Austrians, Japanese, and Hong Kong residents spend the most (in that order) per capita on package holidays.[38] Currently, Japanese tourists contribute the most to U.S. tourism income, at more than $15 billion annually. Overall, the tourism business declined more than 10% during the 2008–2009 recession, and like the economy in general, no quick recovery is expected. The good news is that you may soon be able to actually leave the planet and return on Richard Branson's commercial passenger spaceship—the price for a brief visit to space, a mere $280,000.[39] That's far less than the $20 million required for a longer ride and a short stay at the International Space Station on a Russian rocket.

The dramatic growth in tourism, especially before the recession, prompted U.S. firms and institutions to respond by developing new travel services to attract both domestic and foreign customers. For example, the Four Seasons Hotel in Philadelphia created a two-day package that included local concerts and museum visits. In addition to its attractions for kids, Orlando, Florida, has an opera company with performances by world-class singers. The cities of Phoenix, Las Vegas, and San Diego formed a consortium and put together a $500,000 marketing budget specifically appealing to foreign visitors to stop at all three destinations in one trip. Even the smallest hotels are finding a global clientele on the Internet.

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[37]Bruce D. Keillor, G. Tomas M. Hult, and Destan Kandemir, "A Study of the Service Encounter in Eight Countries," *Journal of International Marketing* 12, no. 1 (2004), pp. 9–35.

[38]Euromonitor International, 2010.

[39]John Johnson Jr., "A Giant Step for Space Tourism," *Los Angeles* Times, December 8, 2009, p. A22.

Two of the best vistas in the world are Tahiti above the water (Bora Bora is silhouetted in the background) and the coral reefs off Belize under the water. Tourists flock to both from around the world. Services companies follow the tourists, including the Professional Association of Diving Instructors (PADI), which certifies scuba divers and instructors from its headquarters in Costa Mesa, California.

Other top consumer services exports include transportation, financial services, education, telecommunications, entertainment, information, and healthcare, in that order. Consider the following examples of each:

- American airlines are falling all over themselves to capture greater shares of the expanding Latin American travel market through investments in local carriers.
- Insurance sales are burgeoning in Latin America, with joint ventures between local and global firms making the most progress.
- Financial services in China are undergoing a revolution, with new services being offered at a fast pace—new sources of investor information and National Cash Register ATMs popping up everywhere. They are just getting acquainted with ATMs in Poland as well.
- Merrill Lynch is going after the investment-trust business that took off after Japan allowed brokers and banks to enter that business for the first time only in recent years.
- More than 670,000 foreign students (103,000 from India and 98,000 from China) spent some $18 billion in tuition to attend American universities and colleges in 2009–2010.[40] Executive training is also a viable export for U.S. companies.[41]
- Currently, phone rates in markets such as Germany, Italy, and Spain are so high that American companies cannot maintain toll-free information hotlines or solicit phone-order catalog sales. Other telecommunications markets are deregulating, creating opportunities for foreign firms. Wireless communications are ubiquitous in Japan and Europe.
- Cable TV sales are exploding in Latin America.
- Sporting events are being sold all over the world—Mexican football in Los Angeles, American football in Scotland and Turkey, American baseball in Mexico, and professional soccer in China.
- Finally, not only are foreigners coming to the United States for healthcare services in fast growing numbers, but North American firms are building hospitals abroad as well. Recently two infants, one from Sweden and one from Japan, received heart transplants at Loma Linda Hospital in California—laws in both their countries

[40] Karin Fischer, "Number of Foreign Students is U.S. Hit New High Last Year," , November 16, 2009, online.

[41] David M. Montgomery, "Asian Management Education: Some 21st Century Issues," 24, no. 1 (2005), pp. 150–54.

CROSSING BORDERS 13.7 Just to Go to School

Kofi Annan, the former secretary-general of the United Nations, did it; so did Vicente Fox of Mexico, Jacques Chirac of France, and King Abdullah of Jordan. All of them went to "college" in America (the French president enhanced his experience with a job scooping ice cream). Moreover, one-third of U.S. Nobel Prize winners were foreign born. But as the war for talent has given way to the war against terrorism, the welcome America extends to foreigners on its campuses is becoming much more guarded.

Last year, more than 670,000 foreign students enrolled at American universities and colleges. According to the Institute of International Education (IIE), about 60 percent came from Asia, mainly China and India. Fewer than 4 percent came from the Middle East. Students account for under 2 percent of all nonimmigrant visas (though they have the right to stay for much longer than tourists). They spend $18 billion a year on tuition and living expenses, helping make higher education America's fifth-largest service export. And, as any visit to a Silicon Valley start-up reveals, they bring huge talent to the American economy.

Until September 11, 2001, the chief complaint was that America did not fully exploit this human capital. Like other countries, it limits the amount of time foreign students can work in the country after they graduate. The IIE frets that America's share of the foreign-student market has dropped from 40 percent to under 30 percent in the past decade. It blames not only higher university fees in the United States and greater competition from Europe and Australia but also America's cumbersome visa process.

For college students from mostly Muslim Malaysia, it used to take about two weeks to get a student visa, but recently 20 Malay freshmen had to wait six months. They missed the fall semester. Undergraduate foreign student applications are declining nationwide. White House science adviser John H. Marburber III argued the delays do not reflect policies to exclude. However, Representative Dana Rohrabacher (R-Calif.) said that the appropriate objective is "to reduce the need to attract such a high percentage of foreign students." Despite the Congressman's xenophobia, the realities of sharp declines in support for state universities around the country is making foreign students that pay out-of-state tuition particularly attractive.

Sources: "Student Visas: Chillier on Campus," The Economist, November 24, 2001, pp. 31–32; Catherine Arnst, "How the War on Terror Is Damaging the Brain Pool," BusinessWeek, May 19, 2003, pp. 72–73; James Boone, "Visa Crackdown Cost U.S. Cream of Foreign Students," The Times (London), November 29, 2004, p. 33; http://www.iie.org, 2010; "Bin Laden's Legacy," Economist, January 14, 2010, online.

prohibit such life-saving operations. Beijing Toronto International Hospital will soon open its doors for some 250 Chinese patients; the services include a 24-hour satellite link for consultations with Toronto. Asian and Mexican competitors are also competing for this global market. The cost of a heart valve replacement with bypass is about $75,000 in the United States, $22,000 in Singapore, and $9,500 in India.[42] Of course, the negative side of this trend is represented by the growing illegal global trade in organs for transplant.[43]

Barriers to Entering Global Markets for Consumer Services

Most other services—automobile rentals, airline services, entertainment, hotels, and tourism, to name a few—are inseparable and require production and consumption to occur almost simultaneously; thus exporting is not a viable entry method for them. The vast majority of services (some 85 percent) enter foreign markets by licensing, franchising, or direct investment. Four kinds of barriers face consumer services marketers in this growing sector of the global marketplace: protectionism, controls on transborder data flows, protection of intellectual property, and cultural requirements for adaptation.

Protectionism. The European Union is making modest progress toward establishing a single market for services. However, exactly how foreign service providers will be treated as unification proceeds is not clear. Reciprocity and harmonization, key concepts

[42]Waleca Konrad, "Going Abroad to Find Affordable Health Care," *The New York Times*, March 20, 2009, online.

[43]Nancy Scheper-Hughes, "Organs without Borders," *Foreign Policy*, January/February 2005, pp. 26–27.

in the Single European Act, possibly will be used to curtail the entrance of some service industries into Europe. The U.S. film and entertainment industry seems to be a particularly difficult sector, although Vivendi's (a French company) purchase of Universal Studios made things a bit more interesting. A directive regarding transfrontier television broadcasting created a quota for European programs, requiring EU member states to ensure that at least 50 percent of entertainment air time is devoted to "European works." The European Union argues that this set-aside for domestic programming is necessary to preserve Europe's cultural identity. The consequences for the U.S. film industry are significant, because more than 40 percent of U.S. film industry profits come from foreign revenues.

Restrictions on Transborder Data Flows. There is intense concern about how to deal with the relatively new "problem" of transborder data transfers. The European Commission is concerned that data about individuals (e.g., income, spending preferences, debt repayment histories, medical conditions, employment) are being collected, manipulated, and transferred between companies with little regard for the privacy of the affected individuals. A proposed directive by the Commission would require the consent of the individual before data are collected or processed. A wide range of U.S. service companies would be affected by such a directive—insurance underwriters, banks, credit reporting firms, direct marketing companies, and tour operators are a few examples. The directive would have broad effects on data processing and data analysis firms, because it would prevent a firm from electronically transferring information about individual European consumers to the United States for computer processing. Hidden in all the laws and directives are the unstated motives of most countries: a desire to inhibit the activities of multinationals and to protect local industry. As the global data transmission business continues to explode into the new century, regulators will focus increased attention in that direction.

Protection of Intellectual Property. An important form of competition that is difficult to combat arises from pirated trademarks, processes, copyrights, and patents. You will recall that this topic was covered in detail in Chapter 7, so we just mention it here for completeness.

Cultural Barriers and Adaptation. Because trade in services frequently involves people-to-people contact, culture plays a much bigger role in services than in merchandise trade.[44] Examples are many: Eastern Europeans are perplexed by Western expectations that unhappy workers put on a "happy face" when dealing with customers. But McDonald's requires Polish employees to smile whenever they interact with customers. Such a requirement strikes many employees as artificial and insincere. The company has learned to encourage managers in Poland to probe employee problems and to assign troubled workers to the kitchen rather than to the food counter. Japanese Internet purchasers often prefer to pay in cash and in person rather than trust the Internet transaction or pay high credit card fees.

As another example, notice if the Japanese student sitting next to you in class ever verbally disagrees with your instructor. Classroom interactions vary substantially around the world. Students in Japan listen to lectures, take notes, and ask questions only after class, if then. In Japan the idea of grading class participation is nonsense. Conversely, because Spaniards are used to large undergraduate classes (hundreds rather than dozens), they tend to talk to their friends even when the instructor is talking. Likewise, healthcare delivery systems and doctor–patient interactions reflect cultural differences. Americans ask

[44] Torsten Ringberg, Gaby Odekerken-Schroder, and Glenn L. Christensen, "A Cultural Models Approach to Service Recovery," *Journal of Marketing* 71 (2007), pp. 184–214; Samart Powpaka, "Empowering Chinese Service Employees: A Reexamination and Extension," *Journal of Global Marketing* 21, no. 4 (2008), pp. 271–93; Haksin Chan and Lisa C. Wan, "Consumer Responses to Service Failures: A Resource Preference Model of Cultural Influences," *Journal of International Marketing* 16, no. 1 (2008), pp. 72–97; Hean Tat Keh and Jin Sun, "The Complexities of Perceived Risk in Cross-Cultural Services Marketing," *Journal of International Marketing* 16, no. 1 (2008), pp. 120–46; Edwin J. Nijssen and Hester van Herk, "Conjoining International Marketing and Relationship Marketing: Exploring Consumers' Cross-Border Relationships," *Journal of International Marketing* 17, no. 1 (2009), pp. 91–115.

questions and get second opinions. Innovative healthcare services are developed on the basis of extensive marketing research. However, in Japan the social hierarchy is reflected heavily in the patients' deference to their doctors. While Japanese patient compliance is excellent and longevity is the best in the world, the healthcare system there is relatively unresponsive to the expressed concerns of consumers.

Japanese also tend to take a few long vacations—7 to 10 days is the norm. Thus, vacation packages designed for them are packed with activities. Phoenix, Las Vegas, and San Diego or Rome, Geneva, Paris, and London in 10 days makes sense to them. The Four Seasons Hotel chain provides special pillows, kimonos, slippers, and teas for Japanese guests. Virgin Atlantic Airways and other long-haul carriers have interactive screens available for each passenger, allowing viewing of Japanese (or American, French, etc.) movies and TV.

Managing a global services workforce is certainly no simple task. Just ask the folks at UPS. Some of the surprises UPS ran into included indignation in France when drivers were told they couldn't have wine with lunch, protests in Britain when drivers' dogs were banned from delivery trucks, dismay in Spain when it was found that the brown UPS trucks resembled the local hearses, and shock in Germany when brown shirts were required for the first time since 1945 (brown shirts are associated with Nazi rule during World War II).

And while tips of 10 to 20 percent are an important part of services workers' incentives in the United States, this is not the case in Germany, where tips are rounded to the nearest euro. Thus, closer management of service personnel is required in those countries to maintain high levels of customer satisfaction.

Clearly, opportunities for the marketing of consumer services will continue to grow in the 21st century. International marketers will have to be quite creative in responding to the legal and cultural challenges of delivering high-quality services in foreign markets and to foreign customers at domestic locales.

Brands in International Markets

Hand in hand with global products and services are global brands. A *global brand* is defined as the worldwide use of a name, term, sign, symbol (visual and/or auditory), design, or combination thereof intended to identify goods or services of one seller and to differentiate them from those of competitors. Much like the experience with global products, the question of whether or not to establish global brands has no single answer. However, the importance of a brand name, even in the nonprofit sector, is unquestionable.[45] Indeed, Exhibit 13.2 lists the estimated worth (equity) of the 20 top global brands. And as indicated in previous chapters, protecting brand names is also a big business.

[45] John A. Quelch and Nathalie Laidler-Kylander, *The New Global Brands* (Mason, OH: Southwestern, 2006).

Exhibit 13.2
Top Twenty Brands

Rank 2009/2008	2009 Brand Value (millions)	2008 Brand Value (millions)	Percent Change	Country of Ownership	Description
1/1 Coca-Cola	$68,734	$66,667	3%	U.S.	In a hard year for fizzy drink makers, Coke gained luster. Credit the hugely successful Coke Zero, a no-cal beverage with a more macho image than Diet Coke.
2/3 IBM	60,211	59,031	2	U.S.	IBM has strived to make itself more broadly relevant by focusing on clean air and water, more efficient healthcare, and mass transportation.
3/2 Microsoft	56,647	59,007	−4	U.S.	For the first time Microsoft's sales slipped. Yet it also began forcefully taking on its rivals, launching Bing search engine and advertising hard against Apple.

Source: From Burt Helm, "100 Best Global Brands," BusinessWeek, September 28, 2009, pp. 44–61. Reprinted with permission.

Rank 2009/2008	2009 Brand Value (millions)	2008 Brand Value (millions)	Percent Change	Country of Ownership	Description
4/4 GE	47,777	53,086	−10	U.S.	GE painted itself green with its "Ecomagination" crusade. Now it aims to color itself healthy by pushing healthcare solutions in an underserved market.
5/5 Nokia	34,864	35,942	−3	Finland	Nokia continues to lag in smart phones, but its reputation for robust construction, ease of use, and low-key style has helped it dominate mass-market handsets.
6/8 McDonald's	32,275	31,049	4	U.S.	The downturn heightened the appeal of Mickey D's low-priced fare, particularly in Britain and France, while new McCafe coffee drinks perked up sales.
7/10 Google	31,980	25,590	25	U.S.	Its new free services are pushing it beyond search. But with trustbusters on the prowl, Google faces a challenge in maintaining a cuddly brand image.
8/6 Toyota	31,330	34,050	−8	Japan	It lost money in 2008 and will likely again in '09. But deep pockets and newly focused management meant this titan should revive when the economy does.
9/7 Intel	30,636	31,261	−2	U.S.	Intel paid a $1.45 billion anti-trust fine in Europe, but that hasn't slowed the chipmaker's push into new markets, including smartphones and home electronics.
10/9 Disney	28,447	29,251	−3	U.S.	Falling attendance at its parks and sliding DVD sales are hurting. But the Mouse House continues it invest in its future, including adding Marvel for $4 billion.
11/12 Hewlett-Packard	24,096	23,509	2	U.S.	HP extended its lead over Dell and weathered the economic downturn better than most tech companies, thanks to its acquisition of services provider EDS.
12/11 Mercedes-Benz	23,867	25,577	−7	Germany	Although sales have plunged, the engineering icon has maintained its premium image with new fuel-efficient models. It needs to add small cars to its lineup.
13/14 Gillette	22,841	22,069	4	U.S.	Brisk-selling high-end razors have boosted sales. But to extend its reach to more buyers, Gillette will have to innovate at the lower end of the market, too.
14/17 Cisco	22,030	21,306	3	U.S.	The battle to rebrand itself as more than a maker of Web plumbing continues. By acquiring the Flip video camera, Cisco aims to be more consumer-focused.
15/13 BMW	21,671	23,298	−7	Germany	It has demonstrated that buyers will pay a premium for a chic, sporty compact. BMW is also benefiting from an early investment in more efficient engines.
16/16 Louis Vuitton	21,120	21,602	−2	France	The world's preeminent luxury brand has enjoyed a sales rebound in Europe this year, while continuing to tap new wealth in Asia and the Middle East.
17/18 Marlboro	19,010	21,300	−11	U.S.	As marketing restrictions tighten at home, the cigarette giant continues to push hard in emerging markets from Asia to Russia and win over millions of smokers.
18/20 Honda	17,803	19,079	−7	Japan	Despite slumping global sales, Honda's lineup of gas sippers and a profitable motorbike business has helped the automaker navigate the recession.
19/21 Samsung	16,796	17,518	−1	S. Korea	It has taken over Sony as the top TV brand and emerged as the only credible challenger to Nokia in mobile phones. To expand its appeal, it is opening an app store.
20/24 Apple	15,443	13,724	12	U.S.	Mac sales have slowed, but Apple continues to prosper thanks to the iPhone, now in its third generation, and an app store that rivals are rushing to copy.

Source: Burt Helm, "100 Best Global Brands," BusinessWeek, September 28, 2009, pp. 44–61.

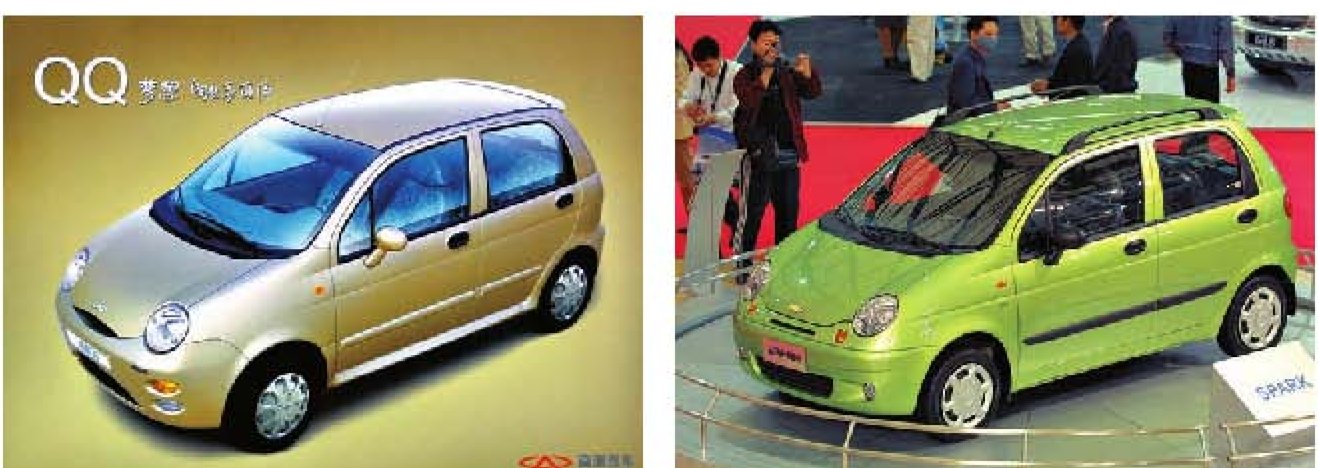
A successful brand is the most valuable resource a company has. The brand name[46] encompasses the years of advertising, goodwill, quality evaluations, product experience, and other beneficial attributes the market associates with the product. Brand image is at the very core of business identity and strategy. Western researchers have personified brands, imbuing them with personalities and images. In a sense, the consumer–brand interaction becomes much like an interpersonal interaction, wherein cultural differences hold heavy sway. This comparison also implies that even global brands must be positioned locally, as a Japanese consumer will see and interact with the Coke brand differently than a French consumer, for example. Research shows that the importance and impact of brands vary with cultural values around the world. Thus, customers everywhere respond to images,[47] myths, and metaphors that help them define their personal and national identities within a global context of world culture and product benefits.[48]

Global brands play an important role in that process. The value of Sony, Coca-Cola, McDonald's, Toyota, and Marlboro is indisputable. One estimate of the value of Coca-Cola, the world's most valuable brand, places it at over $65 billion. In fact, one authority speculates that brands are so valuable that companies will soon include a "statement of value" addendum to their balance sheets to include intangibles such as the value of their brands. Please see Exhibit 13.2 for details. One researcher has noted that in the short run, brand

[46]Yih Hwai Lee and Kim Soon Ang, "Brand Name Suggestiveness: A Chinese Language Perspective," *International Journal of Research in Marketing* 20, no. 4 (2003), pp. 323–35.

[47]Tulin Erdem, Joffre Swait, and Ana Valenzuela, "Brands as Signals: A Cross-Country Validation Study," *Marketing Science* 26 (2006), pp. 679–97; Aysegul Ozsomer and Selin Altaras, "Global Brand Purchase Likelihood: A Critical Synthesis and an Integrated Conceptual Framework," *Journal of International Marketing* 16, no. 4 (2008), pp. 1–28; Donald R. Lehman, Kevin A. Keller, and John U. Farley, "The Structure of Survey-Based Brand Metrics," *Journal of International Marketing* 16, no. 4 (2008), pp. 29–56; Julien Cayla and Eric J. Arnould, "A Cultural Approach to Branding in the Global Marketplace," *Journal of International Marketing* 16, no. 4 (2008), pp. 86–112; Xuehua Wang, Zhilin Yang, and Ning Rong Liu, "The Impacts of Brand Personality and Congruity on Purchase Intention: Evidence from the Chinese Mainland's Automobile Market," *Journal of Global Marketing* 22 (2009), pp. 199–215; Francisco Guzman and Audhesh K. Paswan, "Cultural Brands from Emerging Markets: Brand Image across Host and Home Countries," *Journal of International Marketing* 17, no. 3 (2009), pp. 71–86; Ralf van der Lans and 12 coauthors, "Cross-National Logo Evaluation Analysis: An Individual-Level Approach," *Marketing Science* 28, no. 5 (2009), pp. 968–85; Yinlong Zhang and Adwait Khare, "The Impact of Accessible Identities on the Evaluation of Global vs. Local Products," *Journal of Consumer Research* 36 (2009), pp. 525–37.

[48]Douglas B. Holt, "What Becomes an Icon Most?" *Harvard Business Review*, March 2003, pp. 43–49; Yuliya Strizhakova, Robin L. Coulter, and Linda A. Price, "Branded Products as a Passport to Global Citizenship: Perspectives from Developed and Developing Countries," *Journal of International Marketing* 16, no. 4 (2008), pp. 57–85; Lily Dong and Kelly Tian, "The Use of Western Brands in Asserting Chinese National Identity," *Journal of Consumer Research* 36 (2009), pp. 504–22.



Copying is the highest form of flattery? Not so in the car business. The new QQ model from Chinese company Chery (left) resembles the Matiz or Spark from GM's Daewoo (right)—perhaps a bit too much.

equities remain relatively stable, but not so in the long run.[49] The latter is certainly the case when the long run includes the recession of 2008–2009. Google's brand equity increased 25 percent in the period, while GE's declined 10 percent. But the biggest change was the huge decline of Citi, which lost almost half (49 percent) of its brand equity in a single year, falling from #19 to #36. Ouch!

Global Brands

Naturally, companies with strong brands strive to use those brands globally.[50] In fact, even perceived "globalness" can lead to increases in sales.[51] The Internet and other technologies accelerate the pace of the globalization of brands. Even for products that must be adapted to local market conditions, a global brand can be successfully used with careful consideration.[52] Heinz produces a multitude of products that are sold under the Heinz brand all over the world. Many are also adapted to local tastes. In the United Kingdom, for example, Heinz Baked Beans Pizza (available with cheese or sausage) was a runaway hit, selling over 2.5 million pizzas in the first six months after its introduction. In the British market, Heinz's brand of baked beans is one of the more popular products. The British consumer eats an average of 16 cans annually, for a sales total of $1.5 billion a year. The company realizes that consumers in other countries are unlikely to rush to stores for bean pizzas, but the idea could lead to the creation of products more suited to other cultures and markets.

Ideally a **global brand** gives a company uniformly positive worldwide brand associations that enhance efficiency and cost savings when introducing other products with the brand name, but not all companies believe a single global approach is the best. Indeed, we know that the same brand does not necessarily hold the same meanings in different countries. In addition to companies such as Apple,[53] Kellogg, Coca-Cola, Caterpillar, and Levi's, which use the same brands worldwide, other multinationals such as Nestlé, Mars, Procter & Gamble,[54] and Gillette have some brands that are promoted worldwide and others that are country specific. Among companies that have faced the question of whether to make all their brands global, not all have followed the same path.[55]

Companies that already have successful country-specific brand names must balance the benefits of a global brand against the risk of losing the benefits of an established brand. And some brand names simply do not translate.[56] The cost of reestablishing the same level of brand preference and market share for the global brand that the local brand has must be offset against the long-term cost savings and benefits of having only one brand name worldwide. In those markets where the global brand is unknown, many companies are buying

[49]A. Coskun Samli and Merici Fevrier, "Achieving and Managing Global Brand Equity: A Critical Analysis," *Journal of Global Marketing* 21, no. 3 (2008), pp. 207–15.

[50]Isabelle Schuiling and Jean-Noel Kapferer, "Real Differences between Local and International Brands: Strategic Implications for International Marketers," *Journal of International Marketing* 12, no. 4 (2004), pp. 97–113.

[51]Jan-Benedict E. M. Steenkamp, Rajeev Batra, and Dana L. Alden, "How Perceived Brand Globalness Creates Brand Value," *Journal of International Business Studies* 34 (2003), pp. 53–65; Claudiu V. Dmofte, Johny K. Johansson, and Ilkka A. Ronkainen, "Cognitive and Affective Reactions of U.S. Consumers to Global Brands," *Journal of International Marketing* 16, no. 4 (2008), pp. 113–35; Vertica Bhardwaj, Archana Kumar, and Youn-Kyun Kim, "Brand Analyses of U.S. Global and Local Brands in India: The Case of Levi's," *Journal of Global Marketing* 23 (2010), pp. 80–94.

[52]Shi Zhang and Bernd H. Schmitt, "Creating Local Brands in Multilingual International Markets," *Journal of Marketing Research* 38 (August 2001), pp. 313–25.

[53]Deborah L. Vence, "Not Taking Care of Business," *Marketing News*, March 15, 2005, pp. 19–21.

[54]"The Rise of Superbrands," *The Economist*, February 5, 2005, pp. 63–65.

[55]Prominent among those arguing against global brands are David A. Aaker and Erich Joachimsthaler, "The Lure of Global Branding," *Harvard Business Review*, November–December 1999. For an interesting view of the arguments for and against globalization of brands, see Anand P. Raman, "The Global Face Off," *Harvard Business Review*, June 2003, pp. 35–46.

[56]June Francis, Janet P. Y. Lam, and Jan Walls, "The Impact of Linguistic Differences on International Brand Name Standardization: A Comparison of English and Chinese Brand Names of *Fortune* 500 Companies," *Journal of International Marketing* 10, no. 1 (2002), pp. 98–116; Clement S. F. Chow, Esther P. Y. Tang, and Isabel S. F. Fu, "Global Marketers' Dilemma: Whether to Translated the Brand Name into Local Language," *Journal of Global Marketing* 20 (2007), pp. 25–38.

local brands of products that consumers want and then revamping, repackaging, and finally relaunching them with a new image. Unilever purchased a local brand of washing powder, Biopan, which had a 9 percent share of the market in Hungary; after relaunching, market share rose to about 25 percent.

When Mars, a U.S. company that includes candy and pet food among its product lines, adopted a global strategy, it brought all its products under a global brand, even those with strong local brand names. In Britain, the largest candy market in Europe, M&Ms previously were sold as Treets, and Snickers candy was sold under the name Marathon to avoid association with *knickers*, the British word for women's underpants. To bring the two candy products under the global umbrella, Mars returned the candies to their original names. The pet food division adopted Whiskas and Sheba for cat foods and Pedigree for dog food as the global brand name, replacing KalKan. To support this global division that accounts for over $4 billion annually, Mars also developed a Web site for its pet food brands. The site functions as a "global infrastructure" that can be customized locally by any Pedigree Petfoods branch worldwide. For instance, Pedigree offices can localize languages and information on subjects such as veterinarians and cat-owner gatherings.

Finally, researchers are beginning to address the sometimes difficult problem of brand extensions in global markets. Consumers in "Eastern" cultures may be more likely to understand and appreciate brand extensions because of their more holistic thinking than consumers in "Western" cultures, with their more analytical thinking patterns. Obviously more work needs to be done in this area, but important differences across cultures are readily discernable in the acceptance of brand extensions.[57]

[57]Brooks Barnes, "Bopping in 17 Languages as Disney Milks Its Hits," *International Herald Tribune*, January 29, 2008, p. 13.

[58]Alokparna Basu Monga and Deborah Roedder John, "Cultural Differences in Brand Extension Evaluation: The Influence of Analytic versus Holistic Thinking," *Journal of Consumer Research* 33 (2007), pp. 529–36; Guoqun Fu, John Saunders, and Riliang Qu, "Brand Extensions in Emerging Markets: Theory Development and Testing in China," *Journal of Global Marketing* 22 (2009), pp. 217–28; Sharon Ng, "Cultural Orientation and Brand Dilution: Impact Level and Extension Typicality," *Journal of Marketing Research* 47, no. 1 (2010), pp. 186–98.

How do you sing "bop to the top" in Hindi? Rich Ross, President of Disney Channels Worldwide, says, "Localization really matters. We're pushing deeper into various countries. For the first [High School Musical] movie, we didn't do something special for the Netherlands. This time [High School Musical 2] we did. For India, 'bop to the top' became 'Pa Pa Pa Paye Yeh Dil,' which roughly translates back into English as 'the heart is full of happiness.'" Also in India, one of Disney's most important markets, the title song "All for One" becomes "Aaja Nachle," which translates into "come dance along."[58]

National Brands

A different strategy is followed by the Nestlé Company, which has a stable of global and country-specific national brands in its product line. The Nestlé name itself is promoted globally, but its global brand expansion strategy is two-pronged. In some markets, it acquires well-established national brands when it can and builds on their strengths—there are 7,000 local brands in its family of brands. In other markets where there are no strong brands it can acquire, it uses global brand names. The company is described as preferring brands to be local, people to be regional, and technology to be global. It does, however, own some of the world's largest global brands; Nescafé is but one.

Unilever is another company that follows a strategy of a mix of national and global brands. In Poland, Unilever introduced its Omo brand detergent (sold in many other countries), but it also purchased a local brand, Pollena 2000. Despite a strong introduction of two competing brands, Omo by Unilever and Ariel by Procter & Gamble, a refurbished Pollena 2000 had the largest market share a year later. Unilever's explanation was that eastern European consumers are leery of new brands; they want brands that are affordable and in keeping with their own tastes and values. Pollena 2000 is successful not just because it is cheaper but because it is consistent with local values.

Multinationals must also consider increases in nationalistic pride that occur in some countries and their impact on brands.[59] In India, for example, Unilever considers it critical that its brands, such as Surf detergent and Lux and Lifebuoy soaps, are viewed as Indian brands. Just as is the case with products, the answer to the question of when to go global with a brand is, "It depends—the market dictates." Use global brands where possible and national brands where necessary. Finally, there is growing evidence that national brands' acceptance varies substantially across regions within countries, suggesting that even finer market segmentation of branding strategies may be efficient.[60]

Country-of-Origin Effect and Global Brands

LO5

Country-of-origin effects on product image

As discussed previously, brands are used as external cues to taste, design, performance, quality, value, prestige, and so forth. In other words, the consumer associates the value of the product with the brand. The brand can convey either a positive or a negative message about the product to the consumer and is affected by past advertising and promotion, product reputation, and product evaluation and experience.[61] In short, many factors affect brand image. One factor that is of great concern to multinational companies that manufacture worldwide is the country-of-origin effect on the market's perception of the product.

Country-of-origin effect (*COE*) can be defined as any influence that the country of manufacture, assembly, or design has on a consumer's positive or negative perception of a product. A company competing in global markets today manufactures products worldwide; when the customer becomes aware of the country of origin, there is the possibility that the place of manufacture will affect product or brand images.[62]

The country, the type of product, and the image of the company and its brands all influence whether the country of origin will engender a positive or negative reaction. A variety of generalizations can be made about country-of-origin effects on products and brands.[63] Consumers tend to have stereotypes about products and countries that have been formed

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[59] Tsang-Sing Chan, Geng Cui, and Nan Zhou, "Competition between Foreign and Domestic Brands: A Study of Consumer Purchases in China," *Journal of Global Marketing* 22 (2009), pp. 181–97.

[60] Bart J. Bronnenberg, Sanjay K. Dhar, and Jean-Pierre Dube, "Consumer Package Goods in the United States: National Brands, Local Branding," *Journal of Marketing Research* 44 (2007), pp. 4–13; M. Berk Ataman, Carl F. Mela, and Harald J. van Heerde, "Consumer Package Goods in France: National Brands, Regions Chains and Local Branding," *Journal of Marketing Research* 44 (2007), pp. 14–20.

[61] Jean-Claude Usunier and Ghislaine Cestre, "Product Ethnicity: Revisiting the Match between Products and Countries," *Journal of International Marketing* 15 (2007), pp. 32–72; Ravi Pappu, Pascale G. Quester, and Ray W. Cooksey, "Country Image and Consumer-Based Brand Equity: Relationships and Implications for International Marketing," *Journal of International Business Studies* 38 (2007), pp. 726–45.

[62] Jill Gabrielle Klein, "Us Versus Them, or Us Versus Everyone? Delineating Consumer Aversion to Foreign Goods," *Journal of International Business Studies* 33, no. 2 (2002), pp. 345–63.

[63] Peeter W. J. Verleigh, Jan-Benedict E. M. Steenkamp, and Matthew T. G. Meulenberg, "Country-of-Origin Effects in Consumer Processing of Advertising Claims," *International Journal of Research in Marketing* 22, no. 2 (2005), pp. 127–39.

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or Thailand are more suspect still. Eastern Europe is considered adequate for clothing but poor for food or durables. Turkey and China are at the bottom of the heap.

One might generalize that the more technical the product, the less positive is the perception of something manufactured in a less developed or newly industrializing country. There is also the tendency to favor foreign-made products over domestic-made in less-developed countries. Foreign products fare not as well in developing countries because consumers have stereotypes about the quality of foreign-made products, even from industrialized countries. A survey of consumers in the Czech Republic found that 72 percent of Japanese products were considered to be of the highest quality; German goods followed with 51 percent, Swiss goods with 48 percent, Czech goods with 32 percent, and, last, the United States with 29 percent.

One final generalization about COE involves fads that often surround products from particular countries or regions in the world. These fads are most often product specific and generally involve goods that are themselves faddish in nature. European consumers' affection for American products is quite fickle. The affinity for Jeep Cherokees, Budweiser beer, and Bose sound systems of the 1990s has faded to outright animosity toward American brands as a protest of American political policies. This reaction echoes the 1970s and 1980s backlash against anything American, but in the 1990s, American was in. In China, anything Western seems to be the fad. If it is Western, it is in demand, even at prices three and four times higher than those of domestic products. In most cases such fads wane after a few years as some new fad takes over.

There are exceptions to the generalizations presented here, but it is important to recognize that country of origin can affect a product or brand's image significantly. Furthermore, not every consumer is sensitive to a product's country of origin.[67] A finding in a recent study suggests that more knowledgeable consumers are more sensitive to a product's COE than are those less knowledgeable. Another study reports that COE varies across consumer groups; Japanese were found to be more sensitive than American consumers.[68] The multinational company needs to take these factors into consideration in its product development and marketing strategy, because a negative country stereotype can be detrimental to a product's success unless overcome with effective marketing.

Once the market gains experience with a product, negative stereotypes can be overcome. Nothing would seem less plausible than selling chopsticks made in Chile to Japan, but it happened. It took years for a Chilean company to overcome doubts about the quality of its product, but persistence, invitations to Japanese to visit the Chilean poplar forests that provided the wood for the chopsticks, and a high-quality product finally overcame doubt; now the company cannot meet the demand for its chopsticks.

Country stereotyping—some call it "nation equity"[69]—can also be overcome with good marketing.[70] The image of Korean electronics and autos improved substantially in the United States once the market gained positive experience with Korean brands. Most recently in the United States, the quality/safety of Chinese made products has been a source of problems for American branded toys, foods, and pharmaceuticals. It will be interesting to watch how the new Chinese brands themselves, such as Lenovo computers and Haier appliances, will work to avoid the current negative "nation equity" to which they are suffering association. All of this stresses the importance of building strong global brands like Sony, General Electric, and Levi's. Brands effectively advertised and products properly positioned can help ameliorate a less-than-positive country stereotype.

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[67] This appears to be less the case when professional buyers make decisions. See John G. Knight, David K. Holdsworth, and Damien W. Mather, "Country-of-Origin and Choice of Food Imports: An In-Depth Study of European Distribution Chanel Gatekeepers," *Journal of International Business Studies* 38 (2007), pp. 107–25.

[68] Zeynep Gurhan-Canli and Durairaj Maheswaran, "Cultural Variations in Country of Origin Effects," *Journal of Marketing Research* 37 (August 2000), pp. 309–17.

[69] Durairaj Maheswaran, "Nation Equity: Incidental Emotions in Country-of-Origin Effects," *Journal of Consumer Research* 33 (2006), pp. 370–76.

[70] Lys S. Amine, Mike C. H. Chao, and Mark J. Arnold, "Exploring the Practical Effects of Origin, Animosity, and Price-Quality Issues: Two Case Studies of Taiwan and Acer in China," *Journal of International Marketing* 13, no. 2 (2005), pp. 114–50.

Private Brands

Private brands owned by retailers are growing as challengers to manufacturers' brands, whether global or country specific. Store brands are particularly important in Europe compared with the United States.[71] In the food retailing sector in Britain and many European countries, private labels owned by national retailers increasingly confront manufacturers' brands. From blackberry jam and vacuum cleaner bags to smoked salmon and sun-dried tomatoes, private-label products dominate grocery stores in Britain and many of the hypermarkets of Europe. Private brands have captured nearly 30 percent of the British and Swiss markets and more than 20 percent of the French and German markets. In some European markets, private-label market share has doubled in just the past five years.

As they say, "two brands are better than one!" How about four? The four flags you seeing flying on the radar mast of the Endeavor at sea among the Galapagos Islands represent Ecuador (bottom), the Bahamas registry of the 85-person cruise ship (right), the National Geographic Society, and Lindblad Expeditions. The latter two are a great example of co-branding. The multifaceted strategic alliance that Lindblad Expeditions has with the National Geographic Society, "enables travelers to participate in the world of natural and cultural history as engaged, active explorers who care about the planet." This is an alliance of two exploration pioneers in an innovative program to reach remote and pristine destinations around the globe. Sustainable and education-based tourism is featured by the alliance.

Sainsbury, one of Britain's largest grocery retailers with 420 stores, reserves the best shelf space for its own brands. A typical Sainsbury store has about 16,000 products, of which 8,000 are Sainsbury labels. These labels account for two-thirds of store sales. The company avidly develops new products, launching 1,400 to 1,500 new private-label items each year, and weeds out hundreds of others no longer popular. It launched its own Novon brand laundry detergent; in the first year, its sales climbed past Procter & Gamble's and Unilever's top brands to make it the top-selling detergent in Sainsbury stores and the second-best seller nationally, with a 30 percent market share. The 15 percent margin on private labels claimed by chains such as Sainsbury helps explain why their operating profit margins are as high as 8 percent, or eight times the profit margins of their U.S. counterparts.

Private labels are formidable competitors, particularly during economic difficulties in the target markets. Buyers prefer to buy less expensive, "more local" private brands during recessions.[72] This strategy also allows retailers to outsource production while still appreciating the advantages of a local brand.[73] Private brands provide the retailer with high margins; they receive preferential shelf space and strong in-store promotions; and perhaps most important for consumer appeal, they are quality products at low prices. Contrast this characterization with manufacturers' brands, which traditionally are premium priced and offer the retailer lower margins than they get from private labels.

To maintain market share, global brands will have to be priced competitively and provide real consumer value. Global marketers must examine the adequacy of their brand strategies in light of such competition. This effort may make the cost and efficiency benefits of global brands even more appealing.

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[71] Tulin Erdem, Ying Zhao, and An Valenzuela, "Performance of Store Brands: A Cross-Country Analysis of Consumer Store-Brand Preferences, Perceptions, and Risk," *Journal of Marketing Research* 41, no. 1 (2004), pp. 59–72.

[72] Lien Lamey, Barbara Deleersnyder, Marnik G. Dekimpe, and Jan-Benedict E. M. Steenkamp, "How Business Cycles Contribute to Private-Label Success: Evidence from the United States and Europe," *Journal of Marketing* 76 (2007), pp. 1–15.

[73] Shih-Fen Chen, "A Transaction Cost Rationale for Private Branding and Its Implications for the Choice of Domestic vs. Offshore Outsourcing," *Journal of International Business Studies* 40, no. 1 (2009), pp. 156–75.

Summary

The growing globalization of markets that gives rise to standardization must be balanced with the continuing need to assess all markets for those differences that might require adaptation for successful acceptance. The premise that global communications and other worldwide socializing forces have fostered a homogenization of tastes, needs, and values in a significant sector of the population across all cultures is difficult to deny. However, more than one authority has noted that in spite of the forces of homogenization, consumers also see the world of global symbols, company images, and product choice through the lens of their own local culture and its stage of development and market sophistication. Each product must be viewed in light of how it is perceived by each culture with which it comes in contact. What is acceptable and comfortable within one group may be radically new and resisted within others, depending on the experiences and perceptions of each group. Understanding that an established product in one culture may be considered an innovation in another is critical in planning and developing consumer products for foreign markets. Analyzing a product as an innovation and using the Product Component Model may provide the marketer with important leads for adaptation.

Key Terms

Quality	Green marketing	Diffusion	Global brand
Product homologation	Innovation	Product Component Model	

Questions

1. Define the key terms listed above.
2. Debate the issue of global versus adapted products for the international marketer.
3. Define the country-of-origin effect and give examples.
4. The text discusses stereotypes, ethnocentrism, degree of economic development, and fads as the basis for generalizations about country-of-origin effect on product perception. Explain each and give an example.
5. Discuss product alternatives and the three marketing strategies: domestic market extension, multidomestic markets, and global market strategies.
6. Discuss the different promotional/product strategies available to an international marketer.
7. Assume you are deciding to "go international." Outline the steps you would take to help you decide on a product line.
8. Products can be adapted physically and culturally for foreign markets. Discuss.
9. What are the three major components of a product? Discuss their importance to product adaptation.
10. How can knowledge of the diffusion of innovations help a product manager plan international investments?
11. Old products (that is, old in the U.S. market) may be innovations in a foreign market. Discuss fully.
12. "If the product sells in Dallas, it will sell in Tokyo or Berlin." Comment.
13. How can a country with a per capita GNP of $100 be a potential market for consumer goods? What kinds of goods would probably be in demand? Discuss.
14. Discuss the characteristics of an innovation that can account for differential diffusion rates.
15. Give an example of how a foreign marketer can use knowledge of the characteristics of innovations in product adaptation decisions.
16. Discuss "environmentally friendly" products and product development.

Chapter 14

Products and Services for Businesses

CHAPTER OUTLINE

Global Perspective: Intel, the Boom, and the Inescapable Bust

Demand in Global Business-to-Business Markets

- The Volatility of Industrial Demand
- Stages of Economic Development
- Technology and Market Demand

Quality and Global Standards

- Quality Is Defined by the Buyer
- ISO 9000 Certification: An International Standard of Quality

Business Services

- After-Sale Services
- Other Business Services

Trade Shows: A Crucial Part of Business-to-Business Marketing

Relationship Marketing in Business-to-Business Contexts

CHAPTER LEARNING OBJECTIVES

What you should learn from Chapter 14:

LO1 The importance of derived demand in industrial markets

LO2 How demand is affected by technology levels

LO3 Characteristics of an industrial product

LO4 The importance of ISO 9000 certification

LO5 The growth of business services and nuances of their marketing

LO6 The importance of trade shows in promoting industrial goods

LO7 The importance of relationship marketing for industrial products and services

Global Perspective

INTEL, THE BOOM, AND THE INESCAPABLE BUST

This is what we wrote here in the 1999 edition of this book:

> *Fortune*'s cover story, "Intel, Andy Grove's Amazing Profit Machine—and His Plan for Five More Years of Explosive Growth" is capped only by *Time*'s Man of the Year story, "Intel's Andy Grove, His Microchips Have Changed the World—and Its Economy." 1997 was the eighth consecutive year of record revenue ($25.1 billion) and earnings ($6.5 billion) for the company Grove helped found. Yet at the beginning of 1998 the real question was, Will the world change Intel? Judging from Intel's own forecasts for a flat first quarter in 1998, Chairman of the Board Grove and his associates were concerned that the financial meltdown in Asian markets would affect Intel's plans for "five more years of explosive growth." Some 30 percent of the firm's record 1997 revenues had come from Asian markets. Indeed, one pundit had earlier predicted, "I see no clear technology threats. The biggest long-term threat to Intel is that the market growth slows." Others warned there's something wrong out there: computer-industry overcapacity.
>
> Actually Intel had an even longer list of threats all posted as a disclaimer to its published forecast: "Other factors that could cause actual results to differ materially are the following: business and economic conditions, and growth in the computing industry in various geographic regions; changes in customer order patterns, including changes in customer and channel inventory levels, and seasonal PC buying patterns; changes in the mixes of microprocessor types and speeds, motherboards, purchased components and other products; competitive factors, such as rival chip architectures and manufacturing technologies, competing software-compatible microprocessors and acceptance of new products in specific market segments; pricing pressures; changes in end users' preferences; risk of inventory obsolescence and variations in inventory valuation; timing of software industry product introductions; continued success in technological advances, including development, implementation and initial production of new strategic products and processes in a cost-effective manner; execution of manufacturing ramp; excess storage of manufacturing capacity; the ability to successfully integrate any acquired businesses, enter new market segments and manage growth of such businesses; unanticipated costs or other adverse effects associated with processors and other products containing errata; risks associated with foreign operations; litigation involving intellectual property and consumer issues; and other risk factors listed from time to time in the company's SEC reports."
>
> *Time*'s Man of the Year had a lot to worry about—most of all that industrial market booms are always followed by busts. Will the rise truly last five more years?

How is it that the brilliant Mr. Grove didn't see the inescapable bust coming? Hadn't he been in this cyclic business from the beginning? His boom did last, another three and a half years beyond his 1997 prediction, not five. And the bust was an ugly thing. Sales revenues declined by more than 20 percent during 2001, the stock price crashed from a high of $75 a share to below $20, shedding 80 percent of the company's value along the way, and 11,000 layoffs were announced. Ouch! The lesson here is a simple one: In industrial markets, including the global ones, what goes up must come down!

You may recall from Chapter 13 (Exhibit 13.2) that Intel had problems again in 2009—a $1.45 billion EU antitrust fine, and declining brand equity again. We do applaud its strategic moves into smartphones and computers though. If successful, this diversification will spread its portfolio of products and markets and yield more stability in its revenues.

Sources: David Kirkpatrick, "Intel Andy Grove's Amazing Profit Machine—And His Plan for Five More Years of Explosive Growth," *Fortune*, February 17, 1997, pp. 60–75; "Man of the Year," *Time*, January 5, 1998, pp. 46–99; Peter Burrow, Gary McWilliams, Paul C. Judge, and Roger O. Crockett, "There's Something Wrong Out There," *BusinessWeek*, December 29, 1997, pp. 38–49; Stephanie Clifford, "A Tech Company's Campaign to Burnish Its Brand," *The New York Times*, May 5, 2009, online.

Although everyone likely is familiar with most of the consumer brands described in Chapter 13, sales of such products and services do not constitute the majority of export sales for industrialized countries. Take the United States, for example. As can be seen in Exhibit 14.1, the main product the country sells for international consumption is *technology*. This dominance is reflected in categories such as capital goods and industrial supplies, which together account for some 44 percent of all U.S. exports of goods and services.[1] Technology exports are represented by both the smallest and the largest products—semiconductors and commercial aircraft, the latter prominently including America's export champions, Boeing's 747s. Two of the three most valuable companies in the world at this writing—Microsoft and General Electric—are sellers of high-technology industrial products.

The issues of standardization versus adaptation discussed in Chapter 13 have less relevance to marketing industrial goods than consumer goods because there are more similarities in marketing products and services to businesses across country markets than there are differences. The inherent nature of industrial goods and the sameness in motives and behavior among businesses as customers create a market where product and marketing mix standardization are commonplace. Photocopy machines are sold in Belarus for the same reasons as in Belgium: to make photocopies. Some minor modification may be necessary to accommodate different electrical power supplies or paper size, but basically, photocopy machines are standardized across markets, as are the vast majority of industrial goods. For

[1]Internet jargon seems to be morphing the manager's lexicon toward B2B and B2C distinctions (that is, business-to-business and business-to-consumer) and away from the traditional industrial and consumer goods distinctions. International trade statistics, categories, and descriptors have not kept up with these changes. Consequently, we use the adjectives *industrial* and *business-to-business* interchangeably in this book.

Exhibit 14.1
Major Categories of U.S. Exports

Source: U.S. Department of Commerce, http://www.doc.gov, 2010.

Category	Percentage
Services total	32.6%
Travel (hotels, etc.)	5.1
Passenger fares	1.7
Other transportation (freight and port services)	5.0
Royalties and Licenses	5.3
Private Services*	14.8
• Commercial, professional, and technical services (advertising, accounting, legal, construction, engineering)	
• Healthcare	
• Financial services (banking and insurance)	
• Education and training services (mostly foreign student tuition)	
• Entertainment (movies, books, records)	
• Telecommunications	
[* The Commerce Department no longer breaks out the statistics by the Private Services categories. They are listed here in the order of their historical percentages, first being highest.]	
Merchandise total	67.4
Foods, feeds, and beverages (wheat, fruit, meat)	6.1
Industrial supplies (crude oil, plastics, chemicals, metals)	19.1
Capital goods (construction equipment, aircraft, computers, telecommunications)	25.1
Automotive vehicles, engines, and parts	5.3
Consumer goods (pharmaceuticals, tobacco, toys, clothing)	9.7
Other categories	2.9

Note: The United States exports approximately $1.5 trillion worth of services and goods each year. Services exports are the more understated, so these percentages are only reasonable approximations of the importance of each category listed. Each U.S. Commerce Department category comprises many kinds of products or services, including (but certainly not limited to) those listed in parentheses.

CROSSING BORDERS 14.1 Trade Statistics Don't Tell the Whole Story

One reason U.S. manufacturers don't trumpet their export successes is that large companies no longer distinguish carefully between sales to Texas and those to Thailand. The totals could be worked up, but why bother? It's one world, after all. Besides, it's incredibly complicated in some cases to determine the net contribution a manufacturer makes to the U.S. balance of trade. Lucent Technologies' Microelectronics Group, which exports half of what it makes to customers in Europe and Asia, is an extreme example. A wafer of Lucent's integrated circuits is often designed at its laboratories in England or China; made in its plants in Pennsylvania, Florida, or Ireland; then shipped to Bangkok to be tested, diced, and packaged. After that the finished chips might move on to Germany to be used by Siemens in telecommunications equipment that, in turn, is shipped to BellSouth and installed in Charlotte, North Carolina.

Sources: Philip Siekman, "Industrial Management & Technology/Export Winners," Fortune, January 10, 2000, pp. 154–63; "Lucent CEO Sees China as Important Growth Area for Global Business," Xinhua News Agency, August 19, 2005; John Collins, "Buying in Ideas Gives Irish Firms License to Stay Ahead," Irish Times, September 9, 2005, p. 6.

industrial products that are basically custom made (specialized steel, customized machine tools, and so on), adaptation takes place for domestic as well as foreign markets.

Two basic factors account for greater market similarities among industrial goods customers than among consumer goods customers. First is the inherent nature of the product: Industrial products and services are used in the process of creating other goods and services; consumer goods are in their final form and are consumed by individuals. Second, the motive or intent of the users differ: Industrial consumers are seeking profit, whereas the ultimate consumer is seeking satisfaction. These factors are manifest in specific buying patterns and demand characteristics and in a special emphasis on relationship marketing as a competitive tool. Whether a company is marketing at home or abroad, the differences between business-to-business and consumer markets merit special consideration.

Along with industrial goods, business services are a highly competitive growth market seeking quality and value. Manufactured products generally come to mind when we think of international trade. Yet the most rapidly growing sector of U.S. international trade today consists of business services—accounting, advertising, banking, consulting, construction, hotels, insurance, law, transportation, and travel sold by U.S. firms in global markets. The intangibility of services creates a set of unique problems to which the service provider must respond. A further complication is a lack of uniform laws that regulate market entry. Protectionism, though prevalent for industrial goods, can be much more pronounced for the service provider.

This chapter discusses the special problems in marketing goods and services to businesses internationally, the increased competition and demand for quality in those goods and services, and the implications for the global marketer.

Demand in Global Business-to-Business Markets

Gauging demand in industrial markets can involve some huge bets. Shanghai's 30-kilometer, $1.2 billion bullet train line is one example. This product of a Sino–German joint venture was really a prototype for fast things to come in mass transit–dependent China. Indeed, China now has the longest (1,339 miles) and fastest (267 mph) high-speed rail service in the world with the help of $58 billion in German subsidies. Another big bet that went bad was Iridium LLC; its 72-satellite, $5 billion communications system was unable to sell the associated phones. Iridium badly miscalculated demand for its approach to global telecommunications and was sold in bankruptcy for $25 million. The system remains operational with the U.S. Department of Defence as its primary customer. Most recently, however, Iridium is making a bit of a comeback. It raised $200 million in an IPO in late 2009 to help it build on its successes with machine-to-machine (M2M) commercial subscribers that need coverage in the 90 percent of the planet where mobile phone service does not exist.[2]

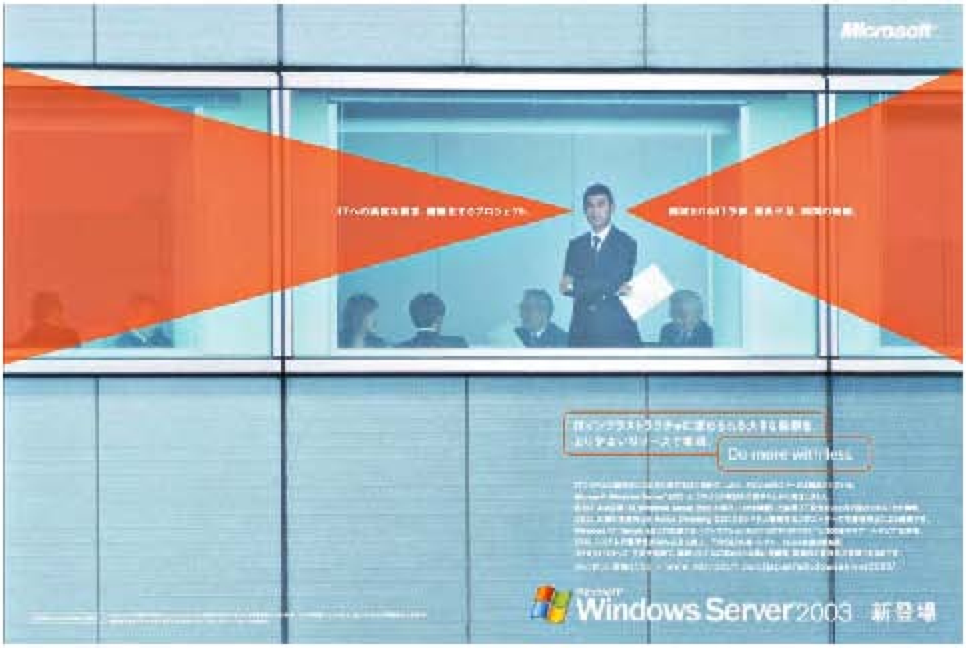
LO1

The importance of derived demand in industrial markets

Three factors seem to affect the demand in international industrial markets differently than in consumer markets. First, demand in industrial markets is by nature more volatile. Second, stages of industrial and economic development affect demand for industrial products. Third, the level of technology of products and services makes their sale more appropriate for some countries than others.

The Volatility of Industrial Demand

Consumer products firms have numerous reasons to market internationally—gaining exposure to more customers, keeping up with the competition, extending product life cycles, and growing sales and profits, to name a few. Firms producing products and services for



Servers are sold to companies; thus, the demand for them is more volatile than the demand for personal computers being sold to individual consumers. Here Microsoft acknowledges the technology bust of 2000 in its ads for servers in both the United States and Japan. In both countries, the pressure was on CIOs to "do more with less." Executives faced "larger projects" and "shrinking budgets." The American executive is working late; everyone else has gone home. The focus on the Japanese individual executive may look odd to older, more collectivistic Japanese managers. However, Microsoft acknowledged that things were changing in Japan—particularly, information technology decisions were more focused and less consensus-oriented. Younger Japanese will like the independence reflected in the image. Finally, do you think it's a coincidence that both executives are standing near windows?

[2]Arik Hesseldahl, "The Second Coming of Iridium," *BusinessWeek*, October 29, 2009, p. 29.

A more recent global campaign for Microsoft B2B products mentions nothing about the IT bust and uses the universal slogan "Your potential. Our passion" for both the Mexican and German markets, as in the United States.

industrial markets have an additional crucial reason for venturing abroad: dampening the natural volatility of industrial markets. Indeed, perhaps the single most important difference between consumer and industrial marketing is the huge, cyclical swings in demand inherent in the latter. It is true that demand for consumer durables such as cars, furniture, or home computers can be quite volatile. In industrial markets, however, two other factors come into play that exacerbate both the ups and downs in demand: Professional buyers tend to act in concert, and derived demand accelerates changes in markets.[3]

Purchasing agents at large personal computer manufacturers such as IBM, Apple, Acer, Samsung, and Toshiba are responsible for obtaining component parts for their firms as cheaply as possible and in a timely manner. They monitor demand for PCs and prices of components such as microprocessors or disk drives, and changes in either customer markets or supplier prices directly affect their ordering. Declines in PC demand or supplier prices can cause these professionals to slam on the brakes in their buying; in the latter case, they wait for further price cuts. And because the purchasing agents at all the PC companies, here and abroad, are monitoring the same data, they all brake (or accelerate) simultaneously. This is exactly what happened in 2008 in the $14 billion global seaweed market. Certain types of seaweed are used in toothpaste, cosmetics, and chicken patties, and the volatility in industrial demand pushed prices from $0.50/kilogram to $1.80/kilogram and then to $1.00/kilogram, all in three months.[4] Consumers monitor markets as well, but not nearly to the same degree. Purchases of cola, clothing, and cars tend to be steadier.

[3]Ilan Brat, "Crane Migration Hinders Builders," *The Wall Street Journal*, June 18, 2007, pp. B1, B2.

[4]Patrick Barta, "Indonesia Got Soaked When the Seaweed Bubble Burst," *The Wall Street Journal*, October 21, 2008, online.

Exhibit 14.2
Derived Demand Example

Time Period	Consumer Demand for Premolded Fiberglass Shower Stalls			Number of Machines in Use to Produce the Shower Stalls			Demand for the Machines		
Year	Previous Year	Current Year	Net Change	Previous Year	Current Year	Net Change	Replacement	New	Total
1	100,000	100,000	—	500	500	—	50	—	50
2	100,000	110,000	+10,000	500	550	+50	50	50	100
3	110,000	115,000	+5,000	550	575	+25	50	25	75
4	115,000	118,000	+3,000	575	590	+15	50	15	65
5	118,000	100,000	−18,000	590	500	−90	—	−40	−40
6	100,000	100,000	—	500	500	—	10	—	10

Source: Adapted from R. L. Vaile, E. T. Grether, and R. Cox, Marketing in the American Economy (New York: Ronald Press, 1952), p. 16. Appears in Robert W. Haas, Business Marketing, 6th ed. (Cincinnati, OH: Southwestern, 1995), p. 115.

For managers selling capital equipment and big-ticket industrial services, understanding the concept of derived demand is absolutely fundamental to their success. **Derived demand** can be defined as demand dependent on another source. Thus, the demand for Boeing 747s is derived from the worldwide consumer demand for air travel services, and the demand for Fluor Corp's global construction and engineering services to design and build oil refineries in China is derived from Chinese consumers' demands for gasoline. Minor changes in consumer demand mean major changes in the related industrial demand. In the example in Exhibit 14.2, a 10 percent increase in consumer demand for shower stalls in year 2 translates into a 100 percent increase in demand for the machines to make shower stalls. The 15 percent decline in consumer demand in year 5 results in a complete shutdown of demand for shower-stall–making machines. For Boeing, the September 11 terrorist attacks, the continuing threat of more of the same, and the subsequent armed conflicts in the Middle East combined to dramatically reduce air travel (both vacation and commercial) worldwide, which in turn caused cancellations of orders for aircraft. Moreover, the airlines not only canceled orders, they also mothballed parts of their current fleets. During August 2003, there were 310 jetliners stored in a Mojave Desert facility awaiting demand to pick up again. The commercial aircraft industry has always been and will continue to be one of the most volatile of all.

Industrial firms can take several measures to manage this inherent volatility, such as maintaining broad product lines[5] and broad market coverage,[6] raising prices faster and reducing advertising expenditures during booms, ignoring market share as a strategic goal, eschewing layoffs,[7] and focusing on stability. For most American firms, where corporate cultures emphasize beating competitors, such stabilizing measures are usually given only lip service. Conversely, German and Japanese firms value employees and stability more highly and are generally better at managing volatility in markets.[8]

Some U.S. companies, such as Microsoft and especially General Electric,[9] have been quite good at spreading their portfolio of markets served. Late-1990s declines in Asian markets

[5] Nelson D. Schwartz, "Is G.E. Too Big for Its Own Good?" *The New York Times*, July 22, 2007, pp. 3-1, 3-8.

[6] Ilan Brat and Bryan Gruley, "Global Trade Galvanizes Caterpillar," *The Wall Street Journal*, February 26, 2007, pp. B1, B7.

[7] Southwest Airlines management, unlike almost all its competitors, has avoided layoffs during the recent bust in the industry. Refusing to make layoffs has been a founding principle of the organization. "Southwest Airlines December Traffic Rose 4%," *Dow Jones News Service*, January 4, 2008.

[8] Cathy Anterasian, John L. Graham, and R. Bruce Money, "Are American Managers Superstitious about Market Share?" *Sloan Management Review*, Summer 1996, pp. 667–77; John L. Graham, "Culture and Human Resources Management," Chapter 18 in Alan Rugman and Thomas L. Brewer (eds.), *The Oxford Handbook of International Business*, 2nd ed. (Oxford: Oxford University Press, 2008); Rajiv Srinivasan, Arvind Rangaswamy, and Gary L. Lilien, "Turning Adversity into Advantage: Does Proactive Marketing During a Recession Pay Off?" *International Journal of Research in Marketing* 22, no. 2 (2005), pp. 109–25.

[9] Claudia H. Deutsch, "[G.E.] At Home in the World," *The New York Times*, February 14, 2008, pp. C1, C4.

were somewhat offset by strong American markets, just as late-1980s increases in Japanese demand had offset declines in the United States. Indeed, one of the strange disadvantages of having the previously command economies go private is their integration into the global market. That is, prior to the breakup of the USSR, Soviets bought industrial products according to a national five-year plan that often had little to do with markets outside of the communist bloc. Their off-cycle ordering tended to dampen demand volatility for companies able to sell there. Now, privately held Russian manufacturers watch and react to world markets just as their counterparts do all over the globe. The increasing globalization of markets will tend to increase the volatility in industrial markets as purchasing agents around the world act with even greater simultaneity. Managing this inherent volatility will necessarily affect all aspects of the marketing mix, including product/service development.

Stages of Economic Development

Perhaps the most significant environmental factor affecting the international market for industrial goods and services is the degree of industrialization. Although generalizing about countries is almost always imprudent, the degree of economic development can be used as a rough measure of a country's industrial market. Rostow's[10] five-stage model of economic development is useful here; demand for industrial products and services can be classified correspondingly.

Stage 1 (*the traditional society*). The most important industrial demand will be associated with natural resources extraction—think parts of Africa and the Middle East.

Stage 2 (*preconditions for takeoff*). Manufacturing is beginning. Primary needs will be related to infrastructure development[11]—for example, telecommunications, construction, and power generation equipment and expertise. Vietnam would fit this category.

Stage 3 (*takeoff*). Manufacturing of both semidurable and nondurable consumer goods has begun. Goods demanded relate to equipment and supplies to support manufacturing. Russian and Eastern European countries fit this category.

Stage 4 (*drive to maturity*). These are industrialized economies such as Korea and the Czech Republic. Their focus is more on low-cost manufacturing of a variety of consumer and some industrial goods. They buy from all categories of industrial products and services.

Stage 5 (*the age of mass consumption*). These are countries where design activities are going on and manufacturing techniques are being developed, and they are mostly service economies. Japan and Germany are obvious examples of countries that purchase the highest-technology products and services, mostly from other Stage 5 suppliers and consumer products from Stage 3 and 4 countries.

Technology and Market Demand

LO2

How demand is affected by technology levels

Another important approach to grouping countries is on the basis of their ability to benefit from and use technology, particularly now that countries are using technology as economic leverage to leap several stages of economic development in a very short time.[12] Perhaps the best indicator of this dimension of development is the quality of the educational system. Despite relatively low levels of per capita GDP, many countries (e.g., China, the Czech Republic, Russia) place great emphasis on education, which affords them the potential to leverage the technology that is transferred.

Not only is technology the key to economic growth, but for many products, it is also the competitive edge in today's global markets. As precision robots and digital control systems take over the factory floor, manufacturing is becoming more science oriented, and access to inexpensive labor and raw materials is becoming less important. The ability to develop the latest information technology and to benefit from its application is a critical factor in the

[10] Walt W. Rostow, *The Stages of Economic Growth*, 2nd ed. (London: Cambridge University Press, 1971).

[11] Anita Chang, "China: Three Gorges Dam Impact Not That Bad," *Associated Press Newswires*, November 22, 2007.

[12] Bruce Einhorn, "The Tech Dragon Stumbles," *BusinessWeek*, May 14, 2007, pp. 44–45.

CROSSING BORDERS 14.2

The Military–Consumer Complex? Sony Sells to the Military

The earliest computers were used to crack codes and simulate nuclear explosions. The Internet grew out of a military research project. In-car navigation systems rely on satellites that were put into orbit to guide ships, troops, and missiles. The Boeing 747, with its raised cockpit, was designed as a military transporter. In each case, a technology created for military use has gone on to become widely used by civilians. That this happens so often is not surprising: The military is, after all, a deep-pocketed customer prepared to fund the development of expensive new technologies. As gizmos become smaller and cheaper—and they invariably do—they are able to percolate from the soldier on the battlefield to the man in the street.

But lately some kinds of technology have been moving in the other direction too. The United States Air Force has just placed an order for 2,200 Sony PlayStation 3 videogame consoles, which will be the building blocks of a supercomputer. Soldiers in Iraq and Afghanistan are using Apple iPods and iPhones to run translation software and calculate bullet trajectories. Xbox videogame controllers have been modified to control reconnaissance robots and drone aircraft. Graphics chips that power PC video cards are being used by defense firms to run simulations.

What has caused this shift? Global defense spending, at about $1.5 trillion a year, far exceeds sales of consumer electronics, at around $700 billion a year. But only a small fraction of defense spending is devoted to developing electronics. The consumer electronics industry can therefore outspend the military in research and development and spread out those costs over a far larger market: more than 1 billion mobile phones are sold every year, for example. Electronics firms also move much faster than the slow, multiyear grind of military procurement programs, with few products remaining on the market for more than a year before being replaced by something better or cheaper. And the emergence of open standards and open-source software makes it easier to repurpose off-the-shelf technologies or combine them in novel ways. (All those PlayStation 3s will have a customized version of Linux, an open-source operating system, installed on them and will be wired up using Gigabit Ethernet, the networking technology commonly used in offices.)

All this is to be applauded. Where consumer technology can be used, it is much cheaper and quicker to do so. The Air Force's new supercomputer will cost around one-tenth as much as a conventional supercomputer of equivalent power. Using an iPod to run translation software in Iraq makes much more sense than designing and building a dedicated device. America's armed forces are also using commercially available green technologies to reduce their demand for fuel. Of course, there are limits to this off-the-shelf approach: It is no way to procure tanks, helicopters, or missile systems. But the selective use of existing technology allows military planners to focus their spending on the development of new technologies, rather than reinventing the wheel. The consumer electronics industry has been taking advantage of military innovations for years. It seems only fitting that it should now return the favor.

Source: "The Military-Consumer Complex," The Economist, December 12, 2009, p. 16.

international competitiveness of managers, countries, and companies. Three interrelated trends spur demand for technologically advanced products: (1) expanding economic and industrial growth in Asia, particularly China and India; (2) the disintegration of the Soviet empire; and (3) the privatization of government-owned industries worldwide.

Beginning with Japan, many Asian countries have been in a state of rapid economic growth over the last 30 years. Although this growth has recently slowed, the long-term outlook for these countries remains excellent. Japan has become the most advanced industrialized country in the region, while South Korea, Hong Kong, Singapore, and Taiwan[13] (the "Four Tigers") have successfully moved from being cheap labor sources to becoming industrialized nations. China and the Southeast Asian countries of Malaysia, Thailand, Indonesia, and the Philippines are exporters of manufactured products to Japan and the United States now, and since overcoming most of their 1990s financial problems, they are continuing to gear up for greater industrialization. Countries at each of the first three levels of industrial development demand technologically advanced products for further industrialization, which will enable them to compete in global markets.

[13] Bruce Einhorn, "A Juggernaut in Electronics," *BusinessWeek*, June 18, 2007, p. 46.

As a market economy develops in the Commonwealth of Independent States (CIS, former republics of the USSR) and other eastern European countries, new privately owned businesses will create a demand for the latest technology to revitalize and expand manufacturing facilities. These countries will demand the latest technology to expand their industrial bases and build modern infrastructures.

Concurrent with the fall of communism, which fueled the rush to privatization in eastern Europe, Latin Americans began to dismantle their state-run industries in hopes of reviving their economies. Mexico, Argentina, and Brazil are leading the rest of Latin America in privatizing state-owned businesses. The move to privatization is creating enormous demand for industrial goods as new owners invest heavily in the latest technology. Telmex, a $4 billion joint venture between Southwestern Bell, France Telecom, and Teléfonos de Mexico, invested hundreds of millions of dollars to bring the Mexican telephone system up to the most advanced standards. Telmex is only one of scores of new privatized companies from Poland to Paraguay that are creating a mass market for the most advanced technology.

The fast economic growth in Asia, the creation of market economies in eastern Europe and the republics of the former Soviet Union, and the privatization of state-owned enterprises in Latin America and elsewhere will create expanding demand, particularly for industrial goods and business services, well into the 21st century. The competition to meet this global demand will be stiff; the companies with the competitive edge will be those whose products are technologically advanced, of the highest quality, and accompanied by world-class service.

Quality and Global Standards

As discussed in Chapter 13 the concept of quality encompasses many factors, and the perception of quality rests solely with the customer. The level of technology reflected in the product, compliance with standards that reflect customer needs, support services and follow-through, and the price relative to competitive products are all part of a customer's evaluation and perception of quality. As noted, these requirements are different for consumers versus industrial customers because of differing end uses. The factors themselves also differ among industrial goods customers because their needs are varied. Finally, recent studies have demonstrated that perceptions of industrial product quality also can vary across cultural groups even in the most technologically developed countries.[14]

Business-to-business marketers frequently misinterpret the concept of quality. Good quality as interpreted by a highly industrialized market is not the same as that interpreted by standards of a less industrialized nation. For example, an African government had been buying hand-operated dusters for farmers to distribute pesticides in cotton fields. The duster supplied was a finely machined device requiring regular oiling and good care. But the fact that this duster turned more easily than any other on the market was relatively unimportant to the farmers. Furthermore, the requirement for careful oiling and care simply meant that in a relatively short time of inadequate care, the machines froze up and broke. The result? The local government went back to an older type of French duster that was heavy, turned with difficulty, and gave a poorer distribution of dust but that lasted longer because it required less care and lubrication. In this situation, the French machine possessed more relevant quality features and therefore, in marketing terms, possessed the higher quality.

Likewise, when commercial jet aircraft were first developed, European and American designs differed substantially. For example, American manufacturers built the engines slung below the wings, whereas the British competitor built the engines into the wings. The American design made for easier access and saved on repair and servicing costs, and the British design reduced aerodynamic drag and saved on fuel costs. Both designs were "high quality" for their respective markets. At the time, labor was relatively expensive in the United States, and fuel was relatively expensive in the United Kingdom.

[14]Christian Homburg, Sabine Kuester, Nikolas Beutin, and Ajay Menon, "Determinants of Customer Benefits in Business-to-Business Markets: A Cross-Cultural Comparison," *Journal of International Marketing* 13 (2005), pp. 1–31.

Quality Is Defined by the Buyer

LO3

Characteristics of an industrial product

One important dimension of quality is how well a product meets the specific needs of the buyer. When a product falls short of performance expectations, its poor quality is readily apparent. However, it is less apparent but nonetheless true that a product that exceeds performance expectations can also be of poor quality. A product whose design exceeds the wants of the buyer's intended use generally has a higher price or is more complex, reflecting the extra capacity. Quality for many goods is assessed in terms of fulfilling specific expectations—no more and no less. Thus, a product that produces 20,000 units per hour when the buyer needs one that produces only 5,000 units per hour is not a quality product, in that the extra capacity is unnecessary to meet the buyer's use expectations. Indeed, this point is one of the key issues facing personal computer makers. Many business buyers are asking the question, "Do we really need the latest $1,000 PC for everyone?" And more and more often the answer is no, the $500 machines will do just fine.

This **price–quality relationship** is an important factor in marketing in developing economies, especially those in the first three stages of economic development described earlier. Standard quality requirements of industrial products sold in the U.S. market that command commensurately higher prices may be completely out of line for the needs of the less developed markets of the world. Labor-saving features are of little importance when time has limited value and labor is plentiful. Also of lesser value is the ability of machinery to hold close tolerances where people are not quality-control conscious, where large production runs do not exist, and where the wages of skillful workers justify selective fits in assembly and repair work. Features that a buyer does not want or cannot effectively use do not enhance a product's quality rating.

This distinction does not mean quality is unimportant or that the latest technology is not sought in developing markets. Rather, it means that those markets require products designed to meet their specific needs, not products designed for different uses and expectations, especially if the additional features result in higher prices. This attitude was reflected in a study of purchasing behavior of Chinese import managers, who ranked product quality first, followed in importance by price. Timely delivery was third and product style/features ranked 11th out of 17 variables studied. Hence, a product whose design reflects the needs and expectations of the buyer—no more, no less—is a quality product.

The design of a product must be viewed from all aspects of use. Extreme variations in climate create problems in designing equipment that is universally operable. Products that function effectively in western Europe may require major design changes to operate as well in the hot, dry Sahara region or the humid, tropical rain forests of Latin America. Trucks designed to travel the superhighways of the United States almost surely will experience operational difficulties in the mountainous regions of Latin America on roads that often barely resemble Jeep trails. Manufacturers must consider many variations in making products that will be functional in far-flung markets.

In light of today's competition, a company must consider the nature of its market and the adequacy of the design of its products. Effective competition in global markets means that overengineered and overpriced products must give way to products that meet the specifications of the customer at competitive prices. Success lies in offering products that fit a customer's needs—technologically advanced for some and less sophisticated for others, but all of high quality. To be competitive in today's global markets, the concept of total quality management (TQM) must be a part of all MNCs' management strategy, and TQM starts with talking to customers. Indeed, more and more frequently, industrial customers, including foreign ones, are directly involved in all aspects of the product development process, from generating new ideas to prototype testing.

A lack of universal standards is another problem in international sales of industrial products. The United States has two major areas of concern in this regard for the industrial goods exporter: a lack of common standards for manufacturing highly specialized equipment such as machine tools and computers, and the use of the inch-pound, or English, system of measurement. Conflicting standards are encountered in test methods for materials and equipment, quality control systems, and machine specifications. In the telecommunications industry, the vast differences in standards among countries create enormous problems for the expansion of that industry.

CROSSING BORDERS 14.3 Yes, Opinions Do Differ about the Metric System

In Canada, feelings about the metric system run high, as evinced by the following newspaper column:

> A generation has not passed since Canada's traditional system of weights and measures was suppressed by bureaucratic edict, in a direct assault on the public will. Countless millions have since been spent—most of it imposed in costs to industry, but millions more taxed to feed Ottawa's metric police and propaganda machine. And after years of the most audacious brainwashing campaign ever attempted on our nation's children, this alien system has made some progress. I said "alien" not because metric is French, but because it is inhuman.
>
> The metric system was originally imposed on France by the blood-soaked operatives of the Revolutionary Terror. It was then dragged across Europe by the armies of Napoleon. It met popular resistance wherever it appeared, and everywhere that resistance was quelled by force.
>
> Yet to this day, in France, as in our old monarchist citadel of Quebec, there are workmen calculating in pieds (feet) and pouces (inches), in livres (pounds) and onces (ounces)—quietly, beyond the reach of the metric police and their informers. These are masons and carpenters and the like. Their eyes are wistful and they smile to themselves.
>
> Ten is the magical number of tyranny. It can be halved only once, and can never go into thirds. It allows the deceptive ease of calculating in decimal places, such that when right we only approximately hit the boat, but when wrong we land in another ocean.

In America, metric boosters insist that the switch is happening, but in stealthy ways. More than 2,000 American businesses use the metric system in research, development, and marketing, according to the U.S. Metric Association, a California advocacy group. All of Eastman Kodak's product development is done in the metric system; Procter & Gamble's Scope mouthwash is sold in incremental liter bottles. The reason is financial. Making deals in pounds isn't easy when you're negotiating with someone who speaks in grams.

Britain duly converted to the metric system, selling its gasoline in liters and, more recently, its supermarket goods in grams. But small shopkeepers remained exempt until January 1, 2000. It was then that the new government regulations took effect, requiring every seller of loose goods—things like fruits, vegetables, carpets, window shades, loose candy, and meat—to begin selling in metric units.

The point, of course, was to harmonize with the rest of the European Union, a concept that was dear to the government of Prime Minister Tony Blair. But a healthy percentage of the country's 96,000 small shopkeepers do not feel much like harmonizing, especially not with the Germans and the French.

Sources: David Warren, "Ten: The Magical Number of Tyranny," National Post (Montreal), July 8, 2000, p. A14; Cassell Bryan-Low, "Pound for Pound, A Veggie Peddler Takes on the EU–East London's Ms. Devers Snubs the Metric System; Selling by the Bowl Is Alleged," The Wall Street Journal, January 22, 2008, p. A1.

Efforts are being made through international organizations to create international standards. For example, the International Electrotechnical Commission is concerned with standard specifications for electrical equipment for machine tools. The search has also been engaged for ways in which an international roaming umbrella can be established for wireless communications. The U.S. Department of Commerce participates in programs to promote U.S. standards and is active in the development of the Global Harmonization Task Force, an international effort to harmonize standards for several industry sectors. The U.S. Trade Representative participates in negotiations to harmonize standards as well. Recently a key agreement was signed with the European Union to mutually recognize each other's standards in six sectors. The agreements will eliminate the need for double testing (once each on both sides of the Atlantic) and address inspection or certification in telecommunications, medical devices, electromagnetic compatibility, electrical safety, recreation craft, and pharmaceuticals. The agreements cover approximately $50 billion in two-way trade and are expected to equate to a 2 to 3 percent drop in tariffs.

In addition to industry and international organizations setting standards, countries often have standards for products entering their markets. Saudi Arabia has been working on setting standards for everything from light bulbs to lemon juice, and it has asked its trading partners for help. The standards, the first in Arabic, will most likely be adopted by the entire

Arab world. Most countries sent representatives to participate in the standard setting. For example, New Zealand sent a representative to help write the standards for the shelf life of lamb. Unfortunately, the United States failed to send a representative until late in the discussions, and thus many of the hundreds of standards written favor Japanese and European products. Also, Saudi Arabia adopted the new European standard for utility equipment. The cost in lost sales to two Saudi cities by just one U.S. company, Westinghouse, was from $15 to $20 million for U.S.-standard distribution transformers. Increasingly, American firms are waking up to the necessity of participating in such standards discussions early on.

In the United States, conversion to the metric system and acceptance of international standards have been slow. Congress and industry have dragged their feet for fear conversion would be too costly. But the cost will come from *not* adopting the metric system; the General Electric Company had a shipment of electrical goods turned back from a Saudi port because its connecting cords were six feet long instead of the required standard of two meters.

As foreign customers on the metric system account for more and more American industrial sales, the cost of delaying standardization mounts. Measurement-sensitive products account for one-half to two-thirds of U.S. exports, and if the European Union bars nonmetric imports, as expected, many U.S. products will lose access to that market just as the European Union is on the threshold of major economic expansion. About half of U.S. exports are covered by the EU's new standards program.

To spur U.S. industry into action, the Department of Commerce indicated that accepting the metric system will not be mandatory unless you want to sell something to the U.S. government; all U.S. government purchases are to be conducted exclusively in metric. All federal buildings are now being designed with metric specifications, and highway construction funded by Washington uses metric units. Because the U.S. government is the nation's largest customer, this directive may be successful in converting U.S. business to the metric system. The Defense Department now requires metric specifications for all new weapons systems as well.

Despite the edicts from Washington, the National Aeronautics and Space Administration (NASA), which presides over some of the most advanced technology in the world, has resisted metrification. The $100 billion-plus[15] space station contains some metric parts, but most of the major components are made in the United States and are based on inches and pounds. NASA's excuse was that it was too far into the design and production to switch. Unfortunately, the space station is supposed to be an international effort with Russia as one of the partners, and this decision created large problems for systems integration. Worse yet, the cause of the 1999 failure of the $125 million Mars Climate Orbiter was a mix-up between metric and English measurement systems. NASA has agreed to make its next mission to the moon in 2020 metric.[16] Let's see if it keeps its promise. It is hard to believe that the only two countries not officially on the metric system are Myanmar and the United States. It is becoming increasingly evident that the United States must change or be left behind.

ISO 9000 Certification: An International Standard of Quality

LO4

The importance of ISO 9000 certification

With quality becoming the cornerstone of global competition, companies are requiring assurance of standard conformance from suppliers, just as their customers are requiring the same from them. ISO 9000[17] certification has also been found to positively affect the performance and stock prices of firms.

ISO 9000s, a series of five international industrial standards (ISO 9000–9004) originally designed by the International Organization for Standardization in Geneva to meet the need for product quality assurances in purchasing agreements, are becoming a quality assurance certification program that has competitive and legal ramifications when doing business in the European Union and elsewhere. The original ISO 9000 system was promulgated

[15] The original cost estimate was $16 billion. "International Space Station Marks Its 10th Anniversary," *RIA Novosti*, January 29, 2008.

[16] David B. Williams, "Metric Mission," *Science World*, April 2, 2007, p. 6.

[17] ISO 14001, a parallel environmental management standard, has not experienced the same rate of diffusion as ISO 9000. See Magali Delmas and Ivan Montiel, "The Diffusion of Voluntary International Management Standards: Responsible Care, ISO 9000, and ISO 14001 in the Chemical Industry," *Policy Studies Journal* 36 (2008), pp. 65–82.

The Japanese manufacturer is quite proud of the ISO 9000 quality ratings for its plant in San Jose, Costa Rica.

in 1994. In 2000 the system was streamlined, as it was again in 2006. ISO 9000 concerns the registration and certification of a manufacturer's quality system. It is a certification of the existence of a quality control system that a company has in place to ensure it can meet published quality standards. ISO 9000 standards do not apply to specific products. They relate to generic system standards that enable a company, through a mix of internal and external audits, to provide assurance that it has a quality control system. It is a certification of the production process only and does not guarantee that a manufacturer produces a "quality" product or service. The series describes three quality system models, defines quality concepts, and gives guidelines for using international standards in quality systems.

To receive ISO 9000 certification, a company requests a certifying body (a third party authorized to provide an ISO 9000 audit) to conduct a registration assessment—that is, an audit of the key business processes of a company. The assessor will ask questions about everything from blueprints to sales calls to filing. "Does the supplier meet promised delivery dates?" and "Is there evidence of customer satisfaction?" are two of the questions asked and the issues explored. The object is to develop a comprehensive plan to ensure that minute details are not overlooked. The assessor helps management create a quality manual, which will be made available to customers wishing to verify the organization's reliability. When accreditation is granted, the company receives certification. A complete assessment for recertification is done every four years, with intermediate evaluations during the four-year period.

Although ISO 9000 is generally voluntary, except for certain regulated products, the EU Product Liability Directive puts pressure on all companies to become certified. The directive holds that a manufacturer, including an exporter, will be liable, regardless of fault or negligence, if a person is harmed by a product that fails because of a faulty component. Thus, customers in the European Union need to be assured that the components of their products are free of defects or deficiencies. A manufacturer with a well-documented quality system will be better able to prove that products are defect free and thus minimize liability claims.

A strong level of interest in ISO 9000 is being driven more by marketplace requirements than by government regulations, and ISO 9000 is now an important competitive marketing tool in Europe and around the world.[18] As the market demands quality and more and more companies adopt some form of TQM, manufacturers are increasingly requiring ISO 9000 registration of their suppliers. Companies manufacturing parts and components in China are quickly discovering that ISO 9000 certification is a virtual necessity, and the Japanese construction industry now requires ISO 9000 as part of the government procurement process. More and more buyers, particularly those in Europe, are refusing to buy from manufacturers that do not have internationally recognized third-party proof of their quality capabilities. ISO 9000 may also be used to serve as a means of differentiating "classes" of suppliers, particularly in high-tech areas where high product reliability is crucial. In other words, if two suppliers are competing for the same contract, the one with ISO 9000 registration may have a competitive edge.

Although more and more countries (now more than 100) and companies continue to adopt ISO 9000 standards, many have complaints about the system and its spread. For example, 39 electronics companies battled against special Japanese software criteria for ISO 9000. Electronics companies also protested against the establishment of a new ISO Health and Safety Standard. Still others are calling for more comprehensive international standards along the lines of America's Malcolm Baldrige Award, which considers seven criteria—leadership, strategic planning, customer and market focus, information and analysis, human resource development, management, and business results. The telecommunications industry recently promulgated an industry-specific TL 9000 certification program, which combines aspects of ISO 9000 and several other international quality standards.

[18]"China to Establish Industrial Garden in Nigeria," *Xinhua News Agency*, August 22, 2005.

Perhaps the most pertinent kind of quality standard is now being developed by the University of Michigan Business School and the American Society for Quality Control.[19] Using survey methods, their American Customer Satisfaction Index (ACSI) measures customers' satisfaction and perceptions of quality of a representative sample of America's goods and services. The approach was actually developed in Sweden and is now being used in other European and Asian countries as well. The appeal of the ACSI approach is its focus on results, that is, quality as perceived by product and service users. So far the ACSI approach has been applied only in consumer product and service contexts; however, the fundamental notion that customers are the best judges of quality is certainly applicable to international business-to-business marketing settings as well. Individual industrial marketing firms are seeking even better ways to implement quality improvement programs, including using similar techniques as those employed by ACSI.

Business Services

For many industrial products, the revenues from associated services exceed the revenues from the products. Perhaps the most obvious case is cellular phones, in which the physical product is practically given away to gain the phone services contract. Or consider how inexpensive printers may seem until the costs of operation (i.e., ink cartridges) are included. Indeed, for many capital equipment manufacturers, the margins on after-sale services (i.e., maintenance contracts, overhauls, repairs, and replacement parts) are much higher than the margins on the machinery itself. Furthermore, when companies lease capital equipment to customers, the distinction between products and services almost disappears completely. When a business customer leases a truck, is it purchasing a vehicle or transportation services?

Businesses also buy a variety of services that are not associated with products. Our favorite examples are the at-sea-satellite-launch services now provided by Boeing[20] and the Russian navy, the latter by submarine.[21] We also appreciate the Ukrainian cargo company that charges $24,000 an hour to rent space on its giant jets. Other professional services are purchased from advertising and legal agencies, transportation and insurance companies, oil field services, banks and investment brokers,[22] and healthcare providers, to name only a few. Both categories of business services are discussed in this section.

After-Sale Services

Effective competition abroad requires not only proper product design but effective service, prompt deliveries, and the ability to furnish spare and replacement parts without delay. For example, GE Medical Systems provides a wide range of after-sale services for hospitals that buy MRIs and other equipment—training, information technologies, associated healthcare services, and parts and accessories.[23] In the highly competitive European Union, it is imperative to give the same kind of service a domestic company or EU company can give.

For many technical products, the willingness of the seller to provide installation and training may be the deciding factor for the buyers in accepting one company's product over another's. South Korean and other Asian businesspeople are frank in admitting they prefer to buy from American firms but that Japanese firms often get the business because of outstanding after-sales service. Frequently heard tales of conflicts between U.S. and foreign firms over assistance expected from the seller are indicative of the problems of after-sales service and support. A South Korean executive's experiences with an American engineer and some Japanese engineers typify the situation: The Korean electronics firm purchased semiconductor-chip–making equipment for a plant expansion. The American engineer was slow in completing the

[19] Claes Fornell, Michael D. Johnson, Eugene W. Anderson, Jaesung Cha, and Barbara Everitt Bryant, "The American Consumer Index: Nature, Purpose, and Findings," *Journal of Marketing* 60, no. 4 (October 1996), pp. 35–46; http://www.asq.org, 2008; http://www.cfigroup.com, 2008.

[20] W. J. Hennigan, "Venture May Lose Boeing as Owner," *Los Angeles Times*, November 12, 2009, pp. B1, B6.

[21] "Sail of the Century," *The Economist*, June 18, 2005, pp. 77–78.

[22] John U. Farley, Andrew F. Hayes, and Praveen K. Kopalle, "Choosing and Upgrading Financial Services Dealers in the U.S. and U.K.," *International Journal of Research in Marketing* 21, no. 4 (2004), pp. 359–75.

[23] See http://www.gehealthcare.com, 2010.

installation; he stopped work at 5:00 p.m. and would not work on weekends. The Japanese, installing other equipment, understood the urgency of getting the factory up and running; without being asked, they worked day and night until the job was finished.

Unfortunately this example is not an isolated case. In another example, Hyundai Motor Company bought two multimillion-dollar presses to stamp body parts for cars. The presses arrived late, even more time was required to set up the machines, and Hyundai had to pay the Americans extra to get the machines to work correctly. Such problems translate into lost business for U.S. firms. Samsung Electronics Company, Korea's largest chipmaker, used U.S. equipment for 75 percent of its first memory-chip plant; when it outfitted its most recent chip plant, it bought 75 percent of the equipment from Japan. Of course, not all American companies have such problems. Indeed, in India Intel recently opened a data center comprising an Internet server farm of hundreds of servers. Already customers in many countries connect and store their servers and have them serviced by Intel at such centers.

Customer training is rapidly becoming a major after-sales service when selling technical products in countries that demand the latest technology but do not always have trained personnel. China demands the most advanced technical equipment but frequently has untrained people responsible for products they do not understand. Heavy emphasis on training programs and self-teaching materials to help overcome the common lack of skills to operate technical equipment is a necessary part of the after-sales service package in much of the developing world. While perhaps McDonald's Hamburger University is the most famous international customer training center, industrial sellers may soon catch up. Cisco Systems, collaborating with the government and a university in Singapore,[24] established the first Cisco Academy Training Centre to serve that region of the world, and Intel established e-Business Solutions Centers in five European countries.

A recent study of international users of heavy construction equipment revealed that, next to the manufacturer's reputation, quick delivery of replacement parts was of major importance in purchasing construction equipment. Furthermore, 70 percent of those questioned indicated they bought parts not made by the original manufacturer of the equipment because of the difficulty of getting original parts. Smaller importers complain of U.S. exporting firms not responding to orders or responding only after extensive delay. It appears that the importance of timely availability of spare parts to sustain a market is forgotten by some American exporters that are used to quick deliveries in the domestic market. When companies are responsive, the rewards are significant. U.S. chemical production equipment manufacturers dominate sales in Mexico because, according to the International Trade Administration, they deliver quickly. The ready availability of parts and services provided by U.S. marketers can give them a competitive edge.

Some international marketers also may be forgoing the opportunity of participating in a lucrative aftermarket. Certain kinds of machine tools use up to five times their original value in replacement parts during an average life span and thus represent an even greater market. One international machine tool company has capitalized on the need for direct service and available parts by changing its distribution system from "normal" to one of stressing rapid service and readily available parts. Instead of selling through independent distributors, as do most machine tool manufacturers in foreign markets, this company established a series of company stores and service centers similar to those found in the United States. The company can render service through its system of local stores, whereas most competitors must dispatch service people from their home-based factories. The service people are kept on tap for rapid service calls in each of its network of local stores, and each store keeps a large stock of standard parts available for immediate delivery. The net result of meeting industrial needs quickly is keeping the company among the top suppliers in foreign sales of machine tools.

International small-package door-to-door express air services and international toll-free telephone service have helped speed up the delivery of parts and have made after-sales technical service almost instantly available. Amdahl, the giant mainframe computer maker, uses air shipments almost exclusively for cutting inventory costs and ensuring premium customer service, which is crucial to competing against larger rivals. With increasing

[24]"SMEs Set to Boost IT Services in Asia," *Business Times Singapore*, August 22, 2005.

frequency, electronics, auto parts, and machine parts sent by air have become a formidable weapon in cutting costs and boosting competitiveness. Technical advice is only a toll-free call away, and parts are air-expressed immediately to the customer. Not only does this approach improve service standards, but it also is often more cost effective than maintaining an office in a country, even though foreign-language speakers must be hired to answer calls.

After-sales services are not only crucial in building strong customer loyalty and the all-important reputation that leads to sales at other companies, but they are also almost always more profitable than the actual sale of the machinery or product.

Other Business Services

LO5

The growth of business services and nuances of their marketing

Trade creates demands for international services.[25] Most business services companies enter international markets to service their local clients abroad.[26] Accounting, advertising, and law[27] firms were among the early companies to establish branches or acquire local affiliations abroad to serve their U.S. multinational clients. Hotels and auto-rental agencies followed the business traveler abroad. Most recently, healthcare services providers have been following firms abroad—Blue Cross is now selling HMO services to American companies operating in Mexico. Once established, many of these **client followers**, as one researcher refers to them, expand their client base to include local companies as well. As global markets grow, creating greater demand for business services, service companies become international market seekers.

As mentioned in Chapter 13, the mode of entry for most consumer services firms is licensing, franchising, strategic alliances,[28] or direct. This tendency is so because of the inseparability of the creation and consumption of the services. However, because some business services have intrinsic value that can be embodied in some tangible form (such as a blueprint or architectural design), they can be produced in one country and exported to another. Data processing and data analysis services are good examples. The analysis or processing is completed on a computer located in the United States, and the output (the service) is transmitted via the Internet to a distant customer. Architecture, systems integration,[29] and engineering consulting services are exportable when the consultant travels to the client's site and later returns home to write and submit a report or a design.

Business services firms face most of the same constraints and problems confronting merchandise traders. Protectionism is the most serious threat to the continued expansion of international services trade. The growth of international services has been so rapid during the last decade it has drawn the attention of local companies, governments, and researchers. As a result, direct and indirect trade barriers have been imposed to restrict foreign companies from domestic markets. Every reason, from the protection of infant industries to national security, has been used to justify some of the restrictive practices. A list of more than 2,000 instances of barriers to the free flow of services among nations was recently compiled by the U.S. government. In response to the threat of increasing restriction, the United States has successfully negotiated to open business services markets through both NAFTA and GATT.

Until the GATT and NAFTA agreements, few international rules of fair play governed trade in services. Service companies faced a complex group of national regulations that impeded the movement of people and technology from country to country. At least one study has demonstrated that personnel and intellectual property issues are key drivers of success and failure, particularly in knowledge-based services such as consulting, engineering, education,

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[25]Perhaps one of the best examples of trade leading demand for services is the critical importance of Japanese trading companies to that country. See Anthony Goerzen and Shige Makino, "Multinational Corporation Internationalization in the Service Sector: A Study of Japanese Trading Companies," *Journal of International Business Studies* 38 (2007), pp. 1149–69.

[26]Lihong Qian and Andrew Delios, "Internationalization and Experience: Japanese Banks' International Expansion, 1980–1998," *Journal of International Business Studies* 39 (2008), pp. 231–48.

[27]John Tagliabue, "Law Firms from U.S. Invade Paris," *The New York Times*, July 25, 2007, pp. C1, C4.

[28]One Chicago law firm has entered into a strategic alliance with a Chinese counterpart. See Nathan Koppel and Andrew Batson, "A U.S. Law Firm Takes a New Route into China," *The Wall Street Journal*, January 30, 2007, pp. B1, B2.

[29]Janet Y. Murray, Masaki Kotabe, and Stanford A. Westjohn, "Global Sourcing Strategy and Performance of Knowledge-Intensive Business Services: A Two-Stage Strategic Fit Model," *Journal of International Marketing* 17, no. 4 (2009), pp. 90–105.

and information technology.[30] The United States and other industrialized nations want their banks, insurance companies, construction firms, and other business service providers to be allowed to move people, capital, and technology around the globe unimpeded. Restrictions designed to protect local markets range from not being allowed to do business in a country to requirements that all foreign professionals pass certification exams in the local language before being permitted to practice. In Argentina, for example, an accountant must have the equivalent of a high school education in Argentinean geography and history before being permitted to audit the books of a multinational company's branch in Buenos Aires.

Restrictions on cross-border data flows are potentially the most damaging to both the communications industry and other MNCs that rely on data transfers across borders to conduct business. Some countries impose tariffs on the transmission of data, and many others are passing laws forcing companies to open their computer files to inspection by government agencies or are tightly controlling transmission domestically. Most countries have a variety of laws to deal with the processing and electronic transmission of data across borders. In many cases, concern stems from not understanding how best to tax cross-border data flows.

As mentioned earlier, competition in all sectors of the services industry is increasing as host-country markets are being invaded by many foreign firms. The practice of following a client into foreign markets and then expanding into international markets is not restricted to U.S. firms. Service firms from Germany, Britain, Japan, and other countries follow their clients into foreign markets and then expand to include local business as well. Telecommunications, advertising, and construction are U.S. services that face major competition, not only from European and Japanese companies but also from representatives of Brazil, India, and other parts of the world.

Clearly opportunities for the marketing of business services will continue to grow well into the 21st century. International marketers will have to be quite creative in responding to the legal and cultural challenges of delivering high-quality business services in foreign markets and to foreign customers. The success of international business services firms will of course depend on finding high-quality employees (with technical and interpersonal skills and a strong customer orientation)[31] to build and maintain the personal relationships that are so important, particularly when doing business across cultures. We will expand on this last point in Chapters 17 and 19.

Trade Shows: A Crucial Part of Business-to-Business Marketing

LO6

The importance of trade shows in promoting industrial goods

The promotional problems encountered by foreign industrial marketers are little different from the problems faced by domestic marketers. Until recently there has been a paucity of specialized advertising media in many countries.[32] In the last decade, however, specialized industrial media have been developed to provide the industrial marketer with a means of communicating with potential customers, especially in western Europe and to some extent in eastern Europe, the Commonwealth of Independent States (CIS), and Asia.

In addition to advertising in print media and reaching industrial customers through catalogs, Web sites,[33] and direct mail, the trade show or trade fair has become the primary vehicle for doing business in many foreign countries. As part of its international promotion activities, the U.S. Department of Commerce sponsors trade fairs in many cities around the world. Additionally, local governments in most countries sponsor annual trade shows. African countries, for example, host more than 70 industry-specific trade shows.

[30] Chris Styles, Paul G. Patterson, and Vinh Q. La, "Exporting Services to Southeast Asia: Lessons from Australian Knowledge-Based Service Exporters," *Journal of International Marketing* 13 (2005), pp. 104–28.

[31] Vinh La, Paul Patterson, and Chris Styles, "Client-Perceived Performance and Value in Professional B-2-B Services: An International Perspective," *Journal of International Business Studies* 40, no. 2 (2009), pp. 274–300.

[32] Of course, it should be noted that some industrial companies still use nonspecialized media, building brand awareness at all levels. Perhaps the best example is Intel's sponsorship of the official Web site of the Tour de France in 2002.

[33] For illustrative examples of the burgeoning information available to industrial customers on Web sites, see http://www.caterpillar.com, http://www.fluor.com, http://www.hewlett-packard.com, and http://www.qualcom.com.

So you want to buy an Airbus 380? How about kicking the tires of one at the Paris Air Show, the world's biggest aerospace trade show?

Trade shows serve as the most important vehicles for selling products, reaching prospective customers, contacting and evaluating potential agents and distributors, and marketing in most countries. Firms that have successfully integrated trade show attendance and follow-up personal selling efforts have been consistently shown to be more profitable.[34] Although important in the United States,[35] trade shows serve a much more important role in other countries. They have been at the center of commerce in Europe for centuries and are where most prospects are found. European trade shows attract high-level decision makers who are attending not just to see the latest products but to buy. Pre-show promotional expenditures are often used in Europe to set formal appointments. The importance of trade shows to Europeans is reflected in the percentage of their media budget spent on participating in trade events and how they spend those dollars. On average, Europeans spend 22 percent of their total annual media budget on trade events, whereas comparable American firms typically spend less than 5 percent. Europeans tend not to spend money on circuslike promotions, gimmicks, and such; rather, they focus on providing an environment for in-depth dealings. More than 2,000 major trade shows are held worldwide every year. The Hanover Industry Fair (Germany), the largest trade fair in the world, has nearly 6,000 exhibitors, who show a wide range of industrial products to 600,000 visitors.

Trade shows provide the facilities for a manufacturer to exhibit and demonstrate products to potential users and to view competitors' products. They are an opportunity to create sales and establish relationships with agents, distributors, franchisees, and suppliers that can lead to more nearly permanent distribution channels in foreign markets. In fact, a trade show may be the only way to reach some prospects. Trade show experts estimate that 80 to 85 percent of the people seen on a trade show floor never have a salesperson call on them. Several Web sites now specialize in virtual trade shows. They often include multimedia and elaborate product display booths that can be virtually toured. Some of these virtual trade shows last only a few days during an associated actual trade show.

The number and variety of trade shows are such that almost any target market in any given country can be found through this medium. Most remarkable was the Medical Expo in Havana in 2000—the first trade show to be sanctioned by both the U.S. and Cuban governments in more than four decades. Over 8,000 Cuban doctors, nurses, technicians, and hospital administrators attended. This initial event was followed in 2002 with a major food products trade show in Havana. In eastern Europe, fairs and exhibitions offer companies the opportunity to meet new customers, including private traders, young entrepreneurs, and

[34]Timothy Smith, Srinath Gopalakrishnan, and Paul M. Smith, "The Complementary Effect of Trade Shows on Personal Selling," *International Journal of Research in Marketing* 21, no. 1 (2004), pp. 61–76.

[35]David Pogue, "Fixated on TVs, and What's on Them," *The New York Times*, January 10, 2008, pp. C1, C7.

CROSSING BORDERS 14.4 No More Aching Feet, but What About the 15-Ton Russian Tank?

During April 2000, the first stand-alone virtual trade show was staged by ISP Virtual Show. It was aimed at an appropriate audience—Internet service providers (ISPs). The address was ISPVirtualShow.com (the site is down now, but you can still take a look by Googling it). Technology for the show was provided by iTradeFair.com, a Web site worth the visit.

According to the promoters, "The advantages of a virtual trade show far outweigh those of the physical model. Exhibitors (booths start at $1,995) and attendees (tickets are $99) from all over the world will now be able to exhibit and attend direct from their desktops. There are endless benefits of a virtual show, including massive reductions in costs both in exhibiting and manpower terms, savings on booth space and buildings, accommodations, flights, expenses, the obligatory bar bills and costs of time spent out of the office."

The virtual trade show offers a fresh alternative to the traditional model. Using advanced technology, anyone anywhere in the world can visit the virtual show and access information in his or her own language—making language barriers a thing of the past. Also, if attendees and exhibitors would like to continue a discussion offline, clocks displaying times from all over the world make scheduling easy. Finally, weary executives attending the same trade shows year in, year out will no longer have to suffer aching feet, hot stuffy rooms without air-conditioning, and overpriced, plastic food.

Although this pitch sounds great, we believe that an aspect of real trade shows that the virtual ones miss is the face-to-face contact and the all-important interpersonal relationship building that goes on over drinks or during those plastic meals. And there is no virtual way to achieve the same effect as a Russian software developer who recently displayed a 15-ton Russian tank in his booth at Comtek Trade Show in Moscow, or the Russian jet engine supplier that used scantily clad women dancers to attract crowds to its booth at the 2008 Farnborough Air Show. We note that the Show organizers banned the dancers, and that created even more of an uproar. Ah, marketing! In any case, we shall see how the new promotional medium of virtual trade shows evolves.

Sources: "ISP Virtual Show: World's First Virtual Trade Show," M2 Presswire, October 26, 1999; Jeanette Borzo, "Moscow's Comtek Trade Show Confronts Internet Challenge," Dow Jones News Service, April 19, 2000; "ICUEE Is the Demo Expo," Transmission & Distribution, August 1, 2005, p. 74; "Russian Firm Banned from Using Scantily Clad Women to Lure Customers to Its Stand At Farnborough Air Show," Daily Mail (UK), July 19, 2008, online; www.iTradeFair.com, 2010.

representatives of nonstate organizations. The exhibitions in countries such as Russia and Poland offer a cost-effective way of reaching a large number of customers who might otherwise be difficult to target through individual sales calls. Specialized fairs in individual sectors such as computers, the automotive industry, fashion, and home furnishings regularly take place.

In difficult economic and/or political circumstances, online trade shows become a useful, but obviously less than adequate, substitute. A good example of the kinds of services being developed can be found in Crossing Borders 14.4. During the weakened global economy at the turn of the century, slimmer travel budgets and SARS scares dramatically reduced attendance, and even forced cancellations, of traditionally popular international trade fairs. Political conflicts between the European Union and the United States over Middle East policies resulted in the U.S. Department of Defense discouraging American attendance at the 2003 Paris Air Show. Top American executives at Boeing, Lockheed, and the like dutifully stayed away. Exhibit space declined by 5 percent, and orders announced dropped from $45 billion in 2001 to $32 billion. It is hard to estimate what the costs in terms of international orders are for firms such as Boeing when their top executives cannot mix with potential customers at such a crucial event. We do know that Airbus inked orders for dozens of commercial aircraft from customers in Qatar and the Arab Emirates. Not even the best online trade show imaginable can make up for this apparent step backward in international trade and cooperation.[36]

[36]Information about trade shows is available from the following sources: the U.S. Trade Information Center's *Export Promotion Calendar*, which lists dates and locations of trade shows worldwide; *Europe Trade Fairs*, which lists European shows, including the U.S. Department of Commerce–sponsored shows; *Trade Shows Worldwide* (published by Gale Research), a comprehensive listing of more than 6,000 trade shows worldwide; and *International Trade Fairs and Conferences* (published by Co-Mar Management Services), which lists 5,000 trade shows worldwide.

Relationship Marketing in Business-to-Business Contexts

LO7

The importance of relationship marketing for industrial products and services

The characteristics that yield the uniqueness of industrial products and services lead naturally to **relationship marketing**.[37] The long-term relationships with customers that define relationship marketing fit the characteristics inherent in industrial products and are a viable strategy for business-to-business marketing. The first and foremost characteristic of industrial goods markets is the motive of the buyer: to make a profit. Industrial products fit into a services delivery or manufacturing process, and their contributions will be judged on how well they contribute to that process. For an industrial marketer to fulfill the needs of a customer, the marketer must understand those needs as they exist today and how they will change as the buyer strives to compete in global markets that call for long-term relationships. The key functions of global account managers revolve around the notions of intelligence gathering, coordination with the customer's staff, and reconfiguration (that is, adapting the practices and process to the changing competitive environment).[38]

The industrial customer's needs in global markets are continuously changing, and suppliers' offerings must also continue to change. The need for the latest technology means that it is not a matter of selling the right product the first time but rather of continuously changing the product to keep it right over time. The objective of relationship marketing is to make the relationship an important attribute of the transaction,[39] thus differentiating oneself from competitors. It shifts the focus away from price to service and long-term benefits. The reward is loyal customers that translate into substantial long-term profits.

Focusing on long-term relationship building will be especially important in most international markets where culture dictates stronger ties between people and companies. Particularly in countries with collectivistic and high-context cultures, such as those in Latin America or Asia, trust will be a crucial aspect of commercial relationships. Constant and close communication with customers will be the single most important source of information about the development of new industrial products and services. Indeed, in a recent survey of Japanese professional buyers, a key choice criterion for suppliers was a trait they called "caring" (those who defer to requests without argument and recognize that in return buyers will care for the long-term interests of sellers). Longer-term and more communication-rich relationships are keys to success in international industrial markets.

As in all areas of international business, the Internet is facilitating relationship building and maintenance in new ways. One study has shown key aspects of managing this aspect of international industrial marketing to include Web site design, multilingual access, cultural considerations, and effective marketing of the Web site itself.[40] Cisco Systems is a leader in this area; it not only supplies the hardware that allows B2B commerce to work, but its relationship management practices and process also serve as models for the industry. Cisco's international customers can visit its Web site to check out product specs and to order. That information is then routed on the Internet through Cisco to its suppliers. A full 65 percent of the orders move directly from the supplier to the customer—Cisco never touches them. Things are built only after they are ordered; thus little, if any, inventory is kept in warehouses. Based on Cisco's success, businesses around the world are beginning to reorganize themselves accordingly.[41]

[37]Jagdish Sheth and Atul Parvatiyar, "Evolving Relationship Marketing into a Discipline," *Journal of Relationship Marketing* 1, no. 1 (2002), pp. 3–16; Linda Hui Shi, J. Chris White, Shaoming Zou, and S. Tamer Cavusgil, "Global Account Management Strategies: Drivers and Outcomes," *Journal of International Business Studies* (2010), online.

[38]Linda H. Shi, Shaoming Zou, J. Chris White, Regina C. McNally, and S. Tamer Cavusgil, "Global Account Management Capability: Insights from Leading Suppliers," *Journal of International Marketing* 13 (2005), pp. 93–114.

[39]Atul Sharma, Louise Young, and Ian Wilkinson, "The Commitment Mix: Dimensions of Commitment in International Trading Relationships in India," *Journal of International Marketing* 14 (2006), pp. 64–91.

[40]Riyand Eid, Ibrahim Elbeltagi, and Mohammed Zairi, "Making Business-to-Business International Internet Marketing Effective: A Study of Critical Factors Using a Case-Study Approach," *Journal of International Marketing* 14 (2006), pp. 87–109.

[41]Jeff Borden, "Cisco Humanizes Technology and Connects the World," *Marketing News*, September 1, 2008, pp. 14–18.

Solar Turbines Inc.

A Global Industrial Marketer

With more than 80 percent of its sales outside the United States, Solar Turbines Inc. is the most global subsidiary of one of America's most global companies. More than half of Caterpillar's 2009 sales of over $32 billion were to customers outside the United States, making the parent corporation one of the country's leading exporters. Pictured here is work on the road leading to the airport at Serengeti National Park in Tanzania.

Solar industrial gas turbines are used by customers in 86 countries worldwide, in the oil and gas industries, electrical power generation, and marine propulsion. Solar promotes its products on the Internet (see www.solarturbines.com) and in brochures and print media around the world, as represented below:

An ad appearing in a French trade publication. It emphasizes the energy-saving and low-pollution attributes of the products. Notice the Caterpillar yellow in the logo and the phone number for the European subsidiary offices.

The compact size makes Solar gas turbines ideally suited for offshore oil applications in places like the North Sea, the Gulf of Mexico, and offshore Malaysia and Latin America.

A Russian-language brochure. The former Soviet Union and now the Russian oil and gas industry has remained an important customer for Solar for more than 40 years.

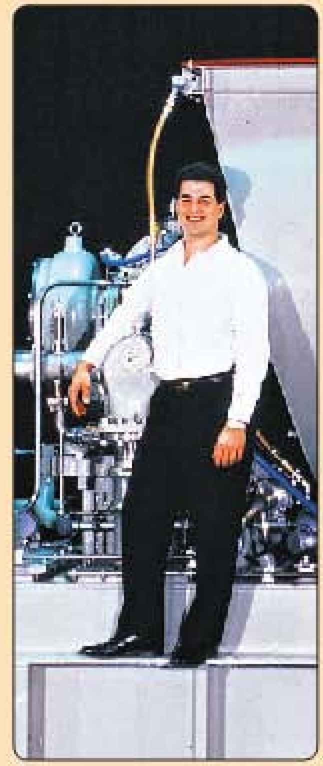
Courtesy of Solar Turbines, Inc.

The Project Team

The Customer is involved as a vital member of the Project Team from the initial inquiry to final acceptance. The Customer works with and issues project specifications to our …

Sales Engineer, who maintains initial Customer contact, prompts analysis of Customer needs, submits a comprehensive proposal to the Customer, monitors execution of the order, and submits the order to the assigned …

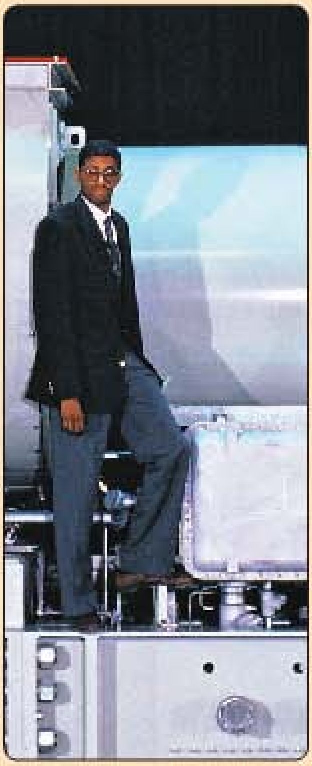
Application Engineer, who is responsible for determining the best product match for Customer requirements and recommending alternative approaches as appropriate. The Application Engineer works closely with …

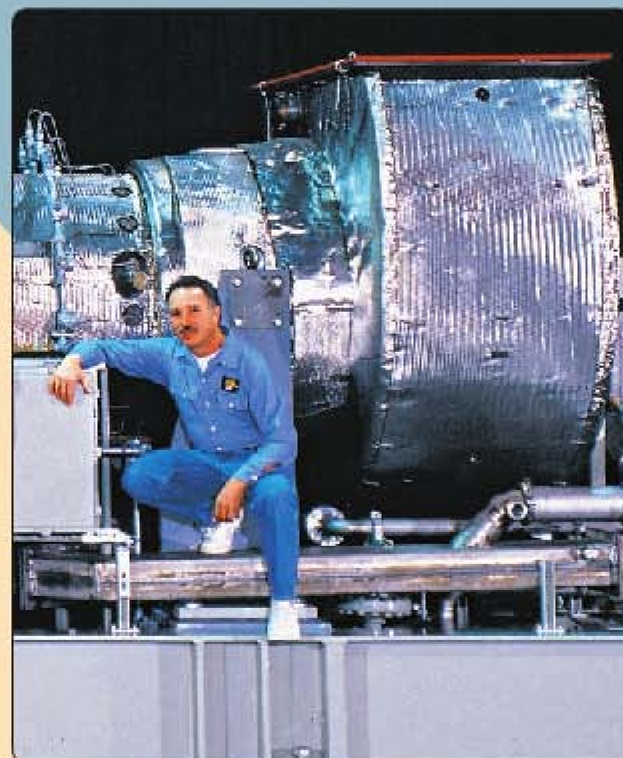


Engineering and Control Systems, where gas turbines, gas compressors, and controls are designed and gas turbine packages are customized for the customers based on proven designs.

Solar Turbines sells its products and services through project teams that include both customer personnel and vendors. Solar has followed its American customers around the world, supplying equipment and services for their global ventures. Of course, the firm sells directly to a wide variety of foreign firms as well.

Personal selling is the most important aspect of the promotions mix for industrial companies like Solar: in addition to calling on clients directly, sales engineers attend key trade shows around the world, such as this one in Amsterdam.



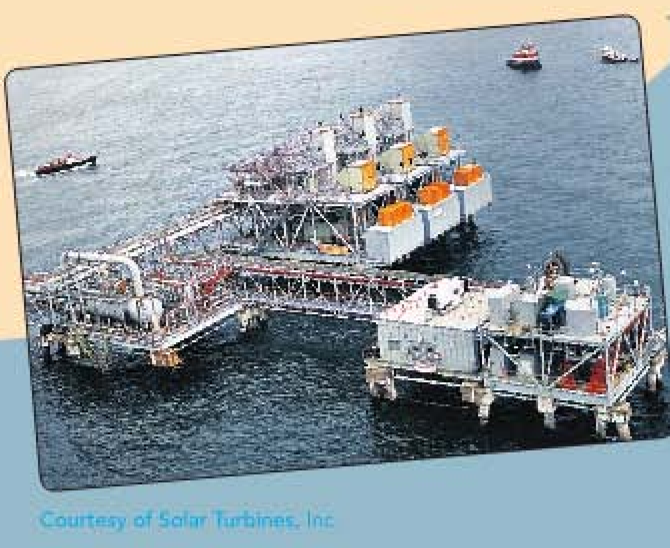


Project Manager handles all aspects of the order, maintains liaison with the Customer, controls documentation, arranges quality audits, and is responsible for on-time shipment and scheduling equipment commissioning at the Customer site.

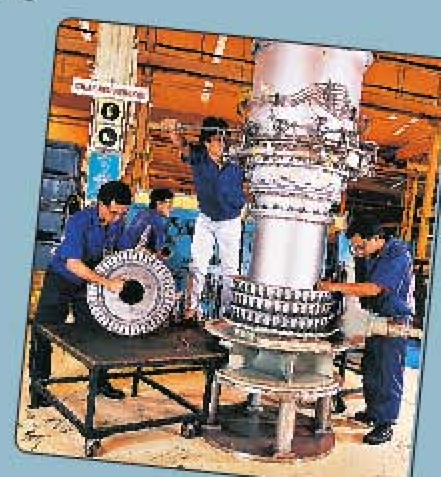
Manufacturing Technicians produce, assemble, and test industrial gas turbines and turbomachinery packages designed to meet specific Customer needs. Manufacturing also arranges shipment of equipment to the Customer site where …

Customer Services handles installation and start-up of the turbo-machinery, trains personnel, and provides a wide range of vital services to support Customer and operating requirements.

Suppliers are a critical element of all project teams; they provide materials and components that must meet Solar's demanding Quality Standards.



The Venezuelan offshore oil and gas platform pictured here is about a $40 million project for Solar; it includes four sets of turbomachinery. Close coordination among customer, subcontractors, and Solar is required from initial designs through powering up the facility.



Solar's sales and services efforts don't stop when the machine has been turned on. After-sales services (maintenance contracts, overhaul, and spare parts) often account for one-third of some industrial manufacturers' revenues, and Solar is no exception to that rule. Pictured are company overhaul operations in Indonesia.

Courtesy of Solar Turbines, Inc.

Solar's Marketing Affiliates

Solar sells and distributes its products through a variety of kinds of affiliates around the world. Most firms would prefer to keep things simple—direct sales worldwide. However, Solar has learned to be flexible and makes distribution decisions based on the level of business and local regulations.

Solar has packaging agreements with three Japanese companies, Mitsui Zosen, Niigata, and Yanmar. The one pictured, Yanmar, buys the turbine engines from Solar, then packages them with generators to suit Japanese regulations and customer specifications.

Delcom is Solar's distributor in Malaysia. Almost all the manufacturing is done in the United States, and Delcom's principal role is marketing in Southeast Asia. Pictured is Delcom's booth at a Malay trade show.

Solar has a variety of sales and manufacturing operations and affiliations in Mexico, including a maquiladora plant in Tijuana, offices in Mexico City, and a technology-sharing agreement with Turbinas Solar. The last facility is located in Veracruz and is pictured above.

Solar has also signed long-term alliance agreements with some of its major customers like Shell Oil. Pictured here are the Solar and Shell executives who worked on the agreement and then signed it at Solar's San Diego headquarters.

Courtesy of Solar Turbines, Inc.

Summary

Industrial (business-to-business) marketing requires close attention to the exact needs of customers. Basic differences across various markets are less than those for consumer goods, but the motives behind purchases differ enough to require a special approach. Global competition has risen to the point that industrial goods marketers must pay close attention to the level of economic and technological development of each market to determine the buyer's assessment of quality. Companies that adapt their products to these needs are the ones that should be most effective in the marketplace.

The demand for products and services in business-to-business markets is by nature more volatile than in most consumer markets. The demand also varies by level of economic development and the quality of educational systems across countries. Ultimately, product or service quality is defined by customers, but global quality standards such as ISO 9000 are being developed that provide information about companies' attention to matters of quality. After-sale services are a hugely important aspect of industrial sales. The demand for other kinds of business services (e.g., banking, legal services, advertising) is burgeoning around the world. Trade shows are an especially important promotional medium in business-to-business marketing.

Key Terms

Derived demand
Price–quality relationship
ISO 9000s
Client followers
Relationship marketing

Questions

1. Define the key terms listed above.
2. What are the differences between consumer and industrial goods, and what are the implications for international marketing?
3. Discuss how the various stages of economic development affect the demand for industrial goods.
4. "Industrialization is typically a national issue, and industrial goods are the fodder for industrial growth." Comment.
5. "The adequacy of a product must be considered in relation to the general environment within which it will be operated rather than solely on the basis of technical efficiency." Discuss the implications of this statement.
6. Why hasn't the United States been more helpful in setting universal standards for industrial equipment? Do you feel that the argument is economically sound? Discuss.
7. What roles do service, replacement parts, and standards play in competition in foreign marketing? Illustrate.
8. Discuss the role industrial trade fairs play in international marketing of industrial goods.
9. Describe the reasons an MNC might seek an ISO 9000 certification.
10. What ISO 9000 legal requirements are imposed on products sold in the European Union? Discuss.
11. Discuss the competitive consequences of being ISO 9000 certified.
12. Discuss how the characteristics that define the uniqueness of industrial products lead naturally to relationship marketing. Give some examples.
13. Discuss some of the more pertinent problems in pricing industrial goods.
14. What is the price–quality relationship? How does this relationship affect a U.S. firm's comparative position in world markets?
15. Select several countries, each at a different stage of economic development, and illustrate how the stage affects demand for industrial goods.
16. England has almost completed the process of shifting from the inch–pound system to the metric system. What effect do you think this will have on the traditional U.S. reluctance to make such a change? Discuss the economic implications of such a move.
17. Discuss the importance of international business services to total U.S. export trade. How do most U.S. service companies become international?
18. Discuss the international market environment for business services.

Chapter 15

International Marketing Channels

CHAPTER OUTLINE

Global Perspective: Central Perk in Beijing

Channel-of-Distribution Structures

- Import-Oriented Distribution Structure
- Japanese Distribution Structure
- Trends: From Traditional to Modern Channel Structures

Distribution Patterns

- Retail Patterns

Alternative Middleman Choices

- Home-Country Middlemen
- Foreign-Country Middlemen
- Government-Affiliated Middlemen

Factors Affecting Choice of Channels

- Cost
- Capital Requirements
- Control
- Coverage
- Character
- Continuity

Channel Management

- Locating Middlemen
- Selecting Middlemen
- Motivating Middlemen
- Terminating Middlemen
- Controlling Middlemen

The Internet

Logistics

CHAPTER LEARNING OBJECTIVES

What you should learn from Chapter 15:

LO1 The variety of distribution channels and how they affect cost and efficiency in marketing

LO2 The Japanese distribution structure and what it means to Japanese customers and to competing importers of goods

LO3 How distribution patterns affect the various aspects of international marketing

LO4 The functions, advantages, and disadvantages of various kinds of middlemen

LO5 The importance of selecting and maintaining middlemen

LO6 The growing importance of e-commerce as a distribution alternative

LO7 The interdependence of physical distribution activities

Global Perspective

CENTRAL PERK IN BEIJING

All 4Ps of marketing—product, price, promotion, and place—are important for retailers, particularly the last. No one has made more profit by creating a "third place" for consumers than Starbucks. As on the TV show *Friends*, friends have a sofa to sit on, talk, and, the retailer hopes, consume. But it doesn't always work out to the retailer's advantage in Beijing:

One first-time Starbucks visitor reported, "The thing I like most is the comfortable sofa, and I think when I first saw the Starbucks I entered it and sat in the sofa. But, the servant came and told me if you don't consume coffee you can't be here. So I left because at the time I think for students like me, the price of coffee was a little bit high."

Another customer reported not knowing the rules of the game: "I remember when I first went to Starbucks I wanted an ice coffee…. But, after finishing the coffee the sugar stayed in the bottom of the cup. I don't know because there are many kinds of sugar.… I don't know what kind of sugar is right for me, for my coffee. So I want in the future … some service and lessons about what kind of sugar is added to what kind of coffee."

IKEA in Beijing has a larger store and a larger problem of this sort:

> With no plans one Saturday, Zhang Xin told his wife, son, and mother to wear something smart and hop into the family sedan. He could have taken them to the Forbidden City or the Great Wall, but he decided on another popular destination—IKEA.

Riding an escalator past a man lying on a display bed with a book opened on his belly, the clan sauntered into the crush of visitors squeezing onto the showroom path, bumping elbows and nicking ankles with their yellow shopping trolleys. Zhang said the family needed a respite from the smog and a reliable lunch. "We just came here for fun," said the 34-year-old office manager. "I suppose we could have gone somewhere else, but it wouldn't have been a complete experience."

Welcome to IKEA Beijing, where the atmosphere is more theme park than store. When the Swedish furniture giant first opened here in 1999, it hoped locals would embrace its European brand of minimalism. A decade later, Beijingers have done just that. Perhaps too much.

Every weekend, thousands of looky-loos pour into the massive showroom to use the displays. Some hop into bed, slide under the covers and sneak a nap; others bring cameras and pose with the decor. Families while away the afternoon in the store for no other reason than to enjoy the air conditioning. Visitors can't seem to resist novelties most Americans take for granted, such as free soda refills and ample seating. They also like the laid-back staffers who don't mind when a child jumps on a couch.

Purchasing anything at *Yi Jia*, as the store is called here, can seem like an afterthought. "It's the only big store in Beijing where a security guard doesn't stop you from taking a picture," said Jing Bo, 30, who was looking for promising backdrops for a photograph of his girlfriend.

The store's success can be traced, in part, to how grounded it is in the capital's zeitgeist. At a time when home ownership is more within reach and incomes are rising, IKEA offers affordable, modern furniture to an emerging middle class clamoring to be *bai ling*, or white collar. It doesn't hurt either that the understated style is a satisfying departure from, say, the faux French imperial designs favored by the older nouveaux riches and gaudy hotels.

"Our values are changing," said Lizzy Hou, a university graduate who moved to Beijing in May from neighboring Hebei province for a teaching job. "We want to be modern. I think IKEA stands for a kind of lifestyle. People don't necessarily want to buy it, but they want to at least experience it."

Imagining the possibilities here is one of the reasons Bai Yalin drove an hour and a half from her apartment to spend a day at the store with her 7-year-old son and two teenage nieces. There are few other indoor spaces, she said, where she can entertain the children free on an oppressive summer afternoon. Bai mapped out a five-hour outing. First, they had hot dogs and soft ice cream cones at noon. Then they enjoyed a long rest lounging on the beds. Bai kicked off her sandals and sprawled out on a Tromso bunk bed. The 36-year-old homemaker made herself comfortable and even answered passing shoppers' questions about the quality of the mattress. "It's soft and a great buy at this price," she told a young woman, pointing to a dangling price tag. After that, Bai and her family took group pictures. By 5:00 p.m., it was time for another meal, so they headed to the cafeteria and ate braised mushrooms with rice.

Bai and her husband, a clerk at a heating company, have bought plates and cups at IKEA, but what they'd really like one day is to rid themselves of their clunky old Chinese furniture and bring on the do-it-yourself particleboard. "Today we didn't plan to buy anything, just eat and rest," Bai said.

Though frustrated, IKEA executives hope browsers like Luo will eventually turn into buyers. That's why they don't shoo anyone away for sleeping. It's the promise of China's middle class that has girded their investment here. The privately owned company operates seven stores in China, though there have been indications that profit remains elusive.

"The brand awareness is great, but the question is, how do we get people to open up their wallets and spend money?" said Linda Xu, a company spokeswoman who rolled her eyes when she came upon a trio of slumbering customers. When Walmart and the French supermarket chain Carrefour entered China in the 1990s, many flocked to the new stores just to look and touch. Now millions of Chinese shop there every day.

IKEA has the added challenge of copycats. Brazen customers are known to come in with carpenters armed with measuring tapes to make replicas. Zhang, the office manager visiting with his family, said he bought a TV table and a couch elsewhere that looked just like IKEA furniture. "Why spend so much money when you can have the same thing cheaper?" he said.

Sources: Meera Venkatraman and Teresa Nelson, "From Servicescape to Consumptionscape: A Photo-Elicitation Study of Starbucks in the New China," *Journal of International Business Studies* 39, no. 6 (2008), pp. 1010–26; David Pierson, "Beijing Loves IKEA—But Not for Shopping," *Los Angeles Times*, August 25, 2009, online. For more on this topic, see also Edwin J. Nijssen and Susan P. Douglas, "Consumer World-Mindedness, Social-Mindedness, and Store Image," *Journal of International Marketing* 16, no. 3 (2008), pp. 84–107.

Two visitors to Beijing's IKEA enjoy a nap on a display sofa.

If marketing goals are to be achieved, a product must be made accessible to the target market at an affordable price. Getting the product to the target market can be a costly process if inadequacies within the distribution structure cannot be overcome. Forging an aggressive and reliable channel of distribution may be the most critical and challenging task facing the international marketer. Moreover, some argue that meeting such challenges is a key catalyst to economic development.

Each market contains a distribution network with many channel choices whose structures are unique and, in the short run, fixed. In some markets, the distribution structure is multilayered, complex, inefficient, even strange, and often difficult for new marketers to penetrate; in others, there are few specialized middlemen except in major urban areas; and in yet others, there is a dynamic mixture of traditional and new, evolving distribution systems available on a global scale. Regardless of the predominating distribution structure, competitive advantage will reside with the marketer best able to build the most efficient channels from among the alternatives available. And as global trade continues to burgeon and physical distribution infrastructures lag, the challenges will be even greater in the 21st century.

This chapter discusses the basic points involved in making channel decisions: channel structures; distribution patterns; available alternative middlemen; factors affecting choice of channels; and locating, selecting, motivating, and terminating middlemen.

Channel-of-Distribution Structures

In every country and in every market, urban or rural, rich or poor, all consumer and industrial products eventually go through a distribution process. The **distribution process** includes the physical handling and distribution of goods, the passage of ownership (title), and—most important from the standpoint of marketing strategy—the buying and selling negotiations between producers and middlemen and between middlemen and customers.

A host of policy and strategic channel selection issues confronts the international marketing manager. These issues are not in themselves very different from those encountered in domestic distribution, but the resolution of the issues differs because of different channel alternatives and market patterns.

Each country market has a **distribution structure** through which goods pass from producer to user. Within this structure are a variety of middlemen whose customary functions, activities, and services reflect existing competition, market characteristics, tradition, and economic development.

In short, the behavior of channel members is the result of the interactions between the cultural environment and the marketing process. Channel structures range from those with little developed marketing infrastructure, such as those found in many emerging markets, to the highly complex, multilayered system found in Japan.

Import-Oriented Distribution Structure

LO1

The variety of distribution channels and how they affect cost and efficiency in marketing

Traditional channels in developing countries evolved from economies with a strong dependence on imported manufactured goods. In an *import-oriented* or *traditional distribution structure,* an importer controls a fixed supply of goods, and the marketing system develops around the philosophy of selling a limited supply of goods at high prices to a small number of affluent customers. In the resulting seller's market, market penetration and mass distribution are not necessary because demand exceeds supply, and in most cases, the customer seeks the supply from a limited number of middlemen.

This configuration affects the development of intermediaries and their functions. Distribution systems are local rather than national in scope, and the relationship between the importer and any middleman in the marketplace is considerably different from that found in a mass-marketing system. The idea of a channel as a chain of intermediaries performing specific activities and each selling to a smaller unit beneath it until the chain reaches the ultimate consumer is not common in an import-oriented system.

They're in China, but they aren't Peking ducks. The birds are for sale in Guangzhou's free market, the first farmers' market to be opened in China after the Cultural Revolution. This market was the place where free enterprise found its rebirth. Every kind of food is for sale here—from ducks to dogs, from scorpions to dried lizards on sticks.

Because the importer–wholesaler traditionally performs most marketing functions, independent agencies that provide advertising, marketing research, warehousing and storage, transportation, financing, and other facilitating functions found in a developed, mature marketing infrastructure are nonexistent or underdeveloped. Thus, few independent agencies to support a fully integrated distribution system develop.

Contrast this situation with the distribution philosophy of mass consumption that prevails in the United States and other industrialized nations. In these markets, one supplier does not dominate supply, supply can be increased or decreased within a given range, and profit maximization occurs at or near production capacity. Generally a buyer's market exists, and the producer strives to penetrate the market and push goods out to the consumer, resulting in a highly developed channel structure that includes a variety of intermediaries, many of which are unknown in developing markets.

As China develops economically, its market system and distribution structure are evolving as well.[1] As already discussed, economic development is uneven, and various parts of an economy may be at different stages of development. Channel structures in countries that have historically evolved from an import-oriented base will usually have vestiges of their

[1]Lutz Kaufman and Andreas Jentzsch, "Internationalization Processes: The Case of Automotive Suppliers in China," *Journal of International Marketing* 14 (2006), pp. 52–84.

beginnings reflected in a less than fully integrated system. At the other extreme is the Japanese distribution system with its multiple layers of specialized middlemen.

Japanese Distribution Structure

LO2

The Japanese distribution structure and what it means to Japanese customers and to competing importers of goods

Distribution in Japan has long been considered a most effective nontariff barrier to the Japanese market.[2] The market is becoming more open as many traditional modes of operation are eroding in the face of competition from foreign marketers and as Japanese consumers continue to focus on lower prices. But it still serves as an excellent case study for the pervasive impact culture plays on economic institutions such as national distribution systems. The Japanese distribution structure is different enough from its U.S. or European counterparts that it should be carefully studied by anyone contemplating entry. The Japanese system has four distinguishing features: (1) a structure dominated by many small middlemen dealing with many small retailers, (2) channel control by manufacturers, (3) a business philosophy shaped by a unique culture,[3] and (4) laws that protect the foundation of the system—the small retailer.

The density of middlemen, retailers, and wholesalers in the Japanese market is unparalleled in any Western industrialized country. The traditional Japanese structure serves consumers who make small, frequent purchases at small, conveniently located stores. An equal density of wholesalers supports the high density of small stores with small inventories. It is not unusual for consumer goods to go through three or four intermediaries before reaching the consumer—producer to primary, secondary, regional, and local wholesaler, and finally to retailer to consumer. Exhibit 15.1 illustrates the contrast between shorter U.S. channels (and larger stores) and the long Japanese channels.

While other countries have large numbers of small retail stores, the major difference between small stores (nine or fewer employees) in Japan and the United States is the percentage of total retail sales accounted for by small retailers. In Japan, small stores account for 59.1 percent of retail food sales; in the United States, small stores generate 35.7 percent of food sales. A disproportionate percentage of nonfood sales are made in small stores in Japan as well. Such differences are also reflected in Exhibit 15.1. Notice the Japanese emphases on "food/drink/tobacco specialists," "clothing and footwear retailers," and "other" small stores in both categories. Meanwhile, the American distribution system puts a greater emphasis on hypermarkets like Walmart and Target.

[2]For a detailed study on this subject, see Frank Alpert, Michael Kamins, Tokoaki Sakano, Naoto Onzo, and John L. Graham, "Retail Buyer Decision Making in Japan: What U.S. Sellers Need to Know," *International Business Review* 6, no. 2 (1997), pp. 91–104; Yoshinobu Sato, "Some Reasons Why Foreign Retailers Have Difficulties in Succeeding in the Japanese Market," *Journal of Global Marketing* 18, no. 1/2 (2004), pp. 21–44.

[3]Keysuk Kim and Changho Oh, "On Distributor Commitment in Marketing Channels for Industrial Products: Contrast between the United States and Japan," *Journal of International Marketing* 10, no. 1 (2002), pp. 72–97.

Exhibit 15.1
Retail Structure in Three Countries

Source: Euromonitor International, 2009.

	Retail Outlets (000s)		
	Germany	Japan	United States
Food Stores			
Supermarkets and discounters	13.7	17.0	23.5
Hypermarkets	1.7	0.006	3.8
Small grocers	37.0	92.5	179.6
Food/drink/tobacco specialists	36.2	147.5	78.8
Other grocery retailers	4.3	76.4	7.7
Nonfood Stores			
Mixed retailers	3.0	11.6	40.5
Health and beauty retailers	47.3	80.8	88.5
Clothing and footwear retailers	32.2	141.5	113.7
Home and garden specialists	23.4	48.1	151.4
Electronics and appliances	23.6	45.6	37.4
Leisure and personal goods retailers	53.8	49.3	152.8
Other non-grocery retailers	9.0	139.0	41.0

As we shall see in a subsequent section, profound changes in retailing are occurring in Japan. Although it is still accurate to describe the Japanese market as having a high density of middlemen, the number of small stores is declining as they are being replaced by larger discount and specialty stores. The number of retail stores is down more than 13 percent between 2004–2009, and the number of retail stores with a staff of four or fewer dropped more than 15 percent. These small stores serve an important role for Japanese consumers. High population density; the tradition of frequent trips to the store; an emphasis on service, freshness, and quality; and wholesalers who provide financial assistance, frequent deliveries of small lots, and other benefits combine to support the high number of small stores.

Manufacturers depend on wholesalers for a multitude of services to other members of the distribution network. Financing, physical distribution, warehousing, inventory, promotion, and payment collection are provided to other channel members by wholesalers. The system works because wholesalers and all other middlemen downstream are tied to manufacturers by a set of practices and incentives designed to ensure strong marketing support for their products and to exclude rival competitors from the channel. Wholesalers typically act as agent middlemen and extend the manufacturer's control through the channel to the retail level.

Coupled with the close economic ties and dependency created by trade customs and the long structure of Japanese distribution channels is a relationship-oriented business philosophy that emphasizes loyalty, harmony, and friendship. The value system supports long-term dealer–supplier relationships that are difficult to change as long as each party perceives economic advantage. The traditional partner, the insider, generally has the advantage.

A general lack of price competition, the provision of costly services, and other inefficiencies render the cost of Japanese consumer goods among the highest in the world. Indeed, when you just compare paychecks at current exchange rates (that is, GDP per capita), the Japanese make $38,443 compared to Americans at $46,716. However, if you take into consideration what those paychecks will buy [that is, GDP per capita at purchase price parity (PPP)], the American advantage grows as goods cost more in Japan and their purchasing power is equivalent to only $34,099.[4] Such prices create a perfect climate for discounting, which is beginning to be a major factor. The Japanese consumer contributes to the continuation of the traditional nature of the distribution system through frequent buying trips, small purchases, favoring personal service over price, and a proclivity for loyalty to brands perceived to be of high quality. Additionally, Japanese law gives the small retailer enormous advantage over the development of larger stores and competition. All these factors have supported the continued viability of small stores and the established system, though changing attitudes among many Japanese consumers are beginning to weaken the hold traditional retailing has on the market.

Competition from large retail stores had been almost totally controlled by *Daitenho*—the **Large-Scale Retail Store Law** (and its more recent incarnations). Designed to protect small retailers from large intruders into their markets, the law required that any store larger than 5,382 square feet (500 square meters) must have approval from the prefecture government to be "built, expanded, stay open later in the evening, or change the days of the month they must remain closed." All proposals for new "large" stores were first judged by the Ministry of International Trade and Industry (MITI). Then, if all local retailers *unanimously* agreed to the plan, it was swiftly approved. However, without approval at the prefecture level, the plan was returned for clarification and modification, a process that could take several years (10 years was not unheard of) for approval.

The U.S. government's Structural Impediments Initiative, deregulation, and most recently Walmart are causing changes in Japanese distribution practices. Ultimately, however, only local merchants challenging the traditional ways by giving the consumer quality products at competitive, fair prices can bring about the demise of the traditional distribution system. Specialty discounters are sprouting up everywhere, and entrepreneurs are slashing prices by buying direct and avoiding the distribution system altogether. For example,

[4]Constant 2000 international dollars; World Development Indicators, World Bank, 2008.

CROSSING BORDERS 15.1 Big-Box Cookie-Cutter Stores Don't Always Work

Walmart, JCPenney, Office Depot, and Starbucks are all going global with their successful U.S. operating strategies. However, adaptation is still important, and many have had to adapt their operating strategy to accommodate cultural and business differences. Growth strategies must be supported by three foundations: (1) The retailer must offer a competitively superior assortment of products as defined by local customers, (2) the retailer must be able to develop superior economies across the value chain that delivers the product to the local consumer, and (3) global retailers must be able to execute in the local environment.

Consider, for example, some of the problems U.S. retailers have had when building their global strategies on these three pillars.

- In fashion and clothing markets, personal taste is critical in the buying decision. Distinctions in culture, climate, and even physiology demand that products be tailored to each market. Tight skirts, blouses, and any other article that tightly hugs the female silhouette are sure sellers in southern Europe and are sure losers in the north. Dutch women bicycle to work, so tight skirts are out. French men insist that trousers be suitable for cuffs; German men cannot be bothered with cuffs. Rayon and other artificial fabrics are impossible to sell in Germany, but next door in Holland, artificial fabrics are popular because they are much cheaper.
- The best-selling children's lines in northern Europe don't have a significant following in France; the French dress their children as little adults, not as kids. One of the best sellers is a downsized version of a women's clothing line for girls.
- Operational costs vary too. Costs in the United States, where the minimum wage is $7.75 per hour, are dramatically different than in France, where the minimum wage is over $10.00, including employer social charges. As a consequence, Toys "R" Us has been forced to adapt its operating structure in France, where it uses one-third fewer employees per store than it does in the United States.
- The image of Sam Walton's English setter on packages of its private-label dog food, Ol' Roy, was replaced with a terrier after Wal-Mart's German executives explained that terriers are popular in Germany, while setters aren't familiar.
- Office Depot closed its U.S.-style cookie-cutter stores in Japan and reopened stores one-third the size of the larger ones. Customers were put off by the warehouselike atmosphere and confused by the English-language signs. The new stores have signs in Japanese and are stocked with office products more familiar to Japanese and purchased locally, such as two-ring loose-leaf binders rather than the typical three-ring binders sold in the United States.
- The world's two largest retailers have recently pulled out of unprofitable markets—Walmart left both Germany and South Korea, and Carrefour closed its operations in southern Italy.

Sources: Ernest Beck and Emily Nelson, "As Wal-Mart Invades Europe, Rivals Rush to Match Its Formula," The Wall Street Journal, October 6, 1999; Amy Chozick, "Foof Revives Starbucks Japan," The Wall Street Journal Asia, October 24, 2006, p. 19; Miguel Bustillo, "New Chief at Wal-Mart Looks abroad for Growth," The Wall Street Journal, February 2, 2009, online.

Trends: From Traditional to Modern Channel Structures

Journal of Marketing Research

Journal of Global Marketing

changing.[6] Pressures for change in a country come from within and without. Multinational marketers are seeking ways to profitably tap market segments that currently are served by costly, traditional distribution systems. In India, the familiar clutter of traditional retailers is fast giving way to the wide aisles of new local and foreign supermarkets. In the United Kingdom Tesco is moving into retail banking in its stores,[7] and Anthropologie is testing the waters there as well.[8] As Carrefour's profits dip in Europe, it is importing new concepts from its hypermarkets in Brazil, such as a reduced number of SKUs.[9] Direct marketing, door-to-door selling, hypermarkets, discount houses, shopping malls, catalog selling, the Internet, and other distribution methods are being introduced in an attempt to provide efficient distribution channels. Importers and retailers also are becoming more involved in new product development;[10] for example, the Mexican appliance and electronics giant Grupo Elektra has formed an alliance with Beijing Automobile Works Group to develop and build low-cost cars for Mexico and export markets.

Some important trends in distribution will eventually lead to greater commonality than disparity among middlemen in different countries. Walmart, for example, is expanding all over the world—from Mexico to Brazil and from Europe to Asia.[11] The only major disappointment for the American juggernaut has been its lack of scale and profits in South Korea; in 2006 the firm sold its five stores there.[12] Avon is expanding into eastern Europe; Mary Kay Cosmetics and Amway into China; and L.L. Bean and Lands' End have successfully entered the Japanese market. The effect of all these intrusions into the traditional distribution systems is change that will make discounting, self-service, supermarkets, mass merchandising, and e-commerce concepts common all over the world, elevating the competitive climate to a level not known before.

As U.S. retailers have invaded Europe, staid, nationally based retailers have been merging with former competitors and companies from other countries to form Europewide enterprises.[13] Carrefour, a French global marketer, merged with Promodes, one of its fierce French competitors, to create, in the words of its CEO, "a worldwide retail leader." The U.K. supermarket giant Sainsbury has entered an alliance with Esselunga of Italy (supermarkets), Docks de France (hypermarkets, supermarkets, and discount stores), and Belgium's Delhaize (supermarkets). The alliance provides the four companies the opportunity to pool their experience and buying power to better face growing competition and opportunity afforded by the single European market and the euro.

While European retailers see a unified Europe as an opportunity for pan-European expansion, foreign retailers are attracted by the high margins and prices. Costco, the U.S.-based warehouse retailer, saw the high gross margins that British supermarkets command (7 to 8 percent compared with 2.5 to 3 percent in the United States) as an opportunity. Costco prices will initially be 10 to 20 percent cheaper than rival local retailers.

Expansion outside the home country, as well as new types of retailing, is occurring throughout Europe. El Corte Inglés, Spain's largest department store chain, not only is

[6]Suk-Ching Ho, "Evolution versus Tradition in Marketing Systems: The Hong Kong Food Retailing Experience," *Journal of Public Policy & Marketing* 24, no. 1 (2005), pp. 90–99; Ellyn Byron, "P&G's Global Target: Shelves of Tiny Stores," *The Wall Street Journal*, July 16, 2007, pp. A1, A10; Bruce Einhorn and Wing-Gar Cheng, "China: Where Retail Dinosaurs Are Thriving, *Bloomberg BusinessWeek*, February 1 & 8, 2010, p. 64.

[7]Kerry Capell, "Eggs, Bread, Milk—and a Mortgage," *Bloomberg BusinessWeek*, March 1, 2010, p. 20.

[8]Michael Arndt, "Urban Outfitters' Grow-Slow Strategy," *Bloomberg BusinessWeek*, March 1, 2010, p. 56.

[9]Christina Passariello, "Carrefour Net Drops Amid Overhaul Effort," *The Wall Street* Journal, February 19, 2010, online.

[10]Goksel Yalcinkaya, Roger J. Calantone, and David A. Griffith, "An Examination of Exploration Capabilities: Implications for Product Innovation and Market Performance," *Journal of International Marketing* 15 (2007), pp. 63–93.

[11]Anand Giridharadas, "Megastores Gaze Longingly at India," *International Herald Tribune*, April 2–3, 2005, pp. 13, 15.

[12]"Wal-Mart Exits Korean Market," *Los Angeles Times*, May 23, 2006, p. C3.

[13]John Dawson, "New Cultures, New Strategies, New Formats, and New Relationships in European Retailing: Some Implications for Asia," *Journal of Global Marketing* 18, no. 1/2 (2004), pp. 73–98.

moving into Portugal and other European countries but also was one of the first retailers to offer a virtual supermarket on the Internet (www.elcorteingles.es) and to sponsor two 24-hour home shopping channels in Spain. Increasingly smaller retailers are also expanding overseas.[14] Another Spanish retailer, Mango, opened a store in New York City and, along with other European competitors, was taking advantage of low costs of operation in the United States at the time associated with the sinking dollar.[15]

One of Walmart's strengths is its internal Internet-based system, which makes its transactions with suppliers highly efficient and lowers its cost of operations. Indeed, it is buying ailing retailers around the world with the intention of "saving them" with its distribution technologies. This same type of system is available on the Internet for both business-to-business and business-to-consumer transactions. For example, General Motors, Ford Motor Company, and DaimlerChrysler have created a single online site called Covisint (www.covisint.com) for purchasing automotive parts from suppliers, which is expected to save the companies millions of dollars. A typical purchase order costs Ford $150, whereas a real-time order via Covisint will cost about $15. Sears Roebuck and Carrefour of France have created GlobalNetXchange (www.gnx.com), a retail exchange that allows retailers and their suppliers to conduct transactions online. Any company with a Web browser can access the exchange to buy, sell, trade, or auction goods and services. Described as "one of the most dramatic changes in consumer-products distribution of the decade," the exchange is expected to lower costs for both buyer and supplier. As more such exchanges evolve, one can only speculate about the impact on traditional channel middlemen.

We have already seen the impact on traditional retailing within the last few years caused by e-commerce retailers such as Amazon.com, Dell Computer, eBay, and others—all of which are expanding globally. Most brick-and-mortar retailers are experimenting with or have fully developed Web sites, some of which are merely extensions of their regular stores, allowing them to extend their reach globally. L.L. Bean, Eddie Bauer, and Lands' End are examples.

One of the most challenging aspects of Web sales is delivery of goods. One of the innovative features of the 7dream program at 7-Eleven stores in Japan is the use of convenience stores for pick-up points for Web orders. It has worked so well in Japan that Ito-Yokado Corporation, owner of 7-Eleven Japan and 72 percent of the U.S. chain, is exporting the idea to U.S. stores. In the Dallas–Fort Worth area, 250 stores have installed ATM-like machines tied into a delivery and payment system that promises to make 7-Eleven stores a

[14]Karise Hutchinson, Nicholas Alexander, Barry Quinn, and Anne Marie Doherty, "Internationalization Motives and Facilitating Factors: Qualitative Evidence from Smaller Specialists Retailers," *Journal of International Marketing* 15 (2007), pp. 96–122.

[15]J. Alex Tarquinio, "Foreign Shops Invade New York," *International Herald Tribune*, January 30, 2008, pp. 9, 10.

Now that Russians can own their homes, they're spending fast in home improvement stores like this one in St. Petersburg. In English it would be called "Super Home."

depot for e-commerce. FedEx, UPS, and other package delivery services that have been the backbone of e-commerce delivery in the United States are offering similar services for foreign customers of U.S. e-commerce companies, as well as for foreign-based ones. When goods cross borders, UPS and others offer seamless shipments, including customs and brokerage. Most of these service companies are established in Europe and Japan and are building networks in Latin America and China.

The impact of these and other trends will change traditional distribution and marketing systems. While this latest retailing revolution remains in flux, new retailing and middlemen systems will be invented, and established companies will experiment, seeking ways to maintain their competitive edge. Moreover, it is becoming more dangerous to think of competitors in terms of individual companies—in international business generally, and distribution systems particularly, a networks perspective is increasingly required. That is, firms must be understood in the context of the commercial networks of which they are a part.[16] These changes will resonate throughout the distribution chain before new concepts are established and the system stabilizes. Not since the upheaval that occurred in U.S. distribution after World War II that ultimately led to the Big-Box type of retailer has there been such potential for change in distribution systems. This time, however, such change will not be limited mostly to the United States—it will be worldwide.

Distribution Patterns

LO3

How distribution patterns affect the various aspects of international marketing

Even though patterns of distribution are in a state of change and new patterns are developing, international marketers need a general awareness of the traditional distribution base. The "traditional" system will not change overnight, and vestiges of it will remain for years to come. Nearly every international firm is forced by the structure of the market to use at least some middlemen in the distribution arrangement. It is all too easy to conclude that, because the structural arrangements of foreign and domestic distribution seem alike, foreign channels are the same as or similar to domestic channels of the same name. Only when the varied intricacies of actual distribution patterns are understood can the complexity of the distribution task be appreciated. The following description of differences in retailing should convey a sense of the variety of distribution patterns in general, including wholesalers.

[16]Mats Forsgren, Ulf Holm, and Jan Johanson, *Managing the Embedded Multinational: A Business Network View* (Northampton, MA: Edward Elgar, 2005); see also the associated book review by Charles Dhanarah, *Journal of International Business Studies* 38 (2007), pp. 1231–33.

PEMEX (Petróleos Mexicanos), the Mexican national oil company, will not let foreign firms distribute there. However, in Malaysia, a Mobil station sits right across the boulevard from a government-owned PETRONAS (Petroliam Nasional) station.

Retail Patterns

Retailing shows even greater diversity in its structure than does wholesaling. In Italy and Morocco, retailing is composed largely of specialty houses that carry narrow lines, whereas in Finland, most retailers carry a more general line of merchandise. Retail size is represented at one end by Japan's giant department store Mitsukoshi, which reportedly enjoys the patronage of more than 100,000 customers every day, and at the other extreme by the market of Ibadan, Nigeria, where some 3,000 one- or two-person stalls serve not many more customers. Some manufacturers sell directly to consumers through company-owned stores such as Cartier and Disney, and some sell through a half-dozen layers of middlemen.

Size Patterns. The extremes in size in retailing are similar to those that predominate in wholesaling. Exhibit 15.2 dramatically illustrates some of the variations in size and number of retailers per person that exist in some countries. The retail structure and the problems it engenders cause real difficulties for the international marketing firm selling consumer goods. Large dominant retailers can be sold to directly, but there is no adequate way to reach small retailers who, in the aggregate, handle a great volume of sales.[17] In Italy, official figures show there are 931,000 retail stores, or one store for every 63 Italians. Of the 269,000 food stores, fewer than 10,000 can be classified as large. Thus, retailers are a critical factor in adequate distribution in Italy.

Underdeveloped countries present similar problems. Among the large supermarket chains in South Africa, there is considerable concentration. Of the country's 31,000 stores, 1,000 control 60 percent of all grocery sales, leaving the remaining 40 percent of sales to be spread among 30,000 stores. To reach the 40 percent of the market served by those 30,000 stores may be difficult. In black communities in particular, retailing is on a small scale—cigarettes are often sold singly, and the entire fruit inventory may consist of four apples in a bowl.

Retailing around the world has been in a state of active ferment for several years. The rate of change appears to be directly related to the stage and speed of economic development, and even the least developed countries are experiencing dramatic changes. Supermarkets of one variety or another are blossoming in developed and underdeveloped countries alike. Discount houses that sell everything from powdered milk and canned chili to Korean TVs and DVD players are thriving and expanding worldwide.

Direct Marketing. Selling directly to the consumer through mail, by telephone, or door-to-door is often the approach of choice in markets with insufficient or underdeveloped distribution systems. The approach, of course, also works well in the most affluent markets. Amway, operating in 42 foreign countries, has successfully expanded into Latin America and Asia with its method of direct marketing. Companies that enlist individuals to sell their products are proving to be especially popular in eastern Europe and other countries where many people are looking for ways to become entrepreneurs. In the Czech Republic, for example, Amway Corporation signed up 25,000 Czechs as distributors and sold 40,000 starter kits at $83 each in its first two weeks of business. Avon is another American company that is expanding dramatically overseas.

[17]Tomasz Lenartowicz and Sridhar Balasubramanian, "Practices and Performance of Small Retail Stores in Developing Economies," *Journal of International Marketing* 17 (2009), pp. 59–90.

Exhibit 15.2
Retail Structure in Selected Countries

Source: Euromonitor International, 2009.

Country	All Retailers (000)	People Served per Retailer	Internet Users (per 1,000)
United States	921	333	741
Canada	161	208	769
Argentina	429	94	309
Germany	300	270	785
Russia	470	303	285
Israel	48	154	306
South Africa	117	417	88
China	4,817	278	283
Japan	849	149	724
Australia	84	256	734

CROSSING BORDERS 15.2 It Depends on What "Not Satisfied" Means

Amway's policy is that dissatisfied customers can get a full refund at any time, no questions asked—even if the returned bottles are empty. This refund policy is a courtesy to customers and a testament that the company stands behind its products, and it is the same all over the world. But such capitalistic concepts are somewhat unfamiliar in China.

The best game in town for months among the rising ranks of Shanghai's entrepreneurs was an $84 investment for a box of soaps and cosmetics that they could sell as Amway distributors. Word of this no-lose proposition quickly spread, with some people repackaging the soap, selling it, and then turning in the containers for a refund. Others dispensed with selling altogether and scoured garbage bins instead, showing up at Amway's Shanghai offices with bags full of bottles to be redeemed.

One salesman got nearly $10,000 for eight sacks full of all kinds of empty Amway containers. And at least one barbershop started using Amway shampoos for free and returning each empty bottle for a full refund. In a few weeks, refunds were totaling more than $100,000 a day. "Perhaps we were too lenient," said Amway's Shanghai chief. Amway changed the policy, only to have hundreds of angry Amway distributors descend on the company's offices to complain that they were cheated out of their money. Amway had to call a press conference to explain that it wasn't changing its refund policy, simply raising the standard for what is deemed dissatisfaction. If someone returns half a bottle, fine, but for empties, Amway announced it would check records to see if the person had a pattern of return.

But the company did not anticipate the unusual sense of entitlement it had engendered in China. The satisfaction-guaranteed policy did not spell out specifically what dissatisfaction meant, something people in the Western world understood. "We thought that it would be understood here, too." The change in policy left some dissatisfied. One distributor protested, "Don't open a company if you can't afford losses." Despite these initial problems, Amway apparently is learning the market—the company doubled its sales last year in China to $2 billion. And other direct marketers are also finding similar success in China.

Sources: Craig S. Smith, "Distribution Remains the Key Problem for Market Makers," Business China, May 13, 1996, p. 4; "In China, Some Distributors Have Really Cleaned Up with Amway," The Wall Street Journal, August 4, 1997, p. B1; "Avon Forays into Healthcare Sector via Direct Sales," SinoCast China Business Daily News, January 14, 2008, p. 1; David Barboza, "Direct Selling Flourishes in China, Providing Jobs and Igniting Criticism," The New York Times, December 26, 2009, pp. B1, B5.

Direct sales through catalogs have proved to be a successful way to enter foreign markets. In Japan, it has been an important way to break the trade barrier imposed by the Japanese distribution system. For example, a U.S. mail-order company, Shop America, teamed up with 7-Eleven Japan to distribute catalogs in its 4,000 stores. Shop America sells items such as compact discs, Canon cameras, and Rolex watches for 30 to 50 percent less than Tokyo stores; a Canon Autoboy camera sells for $260 in Tokyo and $180 in the Shop America catalog.

Many catalog companies are finding they need to open telephone service centers in a country to accommodate customers who have questions or problems. Hanna Andersson (the children's clothing manufacturer), for example, received complaints that it was too difficult to get questions answered and to place orders by telephone, so it opened a service center with 24 telephone operators to assist customers who generate over $5 million in sales annually. Many catalog companies also have active Web sites that augment their catalog sales.

Resistance to Change. Efforts to improve the efficiency of the distribution system, new types of middlemen, and other attempts to change traditional ways are typically viewed as threatening and are thus resisted. A classic example is the restructuring of the film distribution business being caused by the fast changing technologies of digitization and piracy. Laws abound that protect the entrenched in their positions. In Italy, a new retail outlet must obtain a license from a municipal board composed of local tradespeople. In a two-year period, some 200 applications were made and only 10 new licenses granted. Opposition to retail innovation is everywhere, yet in the face of all the restrictions and hindrances, self-service, discount merchandising, liberal store hours, and large-scale merchandising continue to grow because they offer the consumer convenience and a broad range of quality product brands at advantageous prices. Ultimately the consumer does prevail.

Alternative Middleman Choices

LO4

The functions, advantages, and disadvantages of various kinds of middlemen

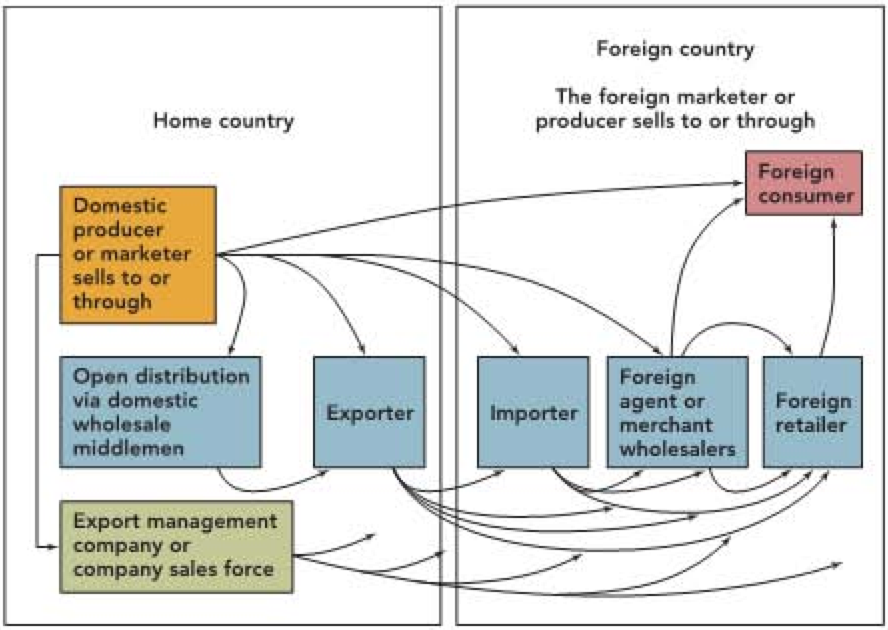
A marketer's options range from assuming the entire distribution activity (by establishing its own subsidiaries and marketing directly to the end user) to depending on intermediaries for distribution of the product. Channel selection must be given considerable thought, because once initiated, it is difficult to change, and if it proves inappropriate, future growth of market share may be affected.

The channel process includes all activities, beginning with the manufacturer and ending with the final consumer. This inclusion means the seller must exert influence over two sets of channels: one in the home country and one in the foreign-market country. Exhibit 15.3 shows some of the possible channel-of-distribution alternatives. The arrows show those to whom the producer and each of the middlemen might sell. In the home country, the seller must have an organization (generally the international marketing division of a company) to deal with channel members needed to move goods between countries. In the foreign market, the seller must supervise the channels that supply the product to the end user. Ideally, the company wants to control or be directly involved in the process through the various channel members to the final user. To do less may result in unsatisfactory distribution and the failure of marketing objectives. In practice, however, such involvement throughout the channel process is not always practical or cost effective. Consequently, selection of channel members and effective controls are high priorities in establishing the distribution process.

Once the marketer has clarified company objectives and policies, the next step is the selection of specific intermediaries needed to develop a channel. External middlemen are differentiated according to whether or not they take title to the goods: **Agent middlemen** work on commission and arrange for sales in the foreign country but do not take title to the merchandise. By using agents, the manufacturer assumes trading risk but maintains the right to establish policy guidelines and prices and to require its agents to provide sales records and customer information. **Merchant middlemen** actually take title to manufacturers' goods and assume the trading risks, so they tend to be less controllable than agent middlemen. Merchant middlemen provide a variety of import and export wholesaling functions involved in purchasing for their own account and selling in other countries. Because merchant middlemen primarily are concerned with sales and profit margins on their merchandise, they are frequently criticized for not representing the best interests of a manufacturer. Unless they have a franchise or a strong and profitable brand, merchant middlemen seek goods from any source and are likely to have low brand loyalty. Ease of contact, minimized credit risk, and elimination

Exhibit 15.3

International Channel-of-Distribution Alternatives



of all merchandise handling outside the United States are some of the advantages of using merchant middlemen.

Middlemen are not clear-cut, precise, easily defined entities. A firm that represents one of the pure types identified here is rare. Thus, intimate knowledge of middlemen functions is especially important in international activity because misleading titles can fool a marketer unable to look beyond mere names. What are the functions of a British middleman called a stockist, or one called an exporter or importer? One exporter may, in fact, be an agent middleman, whereas another is a merchant. Many, if not most, international middlemen wear several hats and can be clearly identified only in the context of their relationship with a specific firm.

Only by analyzing middlemen functions in skeletal simplicity can the nature of the channels be determined. Three alternatives are presented: first, middlemen physically located in the manufacturer's home country; next, middlemen located in foreign countries; and finally, government-affiliated middlemen.

Home-Country Middlemen

Home-country middlemen, or *domestic middlemen*, located in the producing firm's country, provide marketing services from a domestic base. By selecting domestic middlemen as intermediaries in the distribution processes, companies relegate foreign-market distribution to others. Domestic middlemen offer many advantages for companies with small international sales volume, those inexperienced with foreign markets, those not wanting to become immediately involved with the complexities of international marketing, and those wanting to sell abroad with minimal financial and management commitment. A major trade-off when using home-country middlemen is limited control over the entire process. Domestic middlemen are most likely to be used when the marketer is uncertain or desires to minimize financial and management investment. A brief discussion of the more frequently used types of domestic middlemen follows.

Remember for a moment the scene in the Pixar movie Monsters, Inc.—millions of doors on conveyor belts. That scene is reminiscent of the inside of the Nike's European distribution center in Laakdal, Belgium. The shoes come from a variety of Asian low-cost manufacturers and arrive at the center via Rotterdam and Antwerp and the adjacent canal. Twelve hundred people work at the heavily automated facility where 8 million pairs of shoes are sorted and then shipped to customers all over the continent via truck. Even as sales grow, the company will not need to expand the center, because the trend is for the factories to ship directly to the major European retailers, including the Nike Sport in St. Petersburg pictured in Chapter 10.

Manufacturers' Retail Stores. An important channel of distribution for a large number of manufacturers is the owned, or perhaps franchised, retail store. Disney, Benetton, and many of the classic Italian luxury goods makers take this approach.

Global Retailers. As global retailers like IKEA, Costco, Sears Roebuck, Toys "R" Us, and Walmart expand their global coverage, they are becoming major domestic middlemen for international markets. Walmart, with more than 8,000 stores in 14 foreign markets, is an attractive entry point to international markets for U.S. suppliers. Walmart offers an effective way to enter international markets with a minimum of experience. For example, Pacific Connections, a California manufacturer of handbags with $70 million in sales, ventured into overseas markets in Argentina, Brazil, Canada, and Mexico through its ties to Walmart. And as trade restrictions are eased through alliances such as NAFTA, new global retailers are being created—Gigante from Mexico is a good example of this trend.

Export Management Companies. The **export management company (EMC)** is an important middleman for firms with relatively small international volume or those unwilling to involve their own personnel in the international function. These EMCs range in size from 1 person upward to 100 and handle about 10 percent of the manufactured goods exported. An example of an EMC is a Washington, D.C.–based company that has exclusive agreements with 10 U.S. manufacturers of orthopedic equipment and markets these products on a worldwide basis.

Typically, the EMC becomes an integral part of the marketing operations of its client companies. Working under the names of the manufacturers, the EMC functions as a

Exhibit 15.4
How Does an EMC Operate?

Most export management companies offer a wide range of services and assistance, including the following:

Researching foreign markets for a client's products. Traveling overseas to determine the best method of distributing the product. Appointing distributors or commission representatives as needed in individual foreign countries, frequently within an already existing overseas network created for similar goods. Exhibiting the client's products at international trade shows, such as U.S. Department of Commerce–sponsored commercial exhibitions at trade fairs and U.S. Export Development Offices around the world.

Handling the routine details in getting the product to the foreign customer—export declarations, shipping and customs documentation, insurance, banking, and instructions for special export packing and marking.

Granting the customary finance terms to the trade abroad and ensuring payment to the manufacturer of the product.

Preparing advertising and sales literature in cooperation with the manufacturer and adapting it to overseas requirements for use in personal contacts with foreign buyers.

Corresponding in the necessary foreign languages.

Making sure that goods being shipped are suitable for local conditions and meet overseas legal and trade norms, including labeling, packaging, purity, and electrical characteristics. Advising on overseas patent and trademark protection requirements.

Source: "The Export Management Company," U.S. Department of Commerce, Washington, DC.

low-cost, independent marketing department with direct responsibility to the parent firm. The working relationship is so close that customers are often unaware they are not dealing directly with the export department of the company (see Exhibit 15.4).

The export management company may take full or partial responsibility for promotion of the goods, credit arrangements, physical handling, market research, and information on financial, patent, and licensing matters. An EMC's specialization in a given field often enables it to offer a level of service that could not be attained by the manufacturer without years of groundwork. Traditionally, the EMC works on commission, though an increasing number are buying products on their own account.

Two of the chief advantages of EMCs are minimum investment on the part of the company to get into international markets, and no commitment of company personnel or major expenditure of managerial effort. The result, in effect, is an extension of the market for the firm with negligible financial or personnel commitments.

The major disadvantage is that EMCs seldom can afford to make the kind of market investment needed to establish deep distribution for products because they must have immediate sales payout to survive. Such a situation does not offer the market advantages gained by a company that can afford to use company personnel. Carefully selected EMCs can do an excellent job, but the manufacturer must remember that the EMC is dependent on sales volume for compensation and probably will not push the manufacturer's line if it is spread too thinly, generates too small a volume from a given principal, or cannot operate profitably in the short run. In such cases, the EMC becomes an order taker and not the desired substitute for an international marketing department.

Trading Companies. Trading companies have a long and honorable history as important intermediaries in the development of trade between nations. **Trading companies** accumulate, transport, and distribute goods from many countries. In concept, the trading company has changed little in hundreds of years.

The British firm Gray MacKenzie and Company is typical of companies operating in the Middle East. It has some 70 salespeople and handles consumer products ranging from toiletries to outboard motors and Scotch whiskey. The key advantage to this type of trading company is that it covers the entire Middle East.

Large, established trading companies generally are located in developed countries; they sell manufactured goods to developing countries and buy raw materials and unprocessed goods. Japanese trading companies (*sogo shosha*) date back to the early 1700s and operate both as importers and exporters. Some 300 are engaged in foreign and domestic trade through 2,000 branch offices outside Japan and handle over $1 trillion in trading volume annually. Japanese trading companies account for 61 percent of all Japanese imports and 39 percent of all exports, or about one-fifth of Japan's entire GDP.

For companies seeking entrance into the complicated Japanese distribution system, the Japanese trading company offers one of the easiest routes to success. The omnipresent trading companies virtually control distribution through all levels of channels in Japan. Because trading companies may control many of the distributors and maintain broad distribution channels, they provide the best means for intensive coverage of the market.

U.S. Export Trading Companies. The **Export Trading Company (ETC)** Act allows producers of similar products to form export trading companies. A major goal of the ETC Act was to increase U.S. exports by encouraging more efficient export trade services to producers and suppliers to improve the availability of trade finance and to remove antitrust disincentives to export activities. By providing U.S. businesses with an opportunity to obtain antitrust preclearance for specified export activities, the ETC Act created a more favorable environment for the formation of joint export ventures. Through such joint ventures, U.S. firms can take advantage of economies of scale, spread risk, and pool their expertise. In addition, through joint selling arrangements, domestic competitors can avoid interfirm rivalry in foreign markets. Prior to the passage of the ETC Act, competing companies could not engage in joint exporting efforts without possible violation of antitrust provisions. The other important provision of the ETC Act permits bank holding companies to own ETCs.

Immediately after passage of the ETC Act, several major companies (General Electric, Sears Roebuck, Kmart, and others) announced the development of export trading companies. In most cases, these export firms did not require the protection of the ETC Act since they initially operated independently of other enterprises. They provided international sales for U.S. companies to a limited extent, but primarily they operated as trading companies for their own products. To date, many of the trading companies (particularly the bank-owned ones) established after passage of the ETC Act have closed their doors or are languishing.

Complementary Marketers. Companies with marketing facilities or contacts in different countries with excess distribution capacity or a desire for a broader product line sometimes take on additional lines for international distribution; though the formal name for such activities is **complementary marketing**, it is commonly called *piggybacking*. General Electric Company has been distributing merchandise from other suppliers for many years. It accepts products that are noncompetitive but complementary and that add to the basic distribution strength of the company itself. The classic example was Gillette distributing batteries in less developed countries, years before Gillette bought Duracell.

Most piggyback arrangements are undertaken when a firm wants to fill out its product line or keep its seasonal distribution channels functioning throughout the year. Companies may work either on an agency or merchant basis, but the greatest volume of piggyback business is handled on an ownership (merchant) purchase-and-resale arrangement. The selection process for new products for piggyback distribution determines whether (1) the product relates to the product line and contributes to it, (2) the product fits the sales and distribution channel presently employed, (3) the margin is adequate to make the undertaking worthwhile, and (4) the product will find market acceptance and profitable volume. If these requirements are met, piggybacking can be a logical way of increasing volume and profit for both the carrier and the piggybacker.

Manufacturer's Export Agent. The *manufacturer's export agent* (*MEA*) is an individual agent middleman or an agent middleman firm providing a selling service for

Recall that the Japanese are the world-champion fish consumers at nearly 40 kg per person per year—see Exhibit 4.2. Consequently, just as world prices for cut flowers are set at the Aalsmeer Flower Auction in the Netherlands, world prices for fish are set at the Tsukigi fish market in Tokyo. A big fresh bluefin tuna caught in the Atlantic, iced and shipped by air to Tokyo, can bring as much as \$220,000[18] at auction, and then be shipped by air back to Boston for hungry sushi consumers. Perhaps the market is "too efficient," as the world now faces a shortage of such tuna.

manufacturers. Unlike the EMC, the MEA does not serve as the producer's export department but has a short-term relationship, covers only one or two markets, and operates on a straight commission basis. Another principal difference is that MEAs do business in their own names rather than in the name of the client. Within a limited scope of operation, the MEAs provide services similar to those of the EMC.

Webb-Pomerene Export Associations. *Webb-Pomerene export associations* (*WPEAs*) are another major form of group exporting. The Webb-Pomerene Act of 1918 allowed American business firms to join forces in export activities without being subject to the Sherman Antitrust Act. Thus, WPEAs cannot participate in cartels or other international agreements that would reduce competition in the United States, but they can offer four major benefits: (1) reduction of export costs, (2) demand expansion through promotion, (3) trade barrier reductions, and (4) improvement of trade terms through bilateral bargaining. Additionally, WPEAs set prices, standardize products, and arrange for disposal of surplus products. Although they account for less than 5 percent of U.S. exports, WPEAs include some of America's blue-chip companies in agricultural products, chemicals and raw materials, forest products, pulp and paper, textiles, rubber products, motion pictures, and television.

Foreign Sales Corporation. A *foreign sales corporation* (*FSC*) is a sales corporation set up in a foreign country or U.S. possession that can obtain a corporate tax exemption on a portion of the earnings generated by the sale or lease of export property. Manufacturers and export groups can form FSCs. An FSC can function as a principal, buying and selling for its own account, or a commissioned agent. It can be related to a manufacturing parent or can be an independent merchant or broker. The WTO in 2003 ruled FSCs to be in violation of international trade rules, thus starting a major trade dispute with the European Union that still simmers and occasionally sizzles.

Foreign-Country Middlemen

The variety of agent and merchant middlemen in most countries is similar to that in the United States. International marketers seeking greater control over the distribution process may elect to deal directly with middlemen in the foreign market. They gain the advantage of shorter channels and deal with middlemen in constant contact with the market.

Using foreign-country middlemen moves the manufacturer closer to the market and involves the company more closely with problems of language, physical distribution, communications, and financing. Foreign middlemen may be agents or merchants, they may be associated with the parent company to varying degrees, or they may be hired temporarily for special purposes. Some of the more important foreign-country middlemen are manufacturer's representatives and foreign distributors.

Government-Affiliated Middlemen

Marketers must deal with governments in every country of the world. Products, services, and commodities for the government's own use are always procured through government purchasing offices at federal, regional, and local levels. In the Netherlands, the

[18] "Giant Tuna Fetches \$177,000 at Japanese Auction," *Associated Press*, January 5, 2010, online.

state's purchasing office deals with more than 10,000 suppliers in 20 countries. About one-third of the products purchased by that agency are produced outside the Netherlands. Finally, regarding the efficiency of the public sector versus the private sector, an important lesson was learned during the 2005 Hurricane Katrina disaster—Walmart planned for and delivered aid better than FEMA (the U.S Federal Emergency Management Agency).

Factors Affecting Choice of Channels

The international marketer needs a clear understanding of market characteristics and must have established operating policies before beginning the selection of channel middlemen. The following points should be addressed prior to the selection process:

1. Identify specific target markets within and across countries.
2. Specify marketing goals in terms of volume, market share, and profit margin requirements.
3. Specify financial and personnel commitments to the development of international distribution.
4. Identify control, length of channels, terms of sale, and channel ownership.

Once these points are established, selecting among alternative middlemen choices to forge the best channel can begin. Marketers must get their goods into the hands of consumers and must choose between handling all distribution or turning part or all of it over to various middlemen. Distribution channels vary depending on target market size, competition, and available distribution intermediaries.

Key elements in distribution decisions include the functions performed by middlemen (and the effectiveness with which each is performed), the cost of their services, their availability, and the extent of control that the manufacturer can exert over middlemen activities.

Although the overall marketing strategy of the firm must embody the company's profit goals in the short and long run, channel strategy itself is considered to have six specific strategic goals. These goals can be characterized as the six Cs of channel strategy: cost, capital, control, coverage, character, and continuity. In forging the overall channel-of-distribution strategy, each of the six Cs must be considered in building an economical, effective distribution organization within the long-range channel policies of the company. It should also be noted that many firms use multiple or hybrid channels of distribution because of the trade-offs associated with any one option. Indeed, both Dell selling computers at kiosks inside Japan's Jusco supermarkets and Toys "R" Us selling toys in food stores are good examples.

Cost

The two kinds of channel cost are (1) the capital or investment cost of developing the channel and (2) the continuing cost of maintaining it. The latter can be in the form of direct expenditure for the maintenance of the company's selling force or in the form of margins, markup, or commissions of various middlemen handling the goods. Marketing costs (a substantial part of which is channel cost) must be considered as the entire difference between the factory price of the goods and the price the customer ultimately pays for the merchandise. The costs of middlemen include transporting and storing the goods, breaking bulk, providing credit, local advertising, sales representation, and negotiations.

Despite the old truism that you can eliminate middlemen but you cannot eliminate their functions or cost, creative, efficient marketing does permit channel cost savings in many circumstances. Some marketers have found, in fact, that they can reduce cost by eliminating inefficient middlemen and thus shortening the channel. Mexico's largest producer of radio and television sets has built annual sales of $36 million on its ability to sell goods at a low price because it eliminated middlemen, established its own wholesalers, and kept margins low. Conversely, many firms accustomed to using their own sales forces in large-volume domestic markets have found they must lengthen channels of distribution to keep costs in line with foreign markets.

Capital Requirements

The financial ramifications of a distribution policy are often overlooked. Critical elements are capital requirement and cash-flow patterns associated with using a particular type of middleman. Maximum investment is usually required when a company establishes its own internal channels, that is, its own sales force. Use of distributors or dealers may lessen the capital investment, but manufacturers often have to provide initial inventories on consignment, loans, floor plans, or other arrangements. Coca-Cola initially invested in China with majority partners that met most of the capital requirements. However, Coca-Cola soon realized that it could not depend on its local majority partners to distribute its product aggressively in the highly competitive, market-share–driven business of carbonated beverages. To assume more control of distribution, it had to assume management control, and that meant greater capital investment from Coca-Cola. One of the highest costs of doing business in China is the capital required to maintain effective distribution.

Control

The more involved a company is with the distribution, the more control it exerts. A company's own sales force affords the most control but often at a cost that is not practical. Each type of channel arrangement provides a different level of control; as channels grow longer, the ability to control price,[19] volume, promotion, and type of outlets diminishes. If a company cannot sell directly to the end user or final retailer, an important selection criterion for middlemen should be the amount of control the marketer can maintain. Of course, there are risks in international distribution relationships as well—opportunism and exploitation are two. Finally, one of the most alarming examples of distribution channels out of control regards the current worldwide shortage of fish; retailers and distributors in affluent countries literally feed the demands of their voracious customers and kill the fisheries along the way.[20]

Coverage

Another major goal is full-market coverage to gain the optimum volume of sales obtainable in each market, secure a reasonable market share, and attain satisfactory market penetration. Coverage may be assessed by geographic segments, market segments, or both. Adequate market coverage may require changes in distribution systems from country to country or time to time. Coverage is difficult to extend both in highly developed areas and in sparse markets—the former because of heavy competition and the latter because of inadequate channels.

Many companies do not attempt full-market coverage but seek significant penetration in major population centers. In some countries, two or three cities constitute the majority of the national buying power. For instance, 60 percent of the Japanese population lives in the Tokyo–Nagoya–Osaka market area, which essentially functions as one massive city.

At the other extreme are many developing countries with a paucity of specialized middlemen except in major urban areas. Those that do exist are often small, with traditionally high margins. In China, for example, the often-cited billion-person market is, in reality, confined to fewer than 25 to 30 percent of the population of the most affluent cities. Even as personal income increases in China, distribution inadequacies limit marketers in reaching all those who have adequate incomes. In both extremes, the difficulty of developing an efficient channel from existing middlemen plus the high cost of distribution may nullify efficiencies achieved in other parts of the marketing mix.

To achieve coverage, a company may have to use many different channels—its own sales force in one country, manufacturers' agents in another, and merchant wholesalers in still another.

Character

The channel-of-distribution system selected must fit the character of the company and the markets in which it is doing business. Some obvious product requirements, often the first considered, relate to the perishability or bulk of the product, complexity of sale, sales service required, and value of the product.

[19]Ting-Jui Chou and Fu-Tang Chen, "Retail Pricing Strategies in Recession Economies: The Case of Taiwan," *Journal of International Marketing* 12, no. 1 (2004), pp. 82–102.

[20]"Japan's Tuna Crisis," *The New York Times*, June 27, 2007, p. A22; Elisabeth Rosenthal, "In Europe, the Catch of the Day is Often Illegal," *The New York Times*, January 15, 2008, pp. A1, A6.

You can buy just about anything at Stockmann's Department Store in Helsinki—men's and women's fashions, hardware (hammers, etc.) and software, bakery goods and garden supplies, fillet of reindeer and furniture, televisions—yes, everything from Audi A3s to zuccini. It even has cold storage services for your mink. But Stockmann's doesn't stock Samsung cell phones. The Korean company hasn't yet penetrated Nokia's home market. Of course, the product line is thin but rich at Cartier's in Paris. And you can find the Samsung at the Grand Bazaar (Kapali Carsi) in Istanbul, billed as the oldest and largest covered marketplace in the world. The 15th-century mall competes for customers with its 20th-century cousin, Akmerkez Etiler, in a high-income neighborhood about 10 miles away. Finally, Louis meets Lenin here on Red Square in Moscow. Russians now go for the luxury brands at the old government department store (still with the unattractive name, Gum), recently transformed into a 800,000 square foot in-door, high-end shopping mall. You can see St. Basil's Cathedral in the background, and just 200 meters across the square, Comrade Vladimir Lenin's embalmed body is entombed in a chilly mausoleum. While the old communist isn't too happy about free enterprise disturbing his view, he certainly must be pleased about the 2008 resumption of the annual Red Square May Day military parade after its seventeen-year hiatus.

Channel captains must be aware that channel patterns change; they cannot assume that once a channel has been developed to fit the character of both company and market, no more need be done. Great Britain, for example, has epitomized distribution through specialty-type middlemen, distributors, wholesalers, and retailers; in fact, all middlemen have traditionally worked within narrow product specialty areas. In recent years, however, there has been a trend toward broader lines, conglomerate merchandising, and mass marketing. The firm that neglects the growth of self-service, scrambled merchandising, or discounting may find it has lost large segments of its market because its channels no longer reflect the character of the market.

Continuity

Channels of distribution often pose longevity problems. Most agent middlemen firms tend to be small institutions. When one individual retires or moves out of a line of business, the company may find it has lost its distribution in that area. Wholesalers and especially retailers are not noted for their continuity in business either. Most middlemen have little loyalty to their vendors. They handle brands in good times when the line is making money but quickly reject such products within a season or a year if they fail to produce during that period. Distributors and dealers are probably the most loyal middlemen, but even with them, manufacturers must attempt to build brand loyalty downstream in a channel lest middlemen shift allegiance to other companies or other inducements.

Channel Management

The actual process of building channels for international distribution is seldom easy, and many companies have been stopped in their efforts to develop international markets by their inability to construct a satisfactory system of channels.

Construction of the middleman network includes seeking out potential middlemen, selecting those who fit the company's requirements, and establishing working relationships with them. In international marketing, the channel-building process is hardly routine. The closer the company wants to get to the consumer in its channel contact, the larger the sales force required. If a company is content with finding an exclusive importer or selling agent for a given country, channel building may not be too difficult; however, if it goes down to the level of subwholesaler or retailer, it is taking on a tremendous task and must have an internal staff capable of supporting such an effort.

Locating Middlemen

The search for prospective middlemen should begin with study of the market and determination of criteria for evaluating middlemen servicing that market. The checklist of criteria differs according to the type of middlemen being used and the nature of their relationship with the company. Basically, such lists are built around four subject areas: productivity or volume, financial strength, managerial stability and capability, and the nature and reputation of the business. Emphasis is usually placed on either the actual or potential productivity of the middleman.

The major problems are locating information to aid in the selection and choice of specific middlemen and discovering middlemen available to handle one's merchandise. Firms seeking overseas representation should compile a list of middlemen from such sources as the following: the U.S. Department of Commerce; commercially published directories; foreign consulates; chamber-of-commerce groups located abroad; other manufacturers producing similar but noncompetitive goods; middlemen associations; business publications; management consultants; carriers—particularly airlines; and Internet-based services such as Unibex, a global technology services provider. Unibex provides a platform for small- to medium-sized companies and larger enterprises to collaborate in business-to-business commerce.

Selecting Middlemen

LO5

The importance of selecting and maintaining middlemen

Finding prospective middlemen is less a problem than determining which of them can perform satisfactorily. Low volume or low potential volume hampers most prospects, many are underfinanced, and some simply cannot be trusted. In many cases, when a manufacturer is not well known abroad, the reputation of the middleman becomes the reputation of the manufacturer, so a poor choice at this point can be devastating.

Screening. The screening and selection process itself should include the following actions: an exploratory letter or e-mail including product information and distributor requirements in the native language sent to each prospective middleman; a follow-up with the best respondents for specific information concerning lines handled, territory covered, size of firm, number of salespeople, and other background information; check of credit and references from other clients and customers of the prospective middleman; and, if possible, a personal check of the most promising firms. Obtaining financial information on prospective middlemen has become easier via such Internet companies as Unibex, which provides access to Dun & Bradstreet and other client information resources.

Experienced exporters suggest that the only way to select a middleman is to go personally to the country and talk to ultimate users of your product to find whom they consider to be the best distributors. Visit each possible middleman once before selecting the one to represent you; look for one with a key person who will take the new product to his or her heart and make it a personal objective to make the sale of that line a success. Furthermore, exporters stress that if you cannot sign one of the two or three customer-recommended distributors, you might be better off having no distributor in that country, because having a worthless one costs you time and money every year and may cut you out when you finally find a good one.

The Agreement. Once a potential middleman has been found and evaluated, the task of detailing the arrangements with that middleman begins. So far the company has been in a buying position; now it must shift into a selling and negotiating position to convince the middleman to handle the goods and accept a distribution agreement that is workable for the company. Agreements must spell out specific responsibilities of the manufacturer and the middleman, including an annual sales minimum. The sales minimum serves as a basis for evaluation of the distributor; failure to meet sales minimums may give the exporter the right of termination.

Some experienced exporters recommend that initial contracts be signed for one year only. If the first year's performance is satisfactory, they should be reviewed for renewal for a longer period. This time limit permits easier termination, and more important, after a year of working together in the market, a more suitable arrangement generally can be reached.

Motivating Middlemen

The level of distribution and the importance of the individual middleman to the company determine the activities undertaken to keep the middleman motivated. On all levels, the middleman's motivation is clearly correlated with sales volume. Motivational techniques that can be employed to maintain middleman interest and support for the product may be grouped into five categories: financial rewards, psychological rewards, communications, company support, and corporate rapport.

Obviously, financial rewards must be adequate for any middleman to carry and promote a company's products. Margins or commissions must be set to meet the needs of the middleman and may vary according to the volume of sales and the level of services offered. Without a combination of adequate margin and adequate volume, a middleman cannot afford to give much attention to a product.

Being human, middlemen and their salespeople respond to psychological rewards and recognition of their efforts. A trip to the United States or to the parent company's home or regional office is a great honor. Publicity in company media and local newspapers also builds esteem and involvement among foreign middlemen.

In all instances, but particularly when cultural distances are great,[21] the company should maintain a continuing flow of communication in the form of letters, newsletters, and periodicals to all its middlemen. The more personal these are, the better. One study of exporters indicated that the more intense the contact between the manufacturer and the distributor, the better the performance by the distributor. More and better contact naturally leads to less conflict and a smoother working relationship, and relationships are key, particularly in relationship-oriented cultures in emerging markets.[22]

Finally, considerable attention must be paid to the establishment of close rapport between the company and its middlemen. In addition to methods noted, a company should be certain that the conflicts that arise are handled skillfully and diplomatically. Bear in mind that all over the world, business is a personal and vital thing to the people involved.

Terminating Middlemen

When middlemen do not perform up to standards or when market situations change, requiring a company to restructure its distribution, it may be necessary to terminate relationships. In the United States, this termination is usually a simple action regardless of the type of middlemen; they are simply dismissed. However, in other parts of the world, the middleman often has some legal protection that makes termination difficult. In Colombia, for example,

[21]Carl Arthur Solberg, "Product Complexity and Cultural Distance Effects on Managing International Distributor Relationships: A Contingency Approach," *Journal of International Marketing* 16, no. 3 (2008), pp. 57–83; Chenting Su, Zhilin Yang, Guijun Zhuang, Nan Zhou, and Wenyu Dou, "Interpersonal Influence as an Alternative Channel Communication Behavior in Emerging Markets: The Case of China," *Journal of International Business Studies* 40, no. 4 (2009), pp. 668–89.

[22]Gerald A. McDermott and Rafael A. Corredoira, "Network Composition, Collaborative Ties, and Upgrading In Emerging Market Firms: Lessons from the Argentine Autoparts Sector," *Journal of International Business Studies* 41, no. 2 (2010), pp. 308–29.

CROSSING BORDERS 15.3 Managing the Humps in the Camel Market

BIRQASH, EGYPT—The sun is high and it's a slow day for selling and there's not much for a camel trader to do except scatter hay and greens and listen to the big beasts munch. Sounds like shoes walking through gravel.

Essam Ammar lifts a cell phone from his tunic. "Hi, Ahmed. No, I won't lower the price." Eyes roll. Ammar pulls the phone from his ear and looks at it; Ahmed's words crackle in the air. Click. It's not even noon. The day seems in retreat.

"I've been doing this for 29 years," says Ammar, who wears a white-lace cap and an even snowier pinstriped vest, a risky choice amid blowing dust and rubbish fires. "You have to know your camels, setting price to age. The best come from Sudan. The ones from Somalia don't adapt so well. I can tell if a camel will bite me or just run away. It is essential to know such things." The traders around him, some with blood splotches on their tunics, nod.

The Birqash camel market about 20 miles northwest of downtown Cairo is an unfortunate place to end up if you have four legs and a long neck. It's not so great these days for camel traders either. Herdsmen in Sudan and Somalia are pushing up prices but the traders—the middlemen—often can't pass the increases on to hard-pressed butchers in Cairo and across the Nile Delta. Egypt's inflation is keeping many families from buying camel, the traditional meat they ate when beef and mutton grew too expensive. It's the cruel global economic ripple that finds even the battered crossroads of places like Birqash.

"I'm making about 5,000 pounds [$915] less each year because camel prices are rising and butchers can't afford to buy and people can't afford the price of meat," says trader Ali Hamed, who hasn't seen his wife in months. "I'm married, with two children. I used to send home 350 pounds [$65] a week but now can only manage 150 pounds [$28]. My wife does the best she can. I'd like to go home more, but for the price of a train ticket I can buy two bags of wheat to feed my family."

Hamed lives in southern Egypt. His father traded camels and Hamed, who never went to school, figured that's what village boys grew up to do. Instead of a book bag, he picked up a herding stick and started learning about camels traveling north from Sudan along the Nile or arriving in freighters from Somalia at the port of Suez. They are white, beige, the color of sand and gray. A camel can be healthy one day and die the next; it is a mystery of the trade.

Boys with bottles and brushes mark camels for sale with purple and green letters. They dart around legs, beneath tails, careful not to be kicked, and some of them will inherit a stall on market row when they become men. A trader doesn't just appear here; he is raised on stories of uncles and cousins who shoveled dung and tended wounds and cursed sick camels long before he was born.

"This market is controlled by 10 to 15 families," says Abdel Wahab Wagih, the market historian and man who keeps an eye on what enters and leaves through the gate. "The traders inherited the businesses from their fathers and grandfathers. The younger generations got educated and many of them have university degrees, but they still come here to run the family trade."

The price of camel meat has been expanding too. In the last year camel has risen from $1.80 a pound to as much as $2.90 a pound, still cheaper than beef and mutton, but costly enough that many Egyptians have crossed it off their shopping lists.

It used to be easier, though.... Taxes are higher and the Egyptian government has new health regulations and stricter inspections for camels entering the country. Some wait for days and weeks at the borders, where healthy camels are exposed to sick ones. One trader had 30 camels die before they reached the market. It all means money. Lost money.

"It's strange, you know, Egypt is a poor country but there are still a lot of rich people and they keep getting richer," Ammar says. "I guess that's how it's supposed to be."

His cell phone rings. "Hi, Ahmed." Ammar inspects his fingernails, yawns. "No, Ahmed, I'm not lowering the price." Click.

Source: Jefrey Fleishman, "Camel Trade Runs into Sand," Los Angeles Times, October 23, 2009, pp. A1, A29.

if you terminate an agent, you are required to pay 10 percent of the agent's average annual compensation, multiplied by the number of years the agent served, as a final settlement.

Competent legal advice is vital when entering distribution contracts with middlemen. But as many experienced international marketers know, the best rule is to avoid the need to terminate distributors by screening all prospective middlemen carefully. A poorly chosen distributor may not only fail to live up to expectations but may also adversely affect future business and prospects in the country.

Controlling Middlemen

The extreme length of channels typically used in international distribution makes control of middlemen especially important. Marketing objectives must be spelled out both internally and to middlemen as explicitly as possible. Standards of performance should include the sales volume objective, inventory turnover ratio, number of accounts per area, growth objective, price stability objective, and quality of publicity. Cultural differences enter into all these areas of management.[23]

Control over the system and control over middlemen are necessary in international business. The first relates to control over the distribution network, which implies overall controls for the entire system to be certain the product is flowing through desired middlemen. Some manufacturers have lost control through "secondary wholesaling" or parallel imports.[24] A company's goods intended for one country are sometimes diverted through distributors to another country, where they compete with existing retail or wholesale organizations.

The second type of control is at the middleman level. When possible, the parent company should know (and to a certain degree control) the activities of middlemen with respect to their volume of sales, market coverage, services offered, prices, advertising, payment of bills, and even profit. Quotas, reports, and personal visits by company representatives can be effective in managing middleman activities at any level of the channel.

The Internet

LO6

The growing importance of e-commerce as a distribution alternative

The Internet is an important distribution method for multinational companies and a source of products for businesses and consumers.[25] Indeed, a good argument can be made that the Internet has finally put the consumer in control of marketing and distribution globally.[26] Computer hardware and software companies and book and music retailers were the earliest e-marketers to use this method of distribution and marketing.[27] More recently there has been an expansion of other types of retailing and business-to-business (B2B) services into e-commerce.[28] Technically, e-commerce is a form of direct selling; however, because of its newness and the unique issues associated with this form of distribution, it is important to differentiate it from other types of direct marketing.

E-commerce is used to market B2B services, consumer services, and consumer and industrial products via the World Wide Web. It involves the direct marketing from a manufacturer, retailer, service provider, or some other intermediary to a final user. Some examples of e-marketers that have an international presence are Dell Computer Corporation[29] (www.dell.com), which generates nearly 50 percent of its total sales, an average of about $69 million a day, online; and Cisco Systems (www.cisco.com), which generates more than $1 billion in sales annually. Cisco's Web site appears in 14 languages and has country-specific content for 49 nations. Gateway has global sites in Japan, France, the Netherlands, Germany, Sweden, Australia, the United Kingdom, and the United States, to name a few (www.gateway.com). Sun Microsystems and its after-marketing company, SunExpress, have local-language information about more than 3,500 aftermarket products. SunPlaza enables visitors in North America, Europe, and Japan to get information online about products and services and to place orders directly in their native languages.

[23] Jody Evans and Felix T. Mavondo, "Psychic Distance and Organizational Performance: An Empirical Examination of International Retailing Operations," *Journal of International Business Studies* 33, no. 3 (2002), pp. 515–32; David A. Griffith and Matthew B. Myers, "The Performance Implications of Strategic Fit of Relational Norm Governance Strategies in Global Supply Chain Relationships," *Journal of International Business Studies* 36, no. 3 (2005), pp. 254–69.

[24] See the discussion of parallel imports in Chapter 18.

[25] Vinh Nhat Lu and Craig C. Julian, "The Internet, Strategy and Performance: A Study of Australian Export Market Ventures," *Journal of Global Marketing* 21, no. 3 (2008), pp. 231–40.

[26] "Crowned at Last, A Survey of Consumer Power," *The Economist*, April 2, 2005, insert pp. 1–16.

[27] "A Giant Sucking Sound," *The Economist*, November 7, 2009, p. 62.

[28] Carlyle Farrell, "The Role of the Internet in the Delivery of Export Promotion Services: A Web Site Content Analysis," *Journal of Global Marketing* 21, no. 4 (2008), pp. 259–70.

[29] Evan Ramstad and Gary McWilliams, "For Dell, Success in China Tells a Tale of Maturing Market," *The Wall Street Journal*, July 5, 2005, pp. A1, A8.

Besides consumer goods companies such as Lands' End, Levi, and Nike, many smaller[30] and less well-known companies have established a presence on the Internet beyond their traditional markets. An Internet customer from the Netherlands can purchase a pair of brake levers for his mountain bike from California-based Price Point. He pays $130 instead of the $190 that the same items would cost in a local bike store.

For a Spanish shopper in Pamplona, buying sheet music used to mean a 400-kilometer trip to Madrid. Now he crosses the Atlantic to shop—and the journey takes less time than a trip to the corner store. Via the Internet, he can buy directly from specialized stores and high-volume discounters in New York, London, and almost anywhere else.

E-commerce is more developed in the United States than the rest of the world, partly because of the vast number of people who own personal computers and partly because of the much lower cost of access to the Internet than found elsewhere. In addition to language, legal, and cultural differences, the cost of local phone calls (which are charged by the minute in most European countries) initially discouraged extensive use and contributed to slower Internet adoption in Europe.

Services, the third engine for growth, are ideally suited for international sales via the Internet. All types of services—banking, education, consulting, retailing, hotels, gambling—can be marketed through a Web site that is globally accessible. As outsourcing of traditional in-house tasks such as inventory management, quality control, and accounting, secretarial, translation, and legal services has become more popular among companies, the Internet providers of these services have grown both in the United States and internationally.

Moreover, online B2B enables companies to cut costs in three ways. First, it reduces procurement costs by making it easier to find the cheapest supplier, and it cuts the cost of processing the transactions. Estimates suggest that a firm's possible savings from purchasing over the Internet vary from 2 percent in the coal industry to up to 40 percent in electronic components. British Telecom claims that procuring goods and services online will reduce the average cost of processing a transaction by 90 percent and reduce the direct costs of goods and services it purchases by 11 percent. The Ford, GM, and DaimlerChrysler exchange network for buying components from suppliers could reduce the cost of making a car by as much as 14 percent.

Second, it allows better supply-chain management. For example, more than 75 percent of all Cisco orders now occur online, up from 4 percent in 1996. This connection to the supply chain allowed Cisco to reduce order cycle time from six to eight weeks to one to three weeks and to increase customer satisfaction as well.

Third, it makes possible tighter inventory control. With Walmart's direct Internet links between its inventory control system and its suppliers, each sale automatically triggers a replenishment request. Fewer out-of-stock situations, the ability to make rapid inventory adjustments, and reduced ordering and processing costs have made Walmart one of the industry's most efficient companies.

The worldwide potential for firms operating on the Internet is extraordinary, but only if they are positioned properly[31] and well supported by management.[32] The World Wide Web, as a market, is rapidly moving through the stage where the novelty of buying on the Web is giving way to a more sophisticated customer who has more and constantly improving Web sites from which to choose. In short, Web merchants are facing more competition, and Web customers have more choice. This situation means that if a company is going to be successful in this new era of marketing, the basics of good marketing cannot be overlooked. For example, Forrester Research has discovered that nearly half the international orders received by U.S. companies go unfilled, even though a typical U.S. company can expect 30 percent of its Web traffic to come from foreign countries and 10 percent of its orders to come from abroad.

[30]Oystein Moen, Iver Endresen, and Morten Gavlen, "Use of the Internet in International Marketing: A Case Study of Small Computer Software Firms," *Journal of International Marketing* 11, no. 4 (2003), pp. 129–49.

[31]Byeong-Joon Moon and Subash C. Jain, "Determinants of Outcomes of Internet Marketing Activities of Exporting Firms," *Journal of Global Marketing* 20 (2007), pp. 55–72.

[32]Gary Gregory, Munib Karavdic, and Shoaming Zou, "The Effects of E-Commerce on Export Marketing Strategy," *Journal of International Marketing* 15 (2007), pp. 30–57.

CROSSING BORDERS 15.4

One of the Many Dark Sides of the Internet: Growing Organ-Supply Shortfall Creates Windfall for Online Brokers

Growing demand for organ transplants worldwide is bringing new clout to online middlemen who charge ailing customers enormous fees to match them with scarce body parts.

These brokers have stepped in to fill a breach created by steep shortfall in supply. In rich nations, people are living longer at the same time that a drop in deaths from automobile accidents has shrunk a key source of donated organs. Because buying and selling organs is illegal almost everywhere, brokers say they match prospective patients with sources outside their own country's health system. Forbes located offers of transplants online priced at anywhere from 60 to 400 percent more than their typical costs. One California broker arranges kidney transplants for $140,000 and hearts, livers and lungs for $290,000. Most of these transplants are being carried out in hospitals in developing countries, where medical and ethical standards "don't rise to Western levels."

More alarmingly, the Web sites that shill transplant deals might just be camouflaging a more nefarious business: underground organ trading. Desperate "transplant tourists" generally cannot determine whether an organ was harvested legally or if the kidney they are receiving was sold by a destitute Nepali or Brazilian, often for as little as $800. In China, authorities admitted two years ago that they have been harvesting organs from executed prisoners. Recently Beijing has agree to stop this controversial practice.

Sources: "Growing Organ-Supply Shortfall," The Wall Street Journal, January 12, 2007, p. B4 (from Forbes, January 29); "Challenge Now Is To Find Other Sources of Organs," South China Morning Post, October 2, 2007, p. 15.

By its very nature, e-commerce has some unique issues that must be addressed if a domestic e-vendor expects to be a viable player in the international cybermarketplace. International legal issues were discussed in Chapter 7. Particularly, high-flying Google is under censorship attack and other kinds of controls[33] in both China[34] and Italy.[35] Many other issues arise because the host-country intermediary who would ordinarily be involved in international marketing is eliminated. An important advantage of selling direct is that total costs can be lowered so that the final price overseas is considerably less than it would have been through a local-country middleman. However, such activities as translating prospective customer inquiries and orders into English and replying in the customer's language, traditionally done by a local distributor, have to be done by someone. When intermediaries are eliminated, someone, either the seller or the buyer, must assume the functions they performed. Consequently, an e-vendor must be concerned with the following issues.

1. **Culture.** The preceding chapters on culture should not be overlooked when doing business over the Web. The Web site and the product must be culturally neutral or adapted to fit the uniqueness of a market, because culture does matter.[36] In Japan, the pickiness of Japanese consumers about what they buy and their reluctance to deal with merchants at a distance must be addressed when marketing on the Web. Even a Japanese-language site can offend Japanese sensibilities. As one e-commerce consultant warns: in a product description, you wouldn't say "Don't turn the knob left," because that's too direct. Instead, you would say something like: "It would be much better to turn the knob to the right." To many Europeans, American sites come off as having too many bells and whistles because European sites are more consumer oriented. The different cultural reactions to color can be a potential problem for Web

[33] "Google Offers Free Web Music in China," *Los Angeles Times*, March 31, 2009, p. B3.

[34] Juliet Ye, "Chinese Video Takes Aim at Online Censorship," *The Wall Street Journal*, February 11, 2010, online.

[35] Adam Liptak, "When Free Worlds Collide," *The New York Times*, February 28, 2010, p. Opinion 1.

[36] Kai H. Lim, Kwok Leung, Choon Ling Sia, and Matthew K. Lee, "Is eCommerce Boundary-less? Effects of Individualism-Collectivism and Uncertainty Avoidance on Internet Shopping," *Journal of International Business Studies* 35, no. 6 (2004), pp. 545–59; Jan-Benedict E. M. Steenkamp and Inge Geyskens, "How Country Characteristics Affect the Perceived Value of Web Sites," *Journal of Marketing* 70 (2006), pp. 136–50.

Global Marketing on the Web at Marriott

The Internet today is the most global of any media invented so far, having leapfrogged television and radio—which may yet become global some day but are far from doing so. It is the only medium that approaches true global reach.

The power of the Internet results from its many unique attributes. It is unique in its ability to:

- Encompass text, audio and video in one platform.
- Operate in a dialogue versus monologue mode.
- Operate simultaneously as mass media and personalized media.
- Build global "communities," unconfined by national borders.

These attributes make it the most powerful medium on earth, unparalleled in its ability to communicate, especially to a global world. It is an international marketer's dream.

However, leveraging these characteristics in an effective manner requires dealing with various substantive issues. These issues include:

- Major differences in Internet adoption rates across the globe ranging from greater than 70 percent adoption in North America to less than 2 percent for the continent of Africa. This difference greatly influences the role of the Web as part of the marketing mix in international markets. Even for advanced EU economies, the variability of adoption is great, ranging from 88 percent in the Netherlands to 49 percent in Belgium. The average for the entire continent of Africa is around 1 percent (see www.internetworldstats.com).
- Unique issues caused by technology including broadband versus narrow-band, which drive what products and services can be marketed and how. In the narrow-band world, highly graphic and video-based Web sites are not viable. An example is the elaborate photo tours of hotels on www.Marriott.com, which download quickly on broadband connections but take inordinately long on narrow band. Therefore, a site designed for one market can be ineffective in another.

Renaissance is a Marriott-owned hotel brand. It uses various media to lead customers to its all-important Web sites, including print, television, Internet, and outdoor. Three 2-page print ads are directed toward U.K., Middle Eastern, and Chinese customers, and each of them lists the Web site addresses—the first two citing www.renaissancehotels.co.uk, and the last noting www.renaissancehotels.com.cn. Even though the same Web site ultimately serves customers in both the United Kingdom and the Middle East, the ad presentation is adapted to the more conservative dress appropriate in the latter region. Finally, you can see how the campaign is also used on the streets of Shanghai. Ask your classmates what "Be fashionable" translates into on the latter two ads.

- Costs to globalize can be enormous if multiple language sites need to be built. For example, translating the 110,000-page Marriott.com Web site is a very costly undertaking, both on a one-time and ongoing basis. Add to that the costs of translating the back-end systems that feed the site, and the costs rise exponentially. For sites with a lot of constantly changing content and heavy dependence on back-end systems, maintaining foreign language sites can be prohibitively expensive.
- Implications of differing labor costs that affect return on investment (ROI). For example, in the United States, the cost of an online booking for Marriott is less than half that of a phone booking. That differential may not apply in many Third World countries, where labor costs are often very low, making it difficult to justify a Web site investment.
- Different approaches to privacy, access, and infrastructure investment also require changes to strategy by market.
  - On privacy. For example, EU laws are much more stringent than U.S. laws; as a result, the e-mail marketing strategy in the European Union is much more cautious than in the United States.
  - On access. Some countries regulate access to the Internet. For example, China only allows access to approved sites, whereas the United States does not limit Internet access.
  - On infrastructure investment. Some countries have private investment fueling the development of the telecom technology systems required to enable Internet access (e.g., the United States), whereas in other countries, state-owned phone companies have this responsibility. In general, markets that have depended state investment have been laggards in the Internet space.

Apart from all of these issues, one of the most important challenges for companies contemplating a global Internet presence is determining whether they should build "foreign market sites" or "foreign language sites." In an ideal world, with infinite resources, the answer could be to build both. However, that option is rarely possible given resource constraints. This challenge has been a key issue for Marriott International, which has responded in different ways, depending on market situations. In some cases, the hotel company tried one approach before moving to the other. In fact, Marriott's experience in this area is an excellent illustration of the issue. To clarify the issue using France or French as an example, the question was:

Should we have a global site in French that caters to ALL French-speaking customers, no matter which country they live in

OR

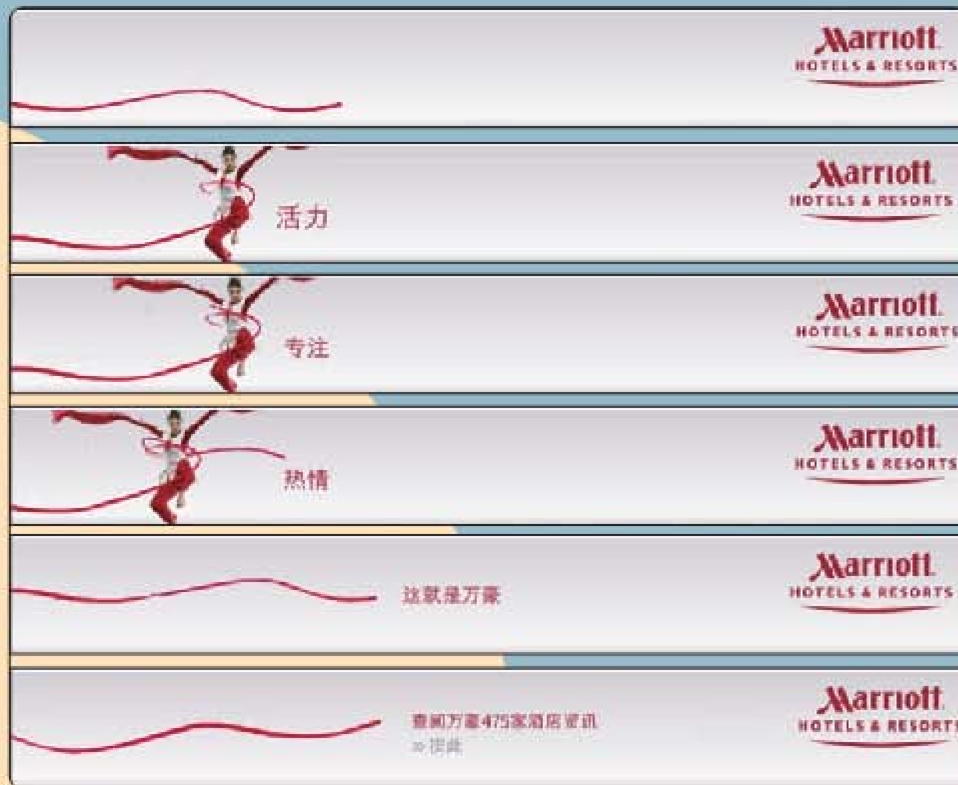
Should we have a site in the French language, which addresses the needs of the LOCAL French market?

Having a French language site for a global French-speaking market had significant benefits, because there is a sizable French-speaking population in the world, which includes major parts of North and Central Africa and the Caribbean islands. However, in this case, Marriot decided in favor of a local site for France. In summary, the company found that

- The needs of French customers living in France were very different from the needs of customers in French-speaking Africa or Haiti. Customers living in France prefer different destinations than those living in other French-speaking areas, such as the Caribbean.
- Promotional approaches were also different for France than for other French-speaking countries. Using a U.S. example to illustrate, sweepstakes are far more popular and accepted in the United States than in Europe.
- Finally, the French market dwarfed all other French-speaking markets combined. Therefore, if Marriott could only afford to maintain one French site, it was more cost effective to address the largest French market, namely, France.

In 2009 and 2010 Marriott International faced increased pressure from the Province of Quebec authorities in that their French language site did not meet the needs of their local population and thus, was not compliant with their local laws. In the face of fines and other business actions by the Quebec authorities, Marriott International revised their strategy concerning a French language site and decided for a change of strategy in order to be compliant with local Canada laws while at the same time continue to serve the greater France area – France, Belgium, Switzerland, the Levant and the Maghreb. It is now working to turn its France site into a French language portal, which will be released this summer, following its very successful strategy in the Latin America market; i.e. one portal for the entire region that can serve many customers across the different Francophone markets in the world where it operates.

The second series of banner ads might flash across a computer screen in China; the last panel asks visitors to click to go to the Marriott Web site there. Marriott maintains 11 Web sites to attract its global clientele to its 2,800 hotels around the world. The sites appeal to consumers in the following countries: the United States, the United Kingdom, Ireland, Australia and New Zealand, France, Germany, China, Japan, South Korea, Latin America (Spanish/Espanol), and Brazil.



Thus, as Marriott's globalization program evolves, we see a combination of market and language approaches, deploying them across diverse markets in varied combinations as it makes the most sense for its business needs.

Paradoxically, when faced with the same question for Spanish—a Spanish-language site or a site for Spain/individual Spanish-speaking countries—Marriott decided to go for a Spanish-language site for several key reasons:

- None of the Spanish-speaking markets was very large for Marriott. Although Spain is the largest economy in the Spanish-speaking world, as of now, the company does not have enough hotels there or enough traffic from Spain to cost effectively build a site uniquely for Spain. That applies to all other Spanish-speaking countries.

- There was greater commonality of destinations among many Spanish-speaking countries—especially the Latin American countries—than among French-speaking countries. For example, the United States is an equally popular destination for almost all Latin American countries.

Ironically, Marriott initially took the opposite approach to the same question, resulting in eight Spanish sites for various Latin American countries. However, it quickly found that it was impractical to build, manage, and maintain so many sites and get the returns on investment it desired. Although this scenario may and should change as the individual markets mature and gain critical mass, it appears that it will take some years. Until then, Marriott will maintain one Spanish-language site.

In summary, the international online marketplace is highly complex and continues to evolve. There is no single approach that fits every situation; even when that appears the case, it may not be for long, as is clear from the experience described. A key focus therefore should be on making good trade-off decisions and maintaining flexibility in strategy.

Source: Shafiq Khan, Senior Vice President eCommerce with Luis Babicek, Marriott International, 2010. (Photos Courtesy of Marriott.)

sites designed for global markets. While red may be highly regarded in China or associated with love in the United States, in Spain it is associated with socialism. The point is that when designing a Web site, culture cannot be forgotten.

2. **Adaptation.** Ideally, a Web site should be translated into the languages of the target markets.[37] This translation may not be financially feasible for some companies, but at least the most important pages of the site should be translated. Simple translation of important pages is only a stopgap measure however. If companies are making a long-term commitment to sales in another country, Web pages should be designed (in all senses of the term—color, use features, etc.) for that market. One researcher suggests that if a Web site does not have at least multiple languages, a company is losing sales. It is the company's responsibility to bridge the language and cultural gap; the customer will not bother—he or she will simply go to a site that speaks his or her language. As discussed, culture does count, and as competition increases, a country-specific Web site may make the difference between success and failure.[38]
3. **Local contact.** Companies fully committed to foreign markets are creating virtual offices abroad; they buy server space and create mirror sites, whereby a company has a voice mail or fax contact point in key markets. Foreign customers are more likely to visit sites in their own country and in the local language. In Japan, where consumers seem particularly concerned about the ability to return goods easily, companies may have outlets where merchandise can be returned and picked up. These so-called click-and-mortar models have gained a large following.
4. **Payment.** The consumer should be able to use a credit card number—by e-mail (from a secure page on the Web site), by fax, or over the phone. Although this accessibility had been an important problem in burgeoning markets like China, customers and banking systems there are now beginning to catch on fast.[39]
5. **Delivery.** For companies operating in the United States, surface postal delivery of small parcels is the most cost effective but takes the longest time. For more rapid but more expensive deliveries, FedEx, UPS, and other private delivery services provide delivery worldwide. For example, Tom Clancy's bestseller *Executive Orders,* shipped express to Paris from Seattle-based Amazon.com, would cost a reader $55.52. The same book delivered in 4 to 10 weeks via surface mail costs $25.52, which is a substantial savings over the cost of the book in a Paris bookstore, where it sells for $35.38.
6. **Promotion.** Although the Web is a means of promotion, if you are engaging in e-commerce, you also need to advertise your presence and the products or services offered. The old adage "Build a better mouse trap and the world will beat a path to your door" does not work for e-commerce, just as it does not work with other products unless you tell your target market about the availability of the "better mouse trap." How do you attract visitors from other countries to your Web site? The same way you would at home—except in the local language. Search engine registration, press releases, local newsgroups and forums, mutual links, and banner advertising are the traditional methods. A Web site should be seen as a retail store, with the only difference between it and a physical store being that the customer arrives over the Internet instead of on foot.

When discussing the Internet and international channels of distribution, the question of how traditional channels will be changed by the Internet must be considered. Already, comparison shopping across the Continent via the Internet is wrenching apart commercial

[37]Barbar De Lollis, "Travel Firms Aim To Speak Customers' Language," *USA Today*, February 12, 2007, p. B1.

[38]Patrick Y. K. Chau, Melissa Cole, Anne P. Massey, Mitzi Montoya-Weiss, and Robert O'Keefe, "Cultural Differences in the On-Line Behavior of Consumers," *Communications of the ACM* 45, no. 10 (2002), pp. 138–43.

[39]Bruce Einhorn and Chi-Chu Tschang, "China's E-Tail Awakening," *BusinessWeek*, November 19, 2007, p. 44.

patterns cobbled together over centuries. Before the Internet, Europeans rarely shopped across borders, and car companies, exempt from EU antitrust laws in distribution, offered cars at price differentials of up to 40 percent. The Internet has blown this system apart and allows the European customer to shop easily for the best price.

Not only will the traditional channels change, but so will the Internet, which is still evolving. Much of what is standard practice today may well be obsolete tomorrow as new means of data transmission are achieved, costs of accessing the Web decrease, and new e-commerce models are invented. The Web is rapidly growing—and changing as it grows.

Logistics

LO7

The interdependence of physical distribution activities

When a company is primarily an exporter from a single country to a single market, the typical approach to the physical movement of goods is the selection of a dependable mode of transportation that ensures safe arrival of the goods within a reasonable time for a reasonable carrier cost. As a company becomes global, such a solution to the movement of products could prove costly and highly inefficient for seller and buyer. As some global marketers say, the hardest part is not making the sale but getting the correct quantity of the product to customers in the required time frame at a cost that leaves enough margins for a profit.[40]

At some point in the growth and expansion of an international firm, costs other than transportation are such that an optimal cost solution to the physical movement of goods cannot be achieved without thinking of the physical distribution process as an integrated system. When an international marketer begins producing and selling in more than one country and becomes a global marketer, it is time to consider the concept of

a total systems approach to the management of the distribution process that includes all activities involved in physically moving raw material, in-process inventory, and finished goods inventory from the point of origin to the point of use or consumption.[41]

A involves more than the physical movement of goods. It includes the location of plants and warehousing (storage), transportation mode, inventory quantities, and packing. The concept of physical distribution takes into account the interdependence of the costs of each activity; a decision involving one activity affects the cost and efficiency of one or all others. In fact, because of their interdependence, the sum of each of the different activity costs entails an infinite number of "total costs." (of the system is defined as the sum of the costs of all these activities.)

The idea of interdependence can be illustrated by the classic example of airfreight. One company compared its costs of shipping 44,000 peripheral boards worth $7.7 million from a Singapore plant to the U.S. West Coast using two modes of transportation—ocean freight and the seemingly more expensive airfreight. When considering only rates for transportation and carrying costs for inventory in transit, air transportation costs were approximately $57,000 higher than ocean freight. But when total costs were calculated including warehousing, insurance and inventory expenses, airfreight was actually less costly than ocean freight because of other costs involved in the total physical distribution system.

To offset the slower ocean freight and the possibility of unforeseen delays and to ensure prompt customer delivery schedules, the company had to continuously maintain 30 days of inventory in Singapore and another 30 days' inventory at the company's distribution centers. The costs of financing 60 days of inventory and of additional warehousing at both points—that is, real physical distribution costs—would result in the cost of ocean freight exceeding air by more than $75,000. And ocean freight may even entail additional costs such as a higher damage rate, higher insurance, and higher packing rates.

Substantial savings can result from the systematic examination of logistics costs and the calculation of total physical distribution costs. A large multinational firm with facilities and customers around the world shipped parts from its U.S. Midwest plant to the nearest East Coast port, then by water route around the Cape of Good Hope (Africa), and finally

[40]"Network Effects," , October 18, 2008, p. 76.

[41]An excellent source on this subject is Donald F. Wood et al., 2nd ed. (New York: Amacom, 2002).

to its plants in Asia, taking 14 weeks. Substantial inventory was maintained in Asia as a safeguard against uncertain water-borne deliveries. The transportation carrier costs were the least expensive available; however, delivery delays and unreliable service caused the firm to make emergency air shipments to keep production lines going. As a result, air shipment costs rose to 70 percent of the total transport bill. An analysis of the problem in the physical distribution system showed that trucking the parts to West Coast ports using higher-cost motor carriers and then shipping them to Asia by sea could lower costs. Transit time was reduced, delivery reliability improved, inventory quantities in Asia lowered, and emergency air shipments eliminated. The new distribution system produced annual savings of $60,000.

Although a cost difference will not always be the case, the examples illustrate the interdependence of the various activities in the physical distribution mix and the total cost. A change of transportation mode can affect a change in packaging and handling, inventory costs, warehousing time and cost, and delivery charges.

The concept behind physical distribution is the achievement of the optimum (lowest) system cost, consistent with customer service objectives of the firm. If the activities in the physical distribution system are viewed separately, without consideration of their interdependence, the final cost of distribution may be higher than the lowest possible cost (optimum cost), and the quality of service may be adversely affected. Additional variables and costs that are interdependent and must be included in the total physical distribution decision heighten the distribution problems confronting the international marketer. As the international firm broadens the scope of its operations, the additional variables and costs become more crucial in their effect on the efficiency of the distribution system.

One of the major benefits of the European Union's unification is the elimination of transportation barriers among member countries. Instead of approaching Europe on a country-by-country basis, a centralized logistics network can be developed. The trend in Europe is toward pan-European distribution centers. Studies indicate that companies operating in Europe may be able to cut 20 warehousing locations to 3 and maintain the same level of customer service. A German white goods manufacturer was able to reduce its European warehouses from 39 to 10, as well as improve its distribution and enhance customer service. By cutting the number of warehouses, it reduced total distribution and warehousing costs, brought down staff numbers, held fewer items of stock, provided greater access to regional markets, made better use of transport networks, and improved service to customers, all with a 21 percent reduction of total logistics costs.

Summary

The international marketer has a broad range of alternatives for developing an economical, efficient, high-volume international distribution system. To the uninitiated, however, the variety may be overwhelming. Careful analysis of the functions performed suggests more similarity than difference between international and domestic distribution systems; in both cases, the three primary alternatives are using agent middlemen, merchant middlemen, or government-affiliated middlemen. In many instances, all three types of middlemen are employed on the international scene, and channel structure may vary from nation to nation or from continent to continent.

The neophyte company in international marketing can gain strength from the knowledge that information and advice are available relative to the structuring of international distribution systems and that many well-developed and capable middleman firms exist for the international distribution of goods. Although international middlemen have become more numerous, more reliable, and more sophisticated within the past decade, traditional channels are being challenged by the Internet, which is rapidly becoming an important alternative channel to many market segments. Such growth and development offer an ever-wider range of possibilities for entering foreign markets.

Key Terms

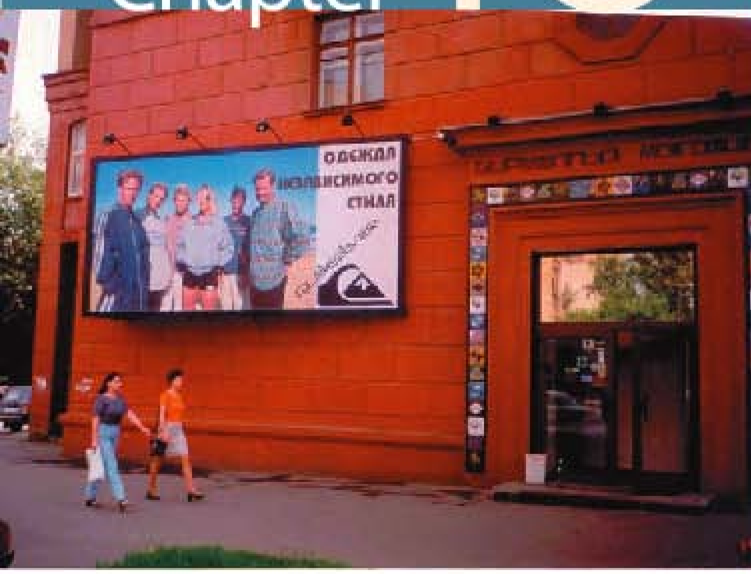
Distribution process	Agent middlemen	Export management company (EMC)	Export Trading Company (ETC)
Distribution structure	Merchant middlemen	Trading companies	Complementary marketing
Large-Scale Retail Store Law	Home-country middlemen		

Questions

1. Define the key terms on the previous page.
2. Discuss the distinguishing features of the Japanese distribution system.
3. Discuss the ways Japanese manufacturers control the distribution process from manufacturer to retailer.
4. Describe Japan's Large-Scale Retail Store Act and discuss how the Structural Impediments Initiative (SII) is bringing about change in Japanese retailing.
5. "Japanese retailing may be going through a change similar to that which occurred in the United States after World War II." Discuss and give examples.
6. Discuss how the globalization of markets, especially Europe after 1992, affects retail distribution.
7. To what extent, and in what ways, do the functions of domestic middlemen differ from those of their foreign counterparts?
8. Why is the EMC sometimes called an independent export department?
9. Discuss how physical distribution relates to channel policy and how they affect each other.
10. Explain how and why distribution channels are affected as they are when the stage of development of an economy improves.
11. In what circumstances is the use of an EMC logical?
12. In which circumstances are trading companies likely to be used?
13. How is distribution-channel structure affected by increasing emphasis on the government as a customer and by the existence of state trading agencies?
14. Review the key variables that affect the marketer's choice of distribution channels.
15. Account, as best you can, for the differences in channel patterns that might be encountered in a highly developed country and an underdeveloped country.
16. One of the first things companies discover about international patterns of channels of distribution is that in most countries, it is nearly impossible to gain adequate market coverage through a simple channel-of-distribution plan. Discuss.
17. Discuss the various methods of overcoming blocked channels.
18. What strategy might be employed to distribute goods effectively in the dichotomous small/large middleman pattern, which characterizes merchant middlemen in most countries?
19. Discuss the economic implications of assessing termination penalties or restricting the termination of middlemen. Do you foresee such restrictions in the United States?
20. Discuss why Japanese distribution channels can be the epitome of blocked channels.
21. What are the two most important provisions of the Export Trading Company Act?
22. You are the sales manager of a small company with sales in the United States. About 30 percent of your business is mail order, and the remainder is from your two retail stores. You recently created an e-store on the Web and a few days later received an order from a potential customer from a city near Paris, France. The shipping charges listed on the Web are all for locations in the United States. You don't want to lose this $350 order. You know you can use the postal service, but the customer indicated she wanted the item in about a week. Air express seems logical, but how much will it cost? Consult both the FedEx home page (www.fedex.com) and the UPS home page (www.ups.com) to get some estimates on shipping costs. Here are some details you will need: value $350; total weight of the package, 2.5 pounds; package dimensions, 4 inches high by 6 inches wide; U.S. zip code, 97035; and French zip code, 91400. (Note: It's not fair to call UPS or FedEx—use the Internet.)
23. Based on the information collected in Question 22, how practical would it be to encourage foreign sales? Your average order ranges from about $250 to $800. All prices are quoted plus shipping and handling. You handle a fairly exclusive line of Southwestern Indian jewelry that sells for about 15 to 20 percent higher in Europe than in the United States. The products are lightweight and high in value.

Chapter 16

Integrated Marketing Communications and International Advertising



CHAPTER OUTLINE

CHAPTER LEARNING OBJECTIVES

What you should learn from Chapter 16:

LO1 Local market characteristics that affect the advertising and promotion of products

LO2 The strengths and weaknesses of sales promotions and public relations in global marketing

LO3 When global advertising is most effective; when modified advertising is necessary

LO4 The communication process and advertising misfires

LO5 The effects of a single European market on advertising

LO6 The effect of limited media, excessive media, and government regulations on advertising and promotion budgets

Global Perspective

BARBIE VERSUS MULAN

For years, Barbie dolls sold in Japan looked different from their U.S. counterparts. They had Asian facial features, black hair, and Japanese-inspired fashions. Then Mattel Inc. conducted consumer research around the world and learned something surprising: The original Barbie, with her yellow hair and blue eyes, played as well in Hong Kong as it did in Hollywood. Girls didn't care if Barbie didn't look like them. "It's all about fantasies and hair," said Peter Broegger, general manager of Mattel's Asian operations. "Blond Barbie sells just as well in Asia as in the U.S."

Major toy makers are rethinking one of the basic tenets of their $55 billion global industry—that children in different countries want different playthings. The implications are significant for both kids and companies. In the past, giants such as Mattel, Hasbro Inc., and LEGO Co. produced toys and gear in a variety of styles. Increasingly, they are designing and marketing one version worldwide. This shift has led to a series of massive merchandise blitzkriegs, with companies deluging boys and girls around the globe simultaneously with identical dolls, cars, and gadgets.

For example, Mattel's Rapunzel Barbie, whose ankle-length blonde locks cascade down her pink ball gown, was released on the same day that fall in 59 countries including the United States—the company's biggest product launch ever. In the first year, Rapunzel Barbie and related merchandise generated $200 million in global sales, nearly half of that outside the United States. Mattel no longer makes Asian-featured Barbies.

Two recent developments are changing kids' tastes. One is the rapid worldwide expansion of cable and satellite TV channels, which along with movies and the Internet expose millions of kids to the same popular icons. For example, Walt Disney Co. now operates 24 Disney-branded cable and satellite channels in 67 countries outside the United States—up from 0 a few years ago. The other development is the widening international reach of retailing giants such as Walmart Stores Inc., Toys "R" Us Inc., and Carrefour SA, which have opened thousands of stores outside their home markets. Increasingly, the mass retailers enter into exclusive deals with toy and consumer-products companies, allowing them to stage huge, coordinated promotional campaigns.

For example, when Rapunzel Barbie had its debut, Walmart stores in South Korea and China hired local women to dress up like the doll and greet children as they entered. At the same time, the Mattel TV ad campaign was broadcast around the world in 15-, 20-, and 30-second spots—in 35 different languages. Mattel's Barbie Web site, which has eight language options, featured Rapunzel stories and games. A computer-animated movie, called *Barbie as Rapunzel*, was broadcast on TV and released on video and DVD around the world, and it was even shown in some theaters overseas.

In Madrid, the launch was accompanied by a "premiere" of the movie and special promotions of comb sets and other accessories at Carrefour stores across Spain. After attending the premiere, the kids could and did buy the dolls. For some parents, this meant Christmas shopping later in the year at the often frenetic Toys "R" Us in Madrid for stuffed dragons from the movie or a Barbie laptop computer, a Barbie kitchen set, a Barbie travel van, and a host of other Barbie gadgets and accessories.

Few American companies sell toys in the Islamic world. Mattel, the world's largest toy company, has no plans to do so. Perhaps Disney's Jasmine will well sell there, though she's actually inappropriately dressed for many of Islamic faith. Jasmine is just one of the series of "Princess" dolls aimed directly at Barbie's dominance of the doll category. Snow White, Pocahontas, Mulan, and, most recently, Princess Tiana are others in the band. Their diversity may have broader appeal. Disney uses pink in the packaging. Disney is also mindful of the fashion-conscious Barbie critics. Disney Princess is more about tiaras and wands rather than handbags and high heels. Where Barbie is more a role model, and therefore more objectionable to parents, Disney is putting its emphasis on the fantasy. Too bad someone isn't emphasizing education.

Indeed, too bad for Mattel—despite the comprehensiveness of the integrated marketing communications plan, sales of Barbie have remained volatile. At times, competitors' more ethnically diverse product lines have sold better, including Mulan, Bratz, and Fulla, as described in Chapter 5. Having recently won a trademark lawsuit against an important competitor (Bratz), Barbie enjoyed a 12 percent increase in sales revenues in 2009. This increase in sales also reflects two important strategic changes for Barbie: (1) buying a license to produce the Disney Princesses and (2) releasing a line of ethnically diverse dolls—the So in Style Barbies are touted as "having a more authentic appearance, from their hair to their varying skin tones."

Sources: Lisa Bannon and Carlta Vitshum, "One-Toy-Fits-All: How Industry Learned to Love the Global Kid," *The Wall Street Journal*, April 29, 2003, p. A1; Christopher Palmeri, "Hair-Pulling in the Dollhouse," *BusinessWeek*, May 2, 2005, pp. 76–77; Charisse Jones, "Disney Adds African-American Princess Tiana to Royal Family," *USAToday*, February 16, 2009, online; Mary Ellen Lloyd, "Mattel Net Rises 86% as Barbie Sales Jump," *The Wall Street Journal*, January 30, 2010, online.

LO1

Local market characteristics that affect the advertising and promotion of products

Integrated marketing communications (IMC) are composed of advertising, sales promotions, trade shows, personal selling, direct selling, and public relations—almost all are included in the Barbie campaign described in the Global Perspective. Indeed, even the original *Wall Street Journal* story was most likely prompted by a company press release. All these mutually reinforcing elements of the promotional mix have as their common objective the successful sale of a product or service. In many markets, the availability of appropriate communication channels to customers can determine entry decisions. For example, most toy manufacturers would agree that toys cannot be marketed profitably in countries without commercial television advertising directed toward children. Thus, product and service development must be informed by research regarding the availability of communication channels. Once a market offering is developed to meet target market needs, intended customers must be informed of the offering's value and availability. Often different messages are appropriate for different communications channels, and vice versa.

For most companies, advertising and personal selling are the major components in the marketing communications mix. In this chapter, the other elements of IMC are briefly discussed first. The goal of most companies, large and small,[1] is to achieve the synergies possible when sales promotions, public relations efforts, and advertising are used in concert. However, the primary focus of this chapter is on international advertising. The topic of the next chapter is global sales management.

Sales Promotions in International Markets

Sales promotions are marketing activities that stimulate consumer purchases and improve retailer or middlemen effectiveness and cooperation. Cents-off, in-store demonstrations, samples, coupons, gifts, product tie-ins, contests, sweepstakes, sponsorship of special events such as concerts, the Olympics, fairs, and point-of-purchase displays are types of sales promotion devices designed to supplement advertising and personal selling in the promotional mix. The Rapunzel Barbie movie premiere is too.

LO2

The strengths and weaknesses of sales promotions and public relations in global marketing

Sales promotions are short-term efforts directed to the consumer or retailer to achieve such specific objectives as consumer product trial or immediate purchase, consumer introduction to the store or brand, gaining retail point-of-purchase displays, encouraging stores to stock the product, and supporting and augmenting advertising and personal sales efforts. For example, Procter & Gamble's introduction of Ariel detergent in Egypt included the "Ariel Road Show," a puppet show (not the Little Mermaid!) that was taken to local markets in villages, where more than half of all Egyptians still live. The show drew huge crowds, entertained people, told about Ariel's better performance without the use of additives, and sold the brand through a distribution van at a nominal discount. Besides creating brand awareness for Ariel, the road show helped overcome the reluctance of the rural retailers to handle the premium-priced Ariel. Perhaps our all-time favorite example in this genre is the Simpsons' international festival, sponsored by Fox in Hollywood. Spain's Simpson trivia champion defeated 11 other global contestants in the "Bart Bowl World Finals." Finally, while all software firms decry piracy in foreign markets as a costly crime, most recognize that in some sense it is actually a form of product trial.

In markets in which the consumer is hard to reach because of media limitations, the percentage of the promotional budget allocated to sales promotions may have to be increased. In some less developed countries, sales promotions constitute the major portion of the promotional effort in rural and less accessible parts of the market. In parts of Latin America, a portion of the advertising sales budget for both Pepsi-Cola and Coca-Cola is spent on carnival trucks, which make frequent trips to outlying villages to promote their products. When a carnival truck makes a stop in a village, it may show a movie or provide some other kind of entertainment; the price of admission is an unopened bottle of the product purchased from the local retailer. The unopened bottle is to be exchanged for a cold bottle plus a coupon for another bottle. This promotional effort tends to stimulate sales

[1] Ho Yin Wong and Bill Merrilees, "Determinants of SME International Marketing Communications," *Journal of Global Marketing* 1, no. 4 (2008), pp. 293–306.

and encourages local retailers, who are given prior notice of the carnival truck's arrival, to stock the product. Nearly 100 percent coverage of retailers in the village is achieved with this type of promotion. In other situations, village merchants may be given free samples, have the outsides of their stores painted, or receive clock signs in attempts to promote sales.

An especially effective promotional tool when the product concept is new or has a very small market share is product sampling. Nestlé Baby Foods faced such a problem in France in its attempt to gain share from Gerber, the leader. The company combined sampling with a novel sales promotion program to gain brand recognition and to build goodwill. Because most French people take off for a long vacation in the summertime, piling the whole family into the car and staying at well-maintained campgrounds, Nestlé provided rest-stop structures along the highway where parents could feed and change their babies. Sparkling clean *Le Relais Bébés* are located along main travel routes. Sixty-four hostesses at these rest stops welcome 120,000 baby visits and dispense 600,000 samples of baby food each year. There are free disposable diapers, a changing table, and high chairs for the babies to sit in while dining.

In China, Kraft began a grassroots IMC campaign to educate consumers about the American tradition of pairing milk with cookies. The company created an Oreo apprentice program at 30 Chinese universities that drew 6,000 applicants. Three hundred were trained to become Oreo ambassadors. Some rode around major Chinese cities on bicycles outfitted with wheel covers resembling Oreos, handing out samples to more than 300,000 consumers. Others held Oreo-themed basketball games to reinforce the idea of *dunking* cookies in milk. Television commercials showed kids twisting apart Oreo cookies, licking the cream center, and dipping the halves into glasses of milk. After languishing for many years in China, now Oreo is the best selling biscuit in the country.

One of our favorite sales promotions is the Microsoft/Burger King collaboration in Japan. To publicize the release of Windows 7, the two companies concocted a seven-patty, 2,120-calorie "Windows 7 Whopper" to sell for ¥777 (you can calculate the US$ price). The first 30 burgers sold each day at each of the company's 15 outlets sold at that price, and then the price doubled the rest of the day. Sales tallied more than 15,000 burgers the first week; YouTube videos showed customers trying to get their mouths around the monster. The publicity was a welcome change for Burger King since reentering the country in 2007. It had been chased out during a price war with 3,200-store-strong McDonald's in 2001. Burger King's return to Japan is part of its larger global strategy, involving expansion into Egypt, Hong Kong, and Poland.[2]

As is true in advertising, the success of a promotion may depend on local adaptation. Furthermore, research has shown that responses to promotions can vary across promotional types and cultures. Major constraints are imposed by local laws, which may not permit premiums or free gifts to be given. Some countries' laws control the amount of discount given at retail, others require permits for all sales promotions, and in at least one country, no competitor is permitted to spend more on a sales promotion than any other company selling the product. Effective sales promotions can enhance the advertising and personal selling efforts and, in some instances, may be effective substitutes when environmental constraints prevent the full utilization of advertising.

International Public Relations

Creating good relationships with the popular press and other media to help companies communicate messages to their publics—customers, the general public, and governmental regulators—is the role of **public relations (PR)**. The job consists of not only encouraging the press to cover positive stories about companies (as in the Barbie story) but also managing unfavorable rumors, stories, and events. Regarding the latter, the distinction between advertising and public relations has become an issue now considered by the United States Supreme Court. Nike was criticized for using "sweatshop" labor in Asia and responded to critics with paid advertising. The Court decided that freedom of

[2] Kenji Hall, "The (Hard to Install) Windows 7 Whopper," *BusinessWeek*, November 16, 2009, p. 28.

speech issues did not pertain to the ads, and the associated civil suit against the firm for false advertising could go forward. Indeed, Nike appears to have exacerbated and extended the problem from a public relations standpoint by taking the case all the way to the Supreme Court.

The importance of public relations in international marketing is perhaps best demonstrated by two major events in 2010: (1) the Google China political fight over censorship and hacking and (2) the Toyota brake pedal problem mentioned in Chapter 13. The most remarkable scene of all was Akio Toyoda, CEO of Toyota and grandson of the founder, bowing and profusely apologizing at a Congressional hearing in Washington, then only days later again bowing in contrition in Beijing. The spectacle was demanded by supporters (there are many in Congress) and critics among the publics and the governments in both countries.[3] Going from the centuries-old "bowing and apologizing" to the 21st century approach, we note that Toyota is also using social media to address the problem. To both disseminate information and monitor the fluid waters of public opinion, Toyota launched a branded channel of Tweetmeme with the help of Federated Media. Called Toyota Conversations, the channel features news stories, videos, and other information. It also shares tweets from Toyota's Twitter account and its own AdTweets, such as "5 Reasons to Buy a Toyota." Tweetmeme channels can be programmed to pick up only select news sources. So in contrast to the sober tone of stories in the *Los Angeles Times* and elsewhere, the mood is positive and light.[4]

The Toyota PR problem is strikingly reminiscent of the Bridgestone/Firestone Tires safety recall disaster of 2000. The Japanese company then was blamed for over 100 deaths in the United States because of its defective tires. True to form in such corporate disasters, the Japanese CEO of the American subsidiary "declared his full and personal responsibility" for the deaths at a U.S. Senate hearing. Such an approach is good public relations in Japan. However, in Washington, senators were not interested in apologies. Moreover, the company blamed its customer, Ford Motor Company, for the problems as well, accusing Ford of telling customers to underinflate the tires for a smoother ride. The problem spread to other markets—Saudi Arabia banned imports of vehicles equipped with Firestone tires. Unbelievably, the company's response to the Saudi action has been to denounce it as a violation of WTO agreements. Perhaps the company would have been better off promoting its ISO 9000 rating—remember the picture in Chapter 14 on page 405? By now the Bridgestone problem is certainly forgotten by almost all Americans; we wonder how long it will take the American public to forgive Toyota.

Public relations firms' billings in the international arena have been growing at double-digit rates for some years. Handling such international PR problems as global workplace standards and product safety recalls has become big business for companies serving corporate clients such as Mattel Toys,[5] McDonald's, and, of course, Nike. Fast growth is also being fueled by the expanding international communications industry. New companies need public relations consultation for "building an international profile," as the marketing manager of VDSL Systems explained when hiring MCC, a prominent British firm. Surprising growth is occurring in emerging markets like Russia as well. The industry itself is experiencing a wave of mergers and takeovers, including the blending of the largest international advertising agencies and the most well-established PR firms.

Corporate sponsorships might be classified as an aspect of sales promotions or public relations, though their connections to advertising are also manifest. Tobacco companies have been particularly creative at using sports event sponsorships to avoid countries' advertising regulations associated with more traditional media. Other prominent examples are Coca-Cola's sponsorship of European football (soccer) matches or Kia Motor's sponsorship of the Australian Open tennis tournament. McDonald's executed huge international

[3] David Pierson, "Toyota's President's Whirlwind Apology Tour Lands in China," *Los Angeles Times*, March 2, 2010, pp. B1, B6.

[4] Jessica Guynn, "Toyota Taps Twitter for Positive Spin," *Los Angeles Times*, March 4, 2010, p. B3.

[5] "Mattel Apologizes to China over Recall," *Associated Press*, September 21, 2007.

CROSSING BORDERS 16.1 PR in the PRC

In 1999 an industry was born in China when the Ministry of Labor and Social Security recognized public relations as a profession. These excerpts from the China Daily illustrate how institutions evolve in emerging economies:

> More laws are needed to regulate China's fledgling public relations profession, an industry leader said yesterday in Beijing. "To seize the enormous business opportunities promised by China's upcoming entry in the World Trade Organization, we need specific laws to regulate the market, curb malpractice and promote competency of local PR firms," said Li Yue, vice-director of the China International Public Relations Association. Her comments were made during a national symposium on public relations, also know as PR.
>
> Symposium delegates said they were concerned about the disorder in the PR industry and the frequent personnel changes in PR firms. They urged the passage of more laws to put an end to what many consider to be the chaos in the profession. Industry insiders cited a limited talent pool, cut-throat price wars and low professional standards as the industry's major problems.
>
> In the 1980s, most Chinese people would think of reception girls, lavish banquets, and the use of connections when public relations were mentioned. Now, public relations firms are seen as helping their clients gain better name recognition of their companies. They also manage corporate images.

Sources: "China: More Regulation of PR Sought," China Daily, January 20, 2000, p. 3; "PRW: The Top European PR Consultancies 2000," PR Week, June 23, 2000, p. 7; "PR Firms Gaining Experience by Working with Multinational Firms," Industry Updates, June 20, 2005; "Ogilvy Public Relations Worldwide/China and JL McGregor Announce Strategic Alliance," PR Newswire, June 13, 2007.

IMC campaigns surrounding its sponsorship of the 2000 Sydney Olympics. Included were Olympic-themed food promotions, packaging and in-store signs, TV and print ads, and Web chats with superstar athletes such as American basketball player Grant Hill. In addition to the various promotions targeting the 43 million daily customers in their 27,000 restaurants around the world, the firm targeted the athletes themselves. As the official restaurant partner, McDonald's got to operate seven restaurants in Sydney, including the two serving the Olympic Village. During the three weeks of the Games, nearly 1.5 million burgers were served to the athletes, officials, coaches, media staffers, and spectators. McDonald's continued this sort of official corporate support for the Athens (2004) and Beijing (2008) games as well. Finally, one of the more innovative sponsorship arrangements was Intel's agreement with the Tour de France to support the official Tour Web site, www.letour.com. Of course, all these aspects of IMC work best when coordinated and reinforced with a consistent advertising campaign, the topic covered in the rest of the chapter.

International Advertising

Since the turn of the century, growth in global advertising expenditures has slowed, particularly during the 2008–2009 global recession. At this writing, the data for 2009 are not yet available, but most estimates suggest a 10 percent drop in spending worldwide. During 2008 the 100 biggest global advertisers increased overall spending by 3.1 percent to $117.9 billion, despite a 3.7 percent decline in the United States. Amid this slow-growth global economic environment and fast technological churn, the advertising industry continues to undergo substantial restructuring. Also related to the technological revolution in media is a general conundrum about counting. That is, keeping track of the 100 biggest advertisers and their agencies is a relatively simple matter of record keeping and reporting. But as the nature, use, and monitoring of media churn, it becomes more difficult to define bases of comparison that support useful analyses.

Global mass media advertising is a powerful tool for cultural change,[6] and as such, it receives continuing scrutiny by a wide variety of institutions. One important study has shown that advertising expenditures are generally cyclical, though less so in relationship-oriented

[6] Xin Zhao and Russell W. Belk, "Politicizing Consumer Culture: Advertising's Appropriation of Political Ideology in China's Social Transition," *Journal of Consumer Research* 35, no. 2 (2008), pp. 231–44.

Integrated Marketing Communications (IMC) at Quiksilver

In marketing high-quality branded lifestyle products, image is everything. Quiksilver has been one of the most innovative companies in creating new ways to deliver the "the mountain and the wave" images around the world.

With global revenues exceeding $2 billion in recent years, Quiksilver has grown quite fast since its 1969 beginnings in Torquay, Australia. There Alan Green had started working on prototypes for a new kind of board short, using aspects of wetsuit technology such as snaps and Velcro flies. The new design proved more suitable for the demands of big-wave wipeouts. The "mountain and wave" logo followed in 1970.

Now Quiksilver is headquartered in Huntington Beach, California (aka Surf City), and is one of the leading firms in "Velcro Valley"—the actionwear capital of the world in Orange County. The Quiksilver brand family includes 15 brands, led by Quiksilver, Roxy, DC, and Rossignol. It counts among its markets six continents, over 90 countries, and 236 million youths. The majority of its sales are overseas: 45 percent in the Americas, 44 percent in Europe, and 11 percent in Asia Pacific. Quiksilver distributes its products worldwide through 406 company-owned stores, 245 licensed stores, and 56 stores in licensed and joint venture territories. The Quiksilver sales mix is composed of 58 percent apparel, 15 percent footwear, 14 percent winter sports equipment, and 13 percent accessories.

Exhibited on the front cover of this book (Roxy's sponsorship of Torah Bright, the 2010 Olympic gold medal winning snowboarder from Australia) and here is just a representative part of the breadth of Quiksilver's integrated marketing communications:

A billboard and store front in Moscow, Russia.

Roxy's sponsorship of Sofia Mulanovich, South America's first champion surfer.

At home in the OC, the company supports the Ocean Institute financially and with a visit from its Indies Trade boat, which travels the world promoting clean water environments and, of course, the company image.

Quiksilver sponsored the 2005 Great Wall of China first-ever leap by Danny Way, a southern California skateboarder.

The firm uses perhaps the broadest array of advertising media as well—from walls in Istanbul to an entertainment loaded Web site.

Greg Macias, Vice President of Marketing explains how IMC decisions are made:

Globally, Quiksilver has three major centers of management: U.S. (Huntington Beach, CA), Europe (Biarritz, France), and Asia Pacific (Torquay, Australia). There are other management offices in China, Indonesia, Korea, Brazil, Argentina, South Africa, Canada, and Japan.

The head marketers in each of the three major regions meet three times a year formally to discuss goals, strategy, and best practices. This also happens in the general management and retail disciplines.

Media decisions are made on a regional level. There are no "global buys."

We do have a global brand manager, and he oversees a budget that supports global initiatives, that is, initiatives that can have a significant global effect and can be utilized by each region. The best examples of this are athletes and Web casts of key events.

We agree to share a common brand promise, global goals, a singular logo and an annual art palette. Each region builds their own specific communication executions but many assets are shared so advertising looks fairly consistent.

Like most businesses, we are constantly changing and trying to improve our message, products, relationships, and business practices. In my humble opinion, our biggest asset is our ability to evolve and not get entrenched in tradition.

Exhibit 16.1
Top 20 Global Advertisers ($ millions)*

2008	2007	Advertiser	Headquarters	2008	Percent Change
1	1	Procter & Gamble Co.	Cincinnati	$9,731	0.0%
2	2	Unilever	London/Rotterdam	5,717	1.8
3	3	L'Oreal	Clichy, France	4,040	10.8
4	4	General Motors	Detroit	3,674	5.4
5	5	Toyota Motor Corp.	Toyota City, Japan	3,203	−3.2
6	8	Coca-Cola Co.	Atlanta, GA	2,673	13.5
7	7	Johnson & Johnson	New Brunswick, NJ	2,601	4.5
8	6	Ford Motor Co.	Detroit	2,448	−14.0
9	11	Reckitt Benckiser	Slough, Berkshire, UK	2,369	13.0
10	9	Nestle	Vevey, Switzerland	2,314	1.0
11	12	Volkswagen	Wolfsburg, Germany	2,309	15.4
12	10	Honda Motor Co.	Tokyo	2,220	4.6
13	15	Mars Inc.	McLean, VA	1,998	5.0
14	19	McDonald's Corp.	Oakbrook, IL	1,968	6.9
15	14	Sony Corp.	Tokyo	1,851	−3.3
16	17	GlaxoSmithKline	Brentford, Middlesex, UK	1,831	−3.2
17	20	Deutsche Telekom.	Bonn, Germany	1,812	7.7
18	18	Kraft Foods	Northfield, IL	1,792	−2.7
19	16	Nissan Motor Co.	Tokyo	1,716	−9.7
20	21	Walt Disney Co.	Burbank, CA	1,586	−2.0

*Figures are U.S. dollars in millions and are *AdvertisingAge* estimates.

Source: Advertising Age, 2010.

Exhibit 16.2
Top 100 Advertisers' Global Spending by Category ($ millions)

Source: Advertising Age, 2010.

Category	2008	Percent Change from 2007	Advertiser Count
Automotive	$25,613	0.1%	18
Personal care	25,480	3.4	11
Food	11,914	4.9	9
Drugs	10,323	1.8	11
Entertainment & Media	9,608	−1.8	7
Retail	5,968	17.8	8
Restaurants	4,289	9.6	4
Soft drinks	4,064	5.3	2
Telephone	3,974	2.7	4
Cleaners	3,829	10.7	3
Beer, wine, & liquor	2,681	2.1	5
Financial	2,595	−9.0	6
Electronics & imaging	2,100	8.9	3
Technology	2,035	−11.5	4
Electronics	1,846	20.7	2
Toys	1,607	12.8	3

countries where managers and regulators favor stability and long-term performance.[7] Most scholars agree that we are just beginning to understand some of the key issues involved in international advertising, but our knowledge will continue to be quite perishable as the revolution continues.

Exhibit 16.1 and 16.2 illustrate the biggest companies and product categories for international advertising. Although automotive companies dominate the lists, Procter & Gamble was the global champion of spending. Also, notice the lack of growth across many of the

[7] Barbara Deleersnyder, Marnik G. Dekimpe, Jan-Benedict E.M. Steenkamp, and Peter S.H. Leeflang, "The Role of National Culture in Advertising's Sensitivity to Business Cycles: An Investigation across Continents," *Journal of Marketing Research* 46, no. 5 (2009), pp. 623–36.

Exhibit 16.3a
Russia's Top Ten Advertisers ($ millions)

Source: From Special Report Global Marketing, Advertising Age, November 19, 2007. Copyright © 2010 Crain Communication. Reprinted with permission.

Advertiser	2008	Percent Change from 2007
Procter & Gamble Co.	$127.7	−32.7%
L'Oreal	72.9	−21.3
Mars Inc.	71.0	−30.1
Unilever	59.5	−29.8
Henkel	52.9	−24.8
Danone Group	40.8	−38.7
VimpelCom	40.6	−28.5
Coca-Cola Co.	40.6	−28.5
Sistema (financials)	39.3	−18.3
Reckitt Benckiser	39.0	−19.1

Exhibit 16.3b
China's Top Ten Advertisers ($ millions)

Source: From Special Report Global Marketing, Advertising Age, November 19, 2007. Copyright © 2010 Crain Communication. Reprinted with permission.

Advertiser	2008	Percent Change from 2007
Procter & Gamble Co.	$1079.1	−2.3%
Unilever	487.0	9.5
Harbin Pharma Group	435.8	0.2
L'Oreal	333.3	73.6
Yum! Brands	289.5	43.6
Shanghai Goldenpartner Biology Technology	270.8	18.6
Zhongdian Communicate Technology	245.7	847.7*
Hayao Group Sanchine Pharmacy	204.0	−4.1
Chine Mobile	199.7	3.1
Coca-Cola Co.	174.7	28.1

* This is correct.

categories and companies. We also broke out the spending patterns for two emerging markets in Exhibit 16.3. Demonstrated is a key difference in stages of development between China and Russia. Whereas the latter is dominated by foreign firms (eight of ten), China is creating its own home-grown brands (five). Judging by the relative progress of the two countries on this single criterion, China looks like it is further up the ladder of economic development.

Of all the elements of the marketing mix, decisions involving advertising are those most often affected by cultural differences among country markets. Consumers respond in terms of their culture, its style, feelings, value systems, attitudes, beliefs, and perceptions. Because advertising's function is to interpret or translate the qualities of products and services in terms of consumer needs, wants, desires, and aspirations, the emotional appeals, symbols, persuasive approaches, and other characteristics of an advertisement must coincide with cultural norms if the ad is to be effective.

Reconciling an international advertising campaign with the cultural uniqueness of markets is the challenge confronting the international or global marketer. The basic framework and concepts of international advertising are essentially the same wherever employed. Seven steps are involved:

1. Perform marketing research.
2. Specify the goals of the communication.
3. Develop the most effective message(s) for the market segments selected.
4. Select effective media.
5. Compose and secure a budget based on what is required to meet goals.
6. Execute the campaign.
7. Evaluate the campaign relative to the goals specified.

Of these seven steps, developing messages almost always represents the most daunting task for international marketing managers. So, that topic is emphasized here. Nuances of international media are then discussed. Advertising agencies are ordinarily involved in all seven steps and are the subject of a separate section. Finally, the chapter closes with a discussion of broader issues of governmental controls on advertising.

Advertising Strategy and Goals

LO3

When global advertising is most effective; when modified advertising is necessary

The goals of advertising around the world vary substantially. For example, Chinese manufacturers are establishing new brands as their economy expands; Unilever is introducing a new product-line extension, Dove Shampoo, in East Asian markets; and Russia's airline Aeroflot is seeking to upgrade its quality image. All these marketing problems require careful marketing research and thoughtful and creative advertising campaigns in country, regional, and global markets.

Intense competition for world markets and the increasing sophistication of foreign consumers have led to the need for more sophisticated advertising strategies. Increased costs, problems of coordinating advertising programs in multiple countries, and a desire for a broader company or product image have caused multinational companies (MNCs) to seek greater control and efficiency without sacrificing local responsiveness. In the quest for more effective and responsive promotion programs, the policies covering centralized or decentralized authority, use of single or multiple foreign or domestic agencies, appropriation and allocation procedures, copy, media, and research are being examined. More and more multinational companies can be seen to be managing the balance between standardization of advertising themes and customization.[8] And recently, as described in Chapter 13, more companies are favoring the latter.

A case in point is the Gillette Company, which sells 800 products in more than 200 countries. Gillette has a consistent worldwide image as a masculine, sports-oriented company, but its products have no such consistent image. Its razors, blades, toiletries, and cosmetics are known by many names. Trac II blades in the United States are more widely known worldwide as G-II, and Atra blades are called Contour in Europe and Asia. Silkience hair conditioner is known as Soyance in France, Sientel in Italy, and Silkience in Germany. Whether or not global brand names could have been chosen for Gillette's many existing products is speculative. However, Gillette's current corporate philosophy of globalization provides for an umbrella statement, "Gillette, the Best a Man Can Get," in all advertisements for men's toiletries products in the hope of providing some common image.

A similar situation exists for Unilever, which sells a cleaning liquid called Vif in Switzerland, Viss in Germany, Jif in Britain and Greece, and Cif in France. This situation is a result of Unilever marketing separately to each of these countries. At this point, it would be difficult for Gillette or Unilever to standardize their brand names, because each brand

These vehicular ads make an effective advertising medium even in a dense London fog. Because most London cabs are black, the Snickers ad catches the eye immediately.

[8] Ali Kanso and Richard Alan Nelson, "Advertising Localization Overshadows Standardization," *Journal of Advertising Research* 42, no. 1 (January–February 2002), pp. 79–89; Charles R. Taylor, "Who Standardizes Advertising More Frequently, and Why Do They Do So? A Comparison of U.S. and Japanese Subsidiaries' Advertising Practices in the European Union," *Journal of International Marketing* 14 (2006), pp. 98–120; Kineta H. Hung, Stella Yiyan Li, and Russell W. Belk, "Global Understandings: Female Readers' Perceptions of the New Woman in Chinese Advertising," *Journal of International Business Studies* 38 (2007), pp. 1034–51.

Product Attribute and Benefit Segmentation

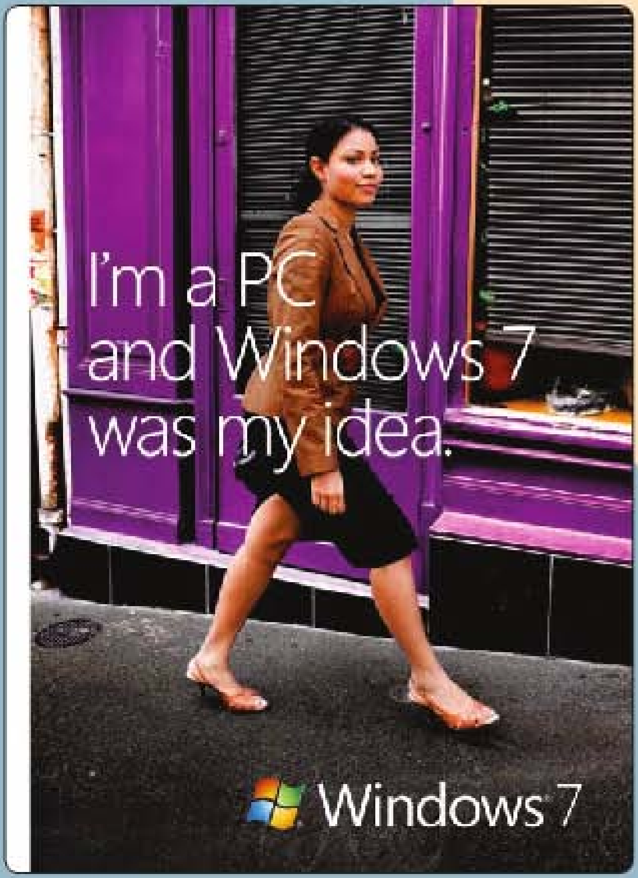
Regional Segmentation

IMC at Microsoft

Microsoft's mission is "to enable people and businesses throughout the world to realize their full potential … via creating technology that transforms the way people work, play, and communicate." Of its $58 billion in worldwide revenue, Microsoft spent more than $1 billion in integrated marketing communications (IMC) in 2009. Although the company's overall sales fell 3.5 percent in that difficult year, international sales grew to 43 percent of revenues, up from 41 percent in 2008. Represented on these pages are international IMC campaigns for two of Microsoft's key market offerings, Windows 7 and Halo3: ODST.

The firm has five divisions:

1. With more than $14 billion in 2009 revenues, "Client" market offerings include Windows operating systems, the newest of which is Windows 7. Key competitors for the division are Unix, Apple, Canonical, and Red Hat.
2. "Server and Tools" offerings include the Windows Server operating system and associated products and services. Sales in 2009 were also over $14 billion, and competitors include Linux, IBM, and Sun Microsystems.
3. "Online Services Business" offerings include Bing, Microsoft adCenter/adExpert, and other online advertising products and services. Revenues were $3 billion, and competitors are AOL, Google, and Yahoo!, among others.
4. "Microsoft Business Division" offerings are software and online services, such as Microsoft Office and Microsoft Dynamics CRM. Adobe, Apple, and Google are among its major competitors.
5. The "Entertainment and Devices Division" offers Xbox 360 consoles and games, Xbox Live, Zune, and several other products and services, including the most successful video game, Halo3: ODST. Revenues in 2009 were almost $8 billion, with a competitor list including Nintendo and Sony.



Windows 7

Windows 7 is primarily sold to original equipment computer manufacturers (OEM) and secondarily to consumers worldwide. The OEM customers include Hewlett-Packard, Dell, Toshiba (Japan), Lenovo (China), and even Apple. The ads presented here were developed by a new advertising agency for Microsoft, Crispin Porter + Bogusky. You can see the same imagery used in all countries, but the copy theme, "I'm a PC, and Windows 7 was my idea," was translated and adapted for the German and French markets. The French version says, "I said I wanted a more intuitive PC, and there it is, more intuitive. No one can refuse me anything." The German reads, "I said, 'Improve the security,' and they did. Did I do that or did I do that?" While ease of use is an important product attribute in France; in Germany, security is more important. "I'm a PC" does not make much sense outside the United States.

Because the potential users of Windows 7 around the world often share key demographic characteristics and usage patterns, advertising needs only a modicum of adaptation. The campaign has included television, print, online, and outdoor media, as well as student discounts in several countries. Windows 7 has been an important success for Microsoft (particularly in relation to Vista), selling more than 90 million licenses worldwide its first year.

HALO3: ODST

Video games sold by Microsoft add to revenues directly while stimulating Xbox sales as well. Halo3: ODST (Orbital Drop Shock Trooper) is a first-person shooter video game developed by Bungie and published by Microsoft. Upon its release in the fall of 2009, it quickly became the top-selling Xbox 360 game, with more than 3 million copies sold worldwide at $60 for the two-disk set. Approximately 40 percent of these sales were international.

Marketing the game began with hints in the media in 2008, and then a full trailer for the game was shown at the Tokyo Game Show in October 2008. Before the game's release, it topped Amazon.com's preorder list for 107 days. The advertising campaign included numerous promotional materials released through Xbox Live, online outlets, print, and televised advertising. Marvel Comics also published a limited-edition comic series featuring ODST's main characters. Bungie and Microsoft sponsored an official launch event at the Experience Music Project and Science Fiction Museum and Hall of Fame in Seattle; it included discussion panels and advance looks. GameStop put on more than 3,500 launch parties across the United States.

While the game itself is offered only in English, advertising copy is translated into a dozen languages. See three banner ads as examples above. The look of the advertising (and the game itself) is little adapted for international markets—the demographics and usage patterns of gamers are relatively consistent around the world. You will notice from the warning labels that Japan has adopted the U.S. approach, whereas the Spanish-speaking markets are more diverse, just listing that it is appropriate for ages "16+." As mentioned earlier in the text, Germany has special restrictions with respect to violence in video games, and the first-person shooter genre is less popular there than in other cultures.

Project Natal, Branded "Kinect"

International advertising and marketing communications became much more interesting for the Entertainment and Devices Division of Microsoft in 2010. Around Christmas of that year, Natal (branded as Kinect), a controller-free gaming and entertainment experience, is scheduled for launch globally. The firm expects the revolutionary product to give birth (natal means "birth" in English and, conveniently, "Christmas" in Portuguese) to a variety of new associated products and services for Microsoft, in an effect similar to Apple's iPhone. See YouTube.com for previews of the new levels of interactivity supported by the device. Project Natal was first announced on June 1, 2009, at the E3 2009 Trade Show, and more than 1,000 development kits were shipped to game developers that same day.

Because the potential array of games and interactivities is so great and thus appeals to broad swathes of consumers around the world, international marketing efforts for Kinect will require new levels of cultural adaptation of Microsoft's associated products, services, and consumer communications.

expands, it will become more common for markets to be exposed to multiple messages and brands of the same product. To avoid the confusion that results when a market is exposed to multiple brand names and advertising messages, as well as for reasons of efficiency, companies strive for harmony in brand names, advertising, and promotions across Europe.

Along with changes in behavior patterns, legal restrictions are slowly being eliminated, and viable market segments across country markets are emerging. Although Europe will never be a single homogeneous market for every product, that does not mean that companies should shun the idea of developing European-wide promotional programs. A pan-European promotional strategy would mean identifying a market segment across all European countries and designing a promotional concept appealing to market segment similarities.

The Message: Creative Challenges

Global Advertising and the Communications Process

LO4

The communication process and advertising misfires

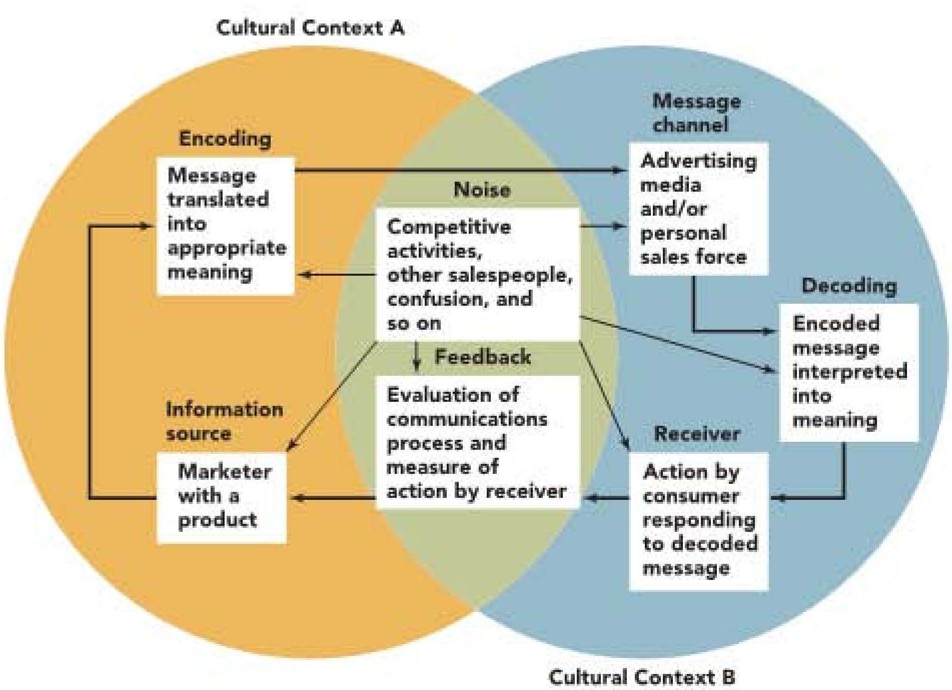
International communications may fail for a variety of reasons: A message may not get through because of media inadequacy, the message may be received by the intended audience but not be understood because of different cultural interpretations, or the message may reach the intended audience and be understood but have no effect because the marketer did not correctly assess the needs and wants or even the thinking processes[9] of the target market.

In the international communications process, each of the seven identifiable steps ultimately can affect the accuracy of the process. As illustrated in Exhibit 16.4, the process consists of the following:

1. **An information source.** An international marketing executive with a product message to communicate.
2. **Encoding.** The message from the source converted into effective symbolism for transmission to a receiver.
3. **A message channel.** The sales force and/or advertising media that convey the encoded message to the intended receiver.
4. **Decoding.** The interpretation by the receiver of the symbolism transmitted from the information source.

[9]Jennifer Aaker, "Accessibility or Diagnosticity? Disentangling the Influence of Culture on Persuasion Processes and Attitudes," *Journal of Consumer Research* 26, no. 4 (March 2000), pp. 340–57.

Exhibit 16.4
The International Communications Process



5. **Receiver.** Consumer action by those who receive the message and are the target for the thought transmitted.
6. **Feedback.** Information about the effectiveness of the message that flows from the receiver (the intended target) back to the information source for evaluation of the effectiveness of the process.
7. **Noise.** Uncontrollable and unpredictable influences such as competitive activities and confusion that detract from the process and affect any or all of the other six steps.

Unfortunately, the process is not as simple as just sending a message via a medium to a receiver and being certain that the intended message sent is the same one perceived by the receiver. In Exhibit 16.4, the communications process steps are encased in Cultural Context A and Cultural Context B to illustrate the influences complicating the process when the message is encoded in one culture and decoded in another. If not properly considered, the different cultural contexts can increase the probability of misunderstandings. Research in the area suggests that effective communication demands the existence of a "psychological overlap" between the sender and the receiver; otherwise, a message falling outside the receiver's perceptual field may transmit an unintended meaning. It is in this area that even the most experienced companies make blunders.

Most promotional misfires or mistakes in international marketing are attributable to one or several of these steps not properly reflecting cultural influences or a general lack of knowledge about the target market. Referring to Exhibit 16.4, the information source is a marketer with a product to sell to a specific target market. The product message to be conveyed should reflect the needs and wants of the target market; however, often the actual market needs and the marketer's perception of them do not coincide. This disconnect is especially true when the marketer relies more on the self-reference criterion (SRC) than on effective research. It can never be assumed that "if it sells well in one country, it will sell in another." For instance, bicycles designed and sold in the United States to consumers fulfilling recreational exercise needs are not sold as effectively for the same reason in a market where the primary use of the bicycle is transportation. Cavity-reducing fluoride toothpaste sells well in the United States, where healthy teeth are perceived as important, but has limited appeal in markets such as Great Britain and the French areas of Canada, where the reason for buying toothpaste is breath control. From the onset of the communications process, if basic needs are incorrectly defined, communications fail because an incorrect or meaningless message is received, even though the remaining steps in the process are executed properly.

The encoding step causes problems even with a "proper" message. At this step, such factors as color,[10] timing, values, beliefs, humor, tastes, and appropriateness of spokespersons[11] can cause the international marketer to symbolize the message incorrectly. For example, the marketer wants the product to convey coolness so the color green is used; however, people in the tropics might decode green as dangerous or associate it with disease. Another example of the encoding process misfiring was a perfume presented against a backdrop of rain that, for Europeans, symbolized a clean, cool, refreshing image but to Africans was a symbol of fertility. The ad prompted many viewers to ask if the perfume was effective against infertility.

Problems of literacy, media availability, and types of media create challenges in the communications process at the encoding step. Message channels must be carefully selected if an encoded message is to reach the consumer. Errors such as using the Internet as a medium when only a small percentage of an intended market has access to the Internet, or using print media for a channel of communications when the majority of the intended users cannot read or do not read the language in the medium, are examples of ineffective media channel selection in the communications process.

[10]Elizabeth G. Miller, "Shades of Meaning: The Effect of Color and Flavor Names on Consumer Choice," *Journal of Consumer Research* 32 (2005), pp. 86–92.

[11]Drew Martin and Arch G. Woodside, "Dochakuka: Melding Global Inside Local: Foreign-Domestic Advertising Assimilation in Japan," *Journal of Global Marketing* 21 (2007), pp. 19–32.

Red Works! Since we first wrote about the color's power some 10 years ago, a lot has been happening.[12] Notice the Coke advantage at work—the red contrasts with the outdoor environment, while the Cristal aqua blends more with the blue sky and trees. Cristal is a popular brand of bottled water actually owned by Coca-Cola and sold in the Yucatan Peninsula in Mexico. The Coke ads are emblazoned on a café in the central plaza of Canas, Costa Rica. Or you can spend it like Beckham—in addition to Vodafone and Nike on his jersey, David Beckham, here in his Manchester United red, also represented Pepsi, Adidas, Castrol, Upper Deck, Marks & Spencer, Police, Meiji, Tokyo Beauty Center, etc., etc., etc. The Spanish soccer power Real Madrid spent $40 million buying Beckham's contract from his British home team, and then the Los Angeles Galaxy moved him there. One disadvantage of the moves south—the white jerseys of the Spanish and American teams don't catch the eye as did the Manchester United red. Most recently Beckham has teamed up with the Red campaign (along with Oprah and Bono) to promote products of firms that donate revenues to the Global Fund to Fight AIDS. Other firms involved in the project include are Dell, Microsoft, American Express, Armani, Converse, Hallmark, Apple, and The Gap.[13] We also note that the world's most famous athlete is not Beckham, or even last-day-red-shirt-wearing Tiger Woods. Instead, it's Formula 1 racecar driver Michael Schumacher. The German has made more money than any other sports figure as he dominates the sport most watched on television globally. And the flamboyant red jumpsuit and red Ferraris helped. The other red brands—Marlboro and Vodafone—loved him too. Alas, now Schumacher, like Beckham, has aged and has shed his Ferrari red for Mercedes white, and his performance has lagged. Maybe it's the color? Finally, we note how well the mostly red SFR (a French mobile phone company with more than 20 million clients that sponsored the 2010 European X Games) logo stands out against Torah Bright's Roxy black on the book cover.

[12]Elisabeth A. Sullivan, "Color Me Profitable," *Marketing News*, October 15, 2008, p. 8; Andrew J. Elliot and Daniela Niesta, "Romantic Red: Red Enhances Men's Attraction to Women," *Journal of Personality and Social Psychology* 95, no. 5 (2008), pp. 1150–64; Ravi Mehta and Rui (Juliet) Zhu, "Blue or Red? Exploring the Effect of Color on Cognitive Task Performances," *Science* 323 (2009), pp. 1226–29.

[13]Ron Nixon, "Little Green for (Red)," *The New York Times*, February 6, 2008, pp. C1, C5.

Why would both Coke and McDonald's shed their eye-catching red logos for black and white? You can see the answers at the bottom of page 493 at the end of this chapter. The stadium pictured is in Buenos Aires, is popularly called La Bombonera, is officially named Albierto Armano, is the home of the club team Boca Junior, and was the home team for Argentina's most famous futbol player ever, Maradona. The McDonald's (yes, the arches are usually gold, but the brand name is red) sits adjacent to the city square in the old Inca Empire capital at Cuzco, Peru. Finally, even PepsiCo is blushing over Coke's dominance: It's introducing an all-red can in China.[14] If it succeeds there, perhaps Pepsi will just match other countries' flags as well—red, white, and blue works not only in the United States but in Russia and France as well.

Decoding problems are generally created by improper encoding, which caused such errors as Pepsi's "Come Alive" slogan being decoded as "Come out of the grave." Chevrolet's brand name for the Nova model (which means new star) was decoded into Spanish as *No Va!,* meaning "it doesn't go." In another misstep, a translation that was supposed to be decoded as "hydraulic ram" was instead decoded as "wet sheep." In a Nigerian ad, a platinum blonde sitting next to the driver of a Renault was intended to enhance the image of the automobile. However, the model was perceived as not respectable and so created a feeling of shame. An ad used for Eveready Energizer batteries with the Energizer bunny was seen by Hungarian consumers as touting a bunny toy, not a battery.

Decoding errors may also occur accidentally, as was the case with Colgate-Palmolive's selection of the brand name Cue for toothpaste. The brand name was not intended to have any symbolism; nevertheless, it was decoded by the French into a pornographic word. In some cases, the intended symbolism has no meaning to the decoder. In an ad transferred from the United States, the irony of tough-guy actor Tom Selleck standing atop a mountain with a steaming mug of Lipton tea was lost on eastern Europeans.

Errors at the receiver end of the process generally result from a combination of factors: an improper message resulting from incorrect knowledge of use patterns, poor encoding producing a meaningless message, poor media selection that does not get the message to the receiver, or inaccurate decoding by the receiver so that the message is garbled or incorrect. Even bad luck comes into play. Recall that French's mustard was boycotted (along with French wines, fries, etc.) by Americans when the Paris government did not go along with the attack in Iraq in 2003—even though the brand name has nothing to do with the country and is an American brand.

Finally, the feedback step of the communications process is important as a check on the effectiveness of the other steps. Companies that do not measure their communications efforts are likely to allow errors of source, encoding, media selection, decoding, or receiver to continue longer than necessary. In fact, a proper feedback system (ad testing) allows a company to correct errors before substantial damage occurs.

In addition to the problems inherent in the steps outlined, the effectiveness of the international communications process can be impaired by noise. **Noise** comprises all other

[14]Loretta Chao and Betsy McKay, "Pepsi Steps into Coke Realm: Red China," *The Wall Street Journal* (online), September 12, 2007.

City streets in Singapore are alive with advertising. California Fitness Centers in Southeast Asia are owned by America's 24-hour Fitness Centers. Obviously the image of "bodyland" southern California sells well around the world. However, there's an interesting irony in that brand name for Muslim customers. The word California first appears in the eleventh-century epic poem The Song of Roland; there it literally means the "caliph's domain"—the Caliph of Baghdad ruled the Islamic Empire then. The Spaniards who named California in the early 1500s thought they were in Asia! Moreover, the deeper meaning of the brand name is lost even on the modern Muslims who comprise 15 percent of Singapore's current population!

external influences, such as competitive advertising, other sales personnel, and confusion at the receiving end, that can detract from the ultimate effectiveness of the communication. Noise is a disruptive force interfering with the process at any step and is frequently beyond the control of the sender or the receiver. As Exhibit 16.4 illustrates with the overlapping cultural contexts, noise can emanate from activity in either culture or be caused by the influences of the overlapping of the cultural contexts.

The model's significance is that one or all steps in the process, cultural factors, or the marketer's SRC can affect the ultimate success of the communication. For example, the message, encoding, media, and intended receiver can be designed perfectly, but the inability of the receiver to decode may render the final message inoperative. In developing advertising messages, the international marketer can effectively use this model as a guide to help ensure that all potential constraints and problems are considered so that the final communication received and the action taken correspond with the intent of the source.

The growing intensity of international competition, coupled with the complexity of multinational marketing, demands that the international advertiser function at the highest creative level. The creative task is made more daunting by other kinds of barriers to effective communications—legal, linguistic, cultural, media, production, and cost considerations.

Legal Constraints

LO5

The effects of a single European market on advertising

Laws that control comparative advertising vary from country to country in Europe. In Germany, it is illegal to use any comparative terminology; you can be sued by a competitor if you do. Belgium and Luxembourg explicitly ban comparative advertising, whereas it is clearly authorized in the United Kingdom, Ireland, Spain, and Portugal. The directive covering comparative advertising allows implicit comparisons that do not name competitors but bans explicit comparisons between named products. The European Commission issued several directives to harmonize the laws governing advertising. However, member states are given substantial latitude to cover issues under their jurisdiction. Many fear that if the laws are not harmonized, member states may close their borders to advertising that does not respect their national rules.

Comparative advertising is heavily regulated in other parts of the world as well. In Asia, an advertisement showing chimps choosing Pepsi over Coke was banned from most satellite television; the phrase "the leading cola" was accepted only in the Philippines. An Indian court ordered Lever to cease claiming that its New Pepsodent toothpaste was "102% better" than the leading brand. Colgate, the leading brand, was never mentioned in the advertisement, though a model was shown mouthing the word "Colgate" and the image was accompanied by a "ting" sound recognized in all Colgate ads as the ring of confidence. Banning explicit comparisons will rule out an effective advertising approach heavily used by U.S. companies at home and in other countries where it is permitted. Finally, even as

CROSSING BORDERS 16.2 Joe Canuck Bashes America

Standing foursquare in front of a screen flashing Canadian symbols—beavers, Ottawa's Peace Tower, the Maple Leaf flag—an average Joe Canuck in a checked flannel shirt rips into American misperceptions about his country.

"I have a prime minister, not a president. I speak English or French, not American," he says, voice swelling with emotion. "And I pronounce it 'about,' not 'aboot.'"

"I believe in peacekeeping, not policing; diversity, not assimilation," he goes on in the 60-second television spot as the national icons loom over his shoulder. "And that the beaver is a proud and noble animal."

Strangely, in a country known for its aversion to the sort of rah-rah jingoism associated with its southern neighbor, this nationalistic tirade became an overnight sensation: taped and shown in bars, filling megascreens at hockey games, performed live in movie theaters.

Stranger still was the revved-up public reaction the ad evoked in this notoriously reticent land: wild cheers, stamping feet, frantic flag waving, and fists punching the air. And perhaps strangest of all, the spot was not the cunning propaganda of some ultrapatriot cabal but a commercial for Molson Canadian beer.

The irony—the director of the commercial is an American, Kevin Donovan. Perhaps they'll make him an honorary Canuck!

Finally, the Canadians' latest cause to celebrate is its hockey gold medal in the Vancouver Olympics. Since the United States was gracious in its loss, now the Europeans are the focus of their ire—according to a Canadian fanatic commenting on American hockey, "They play North American style hockey, the hockey we Canadians play on the beaver ponds and flooded fields and outdoor rinks up here, not the wimpy, whiny, cry-to-the-ref European style, which doesn't even deserve to be played on North American rinks."

Sources: Colin Nickerson, "Anti-U.S. Beer Ad Is So Canada," Orange County Register, April 15, 2000, pp. 29, 42; Paula Lyon Andruss, "Understanding Canada," Marketing News, March 15, 2001, pp. 1, 11; Sam Bufalini, "Cheap Thrills South of the Border," Globe and Mail, June 13, 2007, p. T3; The Wall Street Journal, March 15, 2008; Michael Devolin (Tweed, Ontario), The New York Times, March 2, 2010, p. B15.

comparative advertising restrictions are lifted, international marketers will have to carefully consider consumers' responses to novel advertising campaigns in this genre.[15]

A variety of restrictions on advertising of specific products exist around the world. Advertising of pharmaceuticals is restricted in many countries. For example, critics in Canada complain that laws there have not been revised in 50 years and have been rendered obsolete by the advent of TV and, more recently, the Internet. Toy, tobacco, and liquor advertising is restricted in numerous countries. The French government until recently forbade TV ads for retailers, publishing, cinema, and the press.

Advertising on television is strictly controlled in many countries. China is relaxing some regulations while strengthening others. For example, recently the government began to require concrete proof of ad claims and banned pigs in advertising—the latter in deference to its Muslim minorities.[16] While the Chinese government is doing little to regulate product placement advertisements,[17] the European Union limits product placement in foreign programming but not EU-produced material. In Kuwait, the government-controlled TV network allows only 32 minutes of advertising per day, in the evening. Commercials are controlled to exclude superlative descriptions, indecent words, fearful or shocking shots, indecent clothing or dancing, contests, hatred or revenge shots, ethnic derision, and attacks on competition. Russian law forbids subliminal advertising, but it is still prevalent there because enforcement resources are lacking.

[15]Carolyn White Nye, Martin S. Roth, and Terence A. Shimp, "Comparative Advertising in Markets where Brands and Comparative Advertising Are Novel," *Journal of International Business Studies* 39, no. 5 (2008), pp. 851–63.

[16]Gordon Fairclough and Geoffrey A. Fowler, "Pigs Get the Ax in China TV Ads in Nod to Muslims," *The Wall Street Journal*, January 25, 2007, pp. A1, A16.

[17]Geoffrey A. Fowler, "Is It a TV Show or an Ad? Line Is Blurring in China," *The Wall Street Journal*, July 11, 2007, pp. B1, B3.

Some country laws against accessibility to broadcast media seem to be softening. Australia ended a ban on cable television spots, and Malaysia is considering changing the rules to allow foreign commercials to air on newly legalized satellite signals. However, with rare exceptions, all commercials on Malaysian television still must be made in Malaysia.

Companies that rely on television infomercials and television shopping are restricted by the limitations placed on the length and number of television commercials permitted when their programs are classified as advertisements. The levels of restrictions in the European Union vary widely, from no advertising on the BBC in the United Kingdom to member states that limit advertising to a maximum of 15 percent of programming daily. The Television without Frontiers directive permits stricter or more detailed rules to the broadcasters under jurisdiction of each member state. In Germany, for example, commercials must be spaced at least 20 minutes apart and total ad time may not exceed 12 minutes per hour. Commercial stations in the United Kingdom are limited to 7 minutes per hour.

Internet services are especially vulnerable as EU member states decide which area of regulation should apply to these services. Barriers to pan-European services will arise if some member states opt to apply television-broadcasting rules to the Internet while other countries apply print-media advertising rules. The good news is that the European Union is addressing the issue of regulation of activities on the Internet. Although most of the attention will be focused on domain names and Internet addresses, the European Commission does recognize that online activities will be severely hampered if subject to fragmented regulation.

Some countries have special taxes that apply to advertising, which might restrict creative freedom in media selection. The tax structure in Austria best illustrates how advertising taxation can distort media choice by changing the cost ratios of various media: Federal states, with the exception of Bergenland and Tyrol, tax ad insertions at 10 percent; states and municipalities tax posters at 10 to 30 percent. Radio advertising carries a 10 percent tax, except in Tyrol, where it is 20 percent. Salzburg, Steiermark, Karnten, and Voralbert impose no tax. There is a uniform tax of 10 percent throughout the country on television ads. Cinema advertising has a 10 percent tax in Vienna, 20 percent in Bergenland, and 30 percent in Steiermark. There is no cinema tax in the other federal states.

Linguistic Limitations

Language is one of the major barriers to effective communication through advertising. The problem involves different languages of different countries, different languages[18] or dialects within one country, and the subtler problems of linguistic nuance, argument style,[19] vernacular, and even accent. Indeed, recently an Irish accent was voted "sexiest" in Britain and Ireland, beating the competition from the Scots, Welsh, Geordies, Brummies, West Country, and "posh English" contenders.[20] For many countries language is a matter of cultural pride and preservation—France is the best example, of course.

Incautious handling of language has created problems in all countries.[21] Some examples suffice. Chrysler Corporation was nearly laughed out of Spain when it translated its U.S. theme that advertised "Dart Is Power." To the Spanish, the phrase implied that buyers sought but lacked sexual vigor. The Bacardi Company concocted a fruity bitters with a made-up name, Pavane, suggestive of French chic. Bacardi wanted to sell the drink in Germany, but Pavane is perilously close to *pavian,* which means "baboon." A company marketing tomato paste in the Middle East found that in Arabic the phrase "tomato paste" translates as "tomato glue." In Spanish-speaking countries, you have to be careful of words that have different meanings in the different countries. The word *ball* translates in Spanish as *bola,* which means

[18]David Luna and Laura A. Peracchio, "Advertising to Bilingual Consumers: The Impact of Code-Switching on Persuasion," *Journal of Consumer Research* 31, no. 2 (2005), pp. 57–73; David Luna, Dawn Lerman, and Laura A. Peracchio, "Structural Constraints in Code-Switched Advertising," *Journal of Consumer Research* 32 (2005), pp. 416–23.

[19]Lefa Teng and Michel Laroche, "Interactive Effects of Appeals, Arguments, and Competition across North American and Chinese Cultures," *Journal of International Marketing* 14 (2006), pp. 110–28; Sharon Begley, "What's in a Word," *Newsweek*, January 8, 2010, p. 31.

[20]Nicola Anderson, "Sexy Accent Makes Us Talk of the Town," *Irish Independent*, March 27, 2004, p. 7.

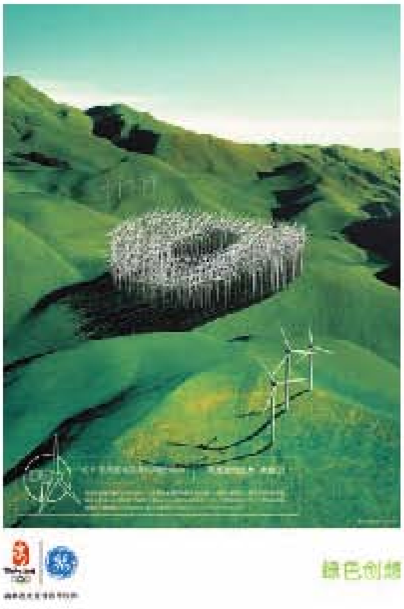
[21]See http://www.engrish.com for a wide range of (mostly) humorous translation problems related to the use of English for Japanese products, signage, and so on.

ball in one country, revolution in another, a lie or fabrication in another and an obscenity in yet another. Most recently, the product name iPad has raised issues around the world. Even in the United States, women reflexively relate the word "pad" to hygiene products. In Ireland consumers complain that the names iPod and iPad sound exactly the same, and Japanese does not have a sound for the letter "a" in iPad. Adding injury to insult, but in a legal way, other companies in the United States, Switzerland, and Japan already have trademarks for the name.[22]

Tropicana brand orange juice was advertised as *jugo de China* in Puerto Rico, but when transported to Miami's Cuban community, it failed. To the Puerto Rican, *China* translated into *orange*, but to the Cuban-American it was China the country—and the

[22]Brad Stone, "What's in a Name? For Apple, iPad Said More than Intended," *The New York Times*, January 10, 2010, pp. A1, A3.

The "true ting" in Jamaica is a grapefruit-flavored soft drink. The name brand is, of course, a take off on "the real thing" advertising of Coca-Cola some decades ago. "Ting" is obviously a Creole version of "thing" for Jamaicans. Perhaps the best billboards ever are the giant bulls posted on hillsides around rural Spain. They were originally meant to advertise Osborne Brandy, but they have evolved into a national symbol. Not even Coca-Cola can make that strong a claim. Finally, GE joined with the Chinese government in promoting a green 2008 Olympics. Ironically, many folks around the world see outdoor advertising itself as a kind of pollution!



Cuban-Americans were not in the market for "communist" juice. "A whole new range of products" in a German advertisement came out as "a whole new stove of products."

Language raises innumerable barriers that impede effective, idiomatic translation and thereby hamper communication. This barrier is especially apparent in advertising materials and on the Internet.[23] Abstraction, terse writing, and word economy, the most effective tools of the advertiser, pose problems for translators. Communication is impeded by the great diversity of cultural heritage and education that exists within countries and that causes varying interpretations of even single sentences and simple concepts. Some companies have tried to solve the translation problem by hiring foreign translators who live in the United States. This option often is not satisfactory because both the language and the translator change, so the expatriate in the United States is out of touch after a few years. Everyday words have different meanings in different cultures. Even pronunciation causes problems: Wrigley had trouble selling its Spearmint gum in Germany until it changed the spelling to Speermint.

In addition to translation challenges, low literacy in many countries seriously impedes communications and calls for greater creativity and use of verbal media. Multiple languages within a country or advertising area pose another problem for the advertiser. Even a tiny country such as Switzerland has four separate languages. The melting-pot character of the Israeli population accounts for some 50 languages. A Jerusalem commentator says that even though Hebrew "has become a negotiable instrument of daily speech, this has yet to be converted into advertising idiom." And, we are only just beginning to learn the complex of considerations regarding advertising to bilinguals.[24] Advertising communications must be perfect, and linguistic differences at all levels cause problems. In-country testing with the target consumer group is the only way to avoid such problems.

Cultural Diversity

The problems associated with communicating to people in diverse cultures present one of the great creative challenges in advertising. One advertising executive puts it bluntly: "International advertising is almost uniformly dreadful mostly because people don't understand language and culture." Communication is more difficult because cultural factors largely determine the way various phenomena are perceived.[25] If the perceptual framework is different, perception of the message itself differs.[26]

Existing perceptions based on tradition and heritages often render advertising campaigns ineffective or worse. For example, marketing researchers in Hong Kong found that cheese is associated with *Yeung-Yen* (foreigners) and thus rejected by some Chinese. Toyota introduced the Prado SUV in China only to learn that the name sounded like the Chinese word for "rule by force." This name reminded some Chinese of the 1937 invasion by Japan—not a nice memory at all. The effectiveness of sex appeals,[27] music,[28] and celebrities[29] varies across cultures as well.

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[23] Clyde A. Warden, Mengkuan Lai, and Wann-Yih Wu, "How Worldwide Is Marketing Communication on the World Wide Web," *Journal of Advertising Research* 42, no. 5 (September–October 2002), pp. 72–84.

[24] Aradhna Krihna and Rohini Ahluwalia, "Language Choice in Advertising to Bilinguals: Asymmetric Effects for Multinationals versus Local Firms," *Journal of Consumer Research* 35, no. 4 (2008), pp. 692–705; Jaime Noriega and Edward Blair, "Advertising to Bilinguals: Does the Language of Advertising Influence the Nature of Thoughts?" *Journal of Marketing* 72, no. 5 (2008), pp. 69–83.

[25] Nader T. Tavassoli and Yih Hwai Lee, "The Differential Interaction of Auditory and Visual Advertising Elements with Chinese and English," *Journal of Marketing Research* 40, no. 4 (2003), pp. 468–80.

[26] Some of the most important work being done in the area of culture and advertising is represented by Jennifer Aaker and Patti Williams's "Empathy and Pride: The Influence of Emotional Appeals across Cultures," *Journal of Consumer Research* 25 (December 1998), pp. 241–61; Ulrich R. Orth and Denisa Holancova, "Men's and Women's Responses to Sex Role Portrayals in Advertisements," *International Journal of Research in Marketing* 21, no. 1 (2004), pp. 77–88.

[27] Geng Cui and Xiaoyan Yang, "Responses of Chinese Consumers to Sex Appeals in International Advertising: A Test of Congruency Theory," *Journal of Global Marketing* 22, no. 3 (2009), pp. 229–45.

[28] Ashok K. Lalwani, May O. Lwin, and Pee Beng Ling, "Does Audiovisual Congruency in Advertisements Increase Persuasion? The Role of Cultural Music and Products," *Journal of Global Marketing* 22 (2009), pp. 139–53.

[29] Somdutta Biswas, Mahmood Hussain, and Kathleen O'Donnell, "Celebrity Endorsements in Advertisements and Consumer Perception: A Cross-Cultural Study," *Journal of Global Marketing* 22 (2008), pp. 121–37.

CROSSING BORDERS 16.3 Objections to Indian Ad Not Taken Lightly

A financially strapped father laments his fate, saying, "Kaash agar mera beta hota" ("If I only had a son"), while his dark-skinned, plain-Jane daughter looks on, helpless and demoralized because she cannot bear the financial responsibility of her family. Fast-forward and plain Jane has been transformed into a gorgeous, light-skinned woman through the use of a "fairness cream." Now clad in a miniskirt, the woman is a successful flight attendant and can take her father to dine at a five-star hotel. She's happy and so is her father.

All's well that end's well—except not so for Hindustan Lever Ltd. (HLL). The company, a subsidiary of Unilever, launched this television campaign to promote its Fair & Lovely fairness cream in India. It withdrew the campaign two months later amid severe criticism for its portrayal of women. The incident underscores the changing social mores in India and highlights tensions among the government, consumer groups, and industry regulatory agencies.

While tanning is the rage in Western countries, skin lightening treatments have been historically popular in Asia. The Japanese market for such products is estimated to be around $6 billion and in India about $150 million.

It may be safe for the skin, but not for society, says the All India Women's Democratic Association. Three things were objectionable about the campaign to the group. It was racist, it promoted preferences for sons, and it was insulting to working women. A government ministry found the ads to be in violation of the Cable and Television Act of 1995, which in part forbids ads that "deride any race, caste, color, creed, and nationality." Industry regulators agreed and pressured the company to stop airing the ad. The company admitted no wrongdoing, but complied.

Sources: Arundhati Parmar, "Objections to Indian Ad Not Taken Lightly," Marketing News, June 9, 2003, pp. 4–5; Heather Timmons, "Telling India's Modern Women They Have Power, Even over Their Skin Tone," The New York Times, May 30, 2007, p. C5.

Procter & Gamble's initial advertisement for Pampers brand diapers failed because of cultural differences between the United States and Japan. A U.S. commercial that showed an animated stork delivering Pampers diapers to homes was dubbed into Japanese with the U.S. package replaced by the Japanese package and put on the air. To P&G's dismay, the advertisement failed to build the market. Some belated consumer research revealed that consumers were confused about why this bird was delivering disposable diapers. According to Japanese folklore, giant peaches that float on the river bring babies to deserving parents, not storks.

In addition to concerns with differences among nations, advertisers find that subcultures within a country require attention.[30] People in Hong Kong have 10 different patterns of breakfast eating. The youth of a country almost always constitute a different consuming culture from the older people, and urban dwellers differ significantly from rural dwellers. Besides these differences, there is the problem of changing traditions. In all countries, people of all ages, urban or rural, cling to their heritage to a certain degree but are willing to change some areas of behavior. Indeed, due to the early efforts of Nestlé and the most recent expansion by Starbucks, in tea-drinking Japan, coffee has become the fashionable beverage for younger people and urban dwellers who like to think of themselves as cosmopolitan and sophisticated.

Media Limitations

Media are discussed at length later, so here we note only that limitations on creative strategy imposed by media may diminish the role of advertising in the promotional program and may force marketers to emphasize other elements of the promotional mix. A marketer's creativity is certainly challenged when a television commercial is limited to 10 showings a year with no two exposures closer than 10 days, as is the case in Italy. Creative advertisers in some countries have even developed their own media for overcoming media limitations. In some African countries, advertisers run boats up and down the rivers playing popular music and broadcasting commercials into rural areas as they travel.

[30] Victoria Jones, "It's Not Black and White: Advertising and Race in Cultural Context," *Journal of Global Marketing* 23, no. 1 (2010), pp. 45–64.

Production and Cost Limitations

Creativity is especially important when a budget is small or where there are severe production limitations, such as poor-quality printing and a lack of high-grade paper. For example, the poor quality of high-circulation glossy magazines and other quality publications in eastern Europe has caused Colgate-Palmolive to depart from its customary heavy use of print media in the West for other media. Newsprint is of such low quality in China that a color ad used by Kodak in the West is not an option. Kodak's solution has been to print a single-sheet color insert as a newspaper supplement.

The necessity for low-cost reproduction in small markets poses another problem in many countries. For example, hand-painted billboards must be used instead of printed sheets because the limited number of billboards does not warrant the production of printed sheets. In Egypt, static-filled television and poor-quality billboards have led companies such as Coca-Cola and Nestlé to place their advertisements on the sails of feluccas, boats that sail along the Nile. Feluccas, with their triangle sails, have been used to transport goods since the time of the pharaohs and serve as an effective alternative to attract attention to company names and logos.

Media Planning and Analysis

LO6

The effect of limited media, excessive media, and government regulations on advertising and promotion budgets

Few doubt that a revolution in communications is under way. Your authors notice it because the changes that occur between the two-year revisions of this textbook are the greatest when it comes to media. Yes, political events and natural disasters can dramatically impact many millions of people overnight, but the network effects of the burgeoning electronic communication media—in the form of PCs, the Internet, and mobile phones—influence not only political events and responses to national disasters but also everyday life for everyone on the planet, from camel markets in Egypt to the international space stations where humans are living off the planet! Perhaps the most eloquent description of the communications revolution comes from Bob Garfield's new book, *The Chaos Scenario*:

> … let me just share the 2007 comments of Sir Martin Sorrell, chairman of the WPP Group, the world's largest advertising agency holding company:
>
> "Slowly, the new media will cease to be thought of as new media; they will simply be additional channels of communication. And like all media that were once new but are now just media, they'll earn a well-deserved place in the media repertoire, perhaps through reverse takeovers—*but will almost certainly displace none*."
>
> The italics are mine. The absurdity was Sir Martin's. Does he not see that the internet is not just some newfangled medium—like TV displacing radio? No, it is a revolutionary advance, along the lines of fire, agriculture, the wheel, the printing press, gunpowder, electricity, radio, manned flight, antibiotics, atomic energy…. The digital revolution is already having far-ranging effects on every aspect of our lives, from socialization to communication to information to entertainment to democracy, and these Brave New World effects will only be magnified as the Cowardly Old World collapses before our eyes. Not that this *will* happen.
>
> This *is* happening. Right now.[31]

Strong words from Mr. Garfield, but we agree with his principle point. The changes in media in the 21st century are proceeding at a blinding speed. Next we try to capture them, with due respect to the disrupted world of Sir Sorrell.

Tactical Considerations

Although nearly every sizable nation essentially has the same kinds of media, a number of specific considerations, problems, and differences are encountered from one nation to another. In international advertising, an advertiser must consider the availability, cost, coverage, and appropriateness of the media. And the constant competitive churn among these media makes for a tricky and dynamic landscape for decisions. For example, billboard ads next to highways cannot include paragraphs of text. Moreover, recent research has demonstrated that media effectiveness varies across cultures and product types; Chinese

[31]Bob Garfield, *The Chaos Scenario* (Nashville, TN: Stielstra Publishing, 2009), p. 11.

consumers in both Taiwan and China view print ads more positively than Americans, for example.[32] Local variations and lack of market data require added attention. Major multinationals are beginning to recognize the importance of planning communications channels as media companies continue to rationalize and evolve. Indeed, media giants such as Disney and Time Warner cover an increasingly broad spectrum of the electronic media, necessitating that MNCs rethink their relationships with media service providers.

Imagine the ingenuity required of advertisers confronted with these situations:

- In Brazil, TV commercials are sandwiched together in a string of 10 to 50 commercials within one station break.
- National coverage in many countries means using as many as 40 to 50 different media.
- Specialized media reach small segments of the market only. In the Netherlands, there are Catholic, Protestant, socialist, neutral, and other specialized broadcasting systems.
- In Germany, TV scheduling for an entire year must be arranged by August 30 of the preceding year, with no guarantee that commercials intended for summer viewing will not be run in the middle of winter.
- In Vietnam, advertising in newspapers and magazines is limited to 10 percent of space and to 5 percent of time, or three minutes an hour, on radio and TV.

Availability. One of the contrasts of international advertising is that some countries have too few advertising media and others have too many. In some countries, certain advertising media are forbidden by government edict to accept some advertising materials. Such restrictions are most prevalent in radio and television broadcasting. In many countries, there are too few magazines and newspapers to run all the advertising offered to them. Conversely, some nations segment the market with so many newspapers that the advertiser cannot gain effective coverage at a reasonable cost. One head of an Italian advertising agency commented about his country: "One fundamental rule. You cannot buy what you want."

In China the only national TV station, CCTV, has one channel that must be aired by the country's 27 provincial/municipal stations. Recently CCTV auctioned off the most popular break between the early evening news and weather; a secured year-long, daily five-second billboard ad in this break went for $38.5 million. For this price, advertisers are assured of good coverage—more than 70 percent of households have TV sets. One of the other options for advertisers is with the 2,828 TV stations that provide only local coverage.

Cost. Media prices are susceptible to negotiation in most countries. Agency space discounts are often split with the client to bring down the cost of media. The advertiser may find that the cost of reaching a prospect through advertising depends on the agent's bargaining ability. The per contract cost varies widely from country to country. One study showed that the cost of reaching 1,000 readers in 11 different European countries ranged from $1.58 in Belgium to $5.91 in Italy; in women's service magazines, the page cost per 1,000 circulation ranged from $2.51 in Denmark to $10.87 in Germany. Shortages of advertising time on commercial television in some markets have caused substantial price increases. In Britain, prices escalate on a bidding system. They do not have fixed rate cards; instead, there is a preempt system in which advertisers willing to pay a higher rate can bump already-scheduled spots.

Coverage. Closely akin to the cost dilemma is the problem of coverage. Two points are particularly important: One relates to the difficulty of reaching certain sectors of the population with advertising and the other to the lack of information about coverage. In many world marketplaces, a wide variety of media must be used to reach the majority of

[32]Carrie La Ferle, Steven M. Edwards, and Wei-Na Lee, "Culture, Attitudes, and Media Patterns in China, Taiwan, and the U.S.: Balancing Standardization and Localization Decisions, *Journal of Global Marketing* 21, no. 3 (2008), pp. 191–206.

the markets. In some countries, large numbers of separate media have divided markets into uneconomical advertising segments. With some exceptions, a majority of the population of less developed countries cannot be reached readily through the traditional mass medium of advertising. In India, video vans are used to reach India's rural population with 30-minute infomercials extolling the virtues of a product. Consumer goods companies deploy vans year-round except in the monsoon season. Colgate hires 85 vans at a time and sends them to villages that research has shown to be promising.

Because of the lack of adequate coverage by any single medium in eastern European countries, companies must resort to a multimedia approach. In the Czech Republic, for example, TV advertising rates are high, and the lack of available prime-time spots has forced companies to use billboard advertising. In Slovenia the availability of adequate media is such a problem that companies resort to some unusual approaches to get their messages out. For example, in the summer, lasers are used to project images onto clouds above major cities. Vehicle advertising includes cement-mixers, where Kodak ads have appeared. On the positive side, crime is so low that products can be displayed in freestanding glass cabinets on sidewalks; Bosch Siemens (Germany) and Kodak have both used this method.

Lack of Market Data. Verification of circulation or coverage figures is a difficult task. Even though many countries have organizations similar to the Audit Bureau of Circulation in the United States, accurate circulation and audience data are not assured. For example, the president of the Mexican National Advertisers Association charged that newspaper circulation figures are grossly exaggerated. He suggested that as a rule, agencies should divide these figures in two and take the result with a grain of salt. The situation in China is no better; surveys of habits and market penetration are available only for the cities of Beijing, Shanghai, and Guangzhou. Radio and television audiences are always difficult to measure, but at least in most countries, geographic coverage is known. Research data are becoming more reliable as advertisers and agencies demand better quality data.

Even where advertising coverage can be measured with some accuracy, there are questions about the composition of the market reached. Lack of available market data seems to characterize most international markets; advertisers need information on income, age, and geographic distribution, but such basic data seem chronically elusive except in the largest markets. Even the attractiveness of global television (satellite broadcasts) is diminished somewhat because of the lack of media research available.

An attempt to evaluate specific characteristics of each medium is beyond the scope of this discussion. Furthermore, such information would quickly become outdated because of the rapid changes in the international advertising media field. It may be interesting, however, to examine some of the unique international characteristics of various advertising media. In most instances, the major implications of each variation may be discerned from the data presented.

Newspapers. The newspaper industry is suffering from lack of competition in some countries and choking because of it in others. Most U.S. cities have just one or two major daily newspapers, but in many countries, there are so many newspapers that an advertiser has trouble achieving even partial market coverage. Uruguay, population 3 million, has 21 daily newspapers with a combined circulation of 553,000. Turkey has 380 newspapers, and an advertiser must consider the political position of each newspaper so that the product's reputation is not harmed through affiliation with unpopular positions. Japan has only five national daily newspapers, and the complications of producing a Japanese-language newspaper are such that they each contain just 16 to 20 pages. But the circulation numbers are unusually large (see Exhibit 16.5). Connections are necessary to buy advertising space; *Asahi,* Japan's largest newspaper, has been known to turn down over a million dollars a month in advertising revenue. And even the Japanese giants face a graying population whose younger members are increasingly choosing the electronic media. Circulation rates have been steadily declining there.[33]

[33]"The Teetering Giants," *The Economist,* February 10, 2010, pp. 72–73.

CROSSING BORDERS 16.4 Advertising Themes that Work in Japan, Including a Polite Duck

Respect for tradition: Mercedes ads stress that it was the first to manufacture passenger cars.

Mutual dependence: Shiseido ads emphasize the partnership (with beauty consultants) involved in achieving beauty.

Harmony with nature: Toyotas are shown in front of Mt. Fuji.

Use of seasons: Commercials are often set in and products are often used in specific seasons only.

Newness and evolution: Products are shown to evolve from the current environment slowly.

Distinctive use of celebrities, including gaijin (foreigners): A recent study showed that 63 percent of all Japanese commercials featured hired celebrities.

Aging of society: Seniors are featured often.

Changing families: The changing role of fathers—more time spent at home—is a common theme.

Generation gaps and individualism: Younger characters are shown as more individualistic.

Self-effacing humor: A dented Pepsi can was used in an ad to demonstrate its deference to the more popular Coke.

Polite ducks: The AFLAC duck is going to Japan but with a softer quack. Instead of the American version's abrasive quack, the Japanese actor portrays the duck with a more soothing tone. "The Japanese culture does not like being yelled at," says an AFLAC spokesperson. About 70 percent of the firm's international revenues come from Japan, or some $8 billion. Although this campaign is the first to be shot specifically for Japan, the Japanese have met the duck before. The company, now Japan's largest insurer in terms of individual policies, has also used dubbed voices for American ads, including the loud "quacker." The latest version of the duck ad has been so popular that the jingle associated with it became the most downloaded ringtone in Japan!

Sources: George Fields, Hotaka Katahira, and Jerry Wind, Leveraging Japan, Marketing to the New Asia (San Francisco: Jossey-Bass, 2000); "ALFAC Tames Its Duck for Japanese Market," Los Angeles Times, May 13, 2003, p. C7; Lavonne Kuykendall, "Aflac CEO: The Duck Helps Drive Sales in Japan, Dow Jones Newswire, February 24, 2010, online.

In many countries, there is a long time lag before an advertisement can be run in a newspaper. In India and Indonesia, paper shortages delay publication of ads for up to six months. Furthermore, because of equipment limitations, most newspapers cannot be made larger to accommodate the increase in advertising demand.

Separation between editorial and advertising content in newspapers provides another basis for contrast on the international scene. In some countries, it is possible to buy editorial space for advertising and promotional purposes; the news columns are for sale to

Exhibit 16.5
Media Penetration in Selected Countries (% of households)

Country	Color TV	Cable TV	Satellite TV	Telephone Lines	Internet Users*	Daily Newspapers*
United States	99.0	55.1	30.8	93.5	741	161
Canada	98.9	64.3	25.7	99.1	769	172
Argentina	99.2	57.7	13.9	73.3	309	37
Germany	98.1	51.5	41.8	90.9	785	240
Russia	96.8	41.7	7.4	59.6	285	—
Israel	95.3	83.9	40.1	83.1	306	182
South Africa	67.7	0.0	6.3	17.2	88	37
China	96.5	49.3	0.0	81.2	283	83
Japan	99.0	62.4	39.9	95.2	724	518
Australia	99.2	24.3	13.9	97.0	734	129

*Per 1000 persons, not a percentage of households.

Source: Euromonitor International, 2009.

anyone who has the price. Because there is no indication that the space is paid for, it is impossible to tell exactly how much advertising appears in a given newspaper.

Magazines. The use of foreign national consumer magazines by international advertisers has been notably low for many reasons. Few magazines have a large circulation or provide dependable circulation figures. Technical magazines are used rather extensively to promote export goods, but as with newspapers, paper shortages cause placement problems. Media planners are often faced with the largest magazines accepting up to twice as many advertisements as they have space to run them in—then the magazines decide what advertisements will go in just before going to press by means of a raffle.

Such local practices may be key factors favoring the growth of so-called international media that attempt to serve many nations. Increasingly, U.S. publications are publishing overseas editions. *Reader's Digest International* has added a new Russian-language edition to its more than 20 other language editions. Other American print media available in international editions range from *Playboy* to *Scientific American* and even include the *National Enquirer*, recently introduced to the United Kingdom. Advertisers have three new magazines through which to reach women in China: Hachette Filipachi Presse, the French publisher, is expanding Chinese-language editions of *Elle*, a fashion magazine; *Woman's Day* is aimed at China's "busy modern" woman; and *L'Evènement Sportif* is a sports magazine. These media offer alternatives for multinationals as well as for local advertisers.

Radio and Television. Possibly because of their inherent entertainment value, radio and television have become major communications media in almost all nations. Now high-definition television (HDTV) appears to be starting to take off worldwide as well. In China, virtually all homes in major cities have a television, and most adults view television and listen to radio daily. Radio has been relegated to a subordinate position in the media race in countries where television facilities are well developed. In many countries, however, radio is a particularly important and vital advertising medium when it is the only one reaching large segments of the population.

Television and radio advertising availability varies between countries. Some countries do not permit any commercial radio or television, but several of the traditional noncommercial countries have changed their policies in recent years because television production is so expensive. Until recently, France limited commercials to a daily total of 18 minutes but now has extended the time limit to 12 minutes per hour per TV channel. South Korea has two television companies, both government owned, which broadcast only a few hours a day. They do not broadcast from midnight to 6:00 a.m., and they usually cannot broadcast between 10:00 a.m. and 5:30 p.m. on weekdays. Commercials are limited to 8 percent of airtime and shown in clusters at the beginning and end of programs. One advertiser remarked, "We are forced to buy what we don't want to buy just to get on."

Satellite and Cable TV. Of increasing importance in TV advertising is the growth and development of satellite TV broadcasting. Sky Channel, a United Kingdom–based commercial satellite television station, beams its programs and advertising into most of Europe to cable TV subscribers. The technology that permits households to receive broadcasts directly from the satellite via a dish the size of a dinner plate costing about $350 is adding greater coverage and the ability to reach all of Europe with a single message. The expansion of TV coverage will challenge the creativity of advertisers and put greater emphasis on global standardized messages. For a comparison of penetration rates by cable TV, computers, and the Internet in the several countries, see Exhibit 16.5.

Advertisers and governments are both concerned about the impact of satellite TV. Governments are concerned because they fear further loss of control over their airwaves and the spread of "American cultural imperialism." Notice China does not allow the medium. European television programming includes such U.S. shows as *Laguna Beach: the Real Orange County*. *Wheel of Fortune* is the most popular foreign show in the United Kingdom and France, where both the U.S. and French versions are shown. American imports are so popular in France and Germany that officials fear lowbrow U.S. game shows, sitcoms, and soap operas will crush domestic producers. This battle has even reached political levels associated with differences in worldviews represented in the news. The government of France invested in developing, not surprisingly, a French-language "CNN" called *France 24* but has stopped subsidizing an English-language version.[34] *Al-Jazeera*, initially subsidized by Qatar government loans, is currently struggling to break even. Nevertheless, it is the now widely recognized Arabic "CNN" and is commensurately influential in the Middle East.

Parts of Asia and Latin America receive TV broadcasts from satellite television networks. Univision and Televisa are two Latin American satellite television networks broadcasting via a series of affiliate stations in each country to most of the Spanish-speaking world, as well as the United States. *Sabado Gigante,* a popular Spanish-language program broadcast by Univision, is seen by tens of millions of viewers in 16 countries. Star TV, a new pan-Asian satellite television network, has a potential audience of 2.7 billion people living in 38 countries from Egypt through India to Japan, and from Russia to Indonesia. Star TV was the first to broadcast across Asia but was quickly joined by ESPN and CNN. The first Asian 24-hour all-sports channel was followed by MTV Asia and a Mandarin Chinese–language channel that delivers dramas, comedies, movies, and financial news aimed at the millions of overseas Chinese living throughout Asia. Programs are delivered through cable networks but can be received through private satellite dishes.

One of the drawbacks of satellites is also their strength, that is, their ability to span a wide geographical region covering many different country markets. That means a single message is broadcast throughout a wide area. This span may not be desirable for some products; with cultural differences in language, preferences, and so on, a single

[34]"Sarkozy to Scrap English-Language France 24 Television–AFP," *Dow Jones International News*, January 8, 2008.

Given the ubiquitous Guinness advertising in Dublin, it's not surprising that Irish livers need assurance. Ireland is behind only the Czech Republic when it comes to per capita consumption of beer. Actually, Royal Liver Assurance is a British pension/insurance company with offices in Dublin (it was established in the 1850s as the Liverpool Liver Burial Society). "Hurling" is a rather brutal form of field hockey popular in Ireland. The Irish government recognizes the causal effects of advertising on consumption—beer ads are not allowed on radio or TV before sports programs and may not be shown more than once per night on any one channel. See http://www.eurocare.org for more on the consumption of alcohol in Ireland and other European countries.

message may not be as effective. PVI (Princeton Video Imaging) is an innovation that will make regional advertising in diverse cultures easier than it presently is when using cable or satellite television. PVI allows ESPN, which offers this service, to fill visual real estate—blank walls, streets, stadium sidings—with computer-generated visuals that look like they belong in the scene. For instance, if you are watching the "street luge" during ESPN's X-Games, you will see the racers appear to pass a billboard advertising Adidas shoes that really is not there. That billboard can say one thing in Holland and quite another in Cameroon. And if you are watching in Portland, Oregon, where Adidas might not advertise, you will see the scene as it really appears—without the billboard. These commercials can play in different languages, in different countries, and even under different brand names.

Most satellite technology involves some government regulation. Singapore, Taiwan, and Malaysia prohibit selling satellite dishes, and the Japanese government prevents domestic cable companies from rebroadcasting from foreign satellites. Such restrictions seldom work for long, however. In Taiwan, an estimated 1.5 million dishes are in use, and numerous illicit cable operators are in business. Through one technology or another, Asian households will be open to the same kind of viewing choice Americans have grown accustomed to and the advertising that it brings with it.

Direct Mail. Direct mail is a viable medium in an increasing number of countries. It is especially important when other media are not available. As is often the case in international marketing, even such a fundamental medium is subject to some odd and novel quirks. For example, in Chile, direct mail is virtually eliminated as an effective medium because the sender pays only part of the mailing fee; the letter carrier must collect additional postage for every item delivered. Obviously, advertisers cannot afford to alienate customers by forcing them to pay for unsolicited advertisements. Despite some limitations with direct mail, many companies have found it a meaningful way to reach their markets. The Reader's Digest Association has used direct mail advertising in Mexico to successfully market its magazines.

In Southeast Asian markets, where print media are scarce, direct mail is considered one of the most effective ways to reach those responsible for making industrial goods purchases, even though accurate mailing lists are a problem in Asia as well as in other parts of the world. In fact, some companies build their own databases for direct mail. Industrial advertisers are heavy mail users and rely on catalogs and sales sheets to generate large volumes of international business. Even in Japan, where media availability is not a problem, direct mail is successfully used by marketers such as Nestlé Japan and Dell Computer. To promote its Buitoni fresh-chilled pasta, Nestlé is using a 12-page color direct mail booklet of recipes, including Japanese-style versions of Italian favorites.

In Russia, the volume of direct mail has gone from just over 150,000 letters per month to over 500,000 per month in one year. The response rate to direct mailings is as high as 10 to 20 percent in Russia, compared with only 3 to 4 percent or less in the United States. One suggestion as to why it works so well is that Russians are flattered by the attention—needless to say, that will probably change as use of the medium grows.

The Internet. Although still evolving, the Internet has emerged as a viable medium for advertising and should be included in a company's possible media mix. Its use in business-to-business communications and promotion via catalogs and product descriptions is rapidly gaining in popularity. Because a large number of businesses have access to the Internet, the Internet can reach a large portion of the business-to-business market.

Although limited in its penetration of households globally, the Internet is being used by a growing number of companies as an advertising medium for consumer goods. Many consumer goods companies have e-stores, and others use the Internet as an advertising medium to stimulate sales in retail outlets. Waterford Crystal of Ireland set up its Web site specifically to drive store traffic. The aim is to promote its products and attract people into stores that sell Waterford crystal. Sites list and display almost the entire catalog of the Waterford collection, while stores like Bloomingdale's that stock Waterford support the promotional effort by also advertising on their Web sites.

Exhibit 16.6
Top Ten Web Sites in Three Countries (visitors per month)

Rank	France 26.1 million visitors		Germany 32.6 million visitors		Japan 53.8 million visitors	
1	Google sites	18.2	Google sites	23.0	Yahoo! sites	40.7
2	Microsoft sites	16.4	Microsoft sites	17.7	Google sites	32.0
3	France Telecom	14.0	eBay	17.4	Microsoft sites	30.0
4	Illiad/Free.fr	12.9	United-Internet sites	16.2	Rakuten Inc.	28.5
5	Grope Pages Jaunes	11.4	Time Warner Network	14.6	NTT Group	24.6
6	eBay	11.4	Wikipedia sites	12.6	FC2 Inc.	24.1
7	Yahoo! Sites	10.9	T-Online sites	12.1	Nifty Corp.	22.0
8	Skyrock Network	9.5	Yahoo! sites	11.2	Wikipedia sites	20.6
9	Groupe PPR	8.9	Otto Grupe	11.1	Livedoor	19.7
10	Wikipedia sites	8.5	Karstadt-Quelle	10.1	Amazon sites	18.4

Source: comScore Media Metrix, 2010, online.

For consumer products, the major limitation of the Internet is coverage (see Exhibit 16.5). In the United States, growing numbers of households have access to a computer, but there are fewer in other countries. However, the growing number of Internet households accessible outside the United States generally constitutes a younger, better-educated market segment with higher-than-average incomes. For many companies, this group is an important market niche. Furthermore, this limitation is only temporary as new technology allows access to the Internet via television and as lower prices for personal computers expand the household base. Exhibit 16.6 gives you some idea of the distribution of Web site visitors in three major markets. Notice the American brand names included in the lists: 5 for France, 6 for Germany, and 5 for Japan; and the dominance of Google and Microsoft. The great majority of visitors are viewing the local versions of these Web sites—that is, .fr, .de, and .jp. The most visited Web sites in the United States during the same period were Yahoo!, Time Warner, Microsoft, Google, eBay, MySpace, Ask Network, Amazon, New York Times, and Weather Channel, in that order. For China the top three were Baidu.com, QQ.com, and Google China.

As the Internet continues to grow and countries begin to assert control over what is now a medium with few restrictions, increasing limitations will be set. Beyond the control of undesirable information, issues such as pay-per-view, taxes, unfair competition, import duties, and privacy are being addressed all over the world. In Australia, local retailers are calling for changes in laws because of the loss of trade to the Internet; under current law, Internet purchases do not carry regular import duties. The Internet industry is lobbying for a global understanding on regulation to avoid a crazy quilt of confusing and contradictory rules.

Another limitation that needs to be addressed soon is the competition for Web Internet users. The sheer proliferation of the number of Web sites makes it increasingly difficult for a customer to stumble across a particular page. Search engines have now become crucial directors of Web Internet users' attention. Also, serious Internet advertisers or e-marketers will have to be more effective in communicating the existence of their Internet sites via other advertising media. Some companies are coupling their traditional television spots with a Web site; IBM, Swatch watches, AT&T, and Samsung electronics are among those going for a one-two punch of on-air and online presences. Television spots raise brand awareness of a product regionally and promote the company's Web site. In addition, a company can buy ad banners on the Web that will lead enthusiastic consumers to the company's site, which also promotes the product.

Social Media.[35] Word-of-mouth (WOM) advertising and peer recommendations have always been key influencers of brand choice, but the power of the Internet has changed the pace and reach of WOM. Social media (such as social networking, blogs,

[35]For an excellent summary of the exploding influence of social media circa 2010 see "A World of Connections," Special Report, *The Economist*, January 30, 2010, pp. 1–12.

Exhibit 16.7
Social Networking Goes Mobile (% of respondents)

Source: Ipsos Insight, November 2007.

	American Users	International Users
Sent/received SMS text	60%	25%
Sent/received e-mail	59	42
Browsed Web for news/information	59	39
Sent/received digital pictures	54	29
Played video games	42	17

virtual worlds, and video sharing) can be powerful marketing tools, but marketers are just beginning to loosen control and let consumers interact with brands on their own terms. Consumer-generated content is having an impact on brands (both positive and negative), and new media are on the agendas of marketers of all products, not just those targeted at young people. Consumers will create content about brands whether the marketers of those brands like it or not. Thus, it is vital that marketers follow, and participate in, the conversations consumers are having online.

The Internet is not delineated by national boundaries, though we note that word-of-mouth seems to work better in more information-oriented cultures.[36] In any case, consumers from many different countries and cultures can and do interact online. We are just beginning to understand the potential uses and pitfalls of this medium and the characteristics of its users. One recent study[37] distinguishes social network uses in the United States and those for a sample from abroad (that is, an aggregate of 11 countries: Brazil, Canada, China, France, Germany, India, Japan, Mexico, Russia, South Korea, and the United Kingdom). For the purposes of the study, the users consisted of consumers who had visited at least one social networking site, such as MySpace, Cyworld, Mixi, and/or Facebook. By the way, at more than 400 million per month, Facebook receives nearly three times the number of unique visitors of its closest rival, Windows Live. Facebook has more than 350 million users, of whom only 100 million are in the United States.

More than half the Americans in the sample had watched TV shows or video streams online. In addition, the Americans were significantly more likely to download TV programs, burn or copy a movie or TV show, and download a feature-length film. The Americans also owned significantly more technology than their international counterparts, and both samples owned more technology than those who had never visited a social networking site. More than half of the Americans had used their mobile devices to send or receive SMS (short message service) text and e-mails, browse the Internet for news and information, and receive digital images (see Exhibit 16.7). Although the international users exhibited similar behaviors, their mobile devices were richer with features. For example, international users are significantly more likely to have MP3s on their mobile devices than those in the United States. Also, see in Exhibit 16.8 that Australians spend more time on social media sites than any users in any other country.

Mobile Phone Applications. As the numbers of mobile phones continues to explode around the world, so do the number of applications available to users. As one expert has most eloquently put it, "There is a big shift from holding a phone to your ear to holding it in your hand. It opens the door of information services. It's not the web, but it's a web of services that can be offered on mobile devices. It allows consumers to ask questions and marketers to deliver answers in new ways. Around the world creative people are finding ways to use mobile phones in new ways."[38]

[36]Desmond Lam, Alvin Lee, and Richard Mizerski, "The Effects of Cultural Values in Word-of-Mouth Communication," *Journal of International Marketing* 17, no. 3 (2009), pp. 55–70.

[37]"Social Networkers Are Also Heavy Technology Users," *Research Brief from the Center for Media Research*, November 14, 2007, http://www.centerformediaresearch.com.

[38]Rajeesh Veeraraghavan, Naga Yasodhar, and Kentaro Toyama, "Warana Unwired: Replacing PCs with Mobile Phones in a Rural Sugar Cane Cooperative," *Information Technology & International Development* 5, no. 1 (2009), pp. 81–95.

Procter & Gamble Experiments with Social Media

P&G was one of the first companies to have its virtual world headquarters on an island in Second Life, the Web-based virtual world where users interact via avatars. Sergio dos Santos, Global Hair Care—Digital Marketing Manager, and Gerry Tseng, Digital Marketing Innovation, were involved in P&G's Second Life marketing effort. They explain:

The corporate team sponsored a contest to find the right brand interested in co-creating a Second Life experiment. An open-invite P&G event was hosted in the form of a 2-hour "Second Life University" event to learn about the medium's capabilities, followed by a call-to-action for interested brands to participate in a contest to win co-sponsorship funding. It received seventy-one event attendees, ten contest entries, four close-scoring finalists, and the selection of one winner: Wella Shockwaves brand in Europe.

Shockwaves, with their tag line of "Style—Attract—Play" targets both young men and women with hair styling products such as gel, spray, mousse, and wax. They tested their hypothesis that branded functionality, which brought their "play" equity to life, would be receptive to and used by avatars. As an extension to their TV campaign, the brand created a virtual waterfight utility that allowed avatars to throw water balloons at each other. As incentive, a 3-wave contest was held to give fans the opportunity to team up and compete to win L$1 million (Linden dollars, the basic currency of Second Life) in each round. Each wave involved points for thrown water balloons and accumulated medallions from scavenger hunts, and allowed some time for Shockwaves to learn and adjust accordingly for the next wave.

This image was posted within the Second Life world to enroll participants in the Water Fight contest. It was not posted on other Web sites or used to advertise the contest to anyone outside of Second Life.

While Shockwaves products were only sold in Western and Eastern Europe at the time, P&G found that people from the United States and elsewhere wanted to participate in the "Shockwaves Water Fight" with their avatars. Initially, P&G thought about excluding non-Europeans, but ultimately decided to allow all avatars to participate. While these consumers would be unable to purchase Shockwaves products, the brand elected to study the global nature and behaviors of Second Life.

P&G learned the following from the Second Life (SL) execution:

- Second Life is not a reach mechanism: Second Life is a small pond versus today's traditional Internet channels, best suited for experimentation, research, and press release in the areas of community and socialization. If a brand is simply interested in reaching as many eyeballs as possible, perhaps a well-designed flash site with provocative content on an Internet site would better suffice as reach in SL is more difficult to do. Due to today's Second Life learning curve for average users, one can expect avatars there to be generally more creative and competitive, perhaps ideal for a brand looking for co-contributors and creative partners. SL proves to be a thriving world for a specific consumer segment, the "critics" and "creators," who are producers themselves. In the end, match your needs to each platform's focus/strength. Perhaps the use of a more globally recognized brand with increased consumer awareness may have also further driven adoption/trial in this experiment.
- Fun, simple & socialization is more important: While a contest was employed as an incentive to trial, we now hypothesize that fun, simple & socialization are more important to SL avatars than prizes & complexity. Celebrity status of their avatars may also be more important than monetary gain as well. This is also supported by other learning from the development agency's SL experiments to date. We learned that in making the game more complex, we risk lower adoption/trial of the execution as avatars may have been intimidated by the process (i.e., game rules and prize money distribution across countries and winning team avatars, interpretation of traditional contest-required legal guidelines into virtual worlds).

- Community managers and media support are key: The experiment did not receive media support; however, we utilized a community manager from the development agency who brought the contest to life via ongoing communications and in-world activities throughout all 3 waves. Word of Mouth was the primary driver to promote the contest, which would have been enhanced with media support if taken beyond experimental expectations. Word of Mouth works in SL but not as well as traditional Internet mechanisms. Should Second Life be used in a future brand execution for its unique strengths, the use of appropriate media support should compensate and increase its trial.
- Keep experiment budgets low: Keeping the experiment costs low through simple design executions allows ongoing tests in new digital channels with less ROI risk and more learning opportunities. We learned that most of our experiment's cost went to making the game's complex elements but perhaps may have been better saved in creating a fun and simple build for avatars to play with each other. This particular experiment realized more accountability to ROI than learning as it approached spending levels close to other digital tools such as online advertising and sampling.

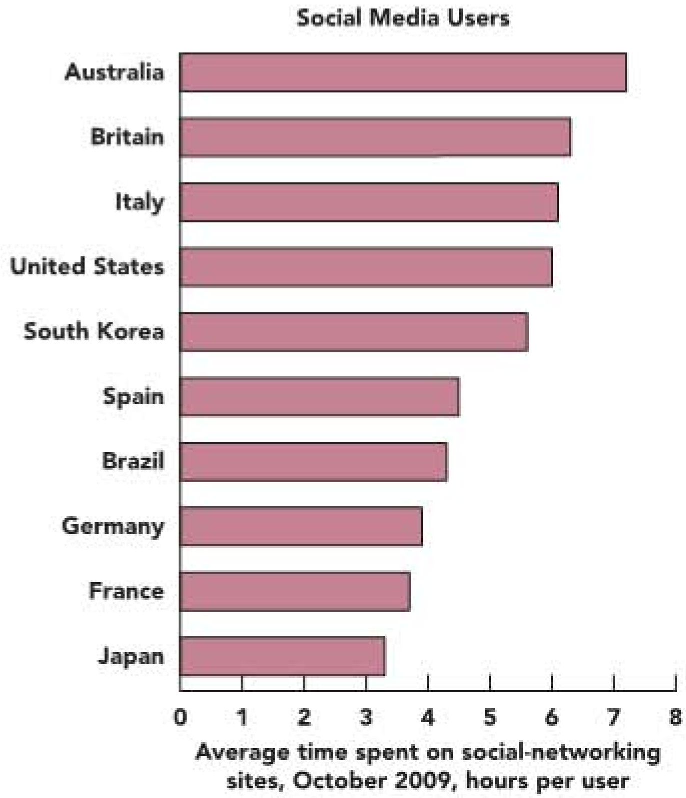
The Shockwaves products shown are available in 15 European countries: Austria, Belgium, Denmark, Finland, Germany, Greece, Hungary, the Netherlands, Norway, Poland, Portugal, Romania, Spain, Sweden, and the United Kingdom. See www.shockwaves.com for more details.

- Maintain appropriate guidelines and principles: Expect that consumers will find loopholes and plan to embrace/adjust for them. Our experiment's game rule complexity within each wave's contest resulted in unexpected cheating allegations within waves 2 & 3. It was interesting to see how competitively close wave 3 became as we apologized for a discovered loophole in wave 2, held to the principle that we'd stay within our predefined game rules, and encouraged players to be more competitive for wave 3. This loophole could have been better prevented through the use of agency experts proficient in traditional contest rules and regulations. However, for this purpose, the Shockwaves brand authorized its bypass due to our need to learn/experiment the application of traditional rules into virtual worlds. Eliminating the contest component would have also avoided this scenario.
- Passionate consumers may not be vocal outside SL: While we received many messages in-world, not everyone wanted to be heard publicly via our external non-SL blogs as we encouraged them to do. This may have been due to the barrier of having them leave SL to perform an action elsewhere despite our promise to act on it in future potential executions if they did.
- Online conversations assisted in trial: The experiment generated over 400 blog posts around the world, most of them linked or driving traffic to Shockwaves Second Life's Web site, which represented over 104,000 unique visitors in our Web site during the period of the experiment (September through November '07) without having any additional on-line advertising. This "popularity" positioned our Web site into 1st place on Google's results page when searching for "shockwaves water fight."

Source: Gerry Tseng, Digital Marketing Innovation for P&G, and Sergio dos Santos, Global Hair Care—Digital Marketing Manager.

Exhibit 16.8
Social Media Users: Average Time Spent on Social Networking Sites, October 2009 (hours per user)

Source: Neilsen



In Uganda, rice farmers who had trouble with aphids texted Farmer's Friend for advice and received a message telling them how to make a pesticide using soap and paraffin. A farmer with blighted tomato plants learned how to control the problem by spraying the plants with a milk-based mixture. Farmer's Friend is one of a range of phone-based services launched in 2009 by MTN, Google, and the Grameen Foundation's "Application Laboratory," or App Lab.[39]

Google Trader is another text-based system that matches buyers and sellers of agricultural produce and commodities. Sellers send a message to say where they are and what they have to offer, which will be available to potential buyers within 30 km for seven days. The user is charged about ten cents per posting. In its first five weeks of operation, the service received one million queries.

Perhaps the best measure of the importance of this creative medium was the incredible response to the Haiti earthquake of 2010. Texting the phrase "Haiti" to the number 90999 automatically donates $10 to the Red Cross. The relief agency received more than $2 million dollars within 24 hours of the earthquake. Twitter also was used as an essential communication medium during the relief efforts and another medium for soliciting and accepting donations.[40]

Other Media. Restrictions on traditional media or their availability cause advertisers to call on lesser media to solve particular local-country problems. The cinema is an important medium in many countries, as are billboards and other forms of outside advertising. Billboards are especially useful in countries with high illiteracy rates. Hong Kong is clearly the neon capital of the world, with Tokyo's Ginza and New York's Times Square running close seconds. Indeed, perhaps the most interesting "billboard" was the Pizza Hut logo that

[39]For much more information on this topic see *The Economist's* "Mobile Marvels," A Special Report, September 26, 2009, pp. 1–19.

[40]Jenna Wortham, "$2 Million in Donations for Haiti, via Text Message," *The New York Times*, January 13, 2010, online.

Two novel media are shown here: (1) Not only do the Russians sell space for space tourists on their rockets; they also sell advertising space! (2) The Japanese beverage company Suntory promotes its products with "Monitor Man" during a football match at National Stadium. "Monitor Man" puts on an LCD display, showing ads for Pepsi and other products, and walks around the stadium. The job requires some muscle, as the equipment weighs about 15 pounds. All this effort is perhaps purposely reminiscent of the Simpson's "Duff Man." Ohhh yaaaa!

appeared on the side of a Russian Proton rocket launched to carry parts of the international space station into orbit. Can extraterrestrials read? Do they like pizza?

In Haiti, sound trucks equipped with powerful loudspeakers provide an effective and widespread advertising medium. Private contractors own the equipment and sell advertising space, much as a radio station would. This medium overcomes the problems of illiteracy, lack of radio and television set ownership, and limited print media circulation. In Ukraine, where the postal service is unreliable, businesses have found that the most effective form of direct business-to-business advertising is direct faxing.

In Spain, a new medium includes private cars that are painted with advertisements for products and serve as moving billboards as they travel around. This system, called (derived from the words , meaning advertising, and , meaning car), has 75 cars in Madrid. Car owners are paid $230 a month and must submit their profession and "normal" weekly driving patterns. Advertisers pay a basic cost of $29,000 per car per month and can select the type and color of car they are interested in and which owners are most suited to the campaign, based on their driving patterns.

Campaign Execution and Advertising Agencies

The development of advertising campaigns and their execution are managed by advertising agencies. Just as manufacturing firms have become international, so too have U.S., Japanese, and European advertising agencies expanded internationally to provide sophisticated agency assistance worldwide. Local agencies also have expanded as the demand for advertising services by MNCs has developed. Thus, the international marketer has a variety of alternatives available. In most commercially significant countries, an advertiser has the opportunity to employ a local domestic agency, its company-owned agency, or one of the multinational advertising agencies with local branches. There are strengths and weaknesses associated with each. The discussion regarding firm and agency relations in Chapter 8 on pages 241–243 and Exhibit 8.2 are quite pertinent here. Moreover, the agency-company relationships can be complicated and fragile in the international context—Ford and Disneyland Paris recently changed agencies, for example.

Exhibit 16.9
World's Top Ten Advertising Agencies

2008	Agency (parent)	Headquarters	Global Revenues ($ million) 2008	Percent Change from 2007
1	BBDO Worldwide (Omnicom)	New York	635.8	1.2
2	McCann Erickson Worldwide (Interpublic)	New York	530.0	8.2
3	DraftFCB (Interpublic)	Chicago/New York	510.0	5.2
4	Epsilon/Purple@Epsilon (Alliance Data Systems)	Irving, TX	460.5	4.7
5	Digitas (Publicis)	Boston	377.0	9.3
6	Rapp (Omnicom)	New York	364.5	12.2
7	Euro RSCG Worldwide (Havas)	New York	342.7	5.5
8	Y&R (WPP)	New York	340.0	10.7
9	JWT (WPP)	New York	331.6	9.8
10	Razorfish (Microsoft)	Seattle	317	6.0

Source: From Special Report Global Marketing, Advertising Age, November 19, 2007.

A local domestic agency may provide a company with the best cultural interpretation in situations in which local modification is sought,[41] but the level of sophistication can be weak. Moreover, the cross-cultural communication between the foreign client and the local agency can be problematic. However, the local agency may have the best feel for the market, especially if the multinational agency has little experience in the market. Eastern Europe has been a problem for multinational agencies that are not completely attuned to the market. In Hungary, a U.S. baby care company's advertisement of bath soap, showing a woman holding her baby, hardly seemed risqué. But where Westerners saw a young mother, scandalized Hungarians saw an unwed mother. The model was wearing a ring on her left hand; Hungarians wear wedding bands on the right hand. It was obvious to viewers that this woman wearing a ring on her left hand was telling everybody in Hungary she wasn't married. A local agency would not have made such a mistake. Finally, in some emerging markets like Vietnam, local laws require a local advertising partner.

The best compromise is a multinational agency with local branches, because it has the sophistication of a major agency with local representation. Furthermore, a multinational agency with local branches is better able to provide a coordinated worldwide advertising campaign.[42] This ability has become especially important for firms doing business in Europe. With the interest in global or standardized advertising, many agencies have expanded to provide worldwide representation. Many companies with a global orientation employ one, or perhaps two, agencies to represent them worldwide.

Compensation arrangements for advertising agencies throughout the world are based on the U.S. system of 15 percent commissions. However, agency commission patterns throughout the world are not as consistent as they are in the United States; in some countries, agency commissions vary from medium to medium. Companies are moving from the commission system to a reward-by-results system, which details remuneration terms at the outset. If sales rise, the agency should be rewarded accordingly. This method of sharing in the gains or losses of profits generated by the advertising is gaining in popularity and may become the standard. Services provided by advertising agencies also vary greatly, but few foreign agencies offer the full services found in U.S. agencies. (See Exhibit 16.9 for the largest.)

[41]Morris Kalliny and Salma Ghanem, "The Role of the Advertising Agency in the Cultural Message Content of Advertisements: A Comparison of the Middle East and the United States," *Journal of Global Marketing* 22, no. 4 (2009), pp. 313–28.

[42]Among multinational advertising agencies, there appears to be an advantage to early arrival in new markets. See Peter Manusson, Stanford A Westjohn, and David J. Boggs, "Order-of-Entry Effects for Service Firms in Developing Markets: An Examination of Multinational Advertising Agencies," *Journal of International Marketing* 17, no. 2 (2009), pp. 23–41.

International Control of Advertising: Broader Issues

In a previous section, specific legal restrictions on advertising were presented. Here broader issues related to the past, present, and future of the international regulation of advertising are considered.

Consumer criticisms of advertising are not a phenomenon of the U.S. market only. Consumer concern with the standards and believability of advertising may have spread around the world more swiftly than have many marketing techniques. A study of a representative sample of European consumers indicated that only half of them believed advertisements gave consumers any useful information. Six of ten believed that advertising meant higher prices (if a product is heavily advertised, it often sells for more than brands that are seldom or never advertised); nearly eight of ten believed advertising often made them buy things they did not really need and that ads often were deceptive about product quality. In Hong Kong, Colombia, and Brazil, advertising fared much better than in Europe. The non-Europeans praised advertising as a way to obtain valuable information about products; most Brazilians consider ads entertaining and enjoyable.

European Commission officials are establishing directives to provide controls on advertising as cable and satellite broadcasting expands. Deception in advertising is a thorny issue, because most member countries have different interpretations of what constitutes a misleading advertisement. Demands for regulation of advertising aimed at children is a trend appearing in both industrialized and developing countries.

Decency and the blatant use of sex in advertisements also are receiving public attention. One of the problems in controlling decency and sex in ads is the cultural variations found around the world. An ad perfectly acceptable to a Westerner may be very offensive to someone from the Middle East, or, for that matter, another Westerner. Standards for appropriate behavior as depicted in advertisements vary from culture to culture. Regardless of these variations, concern about decency, sex, and ads that demean women and men is growing. International advertising associations are striving to forestall laws by imposing self-regulation, but it may be too late; some countries are passing laws that will define acceptable standards.

The difficulty that business has with self-regulation and restrictive laws is that sex can be powerful in some types of advertisements. European advertisements for Häagen-Dazs, a premium U.S. ice cream maker, and LapPower, a Swedish laptop computer company, received criticism for being too sexy. Häagen-Dazs's ad showed a couple in various stages of undress, in an embrace, feeding ice cream to each other. Some British editorial writers and radio commentators were outraged. One commented that "the ad was the most blatant and inappropriate use of sex as a sales aid." The ad for LapPower personal computers that the Stockholm Business Council on Ethics condemned featured the co-owner of the company with an "inviting smile and provocative demeanor displayed." (Wearing a low-cut dress, she was bending over a LapPower computer.) The bottom line for both these companies was increased sales. In Britain, ice cream sales soared after the "Dedicated to Pleasure" ads appeared, and in Sweden, the co-owner stated, "Sales are increasing daily." Whether laws are passed or the industry polices itself, advertising and its effect on people's behavior have engendered international concern.

Advertising regulations are not limited to Europe; there is an enhanced awareness of the expansion of mass communications and the perceived need to effect greater control in developing countries as well. Malaysia consistently regulates TV advertising to control the effect of the "excesses of Western ways." The government has become so concerned that it will not allow "Western cultural images" to appear in TV commercials. No bare shoulders or exposed armpits are allowed, nor are touching or kissing, sexy clothing, or blue jeans. These are just a few of the prohibitions spelled out in a 41-page advertising code that the Malaysian government has been compiling for more than 10 years.

The assault on advertising and promotion of tobacco products is escalating. In the United States, tobacco firms have agreed to curtail promotion as part of government-supported class-action lawsuits. The European Union Parliament approved larger health warnings on cigarette packs. Most significantly, the World Health Organization (WHO) has launched a global campaign against the tobacco industry.[43] Dr. Gro Harlem Brundtland, director-general

[43] "Russian Government Approves Accession to WHO Tobacco Control Convention," *Interfax*, January 10, 2008.

of the WHO, explains, "Tobacco is a communicable disease—it's communicated through advertising, marketing and making smoking appear admirable and glamorous." A worldwide ban of tobacco advertising is just one of the stated goals of the new WHO action.

Product placement within TV programming is another area of advertising receiving the attention of regulators. In the United States, complaints have been aired regarding cigarette smoking in movies and on TV. Product placements avoid some of the regulations in markets like China, where ad time is limited. Because these practices are new to China, the growth rate has been initially dramatic. It will be interesting to follow how product placement will be regulated as the practice proliferates.

The advertising industry is sufficiently concerned with the negative attitudes and skepticism of consumers and governments and with the poor practices of some advertisers that the International Advertising Association and other national and international industry groups have developed a variety of self-regulating codes. Sponsors of these codes feel that unless the advertisers themselves come up with an effective framework for control, governments will intervene. This threat of government intervention has spurred interest groups in Europe to develop codes to ensure that the majority of ads conform to standards set for "honesty, truth, and decency." In those countries where the credibility of advertising is questioned and in those where the consumerism movement exists, the creativity of the advertiser is challenged. The most egregious control, however, may be in Myanmar (formerly Burma), where each medium has its own censorship board that passes judgment on any advertising even before it is submitted for approval by the Ministry of Information. There is even a censorship board for calendars. Content restrictions are centered on any references to the government or military, other political matters, religious themes, or images deemed degrading to traditional culture. In many countries, there is a feeling that advertising, and especially TV advertising, is too powerful and persuades consumers to buy what they do not need, an issue that has been debated in the United States for many years.

Summary

An integrated marketing communications (IMC) program includes coordination among advertising, sales management, public relations, sales promotions, and direct marketing. Global marketers face unique legal, language, media, and production limitations in every market. These must be considered when designing an IMC program. During the late 1990s, many large firms moved toward an advertising strategy of standardization. However, more recently even the most multinational companies have changed emphasis to strategies based on national, subcultural, demographic, or other market segments.

The major problem facing international advertisers is designing the best messages for each market served. The potential for cross-cultural misunderstandings is great in both public relations and the various advertising media. The availability and quality of advertising media also vary substantially around the world. Marketers may be unable to enter markets profitably for the lack of appropriate advertising media—for example, some products require the availability of TV.

Advances in communication technologies (particularly the Internet) are causing dramatic changes in the structure of the international advertising and communications industries. New problems are being posed for government regulators as well. Despite these challenges, the industry is experiencing dramatic growth as new media are developed and as new markets open to commercial advertising.

Key Terms

Integrated marketing communications (IMC)

Sales promotions

Public relations (PR)

Noise

Questions

1. Define the key terms listed above.
2. "Perhaps advertising is the side of international marketing with the greatest similarities from country to country throughout the world. Paradoxically, despite its many similarities, it may also be credited with the greatest number of unique problems in international marketing." Discuss.

For the blue and yellow uniformed Maradona and his team Boca Junior, Coke's red and white are also the hated colors of their main futbol competitor in Buenos Aires, River Plate. The negotiations between Coco-Cola and the Boca Junior club executives must have been fascinating with millions of dollars on the table, but many thousands of raucous fans as a very much involved, and potential riotous audience. So, a black and white Coke logo was the creative solution. We note that Sinteplast, a large paint company and local sponsor was able to include its red, white, and blue logo on the stadium—the colors of passion!

The red and gold of McDonald's was traded for black in Cuzco because the area is an official UNESCO World Heritage Site, and the money that supports this designation includes rules that preclude "intrusive" advertising.

Chapter 17

Personal Selling and Sales Management

CHAPTER OUTLINE

Global Perspective: International Assignments Are Glamorous, Right?

Designing the Sales Force

Recruiting Marketing and Sales Personnel

- Expatriates
- Virtual Expatriates
- Local Nationals
- Third-Country Nationals
- Host-Country Restrictions

Selecting Sales and Marketing Personnel

Training for International Marketing

Motivating Sales Personnel

Designing Compensation Systems

- For Expatriates
- For a Global Sales Force

Evaluating and Controlling Sales Representatives

Preparing U.S. Personnel for Foreign Assignments

- Overcoming Reluctance to Accept a Foreign Assignment
- Reducing the Rate of Early Returns
- Successful Expatriate Repatriation

Developing Cultural Awareness

The Changing Profile of the Global Manager

Foreign-Language Skills

CHAPTER LEARNING OBJECTIVES

What you should learn from Chapter 17:

LO1 The role of interpersonal selling in international marketing

LO2 The considerations in designing an international sales force

LO3 The steps to recruiting three types of international salespeople

LO4 Selection criteria for international sales and marketing positions

LO5 The special training needs of international personnel

LO6 Motivation techniques for international sales representatives

LO7 How to design compensation systems for an international sales force

LO8 How to prepare Americans for foreign assignments

LO9 The changing profile of the global sales and marketing manager

Global Perspective

INTERNATIONAL ASSIGNMENTS ARE GLAMOROUS, RIGHT?

"Glamorous" is probably not the adjective the following executives would use:

> The problem as I see it with the company's talk about international managers is that they were just paying lip service to it. When I applied for the posting to Malaysia they gave me all this stuff about the assignment being a really good career move and how I'd gain this valuable international experience and so on. And don't get me wrong, we really enjoyed the posting. We loved the people and the culture and the lifestyle and when it came back to returning home, we weren't really all that keen . . . . The problem was that while I had been away, the company had undergone a wholesale restructuring . . . . This meant that when I got back, my job had been effectively eliminated.
>
> We have been in the United States for eleven months and I reckon it will be another six to twelve months before my wife and the kids are really settled here. I'm still learning new stuff every day at work and it has taken a long time to get used to American ways of doing things . . . . I mean if the company said, "Oh, we want you to move to South Africa in a year's time," I would really dig my heels in because it was initially very disruptive for my wife when she first came here.

And "glamorous" would not be on the tip of these expatriate spouses' tongues either:

> I found I haven't adapted to Spanish hours. I find it a continual problem because the 2–5 p.m. siesta closure is really awkward. I always find myself where I have to remind myself that from 2–5 I have a blank period that I can't do anything . . . . We started adjusting to the eating schedule. Whether we like it or not, we eat a lot later.
>
> We've been really fortunate we haven't had to use healthcare services here . . . . The thought of going to, needing to go to a doctor is scary because for me it would have to be someone English speaking or I wouldn't, you know, feel comfortable.

Given these kinds of problems, is that international sales position being offered to you as attractive as it looks? Will it really help your career?

Sources: Nick Forster, "The Myth of the 'International Manager,'" *International Journal of Resource Management* 11, no. 1 (February 2000), pp. 126–42; Mary C. Gilly, Lisa Peñaloza, and Kenneth M. Kambara, "The Role of Consumption in Expatriate Adjustment and Satisfaction," working paper, Paul Merage School of Business, University of California, Irvine, 2010.

LO1

The role of interpersonal selling in international marketing

The salesperson is a company's most direct tie to the customer; in the eyes of most customers, the salesperson is the company. As presenter of company offerings and gatherer of customer information, the sales representative is the final link in the culmination of a company's marketing and sales efforts.

Growing global competition, coupled with the dynamic and complex nature of international business, increases both the need and the means for closer ties with both customers and suppliers. Particularly in relationship-based cultures such as China, relationship marketing, built on effective communications between the seller and buyer, focuses on building long-term alliances rather than treating each sale as a one-time event.[1] Advances in information technology are allowing for increasingly higher levels of coordination across advertising, marketing research, and personal selling efforts, yielding new roles and functions in customer relationship management (CRM).[2] Similarly, such advances are changing the nature of personal selling and sales management, leading some to forecast substantial reductions in field sales efforts.

In this ever-changing environment of international business, the tasks of designing, building, training, motivating, and compensating an international sales group generate unique problems at every stage of management and development. This chapter discusses the alternatives and problems of managing sales and marketing personnel in foreign countries. Indeed, these problems are among the most difficult facing international marketers. In one survey of CEOs and other top executives, the respondents identified "establishing sales and distribution networks" and "cultural differences" as major difficulties in international operations.

Designing the Sales Force

LO2

The considerations in designing an international sales force

The first step in managing a sales force is its design. Based on analyses of current and potential customers, the selling environment, competition, and the firm's resources and capabilities, decisions must be made regarding the numbers, characteristics, and assignments of sales personnel. All these design decisions are made more challenging by the wide variety of pertinent conditions and circumstances in international markets. Moreover, the globalization of markets and customers, as illustrated by the IBM–Ford story in Crossing Borders 17.1, makes the job of international sales manager quite interesting.

As described in previous chapters, distribution strategies will often vary from country to country. Some markets may require a direct sales force, whereas others may not. How customers are approached can differ as well. The hard sell that may work in some countries can be inappropriate in others. Automobiles have been sold door to door in Japan for years, and only recently have stocks been sold over the Internet in Europe. More than 100,000 of Singapore's 6 million inhabitants are involved in home product sales and other forms of multilevel marketing. The size of accounts certainly makes a difference as well—notice in Crossing Borders 17.1 that an IBM sales representative works inside Ford. Selling high-technology products may allow for the greater use of American expatriates, whereas selling consulting services will tend to require more participation by native sales representatives. Selling in information-oriented cultures such as Germany may also allow for greater use of expatriates. However, relationship-oriented countries such as Japan will require the most complete local knowledge possessed only by natives. Writing about

[1]Xueming Luo, David A. Griffith, Sandra S. Liu, and Yi-Zheng Shi, "The Effects of Customer Relationships and Social Capital on Firm Performance: A Chinese Business Approach," *Journal of International Marketing* 12, no. 4 (2004), pp. 25–47; Roy Y.J. Chua, Michael W. Norris, and Paul Ingram, "*Guanxi* vs. Networking: Distinctive Configurations of Affect- and Cognition-Based Trust in the Networks of Chinese and American Managers," *Journal of International Business Studies* 40, no. 3 (2009), pp. 490–508; Nikala Lane and Nigel Peircy, "Strategizing the Sales Organization," *Journal of Strategic Marketing* 17, 3-4 (2009), pp. 307–322; Luis Filipe Lages, Garcia Silva, and Chris Styles, "Relationship Capabilities, Quality, and Innovation as Determinants of Export Performance," *Journal of International Marketing* 17, no. 4 (2009), pp. 47–70.

[2]Linda H. Shi, Shaoming Zou, J. Chris White, Regina C. McNally, and S. Tamer Cavusgil, "Global Account Management Capability: Insights from Leading Suppliers," *Journal of International Marketing* 13, no. 2 (2005), pp. 93–113.

CROSSING BORDERS 17.1 Sales Force Management and Global Customers

Did IBM really need a major overhaul to its sales compensation plan? For proof, just ask Kevin Tucker. Tucker, an IBM global account manager dedicated to Ford Motor Company, closed a $7 million sale with the automotive giant's European operations. Ford wanted Tucker and his team of IBM representatives to install networking systems in its engineering facilities. The systems would run the applications that design the company's automobiles.

Ford's installation required help from an IBM sales executive in Germany, the project's headquarters. So Tucker, whose office sits in Ford's Dearborn, Michigan, headquarters, sent an e-mail requesting the executive's assistance. And that's when things turned ugly. Although the rep in Germany did not turn his back on the project, his initial reaction was less than enthusiastic. Ford wanted the systems installed throughout Europe, yet the compensation plan for IBM's Germany-based reps rewarded only the systems that were installed in that country. With 80 percent of the work scheduled outside of Germany, the executive was left wondering: Where's the payoff? Tucker and other IBM sales incentive managers wasted three weeks discussing ways to maximize the rep's incentive. Energy that could have been focused on the customer was wasted on a pay plan. "Ford was world-centric, we were country-centric," Tucker says. "The team in Germany was asking, 'Kevin, how can you make us whole?'"

They were not the only salespeople asking that question at IBM. Tucker's predicament represents just one of many problems that were rooted in IBM's "$72 billion" sales incentive plan—a plan that had been obviously put on the back burner as the company giant tinkered with its vision.

Bob Wylie, manager of incentive strategies for IBM Canada, says, "There was the attitude that if it's outside my territory and outside my measurements, I don't get paid for it, and I don't get involved. What's in my pay plan defines what I do." Not the best setup for a company that operates in 165 countries.

Apparently, IBM has solved many of these problems. Ford signed contracts for more than $300 million with IBM to create almost all of the car company's software, including Internet and e-commerce applications in Europe and North America. Details about IBM's global sales compensation program are provided later in this chapter. And IBM continues its impressive sales force coverage in burgeoning new markets like India, where it now employs more than 50,000 professionals who are generating almost $1 billion in revenues.

Sources: Michele Marchetti, "Gamble: IBM Replaced Its Outdated Compensation Plan with a Worldwide Framework. Is It Paying Off?" Sales & Marketing Management, July 1996, pp. 65–69; "Ford Motor and IBM," The Wall Street Journal Europe, January 13, 1999, p. UK5A; "IBM Aims at $1-b India Revenue by Year-End," Business Line (The Hindu), December 9, 2007.

Japan, two international marketing experts agree: "Personal selling as a rule has to be localized for even the most global of corporations and industries."[3]

Once decisions have been made about how many expatriates, local nationals, or third-country nationals a particular market requires, the more intricate aspects of design can be undertaken, such as territory allocation and customer call plans. Many of the most advanced operations research tools developed in the United States can be applied in foreign markets, with appropriate adaptation of inputs, of course.[4] For example, one company has provided tools to help international firms create balanced territories and find optimal locations for sales offices in Canada, Mexico, and Australia.[5] However, the use of such high-tech resource allocation tools requires intricate knowledge of not only geographical details but also appropriate call routines. Many things can differ across cultures—the length of sales cycles, the kinds of customer relationships, and the types of interactions with customers. Indeed, more than one study has identified substantial differences in the importance

[3]Johny K. Johansson and Ikujiro Nonaka, *Relentless: The Japanese Way of Marketing* (New York: Harper Business, 1997), p. 97.

[4]Laia Ferrer, Rafael Pastor, and Alberto García-Villoria, "Designing Salespeople's Routes with Multiple Visits of Customers: A Case Study," *International Journal of Production Economics* 19, no. 1 (2009), pp. 46–54.

[5]See the Web site for The TerrAlign Group, http://www.terralign.com, for more detailed information.

of referrals in the sales of industrial services in Japan vis-à-vis the United States.[6] The implications are that in Japan, sales calls must be made not only on customers but also on the key people, such as bankers, in the all-important referral networks.

Recruiting Marketing and Sales Personnel

LO3

The steps to recruiting three types of international salespeople

The number of marketing management personnel from the home country assigned to foreign countries varies according to the size of the operation, the availability of qualified locals, and other firm characteristics.[7] Increasingly, the number of U.S. home-country nationals (expatriates) assigned to foreign posts is smaller as the pool of trained, experienced locals grows.

The largest personnel requirement abroad for most companies is the sales force, recruited from three sources: expatriates, local nationals, and third-country nationals. A company's staffing pattern may include all three types in any single foreign operation, depending on qualifications, availability, and company needs. Sales and marketing executives can be recruited via the traditional media of advertising (including newspapers, magazines, job fairs, and the Internet), employment agencies or executive search firms,[8] and the all-important personal referrals. The last source will be crucial in many foreign countries, particularly the relationship-oriented ones.

Expatriates

The number of companies relying on **expatriate** personnel is declining as the volume of world trade increases and as more companies use locals to fill marketing positions. However, when products are highly technical, or when selling requires an extensive background of information and applications, an expatriate sales force remains the best choice. The expatriate salesperson may have the advantages of greater technical training, better knowledge of the company and its product line, and proven dependability. Because they are not locals, expatriates sometimes add to the prestige of the product line in the eyes of foreign customers. And perhaps most important, expatriates usually are able to effectively communicate with and influence headquarters' personnel.

The chief disadvantages of an expatriate sales force are the high cost, cultural and legal[9] barriers, and the limited number of high-caliber personnel willing to live abroad for extended periods. Employees are reluctant to go abroad for many reasons: Some find it difficult to uproot families for a two- or three-year assignment, increasing numbers of dual-career couples often require finding suitable jobs for spouses, and many executives believe such assignments impede their subsequent promotions at home. Recall the comments of the executives in the Global Perspective. The loss of visibility at corporate headquarters plus the belief that "out of sight is out of mind" are major reasons for the reluctance to accept a foreign assignment. Companies with well-planned career development programs have the least difficulty. Indeed, the best international companies make it crystal clear that a ticket to top management is an overseas stint. Korn/Ferry International reports in a survey of 75 senior executives from around the world that "international experience" is the attribute identified as second most important for CEOs—experience in marketing and finance positions were first and third, respectively.[10]

Expatriates commit to foreign assignments for varying lengths of time, from a few weeks or months to a lifetime. Some expatriates have one-time assignments (which may last for years), after which they return to the parent company; others are essentially professional expatriates, working abroad in country after country. Still another expatriate assignment

[6] R. Bruce Money, Mary C. Gilly, and John L. Graham, "National Culture and Referral Behavior in the Purchase of Industrial Services in the United States and Japan," *Journal of Marketing* 62, no. 4 (October 1998), pp. 76–87.

[7] Rene A. Belderbos and Marielle G. Heijltjes, "The Determinants of Expatriate Staffing by Japanese Multinationals in Asia: Control, Learning, and Vertical Business Groups," *Journal of International Business Studies* 36, no. 3 (2005), pp. 341–54.

[8] The largest international executive search firm is Korn/Ferry International (http://www.kornferry.com).

[9] Even if job permits are obtained, other legal problems can also crop up. See James T. Areddy, "China Charges Rio Tinto Employees," *The Wall Street Journal*, February 10, 2010, online.

[10] See "Marketing Is Fastest Route to the Executive Suite," Korn/Ferry International (http://www.kornferry.com).

is a career-long assignment to a given country or region; this assignment is likely to lead to assimilation of the expatriate into the foreign culture to such an extent that the person may more closely resemble a local than an expatriate. Because expatriate marketing personnel are likely to cost substantially more than locals, a company must be certain of their effectiveness.

More and more American companies are taking advantage of American employees who are fluent in languages other than English. For example, many U.S. citizens speak Spanish as their first language. The large number of Puerto Ricans working for American multinationals in places like Mexico City is well documented. Recent immigrants and their sons and daughters who learn their parents' languages and about their native cultures will continue to be invaluable assets for firms wishing to enter such markets. Certainly ethnic Chinese- and Vietnamese-Americans are serving as cultural bridges for commerce with those two nations. Indeed, throughout history patterns of commerce have always followed paths of immigration.

Virtual Expatriates

The Internet and other advances in communications technologies, along with the growing reluctance of executives to move abroad, are creating a new breed of expatriate, the virtual one. According to a PricewaterhouseCoopers survey of 270 organizations, there has been a substantial increase in shorter-term, commute, and virtual assignments in recent years. Virtual expatriates manage operations in other countries but do not move there.[11] They stay in hotels, make long visits, and maintain their families at home. Some spend up to 75 percent of their working time traveling. None leave home without the ubiquitous laptop and cell phone.

Close contact with subordinates and customers is, of course, tougher for virtual expatriates. Moreover, the travel can be a killer—that is, foreign bugs are often more virulent and easier to catch on long international flights (indeed, one doctor calls airplanes "germ tubes"), crime against expatriates and travelers in foreign cities is a real hazard, traffic and short-hop flights in less developed countries are dangerous,[12] and living in hotels is lonely. However, virtual expatriates' families do not have to be uprooted, and executives can stay in closer touch with the home office. Finally, from the firm's perspective, a virtual assignment may be the only option and often a good way to avoid the extra expenses of an actual executive move.

[11] Nanette Byrnes, "Home Is Where the Airport Is," *BusinessWeek*, August 20–27, 2007, pp. 89–92.

[12] Daniel Michaels, "In Africa, Aviation Woes Defeat a Zealous Watchdog," *The Wall Street Journal*, December 24, 2007, pp. A1, A8.

The 2009 travel disruptions caused by the initial stages of H1N1 virus were similar to those from the 2003 SARS outbreak. A worker cleans an American Airlines plane detained at San Jose International Airport in California after a nonstop flight from Tokyo, in which several passengers complained of symptoms similar to SARS, or severe acute respiratory syndrome. Officials found no threat after isolating passengers and crew for two hours. We can expect more such disease-based problems as people on the planet continue to get closer together. International travel can be a lot of work!

Exhibit 17.1
The World's 20 Most Expensive Cities (in order)

Source: Mercer.com, 2010.

Tokyo	Milan
Osaka	Shanghai
Moscow	Paris
Geneva	Oslo
Hong Kong	Caracas
Zurich	London
Copenhagen	Tel Aviv
New York	Rome
Beijing	Helsinki
Singapore	Dubai

The cities are listed in order; Tokyo is the most expensive and Dubai the least.

Local Nationals

The historical preference for expatriate managers and salespeople from the home country is giving way to a preference for **local nationals.**[13] At the sales level, the picture is clearly biased in favor of the locals because they transcend both cultural[14] and legal barriers. More knowledgeable about a country's business structure and systems[15] than an expatriate would be, local salespeople are better able to lead a company through the maze of unfamiliar distribution systems and referral networks. Furthermore, pools of qualified foreign personnel available in some places cost less to maintain than a staff of expatriates.

In Europe and Asia, many locals have earned MBA degrees in the United States; thus, a firm gets the cultural knowledge of the local meshed with an understanding of U.S. business management systems. Although expatriates' salaries may be no more than those of their national counterparts, the total cost of keeping comparable groups of expatriates in a country can be considerably higher (often three times the expense) because of special cost-of-living benefits, moving expenses, taxes, and other costs associated with keeping an expatriate abroad. As can be seen in Exhibit 17.1, only one of the most expensive cities in the world is in the United States.

The main disadvantage of hiring local nationals is the tendency of headquarters personnel to ignore their advice. Even though most foreign nationals are careful to keep relationships at the home office warm, their influence is often reduced by their limited English communication skills and lack of understanding of how home-office politics influence decision making. Another key disadvantage can be their lack of availability; one CEO of a consulting firm that specializes in recruiting managers in China reports that ten openings exist for every one qualified applicant. Moreover, whereas in the United States hiring experienced salespeople from competitors, suppliers, or vendors is common practice, the same approach in other countries may not work. In places like Japan, employees are much more loyal to their companies and therefore are difficult to lure away even for big money. College recruits can also be hard to hire in Japan because the smartest students are heavily recruited by the largest Japanese firms. Smaller firms and foreign firms are seen in Japan as much more risky employment opportunities. We do note, however, that in recent years Japan's economic growth has been stunted, giving even foreign companies a strong position in recruiting.[16]

[13] Kenneth S. Law, Lynda Jiwen Song, Chi-Sum Wong, and Donghua Chen, "The Antecedents and Consequences of Successful Localization," *Journal of International Business Studies* 40, no. 8 (2009), pp. 1359–73.

[14] Dominique Rouzies and Anne Macquin, "An Exploratory Investigation of the Impact of Culture on Sales Force Management Control Systems in Europe," *Journal of Personal Selling & Sales Management* 23, no. 3 (2002), pp. 61–72.

[15] Syeda Nazli Wasti and Syeda Arzu Wasti, "Trust in Buyer-Supplier Relations: The Case of the Turkish Automotive Industry," *Journal of International Business Studies* 39 (2008), pp. 118–31.

[16] David McNeill, "In Bleak Economy, Japanese Students Grow Frustrated with Endless Job Hunt," *Chronicle of Higher Education*, February 7, 2010, online.

Locals hit the road. Japanese salesmen save on expenses in this "capsule hotel" in Osaka. Meanwhile, the Avon Lady calls on a customer in rural Brazil.

One other consideration makes recruiting of local nationals as sales representatives more difficult in many foreign countries. We all know about Americans' aversion to being a salesperson. Personal selling is often derided as a career and represented in a negative light in American media—Arthur Miller's *Death of a Salesman* is of course the best example. Despite the bad press, however, personal selling is the most common job in the United States. Indeed, the United States has been described as "a nation of salesmen."[17] But as negatively as the selling profession is viewed in the United States, in many other countries, it is viewed in even worse ways. Particularly in the more relationship-oriented cultures such as France, Mexico, and Japan, sales representatives tend to be on the bottom rung of the social ladder. Thus, recruiting the brightest people to fill sales positions in foreign operations can be very difficult indeed.

Third-Country Nationals

The internationalization of business has created a pool of **third-country nationals (TCNs)**, expatriates from their own countries working for a foreign company in a third country. The TCNs are a group whose nationality has little to do with where they work or for whom. An example would be a German working in Argentina for a U.S. company. Historically, few expatriates or TCNs spent the majority of their careers abroad, but now a truly "global executive" has begun to emerge. The recently appointed chairman of a division of a major Netherlands company is a Norwegian who gained that post after stints in the United States, where he was the U.S. subsidiary's chairman, and in Brazil, where he held the position of general manager. At one time, Burroughs Corporation's Italian subsidiary was run by a French national, the Swiss subsidiary by a Dane, the German subsidiary by an English person, the French subsidiary by a Swiss, the Venezuelan subsidiary by an Argentinean, and the Danish subsidiary by a Dutch person.

American companies often seek TCNs from other English-speaking countries to avoid the double taxation costs of their American managers. Americans working in Spain, for example, must pay both Spanish and U.S. income taxes, and most American firms' compensation packages for expatriates are adjusted accordingly. So, given the same pay and benefits, it is cheaper for an American firm to post a British executive in Spain than an American.

Overall, the development of TCN executives reflects not only a growing internationalization of business but also an acknowledgment that personal skills and motivations are not the exclusive property of one nation. These TCNs often are sought because they speak several languages and know an industry or foreign country well. More and more companies feel that talent should flow to opportunity, regardless of one's home country.

[17]See Earl Shorris's excellent and still pertinent book, *A Nation of Salesmen* (New York: Norton, 1994).

CROSSING BORDERS 17.2 Avon Calling—or Not?

In a gold-mining town near an Amazon tributary, Maria de Fatima Nascimento ambles among mud shacks hawking Honesty and Care Deeply, two beauty products by Avon. She is part of a several-thousand-member Avon army that travels via foot, kayak, riverboat, and small plane through the Amazon Basin. Latin America accounts for 35 percent of Avon's total sales, with Brazil being the firm's number two market after the United States; its success can be attributed to the company's willingness to adapt to local conditions. Cash payments are not required; many Brazilian customers barter for products with fruit, eggs, flour, or wood. Two dozen eggs buys a Bart Simpson roll-on deodorant, and miners pay from 1 to 4 grams of gold powder or nuggets for fragrances like Sweet Crystal Splash. "Ladies of the evening," who regard the cosmetics as a cost of doing business, are some of Nascimento's better customers. But then, so are miners. As one commented, "It's worth 1½ grams of gold to smell nice."

Despite the success of the Bart Simpson roll-on in some parts of the world, Avon is not rolling along in the old-fashioned way in others. In 1998, at least ten people were killed in China during antigovernment rioting in several cities. Many of the rioters were among the country's 200,000 Avon ladies. The Chinese government had banned direct selling, complaining in a directive that such practices spawn "weird cults, triads, superstitious groups, and hooliganism." Worse yet, the authorities criticized meetings of direct marketers that involved singing, chanting, and inspirational sermons. The People's Daily once even complained that direct sales encouraged "excessive hugging"!

The latest and perhaps most serious threat to the 2.6 million Avon ladies working worldwide in 135 countries is the Internet. Many fret that Avon.com may replace "Ding dong, it's Avon calling." But, no matter what, Avon's international sales keep rolling along. For example, the company is now building a $225 million distribution facility in São Paulo.

Sources: "Avon Calling Near the Amazon," U.S. News & World Report, October 25, 1994, pp. 16–17; Andrew Higgins, "Avon Calling? Not in China," The Guardian, May 1, 1998, p. 18; Kate Quill, "Ding Dong, Gone . . . Farewell Avon Lady?" Times (London), February 7, 2000, p. 7; "Avon Plans Brazil Distribution Center," Soap, Perfume, and Cosmetics, October 2008, p. 11.

Host-Country Restrictions

The host government's attitudes toward foreign workers often complicate selecting expatriate U.S. nationals over locals. Concerns about foreign corporate domination, local unemployment, and other issues cause some countries to restrict the number of non-nationals allowed to work within the country. Most countries have specific rules limiting work permits for foreigners to positions that cannot be filled by a national. Furthermore, the law often limits such permits to periods just long enough to train a local for a specific position. Such restrictions mean that MNCs have fewer opportunities for sending home-country personnel to management positions abroad.

In earlier years, personnel gained foreign-country experience by being sent to lower management positions to gain the necessary training before eventually assuming top-level foreign assignments. Most countries, including the United States, control the number of foreigners allowed to work or train within their borders. Since September 11, 2001, U.S. immigration authorities have clamped down even harder on the issuance of all kinds of work visas.

Selecting Sales and Marketing Personnel

LO4

Selection criteria for international sales and marketing positions

To select personnel for international marketing positions effectively, management must define precisely what is expected of its people. A formal job description can aid management in expressing long-range as well as current needs. In addition to descriptions for each marketing position, the criteria should include special requirements indigenous to various countries.

People operating in the home country need only the attributes of effective salespersons, whereas a transnational management position can require skills and attitudes that would challenge a diplomat. International personnel requirements and preferences vary considerably. However, some basic requisites leading to effective performance should be considered because effective executives and salespeople, regardless of what foreign country they are operating in, share certain personal characteristics, skills, and orientations.

Maturity is a prime requisite for expatriate and third-country personnel. Managers and sales personnel working abroad typically must work more independently than their domestic counterparts. The company must have confidence in their ability to make ethical[18] decisions and commitments without constant recourse to the home office, or they cannot be individually effective.

International personnel require a kind of *emotional stability* not demanded in domestic sales positions.[19] Regardless of location, these people are living in cultures dissimilar to their own; to some extent they are always under scrutiny and always aware that they are official representatives of the company abroad. They need sensitivity to behavioral variations in different countries, but they cannot be so hypersensitive that their behavior is adversely affected.

Managers or salespeople operating in foreign countries need considerable *breadth of knowledge* of many subjects both on and off the job. The ability to speak one or more other languages is always preferable.

The marketer who expects to be effective in the international marketplace needs to have a *positive outlook* on an international assignment. People who do not like what they are doing and where they are doing it stand little chance of success, particularly in a foreign country. Failures usually are the result of overselling the assignment, showing the bright side of the picture, and not warning about the bleak side.

An international salesperson must have a high level of *flexibility*, whether working in a foreign country or at home. Expatriates working in a foreign country must be particularly sensitive to the habits of the market; those working at home for a foreign company must adapt to the requirements and ways of the parent company.

Successful adaptation in international affairs is based on a combination of attitude and effort. A careful study of the customs of the market country should be initiated before the marketer arrives and should be continued as long as facets of the culture are not clear. One useful approach is to listen to the advice of national and foreign businesspeople operating in that country. *Cultural empathy* is clearly a part of the basic orientation, because anyone who is antagonistic or confused about the environment is unlikely to be effective.[20] Similar cultural values would be an asset in this area as well.[21]

Finally, international sales and marketing personnel must be *energetic* and *enjoy travel*. Many international sales representatives spend about two-thirds of their nights in hotel rooms around the world. Going through the long lines of customs and immigration after a 15-hour flight requires a certain kind of stamina not commonly encountered. Some argue that frequent long flights can damage your health. Even the seductive lights of Paris nights fade after the fifth business trip there.

Most of these traits can be assessed during interviews and perhaps during role-playing exercises. Paper-and-pencil ability tests, biographical information, and reference checks are of secondary importance. Indeed, as previously mentioned, in many countries, referrals will be the best way to recruit managers and sales representatives, making reference checks during evaluation and selection processes irrelevant.

[18]Kam-hon Lee, Gong-ming Qian, Julie H. Yu, and Ying Ho, "Trading Favors for Marketing Advantage: Evidence from Hong Kong, China, and the United States," *Journal of International Marketing* 13, no. 1 (2005), pp. 1–35; Sergio Roman and Salvador Ruiz, "Relationship Outcomes of Perceived Ethical Sales Behavior: The Customer's Perspective," *Journal of Business Research* 58, no. 4 (2005), pp. 439–52.

[19]Willem Verbeke and Richard P. Bagozzi, "Exploring the Role of Self- and Customer-Provoked Embarrassment in Personal Selling," *International Journal of Research in Marketing* 20, no. 3 (2003), pp. 233–58.

[20]Don Y. Lee and Philip L. Dawes, "Gaunxi, Trust, and Long-Term Orientation in Chinese Business Markets," *Journal of International Marketing* 13, no. 2 (2005), pp. 28–56.

[21]Kimmy Wa Chan, Chi Kin (Bennett) Yim, and Simon S.K. Lam, "Is Customer Participation in Value Creation a Double-Edged Sword? Evidence from Professional Financial Services across Cultures," *Journal of Marketing* (2010), online.

International sales is hard work. A typical week for this Canadian executive looks like this: Leave Singapore with the flu. Arrive home in Toronto to discover that a frozen pipe has burst. Immediately board a plane for a two-day trip to Chicago. Back to Toronto. On to Detroit, battling jet lag and the flu. Back to Toronto, running through the Detroit airport "like O.J. in the Hertz commercial" and throwing his briefcase into a closing door. Take a brief break in flooded house before boarding another plane to China. Reports waking up in a plane and asking his seatmate where they were landing. Seventeen flights in two weeks left him a bit confused.

There is also evidence that some traits that make for successful sales representatives in the United States may not be important in other countries. One study compared sales representatives in the electronics industries in Japan and the United States. For the American representatives, pay and education were both found to be positively related to performance and job satisfaction. In Japan, they were not. That is, the Americans who cared more about money and were more educated tended to perform better and be more satisfied with their sales jobs. Conversely, the Japanese sales representatives tended to be more satisfied with their jobs when their values were consistent with those of their company.[22] The few systematic studies in this genre suggest that selection criteria must be localized, and American management practices must be adapted to foreign markets.

Selection mistakes are costly. When an expatriate assignment does not work out, hundreds of thousands of dollars are wasted in expenses and lost time. Getting the right person to handle the job is also important in the selection of locals to work for foreign companies within their home country. Most developing countries and many European countries have stringent laws protecting workers' rights. These laws are specific as to penalties for the dismissal of employees. Perhaps Venezuela has the most stringent dismissal legislation: With more than three months of service in the same firm, a worker gets severance pay amounting to one month's pay at severance notice plus 15 days' pay for every month of service exceeding eight months plus an additional 15 days' pay for each year employed. Furthermore, after an employee is dismissed, the law requires that person be replaced within 30 days at the same salary. Colombia and Brazil have similar laws that make employee dismissal a high-cost proposition.

Finally, evidence indicates that a manager's culture affects personnel decisions. One study reports "that managers given an identical [personnel selection] problem do not make

[22]R. Bruce Money and John L. Graham, "Salesperson Performance, Pay, and Job Satisfaction: Tests of a Model Using Data Collected in the U.S. and Japan," *Journal of International Business Studies* 30, no. 1 (1999), pp. 149–72.

the same decisions nor do they value the criteria often used in recruitment and promotion decisions equally. For example, they found that Austrian and German managers are more likely to hire compatriots than Italian managers."[23] Thus, we are just scratching the surface of a variety of issues in the area of international sales management research.

Training for International Marketing

LO5

The special training needs of international personnel

The nature of a training program depends largely on both the home culture of the salesperson[24] and the culture of the business system in the foreign market (see Exhibit 17.2).[25] Also important is whether expatriate or local personnel will be representing the firm. Training for expatriates focuses on the customs and the

[23]Dominique Rouzies, Michael Segalla, and Barton A. Weitz, "Cultural Impact on European Staffing Decisions in Sales Management," *International Journal of Research in Marketing* 20, no. 1 (2003), pp. 425–36.

[24]Richard P. Bagozzi, Willem Verbeke, and Jacinto C. Gavino Jr., "Culture Moderates the Self-Regulation of Shame and Its Effects on Performance: The Case of Salespersons in the Netherlands and the Philippines," *Journal of Applied Psychology* 88, no. 2 (2003), pp. 219–33.

[25]Sergio Roman and Salvador Ruiz, "A Comparative Analysis of Sales Training in Europe: Implications for International Sales Negotiations," *International Marketing Review* 20, no. 3 (2003), pp. 304–26; Guijun Zhuang and Alex Tsang, "A Study on Ethically Problematic Selling Methods in China with a Broader Concept of Gray Marketing," *Journal of Business Ethics* 79, no. 1–2 (2008), pp. 85–101.

Exhibit 17.2

Personal Selling Tips, from Brussels to Bangkok

The best training programs are much more than just a list of tips. But a quick read of such tips provides a glimpse of the cultural variation facing sales representatives around the globe.

Belgium—Be able to identify the decision makers. In Flanders (Dutch-speaking region) group decisions are common, but in Wallonia (French-speaking region) the highest-level execs have the final say.

China—Expect to continue negotiations after a deal is inked. To Chinese, signing a contract is just the beginning of the business relationship; therefore, they expect both sides to continue working together to fix problems that arise.

Colombia—Business counterparts want to get to know you personally and form a strong friendship with you. Be sure not to change reps in midstream, because often a switch puts an end to negotiations.

Germany—Be prepared with data and empirical evidence that supports your sales proposition. German businesspeople are unimpressed by flashy advertising and brochures, so keep them serious and detailed, with unexaggerated information.

India—Make sure your schedule remains flexible. Indians are more casual about time and punctuality. Because of India's rigid hierarchy, decisions are made only by the highest-level boss.

Mexico—When planning a meeting, breakfast and lunch are preferable. Take your time and cultivate relationships with business contacts. Those relationships are generally considered more important than professional experience.

Peru—Peruvians relate to individuals and not corporate entities. Establish personal rapport and don't switch your representative in the middle of negotiations.

Russia—Your first meeting will be just a formality. Your Russian counterparts will take this time to judge your credibility, so it's best to be warm and approachable.

Scotland—Scottish people tend to be soft-spoken and private. It takes time to build relationships, but business counterparts seem friendlier after bonds are established. (By the way, Scotch is a drink, not a nationality—it's Scottish.)

South Korea—Status is important. Make sure your business card clearly indicates your title. Don't send a rep to meet with a Korean executive of higher status—it could be viewed as disrespectful.

Thailand—The Thai culture emphasizes nonconflict, so don't make assertive demands when making sales pitches.

Source: From www.salesandmarketing.com. Reprinted with permission.

special foreign sales problems that will be encountered, whereas local personnel require greater emphasis on the company, its products, technical information, and selling methods. In training either type of personnel, the sales training activity is burdened with problems stemming from long-established behavior and attitudes. Local personnel, for instance, cling to habits continually reinforced by local culture. Nowhere is the problem greater than in China or Russia, where the legacy of the communist tradition lingers. The attitude that whether you work hard or not, you get the same rewards, has to be changed if training is going to stick. Expatriates are also captives of their own habits and patterns. Before any training can be effective, open-minded attitudes must be established.

Continual training may be more important in foreign markets than in domestic ones because of the lack of routine contact with the parent company and its marketing personnel. In addition, training of foreign employees must be tailored to the recipients' ways of learning and communicating. For example, the Dilbert cartoon characters theme that worked so well in ethics training courses with a company's American employees did not translate well in many of its foreign offices.

One aspect of training is frequently overlooked: Home-office personnel dealing with international marketing operations need training designed to make them responsive to the needs of the foreign operations. The best companies provide home-office personnel with cross-cultural training and send them abroad periodically to increase their awareness of the problems of the foreign operations.

The Internet now makes some kinds of sales training much more efficient. Users can study text onscreen and participate in interactive assessment tests. Sun Microsystems estimates that its use of the Internet can shorten training cycles by as much as 75 percent. And in some parts of the world where telecommunications facilities are more limited, CD-ROM approaches have proven quite successful. Lockheed Martin has used an interactive CD-ROM-based system to train its employees worldwide on the nuances of the Foreign Corrupt Practices Act and associated corporate policies and ethics.

Motivating Sales Personnel

LO6

Motivation techniques for international sales representatives

Motivation is especially complicated because the firm is dealing with different cultures, different sources, and different philosophies. Marketing is a business function requiring high motivation regardless of the location of the practitioner. Marketing managers and sales managers typically work hard, travel extensively, and have day-to-day challenges. Selling is hard, competitive work wherever undertaken, and a constant flow of inspiration is needed to keep personnel functioning at an optimal level. National differences must always be considered in motivating the marketing force.[26] In one study, sales representatives in comparable Japanese and American sales organizations were asked to allocate 100 points across an array of potential rewards from work.[27] As shown in Exhibit 17.3, the results were surprisingly similar. The only real difference between the two groups was in social recognition, which, predictably, the Japanese rated as more important. However, the authors of the study concluded that though individual values for rewards may be similar, the social and competitive contexts still require different motivational systems.

Because the cultural differences reviewed in this and previous chapters affect the motivational patterns of a sales force, a manager must be extremely sensitive to the personal behavior patterns of employees. Individual incentives that work effectively in the

[26]Thomas E. DeCarlo, Raymond C. Rody, and James E. DeCarlo, "A Cross National Example of Supervisory Management Practices in the Sales Force," *Journal of Personal Selling & Sales Management* 19 (1999), pp. 1–14; Ping Ping Fu, Jeff Kennedy, Jasmine Tata, Gary Yukl, Michael Harris Bond, Tai-Kuang Peng, Ekkirala S. Srinivas, John P. Howell, Leonel Prieto, Paul Koopman, Jaap J. Boonstra, Selda Pasa, Marie-Francoise Lacassagne, Hiro Higashide, and Adith Cheosakul, "The Impact of Societal Cultural Values and Individual Social Beliefs on the Perceived Effectiveness of Managerial Influence Strategies: A Meso Approach," *Journal of International Business Studies* 35 (2004), pp. 284–305.

[27]Money and Graham, "Salesperson Performance, Pay, and Job Satisfaction."

CROSSING BORDERS 17.3 How Important Are Those Meetings?

In Japan, they're really important. A former American sales manager tells this story:

> I worked as general manager of the Japanese subsidiary of an American medical equipment company. Our office was in downtown Tokyo, which made for a two-hour commute for most of our salesmen. Rather than have them come into the office before beginning sales calls every day, I instructed them to go to their appointments directly from home and to come to the office only for a weekly sales meeting. Although this was a common way for a U.S. sales force to operate, it was a disaster in Japan. Sales fell, as did morale. I quickly changed the policy and had everyone come to the office every day. Sales immediately climbed as the salesmen reinforced their group identity.

Now contrast that with how sales representatives are managed at Hewlett-Packard in the United States, as described by one of its sales executives: "We're really looking at this issue of work/family balance. If someone wants to work at home, they can, and we'll outfit their home offices at our expense, provided they have a good reason to want to work at home. If you want to drive productivity, getting people's work lives and home lives in balance is key."

Sam Palmisano, IBM's new CEO, puts it even more strongly: "To win, our players have to be on the field. We can't win the game in the locker room. . . . We want our people on the field in front of the customers, not in conference rooms talking to their managers or other staff organizations." At IBM, a new corporate policy limits sales meeting to one per week.

Sources: Clyde V. Prestowitz, Trading Places—How We Are Giving Away Our Future to Japan and How to Reclaim It (New York: Basic Books, 1989); Geoffrey Brewer et al., "The Top (25 Best Sales Forces in the U.S.)," Sales & Marketing Management, November 1, 1996, p. 38; Erin Strout, "Blue Skies Ahead?" Sales & Marketing Management, March 1, 2003, pp. 24–26; http://ibm.com, 2010.

United States can fail completely in other cultures. For example, with Japan's emphasis on paternalism and collectivism and its system of lifetime employment and seniority, motivation through individual incentives does not work well because Japanese employees seem to derive the greatest satisfaction from being comfortable members of a group. Thus, an offer of an individual financial reward for outstanding individual effort could be turned down because an employee would prefer not to appear different from peers and possibly attract their resentment. Japanese bonus systems are therefore based on group effort, and individual commission systems are rare. Japanese sales representatives are motivated more by the social pressure of their peers than by the prospect of making more money based on individual effort. Likewise, compensation packages in eastern European countries typically involve a substantially greater emphasis on base pay than in the United States, and performance-based incentives have been found to be less effective. Although some point out that motivational practices are changing even in Japan, such patterns do not change very quickly or without substantial efforts.

Communications are also important in maintaining high levels of motivation; foreign managers need to know that the home office is interested in their operations, and in turn, they want to know what is happening in the parent country. Everyone performs better

Exhibit 17.3
Salespeople's Distribution of 100 Points among Rewards in Terms of Their Importance

Rewards	Relative Importance (mean) Japanese	Relative Importance (mean) Americans
Job security	18.5	17.6
Promotion	13.7	14.9
Merit increase in pay	24.7	26.2
Feeling of worthwhile accomplishment	18.5	18.2
Social recognition (sales club awards)	8.1	5.2
Personal growth and development	16.6	17.8

Source: R. Bruce Money and John L. Graham, "Salesperson Performance, Pay, and Job Satisfaction: Tests of a Model Using Data Collected in the U.S. and Japan," Journal of International Business Studies 30, no. 1 (1999), pp. 149–72. Reproduced with permission of Palgrave Macmillan.

Part of the corporate culture (some say peer pressure) that motivates Japanese sales representatives is the morning calisthenics.

when well informed. However, differences in languages, culture, and communication styles can make mutual understanding between managers and sales representatives more difficult.

Because promotion and the opportunity to improve status are important motivators, a company needs to make clear the opportunities for growth within the firm. In truly global firms, foreign nationals can aspire to the highest positions in the firm. Likewise, one of the greatest fears of expatriate managers, which can be easily allayed, is that they will be forgotten by the home office. Blending company sales objectives and the personal objectives of the salespeople and other employees is a task worthy of the most skilled manager. The U.S. manager must be constantly aware that many of the techniques used to motivate U.S. personnel and their responses to these techniques are based on the seven basic cultural premises discussed in Chapter 5. Therefore, each method used to motivate a foreigner should be examined for cultural compatibility.

Designing Compensation Systems

For Expatriates

LO7

How to design compensation systems for an international sales force

Developing an equitable and functional compensation plan that combines balance, consistent motivation, and flexibility is extremely challenging in international operations. This challenge is especially acute when a company operates in a number of countries, when it has individuals who work in a number of countries, or when the sales force is composed of expatriate and local personnel. Fringe benefits play a major role in many countries. Those working in high-tax countries prefer liberal expense accounts and fringe benefits that are nontaxable (such as company cars) instead of direct income subject to high taxes. Fringe-benefit costs are high in Europe, ranging from 35 to 60 percent of salary.

Pay can be a significant factor in making it difficult for a person to be repatriated. Often those returning home realize they have been making considerably more money with a lower cost of living in the overseas market; returning to the home country means a cut in pay and a cut in standard of living. In many countries expats can afford full-time domestic help due to the low wages abroad that they cannot afford back at home.

Conglomerate operations that include domestic and foreign personnel cause the greatest problems in compensation planning. Expatriates tend to compare their compensation with what they would have received at the home office during the same time, and local personnel and expatriate personnel are likely to compare notes on salary. Although any differences in the compensation level may be easily and logically explained, the group receiving the lower amount almost always feels aggrieved and mistreated.

Short-term assignments for expatriates further complicate the compensation issue, particularly when the short-term assignments extend into a longer time. In general, short-term assignments involve payments of overseas premiums (sometimes called **separation allowances** if the family does not go along), all excess expenses, and allowances for tax differentials. Longer assignments can include home-leave benefits or travel allowances for the spouse. International compensation programs also provide additional payments for hardship locations and special inducements to reluctant personnel to accept overseas employment and to remain in the position.

For a Global Sales Force

Compensation plans of American companies vary substantially around the globe, reflecting the economic, legal, and cultural differences[28] in the diverse markets served. Asia and Western Europe require the most localization, while practices in the emerging markets are more

[28] Marta M. Elvira and Anabella Davila, *Managing Human Resources in Latin America* (London: Routledge, 2005)

Exhibit 17.4
Global Similarity to U.S. Compensation Plans

Countries/Regions		Degree of Plan Similarity with the United States: Eligibility	Performance Measures	Weighting	Plan Mechanics	Mix/ Leverage	Payout Frequency
Europe	United Kingdom	Similar	Similar	Similar	Similar	Similar	Varies
	Scandinavia	Similar	Similar	Similar	Similar	Dissimilar	Varies
	France	Similar	Similar	Varies	Varies	Varies	Varies
	Germany	Similar	Similar	Varies	Varies	Varies	Varies
	Spain/Italy	Similar	Varies	Varies	Varies	Varies	Varies
Southeast Asia	Hong Kong	Similar	Similar	Similar	Similar	Varies	Varies
	Korea	Similar	Similar	Varies	Varies	Dissimilar	Dissimilar
	Taiwan	Similar	Similar	Similar	Similar	Varies	Varies
	Malaysia Indonesia (Singapore)	Similar	Similar	Similar	Varies	Varies	Varies
	Australia	Similar	Similar	Similar	Similar	Varies	Varies
Japan		Varies	Dissimilar	Dissimilar	Dissimilar	Dissimilar	Dissimilar
Canada		Similar	Similar	Similar	Similar	Varies	Varies
South America		Similar	Similar	Varies	Varies	Varies	Varies

Similar Varies Dissimilar

Data represent multiple client projects conducted by the Alexander Group Inc. for primarily high-technology industry sales organizations.

Source: David G. Schick and David J. Cichelli, "Developing Incentive Compensation Strategies in a Global Sales Environment," ACA Journal, Autumn 1996; updated based on interview with David J. Cichelli, Vice President of the Alexander Group, March 2010.

pliable. For example, one study reports that European managers tend to use larger incentive components in countries with high personal income taxes, as the higher taxes negate the incentive to perform.[29] We note that personal income tax rates are relatively low in the United States and Japan (less than 30%) and relatively high in Western Europe where the study was conducted (above 35%). Also, in Europe, **work councils** (that is, internal labor union committees) are very much involved in setting rules about compensation companywide, even for sales people. In Austria and Germany, for example, work councils not only codetermine compensation plans, but also must approve them before implementation. Meanwhile in Japan cultural differences play a key role. One study reports, "The teaming environment, all about team rewards, not individual attainment, and a sales cycle highly influenced by relationship building generally require a higher reliance on base pay."[30]

As reflected in Exhibit 17.4, some experts feel compensation plans in Japan and southern Europe are most different from the standard U.S. approach. Those same experts believe that generally compensation schemes around the world are becoming more similar to the U.S. system with its emphasis on commissions based on individual performance.[31] However, the data in Exhibit 17.4 still reflect the locations of the larger differences.[32]

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[29] Dominique Rouzies, Anne T. Coughlan, Erin Anderson, and Dawn Iacobucci, "Determinants of Pay Levels and Structures in Sales Organizations," *Journal of Marketing* 73, no. 3 (2009), pp. 92–104.

[30] David J. Cichelli (editor), 2010 *Sales Compensation Trends Survey Results* (Scottsdale, AZ: The Alexander Group, Inc., 2010).

[31] David J. Cichelli, *Global Sales Compensation Practices Survey* (Scottsdale, AZ: The Alexander Group, Inc., 2006).

[32] Personal interview with David J. Cichelli, Vice President, Alexander Group, March 2010.

Exhibit 17.5
Global versus Local Compensation Practices

	Program Element	Percent of Total				
More Global		Global	Country	World Region	Combination	Net Applicable
	Program Design Principles	53.93	21.35	13.48	2.25	8.99
	Program Approval	52.33	19.77	16.28	3.49	8.14
	Formula Mechanics	42.05	27.27	17.05	4.55	9.09
	Pay Competitiveness Philosophy	41.11	31.11	14.44	3.33	10.00
	Performance Measures	37.65	25.88	20.00	5.88	10.59
	Job Grades	36.05	25.58	17.44	3.49	17.44
	Technical Automation Support	32.56	25.58	17.44	5.81	18.60
	Quota Setting Method	24.71	31.75	21.18	11.76	10.59
	Pay Mix	22.99	33.33	25.29	9.20	9.20
	Payout Administration Calculations	26.74	37.21	20.93	6.98	8.14
	Survey Benchmark Companies	21.35	39.33	20.22	6.74	12.36
	Quotas—Sales Personnel	12.94	43.53	15.29	15.29	12.94
More Local						

Source: David J. Cichelli (editor), 2010 Sales Compensation Trends Survey Results (Scottsdale, AZ: The Alexander Group, Inc., 2010).

Among multinational companies about half describe their sales compensation plans as global in nature and the other half as local. The results of one survey[33] of 85 such companies provide some detail with respect to sales compensation program elements. The participating companies represented a wide variety of industrial sectors, high-tech to entertainment to consumer services, and many are Fortune 500 companies, predominantly from the United States, Japan, and Europe. As can be seen in Exhibit 17.5, most companies establish sales compensation practices locally (either at the country or regional levels). The only program elements more often determined at the global level were Program Design Principles (53.9%) and Program Approval (52.3%).

One company has gone to great lengths to homogenize its worldwide compensation scheme. Beginning in the late 1990s, IBM rolled out what is perhaps the most global approach to compensating a worldwide sales force.[34] The main features of that plan, which applies to 140,000 sales executives in 165 countries, are presented in Exhibit 17.6. The plan was developed in response to "global" complaints from sales representatives that the old plan was confusing and did not provide for work done outside one's territory (such as in the scenario presented in Crossing Borders 17.1) and that it therefore did not promote cross-border teamwork. IBM sales incentive managers from North America, Latin America, Asia Pacific, and Europe worked together with consultants on the design for some nine months. At first glance it may appear that IBM is making the cardinal error of trying to force a plan developed centrally onto sales offices literally spread around the world and across diverse cultures; however, the compensation plan still allows substantial latitude for local managers. Compensation managers in each country determine the frequency of incentive payouts and the split between base and incentive pay, while following a global scheme of performance measures. Thus, the system allows for a high incentive component in countries like the United States and high base-salary components in countries like Japan.

[33] David J. Cichelli, 2010 as above.

[34] Michele Marchetti, "Gamble: IBM Replaces Its Outdated Compensation Plan with a World Wide Framework. Will It Pay Off?" , July 1996, pp. 65–69. IBM continues to globalize its sales management practices—see Erin Strout, "Blue Skies Ahead? IBM Is Transforming the Way Its Sales Force Does Business," , March 1, 2003, pp. 24–27.

Exhibit 17.6
A Compensation Blueprint: How IBM Pays 140,000 Sales Executives Worldwide

Source: Adapted from Michele Marchetti, "Gamble: IBM Replaces Its Outdated Compensation Plan with a World Wide Framework. Will It Pay Off?" Sales & Marketing Management, July 1996, pp. 65–69.

Total Compensation	Plan Components	Payout Frequency	Pay Measurements	Number of Measurements Used to Calculate
Benefits				
Variable Pay	Corporate Objectives	Annually	Bonus payment (based on) • Profit • Customer satisfaction	2
Incentive Compensation	Teamwork	Monthly	20% of incentive compensation • Work team performance • Industry performance	2
	Personal Contribution	Quarterly	60% of incentive compensation • Growth • Solutions • Channels/partners • Profit contribution	1–2
	Challenges/ Contests	As earned	20% of incentive compensation • National • Local	1–4
Recognition				
Base Salary				

Perhaps the most valuable information gained during IBM's process of revamping its sales compensation scheme was the following list of the "do's and don'ts" of global compensation:[35]

1. Do involve representatives from key countries.
2. Do allow local managers to decide the mix between base and incentive pay.
3. Do use consistent performance measures (results paid for) and emphasis on each measure.
4. Do allow local countries flexibility in implementations.
5. Do use consistent communication and training themes worldwide.
6. Don't design the plan centrally and dictate to local offices.
7. Don't create a similar framework for jobs with different responsibilities.
8. Don't require consistency on every performance measure within the incentive plan.
9. Don't assume cultural differences can be managed through the incentive plan.
10. Don't proceed without the support of senior sales executives worldwide.

Evaluating and Controlling Sales Representatives

Evaluation and control of sales representatives in the United States is a relatively simple task. In many sales jobs, emphasis is placed on individual performance, which can easily be measured by sales revenues generated (often compared with past performance, forecasts, or quotas). In short, a good sales representative produces big numbers. However, in many countries the evaluation problem is more complex, particularly in relationship-oriented cultures, where teamwork is favored over individual effort and closer supervision is expected, and may even be appreciated.[36] Performance measures require closer observation and may include the opinions of customers, peers, and supervisors. Of course, managers of sales forces operating in relationship-oriented cultures may see measures of individual performance as relatively unimportant.

[35]Ibid.

[36]William A. Weeks, Terry W. Loe, Lawrence B. Chonko, Carlos Ruy Martinez, and Kirk Wakefield, "Cognitive Moral Development and the Impact of Perceived Organizational Ethical Climate on the Search for Sales Force Excellence: A Cross-Cultural Study," *Journal of Personal Selling & Sales Management* 26 (2006), pp. 205–17.

One study comparing American and Japanese sales representatives' performance illustrates such differences.[37] Supervisors' ratings of the representatives on identical performance scales were used in both countries. The distribution of performance of the Japanese was statistically normal—a few high performers, a few low, but most in the middle. The American distribution was different—a few high, most in the middle, but almost no low performers. In the United States, poor performers either quit (because they are not making any money), or they are fired. In Japan the poor performers stay with the company and are seldom fired. Thus, sales managers in Japan have a problem their American counterparts do not: how to motivate poor performers. Indeed, sales management textbooks in the United States usually include material on how to deal with "plateaued" salespeople but say little about poor performers because the latter are not a problem.

The primary control tool used by American sales managers is the incentive system. Because of the Internet and fax machines, more and more American sales representatives operate out of offices in their homes and see supervisors infrequently. Organizations have become quite flat and spans of control increasingly broad in recent years. However, in many other countries spans of control can be quite narrow by American standards—even in Australia and particularly in Japan. In the latter country, supervisors spend much more time with fewer subordinates. Corporate culture and frequent interactions with peers and supervisors are the means of motivation and control of sales representatives in relationship-oriented cultures like Japan.

Preparing U.S. Personnel for Foreign Assignments

LO8

How to prepare Americans for foreign assignments

Estimates of the annual cost of sending and supporting a manager and his or her family in a foreign assignment range from 150 to 400 percent of base salary. The costs in money (some estimates are in the $300,000 to $600,000 range) and morale increase substantially if the expatriate requests a return home before completing the normal tour of duty (a normal stay is two to four years). In addition, if **repatriation** into domestic operations is not successful and the employee leaves the company, an indeterminately high cost in low morale and loss of experienced personnel results. To reduce these problems, international personnel management has increased planning for expatriate personnel to move abroad, remain abroad, and then return to the home country.[38] The planning process must begin prior to the selection of those who go abroad and extend to their specific assignments after returning home. Selection, training, compensation, and career development policies (including repatriation) should reflect the unique problems of managing the expatriate.

Besides the job-related criteria for a specific position,[39] the typical candidate for an international assignment is married, has two school-aged children, is expected to stay overseas three years, and has the potential for promotion into higher management levels. These characteristics of the typical expatriate are the basis of most of the difficulties associated with getting the best qualified personnel to go overseas, keeping them there, and assimilating them on their return.

Overcoming Reluctance to Accept a Foreign Assignment

Despite the strong evidence that international service serves both the employee and the firm well in the long run, many excellent prospects choose to avoid such assignments.[40] Concerns for career and family are the most frequently mentioned reasons for a manager to refuse a foreign assignment. The most important career-related reservation is the fear that a two- or

[37] Money and Graham, "Salesperson Performance, Pay, and Job Satisfaction."

[38] Jeffrey P. Shay and Sally A. Baack, "Expatriate Assignment, Adjustment and Effectiveness: An Empirical Examination of the Big Picture," *Journal of International Business Studies* 35, no. 3 (2004), pp. 216–32.

[39] Shung J. Shin, Frederick P. Morgeson, and Michael A. Campion, "What You Do Depends on Where You Are: Understanding How Domestic and Expatriate Work Requirements Depend upon the Cultural Context," *Journal of International Business Studies* 38 (2007), pp. 64–83.

[40] William W. Maddux and Adam D. Galinsky, "Cultural Borders and Mental Barriers: The Relationship between Living abroad and Creativity," *Journal of Personality and Social Psychology* 96, no. 5 (2009), pp. 1047–61.

three-year absence will adversely affect opportunities for advancement.[41] This "out of sight, out of mind" fear (as exemplified in the opening Global Perspective) is closely linked to the problems of repatriation. Without evidence of advance planning to protect career development, better qualified and ambitious personnel may decline offers to go abroad. However, if candidates for expatriate assignments are picked thoughtfully, returned to the home office at the right moment, and rewarded for good performance with subsequent promotions at home, companies find recruiting of executives for international assignments eased.

Even though the career development question may be adequately answered with proper planning, concern for family may interfere with many accepting an assignment abroad. Initially, most potential candidates are worried about uprooting a family and settling into a strange environment. Questions about the education of the children (especially those with specific needs), isolation from family and friends, proper healthcare, and, in some countries, the potential for violence reflect the misgivings a family faces when relocating to a foreign country.[42] Special compensation packages have been the typical way to deal with this problem. A hardship allowance, allowances to cover special educational requirements that frequently include private schools, housing allowances, and extended all-expense-paid vacations are part of compensation packages designed to overcome family-related problems with an overseas assignment. Ironically, the solution to one problem creates a later problem when that family returns to the United States and must give up those extra compensation benefits used to induce them to accept the position.

Reducing the Rate of Early Returns

Once the employee and family accept the assignment abroad, the next problem is keeping them there for the assigned time. But the attrition rate of those selected for overseas positions can be very high, though some studies have suggested it is declining overall. One firm with a hospital management contract experienced an annualized failure rate of 20 percent—not high when compared with the construction contractor who started out in Saudi Arabia with 155 Americans and was down to 65 after only two months.

A number of management development approaches generally work for keeping executives motivated,[43] though cultural distance is an important consideration.[44] The most important reasons a growing number of companies are including an evaluation of an employee's family among selection criteria are the high cost of sending an expatriate abroad and increasing evidence that unsuccessful family adjustment[45] is the single most important reason for expatriate dissatisfaction and the resultant request for return home. In fact, a study of personnel directors of over 300 international firms found that the inability of the manager's spouse to adjust to a different physical or cultural environment was the primary reason for an expatriate's failure to function effectively in a foreign assignment. One researcher estimated that 75 percent of families sent to a foreign post experience adjustment problems with children or have marital discord. One executive suggests that there is so much pressure on the family that if there are any cracks in the marriage and you want to save it, think long and hard about taking a foreign assignment.

[41] Mark C. Bolino, "Expatriate Assignments and Intra-Organizational Career Success: Implications for Individuals and Organizations," *Journal of International Business Studies* 38 (2007), pp. 819–35.

[42] Alan Paul, "It's China, or the Job," *The Wall Street Journal*, April 9, 2009, online.

[43] David M. Brock, Oded Shenkar, Amir Shoham, and Ilene C. Siscovick, "Nature Culture and Expatriate Deployment," *Journal of International Business Studies* 39, no. 8 (2008), pp. 1293–309; Shawn M. Carraher, Sherry E. Sullivan, and Madeline M. Crocitto, "Mentoring across Global Boundaries: An Empirical Examination of Home- and Host-Country Mentors on Expatriate Career Outcomes," *Journal of International Business Studies* 39, no. 8 (2008), pp. 1310–26; Christopher Mabey, "Management Development and Firm Performance in Germany, Norway, Spain, and the UK," *Journal of International Business Studies* 39, no. 8 (2008), pp. 1327–42.

[44] Carl P. Maertz Jr., Ahmad Hassan, and Peter Magnusson, "When Learning Is Not Enough: A Process Model of Expatriate Adjustment as Cultural Cognitive Dissonance Reduction," *Organizational Behavior and Human Decision Processes* 108 (2009), pp. 66–78.

[45] Riki Takeuchi, David P. Lepak, Sophia V. Marinova, and Seokhwa Yun, "Nonlinear Influences of Stressors on General Adjustment: The Case of Japanese Expatriates and Their Spouses," *Journal of International Business Studies* 38 (2007), pp. 928–43.

American expatriates flock to stores like this one in Warsaw. Inside you'll find not only books in English, but also Kraft macaroni and cheese, Bisquick, and other hard-to-find-in-Europe staples of the American diet.

Dissatisfaction is caused by the stress and trauma of adjusting to new and often strange cultures. The employee has less trouble adjusting than family members; a company's expatriate moves in a familiar environment even abroad and is often isolated from the cultural differences that create problems for the rest of the family. And about half of American expatriate employees receive cross-cultural training before the trip—much more often than their families do.[46] Family members have far greater daily exposure to the new culture but are often not given assistance in adjusting. New consumption patterns must be learned, from grocery shopping to seeking healthcare services.[47] Family members frequently cannot be employed, and in many cultures, female members of the family face severe social restrictions. In Saudi Arabia, for example, the woman's role is strictly dictated. In one situation, a woman's hemline offended a religious official who, in protest, sprayed black paint on her legs. In short, the greater problems of culture shock befall the family. Certainly any recruiting and selection procedure should include an evaluation of the family's ability to adjust.

Families that have the potential and the personality traits that would enable them to adjust to a different environment may still become dissatisfied with living abroad if they are not properly prepared for the new assignment. More and more companies realize the need for cross-cultural training to prepare families for their new homes. One- or two-day briefings to two- or three-week intensive programs that include all members of the family are provided to assist assimilation into new cultures. Language training, films, discussions, and lectures on cultural differences, potential problems, and stress areas in adjusting to a new way of life are provided to minimize the frustration of the initial cultural shock. This cultural training helps a family anticipate problems and eases adjustment. Once the family is abroad, some companies even provide a local ombudsman (someone experienced in the country) to whom members can take their problems and get immediate assistance. Although the cost of preparing a family for an overseas assignment may appear high, it must be weighed against estimates that the measurable cost of prematurely returned families could cover cross-cultural training for 300 to 500 families. Additionally, we also appreciate that single people may also run into completely different values and rituals when it comes to dating, etc. Companies that do not prepare employees and their families for culture shock have the highest incidence of premature return to the United States.

Successful Expatriate Repatriation

A Conference Board study reported that many firms have sophisticated plans for executives going overseas but few have comprehensive programs to deal with the return home. Many have noted that too often repatriated workers are a valuable resource neglected or wasted by inexperienced U.S. management.

Low morale and a growing amount of attrition among returning expatriates have many causes. Some complaints and problems are family related, whereas others are career related. The family-related problems generally pertain to financial and lifestyle readjustments. Some expatriates find that in spite of higher compensation programs, their net worths have not increased, and the inflation of intervening years makes it impossible to buy a home comparable to the one they sold on leaving. The hardship compensation programs used to induce the executive to go abroad also create readjustment problems on the return home. Such compensation benefits frequently permitted the family to live at a much higher level abroad than at home (employing yard boys, chauffeurs, domestic help, and so forth). Because most compensation benefits are withdrawn when employees return to the home country, their standard of living decreases, and they must readjust. Unfortunately, little can be done to ameliorate these kinds of problems, short of transferring the managers to other foreign locations. Current thinking suggests that the problem of dissatisfaction with compensation and benefits upon return can be lessened by reducing benefits when overseas. Rather than provide the family abroad with hardship payments, some companies

[46]Visit http://www.natwestoffshore.com for a quick overview of the kinds of services provided by expatriate preparation companies.

[47]Mary C. Gilly, Lisa Peñaloza, and Kenneth M. Kambara, "The Role of Consumption in Expatriate Adjustment and Satisfaction," working paper, Paul Merage School of Business, University of California, Irvine, 2010.

are reducing payments and other benefits[48] on the premise that the assignment abroad is an integral requirement for growth, development, and advancement within the firm.

Family dissatisfaction, which causes stress within the family on returning home, is not as severe a problem as career-related complaints. A returning expatriate's dissatisfaction with the perceived future is usually the reason many resign their positions after returning to the United States. The problem is not unique to U.S. citizens; Japanese companies have similar difficulties with their personnel. The most frequently heard complaint involves the lack of a detailed plan for the expatriate's career when returning home. New home-country assignments are frequently mundane and do not reflect the experience gained or the challenges met during foreign assignment. Some feel their time out of the mainstream of corporate affairs has made them technically obsolete and thus ineffective in competing immediately on return. Finally, there is some loss of status, requiring an ego adjustment when an executive returns home.

Companies with the least amount of returnee attrition differ from those with the highest attrition in one significant way: personal career planning for the expatriate. This planning begins with the decision to send the person abroad. The initial transfer abroad should be made in the context of a long-term company career plan. Under these circumstances, the individual knows not only the importance of the foreign assignment but also when to expect to return and at what level. Near the end of the foreign assignment, the process for repatriation begins. The critical aspect of the return home is to keep the executive completely informed regarding such matters as the proposed return time, new assignment and an indication of whether it is interim or permanent, new responsibilities, and future prospects. In short, returnees should know where they are going and what they will be doing next month and several years ahead.

A report on what MNCs are doing to improve the reentry process suggests five steps:

1. Commit to reassigning expatriates to meaningful positions.
2. Create a mentor program.[49] Mentors are typically senior executives who monitor company activities, keep the expatriate informed on company activities, and act as a liaison between the expatriate and various headquarters departments.
3. Offer a written job guarantee stating what the company is obligated to do for the expatriate on return.
4. Keep the expatriate in touch with headquarters through periodic briefings and headquarters visits.
5. Prepare the expatriate and family for repatriation once a return date is set.[50]

Some believe the importance of preparing the employee and family for culture shock upon return is on a par with preparation for going abroad.

Developing Cultural Awareness

Many businesses focus on the functional skills needed in international marketing, overlooking the importance of cultural intelligence.[51] Just as the idea that "if a product sells well in Dallas, it will sell well in Hong Kong" is risky,

[48]Katherine Rosman, "Expat Life Gets Less Cushy," *The Wall Street Journal*, October 26, 2007, pp. W1, W10.

[49]John M. Mezias and Terri A. Scandura, "A Needs-Driven Approach to Expatriate Adjustment and Career Development: A Multiple Mentoring Perspective," *Journal of International Business Studies* 36 (2005), pp. 519–38.

[50]Mila B. Lazarova and Jean-Luc Cerdin, "Revisiting Repatriation Concerns: Organizational Support versus Career and Contextual Influences," *Journal of International Business Studies* 38 (2007), pp. 404–29.

[51]This is a topic of much discussion; see P. Christopher Earley and Elaine Mosakowski, "Cultural Intelligence," *Harvard Business Review*, October 2004, pp. 139–46; James P. Johnson, Tomasz Lenartowicz, and Salvador Apud, "Cross-Cultural Competence in International Business: Toward a Definition and Model," *Journal of International Business Studies* 37 (2006), pp. 231–58; Orly Levy, Schon Beechler, Sully Taylor, and Nakiye A. Boyacigiller, "What We Talk about When We Talk about 'Global Mindset': Managerial Cognition in Multinational Corporations," *Journal of International Business Studies* 38 (2007), pp. 231–58; William Neburry, Liuba Y. Belkin, and Paradis Ansari, "Perceived Career Opportunities from Globalization: Globalization Capabilities and Attitudes toward Women in Iran and the U.S.," *Journal of International Business Studies* 39 (2008), pp. 814–32; Gary Knight and Daekwan Kim, "International Business Competence and the Contemporary Firm," *Journal of International Business Studies* 40, no. 2 (2009), pp. 255–73.

so is the idea that "a manager who excels in Dallas will excel in Hong Kong." Most expatriate failures are not caused by lack of management or technical skills but rather by lack of an understanding of cultural differences and their effect on management skills. As the world becomes more interdependent and as companies depend more on foreign earnings, there is a growing need for companies to develop cultural awareness among those posted abroad.

Just as we might remark that someone has learned good social skills (i.e., an ability to remain poised and be in control under all social situations), so too good cultural skills can be developed.[52] These skills serve a similar function in varying cultural situations; they provide the individual with the ability to relate to a different culture even when the individual is unfamiliar with the details of that particular culture. Cultural skills can be learned just as social skills can be learned. People with cultural skills can:

- Communicate respect and convey verbally and nonverbally a positive regard and sincere interest in people and their culture.
- Tolerate ambiguity and cope with cultural differences and the frustration that frequently develops when things are different and circumstances change.
- Display empathy by understanding other people's needs and differences from their point of view.
- Remain nonjudgmental about the behavior of others, particularly with reference to their own value standards.
- Recognize and control the SRC, that is, recognize their own culture and values as an influence on their perceptions, evaluations, and judgment in a situation.
- Laugh things off—a good sense of humor helps when frustration levels rise and things do not work as planned.

The Changing Profile of the Global Manager

LO9

The changing profile of the global sales and marketing manager

Until recently the road to the top was well marked. Surveys of chief executives consistently reported that more than three-quarters had finance, manufacturing, or marketing backgrounds. As the post–World War II period of growing markets and domestic-only competition has faded, however, so too has the narrow one-company, one-industry chief executive. In the new millennium, increasing international competition, the globalization of companies, technology, demographic shifts, and the speed of overall change will govern the choice of company leaders. It will be difficult for a single-discipline individual to reach the top in the future.

The executive recently picked to head Procter & Gamble's U.S. operations is a good example of the effect globalization is having on businesses and the importance of experience, whether in Japan, Europe, or elsewhere. The head of all P&G's U.S. business was born in the Netherlands, received an MBA[53] from Rotterdam's Eramus University, then rose through P&G's marketing ranks in Holland, the United States, and Austria. After proving his mettle in Japan, he moved to P&G's Cincinnati, Ohio, headquarters to direct its push into East Asia, and then to his new position. Speculation suggests that if he succeeds in the United States, as he did in Japan, he will be a major contender for the top position at P&G.

Fewer companies today limit their search for senior-level executive talent to their home countries. Coca-Cola's former CEO, who began his ascent to the top in his native Cuba, and the former IBM vice chairman, a Swiss national who rose through the ranks in Europe, are two prominent examples of individuals who achieved the top positions of firms outside their home countries. Indeed, 14 *Fortune* 100 companies were headed by immigrant CEOs

[52]Jon M. Shapiro, Julie L. Ozanne, and Bige Saatcioglu, "An Interpretive Examination of the Development of Cultural Sensitivity in International Business," *Journal of International Business Studies* 39 (2008), pp. 71–87.

[53]Laurie Goering, "Foreign Business Schools Fill a Huge Gap," *Los Angeles Times*, January 14, 2008, p. C4.

CROSSING BORDERS 17.4

A Look into the Future: Tomorrow's International Leaders? An Education for the 21st Century

A school supported by the European Union teaches Britons, French, Germans, Dutch, and others to be future Europeans. The European School in a suburb of Brussels has students from 12 nations who come to be educated for life and work, not as products of motherland or fatherland but as Europeans. The European Union runs 10 European Schools in western Europe, enrolling 17,000 students from kindergarten to twelfth grade. Graduates emerge superbly educated, usually trilingual, and very, very European.

The schools are a linguistic and cultural melange. Native speakers of 36 different languages are represented in one school alone. Each year students take fewer and fewer classes in their native tongue. Early on, usually in first grade, they begin a second language, known as the "working language," which must be English, French, or German. A third language is introduced in the seventh year, and a fourth may be started in the ninth.

By the time students reach their eleventh year, they are taking history, geography, economics, advanced math, music, art, and gym in the working language. When the students are in groups talking, they are constantly switching languages to "whatever works."

Besides language, students learn history, politics, literature, and music from the perspective of all the European countries—in short, European cultures. The curriculum is designed to teach the French, German, Briton, and those of other nationalities to be future Europeans.

This same approach is being taken at the MBA level as well. The well-respected European School of Management has campuses in several cities—Berlin, Paris, Oxford, and Madrid. Students spend part of their time at each of the campuses. American MBA programs are beginning to imitate such programs. The University of Chicago School of Business now has campuses in Barcelona and Singapore. The Fuqua School at Duke offers a unique executive MBA program involving travel to several foreign countries and a substantial percentage of teaching delivered interactively over the Internet. This last program attracts students from all over the world who are willing to pay a six-figure tuition.

Sources: Glynn Mapes, "Polyglot Students Are Weaned Early Off Mother Tongue," The Wall Street Journal, March 6, 1990, p. A1. Reprinted by permission of The Wall Street Journal, © 1990 Dow Jones & Company, Inc. All Rights Reserved Worldwide. See also Kevin Cape, "Tips on Choosing the Right One, International Schools," International Herald Tribune, January 25, 2003, p. 7; http://fuqua.duke.edu/mba/executive/global/, 2010.

in one study. Alternatively, American-style diversity[54] is not shared by companies in competitive countries in Asia, for example.[55].

Some companies, such as Colgate-Palmolive, believe that it is important to have international assignments early in a person's career, and international training is an integral part of its entry-level development programs. Colgate recruits its future managers from the world's best colleges and business schools. Acceptance is highly competitive, and successful applicants have a BA or MBA with proven leadership skills, fluency in at least one language besides English, and some experience living abroad. A typical recruit might be a U.S. citizen who has spent a year studying in another country or a national of another country who was educated in the United States.[56]

Trainees begin their careers in a two-year, entry-level, total-immersion program that consists of stints in various Colgate departments. A typical rotation includes time in the finance, manufacturing, and marketing departments and an in-depth exposure to the company's marketing system. During that phase, trainees are rotated through the firm's ad agency, marketing research, and product management departments and then work seven months as field salespeople. At least once during the two years, trainees accompany their mentors on business trips to a foreign subsidiary. The company's goal is to develop in their trainees the skills they need to become effective marketing managers, domestically or globally.

[54]David Wassel, "U.S. Keeps Foreign PhDs," *The Wall Street Journal*, January 26, 2010, online.

[55]Joel Kotkin, "The Kids Will Be Alright," *The Wall Street Journal*, January 23–24, 2010, p. W9.

[56]Mary Beth Marklein, "Record Number of U.S. Students Study Abroad," *USA Today*, November 17, 2008, online.

On the completion of the program, trainees can expect a foreign posting, either immediately after graduation or soon after an assignment in the United States. The first positions are not in London or Paris, as many might hope, but in developing countries such as Brazil, the Philippines, or maybe Zambia. Because international sales are so important to Colgate (60 percent of its total revenues are generated abroad), a manager might not return to the United States after the first foreign assignment but rather move from one overseas post to another, developing into a career internationalist, which could lead to a CEO position.

Companies whose foreign receipts make up a substantial portion of their earnings and that see themselves as global companies rather than as domestic companies doing business in foreign markets are the most active in making the foreign experience an integrated part of a successful corporate career. Indeed for many companies, a key threshold seems to be that when overseas revenues surpass domestic revenues, then the best people in the company want to work on international accounts. Such a global orientation then begins to permeate the entire organization—from personnel policies to marketing and business strategies. This shift was the case with Gillette, which in the 1990s made a significant recruitment and management-development decision when it decided to develop managers internally. Gillette's international human resources department implemented its international-trainee program, designed to supply a steady stream of managerial talent from within its own ranks. Trainees are recruited from all over the world, and when their training is complete, they return to their home countries to become part of Gillette's global management team.

Foreign-Language Skills

Opinions are mixed on the importance of a second language for a career in international business. There are those whose attitude about another language is summed up in the statement that "the language of international business is English." Indeed, one journalist quipped, "Modern English is the Wal-Mart of languages: convenient, huge, hard to avoid, superficially friendly, and devouring all rivals in its eagerness to expand."[57]

Proponents of language skills argue that learning a language improves cultural understanding and business relationships.[58] Others point out that to be taken seriously in the business community, the expatriate must be at least conversational in the host language. Particularly when it comes to selling in foreign countries, languages are important. Says a Dutch sales training expert, "People expect to buy from sales reps they can relate to, and who understand their language and culture. They're often cold towards Americans trying to sell them products."

Some recruiters want candidates who speak at least one foreign language, even if the language will not be needed in a particular job. Having learned a second language is a strong signal to the recruiter that the candidate is willing to get involved in someone else's culture.

Although most companies offer short, intensive language-training courses for managers being sent abroad, many are making stronger efforts to recruit people who are bilingual or multilingual. According to the director of personnel at Coca-Cola, when his department searches its database for people to fill overseas posts, the first choice is often someone who speaks more than one language. We note that Chinese has now become a popular language in America's schools[59] and English in Chinese schools. Indeed, Disney is opening English languages schools in China with Mickey as part of the faculty![60]

[57]Mark Abley, journalist.

[58]Ellen Gamerman, "Just One Word: (That's Chinese for 'Plastics')," *The Wall Street Journal*, March 17–18, 2007, pp. P1, P5.

[59]Sam Dillon, "Foreign Languages Fade in Class—Except Chinese," *The New York Times*, January 10, 2010, online.

[60]James T. Areddy and Peter Sanders, "Chinese Learn English the Disney Way," *The Wall Street Journal*, April 20, 2009, pp. B1, B5.

We the authors feel strongly that language skills are of great importance; if you want to be a major player in international business in the future, learn to speak other languages, or you might not make it—your competition will be those European students described in Crossing Borders 17.4. A joke that foreigners tell about language skills goes something like this: What do you call a person who speaks three or more languages? Multilingual. What do you call a person who speaks two languages? Bilingual. What do you call a person who speaks only one language? An American! Maybe the rest of the world knows something we don't.

Summary

An effective international sales force constitutes one of the international marketer's greatest concerns. The company's sales force represents the major alternative method of organizing a company for foreign distribution and, as such, is on the front line of a marketing organization.

The role of marketers in both domestic and foreign markets is rapidly changing, along with the composition of international managerial and sales forces. Such forces have many unique requirements that are being filled by expatriates, locals, third-country nationals, or a combination of the three. In recent years, the pattern of development has been to place more emphasis on local personnel operating in their own lands. This emphasis, in turn, has highlighted the importance of adapting U.S. managerial techniques to local needs.

The development of an effective marketing organization calls for careful recruiting, selecting, training, motivating, and compensating of expatriate personnel and their families to ensure the maximization of a company's return on its personnel expenditures. The most practical method of maintaining an efficient international sales and marketing force is careful, concerted planning at all stages of career development.

Key Terms

Expatriate
Local nationals
Third-country nationals (TCNs)
Separation allowances
Work councils
Repatriation

Questions

1. Define the key terms listed above.
2. Why may it be difficult to adhere to set job criteria in selecting foreign personnel? What compensating actions might be necessary?
3. Why does a global sales force cause special compensation problems? Suggest some alternative solutions.
4. Under which circumstances should expatriate salespeople be utilized?
5. Discuss the problems that might be encountered in having an expatriate sales manager supervising foreign salespeople.
6. "To some extent, the exigencies of the personnel situation will dictate the approach to the overseas sales organization." Discuss.
7. How do legal factors affect international sales management?
8. How does the sales force relate to company organization? To channels of distribution?
9. "It is costly to maintain an international sales force." Comment.
10. Adaptability and maturity are traits needed by all salespeople. Why should they be singled out as especially important for international salespeople?
11. Can a person develop good cultural skills? Discuss.
12. Describe the attributes of a person with good cultural skills.
13. Interview a local company that has a foreign sales operation. Draw an organizational chart for the sales function and explain why that particular structure was used by that company.
14. Evaluate the three major sources of multinational personnel.
15. Which factors complicate the task of motivating the foreign sales force?
16. Why do companies include an evaluation of an employee's family among selection criteria for an expatriate assignment?
17. "Concerns for career and family are the most frequently mentioned reasons for a manager to refuse a foreign assignment." Why?
18. Discuss and give examples of why returning U.S. expatriates are often dissatisfied. How can these problems be overcome?
19. If "the language of international business is English," why is it important to develop a skill in a foreign language? Discuss.
20. The global manager of 2020 will have to meet many new challenges. Draw up a sample résumé for someone who could be considered for a top-level executive position in a global firm.

Chapter 18 Pricing for International Markets

CHAPTER OUTLINE

CHAPTER LEARNING OBJECTIVES

What you should learn from Chapter 18:

LO1 Components of pricing as competitive tools in international marketing

LO2 How to control pricing in parallel import or gray markets

LO3 Price escalation and how to minimize its effect

LO4 Countertrading and its place in international marketing practices

LO5 The mechanics of price quotations

LO6 The mechanics of getting paid

Global Perspective

THE PRICE WAR

The battle between Procter & Gamble and Kimberly-Clark brought Pampers and Huggies, respectively, to places they have never been, forcing down diaper prices worldwide, and expanding the global market for disposable diapers. A battle in Brazil between the two giants gives an interesting glimpse of the global markets of tomorrow. Disposable diapers are still considered a luxury by the vast majority of Brazil's 194 million people, whose average annual income is under $8,000. Before P&G and Kimberly arrived, rich and poor alike generally made do with cloth or nothing at all. The disposables that were available were expensive, bulky, and leaky.

When less than 5 percent of the Brazilian mass market used disposable diapers, P&G launched Pampers Uni, a no-frills, unisex diaper. Before Uni, it cost more to pay for disposable diapers than to pay for a maid to wash the cloth ones. The introduction of the relatively cheap, high-quality Uni fundamentally changed the economics of the diaper market for most middle-class Brazilians.

The plan was to put such nonessentials as disposable diapers within the reach of millions of Brazilians for the first time. At the same time, the Brazilian economy was on the upswing—inflation had subsided, and overnight, the purchasing power of the poor increased by 20 percent. Low-priced products flew off the shelves. P&G had to truck in diapers from Argentina as it struggled to open new production lines.

But the good days did not last. Kimberly-Clark entered the market and began importing Huggies from Argentina. With the help of a Unilever unit as its Brazilian distributor, Kimberly-Clark gained immediate distribution across the country and quickly made deep inroads into the market. Unilever agreed to work with Kimberly-Clark because its archrival in soap was P&G, and Kimberly-Clark's archrival in diapers was P&G. The two companies previously had entered into a global alliance to look for win–win situations when it was in both their best interests to partner and help each other, from a competitive standpoint, against the dominant P&G. The Brazilian market was the perfect case for cooperation.

With Unilever's help, Kimberly-Clark "push girls" invaded markets to demonstrate the diaper's absorption. Sales rose rapidly and began to exceed production. To increase market share, Kimberly-Clark formed an alliance with Kenko do Brazil, P&G's largest home-grown rival, and created the "Monica" brand. "Monica's Gang," a comic strip similar to "Peanuts" in the United States, sells widely in Brazil. São Paulo malls were crowded with thousands of kids waiting to get an Easter photo taken with actors in Monica suits, an honor that required the purchase of three packs of diapers. Monica diapers were a big hit, and Kimberly-Clark became number one in the Brazilian market.

It was a tough blow to P&G. The company had devoted an entire page of its annual report to how Pampers Uni had tripled its market share in Brazil, helping P&G "retain the number one position in a market that has grown fivefold." Now it suddenly found itself on the defensive. First it cut prices, a step P&G loathes. "Price cutting is like violence: No one wins," said the head of its Brazilian operation. Then it broadened its product range, rolling out an up-market diaper called Super-Seca, priced 25 percent higher than Pampers Uni. Later, in a flanking move, it also unveiled Confort-Seca, a bikini-style diaper originally developed for Thailand and priced 10 to 15 percent lower than the already-inexpensive Uni.

Kimberly-Clark fired back, matching the price cut and then introducing a cheaper version of Monica called Tippy Basic. Four weeks later, P&G cut prices another 10 percent on Super-Seca and Confort-Seca. Despite the price cuts, the two brands were still relatively expensive; then a wave of really cheap diapers arrived. Carrefour, a French retailer that is now Brazil's biggest supermarket chain, sells crudely made Bye-Bye Pipi diapers from Mexico. Despite their inferior quality, the cheap imports pulled down diaper prices across the board.

The real war started when lower prices became so attractive that consumers who otherwise could not afford diapers came into the market. As prices continued to drop, the market grew; that attracted more producers, which were mostly small, local Brazilian companies that offered even lower-priced competitive diapers. One such company, Mili, saw its market share increase from 4.8 percent to 16.2 percent over a three-year period. What accounts for growth of these smaller companies? One analyst suggests that the multinationals are too sophisticated and, thus, too expensive for the Brazilian market: "Smaller companies are just supplying what consumers need at a price they can afford." But it also can be said that as prices drop, products become more attractive to a larger segment of the total market.

Sources: Raju Narisetti and Jonathan Friedland, "Disposable Income: Diaper Wars of P&G and Kimberly-Clark Now Heat Up in Brazil," *The Wall Street Journal*, June 4, 1997, p. A1; "Brazil: Procter & Gamble Increased Market Share," *SABI* (South American Business Information), May 31, 2000; Jonathan Birchall, "New Tactics in the Battle for Babies' Bottoms," *Financial Times*, http://www.FT.com, August 24, 2006. For more information, see Kimberly-Clark's Web site at http://www.kimberly-clark.com, and Procter & Gamble's at http://www.pg.com; also see Matthew Bird and Rosabeth Moss Kanter, "Procter & Gamble Brazil (A): 2 ½ Turnarounds," *Harvard Business School Cases*, January 1, 2008, for details about the firms' decision-making approaches.

Setting and changing prices are key strategic marketing decisions. Prices both set values and communicate in international markets.[1] For example, Hong Kong Disneyland's early attendance was lower than expected, in part driven by what some called an unaffordable opening-day price of $32 a ticket.[2] Setting the right price for a product or service can be the key to success or failure. Even when the international marketer produces the right product, promotes it correctly, and initiates the proper channel of distribution, the effort fails if the product is not properly priced. Although the quality of U.S. products is widely recognized in global markets, foreign buyers, like domestic buyers, balance quality and price in their purchase decisions. An offering's price must reflect the quality and value the consumer perceives in the product. Of all the tasks facing the international marketer, determining what price to charge is one of the most difficult. It is further complicated when the company sells its product to customers in multiple country's markets.

LO1

Components of pricing as competitive tools in international marketing

As globalization continues, competition intensifies among multinational and home-based companies. All are seeking a solid competitive position so they can prosper as markets reach full potential. The competition for the diaper market among Kimberly-Clark, P&G, and the smaller companies illustrates how price becomes increasingly important as a competitive tool and how price competition changes the structure of a market. Whether exporting or managing overseas operations, the manager's responsibility is to set and control the price of goods in multiple markets in which different sets of variables are to be found: different tariffs, costs, attitudes, competition, currency fluctuations, and methods of price quotation.

This chapter focuses on the basic pricing policy questions that arise from the special cost, market, and competitive factors found in foreign markets. A discussion of price escalation and its control and factors associated with price setting and leasing is followed by a discussion of the use of countertrade as a pricing tool and a review of the mechanics of international price quotation. We close the chapter with a brief discussion about the mechanics of getting paid the prices charged—letters of credit and such.

Pricing Policy

Active marketing in several countries compounds the number of pricing problems and variables relating to price policy. Unless a firm has a clearly thought-out, explicitly defined price policy, expediency rather than design establishes prices. The country in which business is being conducted, the type of product, variations in competitive conditions, and other strategic factors affect pricing activity. Price and terms of sale cannot be based on domestic criteria alone.

Pricing Objectives

In general, price decisions are viewed two ways: pricing as an active instrument of accomplishing marketing objectives, or pricing as a static element in a business decision. If prices are viewed as an active instrument, the company *sets* prices (rather than *following* market prices)[3] to achieve specific objectives,[4] whether targeted returns on profit, targeted sales volumes, or some other specific goals.[5] The company that follows the second approach, pricing as a static element, probably exports only excess inventory, places a low priority on foreign business, and views its export sales as passive contributions to sales volume. When U.S. and Canadian international businesses were asked to rate, on a scale of 1 to 5, several factors important in price setting, total profits received an average rating of 4.70, followed by

[1]Lorraine Eden and Peter Rodriguez, "How Weak Are the Signals? International Price Indices and Multinational Enterprises," *Journal of International Business Studies* 36, no. 1 (2004), pp. 61–74.

[2]Don Lee, "Disneyland's Cost a Hurdle for Chinese," *Los Angeles Times*, September 10, 2005, pp. C1, C3.

[3]Carl Arthur Solberg, Barbara Stottinger, and Attila Yaprak, "A Taxonomy of the Pricing Practices of Exporting Firms: Evidence from Austria, Norway, and the United States," *Journal of International Marketing* 14 (2006), pp. 23–48.

[4]Andrew LaVallee, "Unilever to Test Mobile Coupons," *The Wall Street Journal*, May 29, 2009, p. B8.

[5]S. Tamer Cavusgil, Kwog Chan, and Chun Zhang, "Strategic Orientations in Export Pricing: A Clustering Approach to Create Firm Taxonomies," *Journal of International Marketing* 11, no. 1 (2003), p. 47; Christopher K. Hsee, Jean-Pierre Dube, and Yan Zhang, "The Prominence Effect in Shanghai Apartment Prices," *Journal of Marketing Research* 45, no. 2 (2008), pp. 133–44.

CROSSING BORDERS 18.1 Inside the iPhone Gray Market

You could buy one (indeed, more than one) in Beijing even though they had not yet been shipped there by Apple or AT&T. The gray market for iPhones in China was bustling. Apparently 800,000 to 1 million iPhones, or about one-fourth of the total sold, were "unlocked"—that is, altered to be able to run on networks other than those of Apple's exclusive partners.

This iPhone aftermarket did not take long to develop. By the time the device went on sale on June 29, 2007, software hackers and companies that specialize in unlocking cell phones had already begun searching for ways to make the iPhone work on unsanctioned networks. Within weeks, online forums were buzzing with an answer that emanated from a tiny company based in Prague, Czech Republic.

Pavel Zaboj is a 36-year-old former math student who, together with friends, developed an electronic device called Turbo SIM that was designed to turn cell phones into mobile payment systems. Turns out, Turbo SIM also could be used to trick the iPhone into thinking it was operating on AT&T's network. By mid-August, Zaboj's 10-person firm, Bladox, was flooded with orders, particularly from Canada and Mexico, where Apple addicts did not have to venture far to get an iPhone. Bladox was totally unprepared and could not fill all the orders that rolled in. "We just sat there, open-mouthed," Zaboj says.

Bladox has sold devices used to unlock phones in roughly 100 countries, including French Polynesia and Afghanistan, Brazil, Canada, the Dominican Republic, Indonesia, Israel, Nigeria, Peru, Poland, Russia, and the United Arab Emirates.

The boom was fueled not just by the short supply of a hot product but also by scant evidence of interference from Apple or its partners. Apple-authorized partners—AT&T, O2, Orange, and Deutsche Telekom's T-Mobile—lost hundreds of dollars in monthly fees per subscriber when they avoided a two-year contract in favor of unlocking. But the bulk of the unlocking seems to have been occurring in places where customers had no authorized carrier to choose from anyway.

Apple took in hundreds of dollars per iPhone sale when customers activated service with one of its partners, but most analysts say the unlocking craze also helps spread Apple's brand awareness.

The gray market got another push forward from exchange rates. With the dollar falling, consumers from Europe and elsewhere could get a better deal on an iPhone during a trip to the United States than from buying it at home. Gray marketers saw the same opportunity and began recruiting a range of people to secure iPhones.

Sometimes, it is as simple as asking friends and family members to reach their iPhone limit: five phones at Apple and three at AT&T. One reseller admits he got a friend to print business cards and pose as a small business owner to dupe an Apple Store manager into letting him buy 100 iPhones for his "employees." Chinese retailers also admitted to "getting people like airline stewardesses to bring the iPhones over for us."

Some iPhones on the gray market may have leaked from points closer to the source: the big Chinese factories where they are assembled.

Most recently Apple is selling iPhones through its new partner Unicom (Hong Kong) but is still facing stiff competition from other smart phones.

Sources: Peter Burrows, "Inside the iPhone Gray Market," BusinessWeek, February 12, 2008; John Markoff, "Friends and Smugglers Meet Demand for iPhones," The New York Times, February 18, 2008, pp. A1, A8; "Lukewarm Reception," Business China, January 4, 2010, p. 5.

return on investment (4.41), market share (4.13), and total sales volume (4.06). Liquidity ranked the lowest (2.19).

The more control a company has over the final selling price of a product, the better it is able to achieve its marketing goals. However, controlling end prices is not always possible. The broader the product line and the larger the number of countries involved, the more complex is the process of controlling prices to the end user.

Parallel Imports

LO2

How to control pricing in parallel import or gray markets

In addition to having to meet price competition country by country and product by product, companies have to guard against competition with their own subsidiaries or branches. Because of the different prices possible in different country markets, a product sold in one country may be exported to another and undercut the prices charged in that country. For example, to meet economic conditions and local competition, an American pharmaceutical company might sell its drugs in a developing country at a low price and then discover that these discounted drugs are being exported to a third country, where, as parallel imports, they are in direct competition with the same product sold for higher prices by the same firm. This practice is lucrative when wide margins exist between prices for the same products in different countries. A variety of conditions can create a profitable opportunity for a parallel market.

Restrictions brought about by import quotas and high tariffs also can lead to parallel imports and make illegal imports attractive. India has a three-tier duty structure on computer parts ranging from 50 to 80 percent on imports. As a result, estimates indicate that as much as 35 percent of India's domestic computer hardware sales are accounted for by the gray market.

The possibility of a **parallel market** occurs whenever price differences are greater than the cost of transportation between two markets. In Europe, because of different taxes and competitive price structures, prices for the same product vary between countries. When this situation occurs, it is not unusual for companies to find themselves competing in one country with their own products imported from another European country at lower prices. Pharmaceutical companies face this problem in Italy, Greece, and Spain because of price caps imposed on prescription drugs in those countries. For example, the ulcer drug Losec sells for only $18 in Spain but goes for $39 in Germany. The heart drug Plavix costs $55 in France and sells for $79 in London. Presumably such price differentials would cease once all restrictions to trade were eliminated in the European Union, and in most cases, this is true. However, the European Union does not prevent countries from controlling drug prices as part of their national health plans.

The drug industry has tried to stop parallel trade in Europe but has been overruled by European authorities. Now the industry is trying a different approach, restricting supplies to meet only local demand according to formulas based on prior demand and anticipated growth. The idea is that a country should receive just enough of a drug for its citizens. Wholesalers that order more with the intention of shipping the drugs to higher-priced markets will not have enough to do so. A number of major pharmaceutical companies have imposed similar restrictions. The companies say these measures are intended to streamline distribution, help prevent medicine shortages, and curtail excess inventory, whereas distributors claim the strategy is aimed at thwarting cross-border drug trading. The fact is, "half of all demand in Britain of several products is being met by imports from low-priced countries" and companies are attempting to curtail parallel imports.

Gray market pharmaceuticals moved from Canada to the United States are estimated to represent about $427 million annually—not a large amount when compared to the $135 billion U.S. drug market, but it can be substantial for specific drugs like Paxil, Zyban, and Viagra. Although importing prescription drugs from a foreign country, including Canada, is against U.S. law, a person can travel to Canada or Mexico to make purchases or buy over the Internet. Technically, buying over the Internet and having the drugs mailed to the United States is illegal. However, the government has taken a relatively lax view toward such purchases, provided the supply does not exceed 90 days.

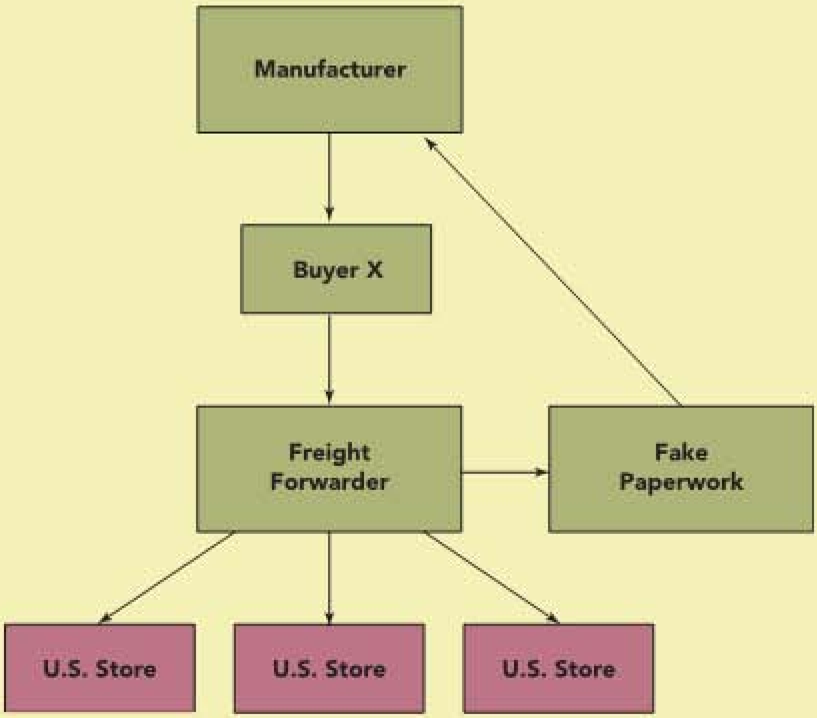
Naturally, drug companies that have been hit the hardest want to put a stop to the traffic. Glaxo SmithKline, the prescription drug maker, has asked all Canadian pharmacies and wholesalers to "self-certify" that they are not exporting its drugs outside Canada. The company also is warning U.S. customers about imported drugs in a new advertising campaign.[6] Those that fail to comply will have their Glaxo supplies cut off—"Glaxo products are approved by Health Canada for sale in Canada only." Some feel that this move will not solve the problem even if Glaxo is able to stop Canadian sales because Americans will be able to find less expensive drugs in other markets, like Australia and Ireland. The Internet trade will be hard to shut down as long as large price differentials persist among markets. Furthermore, U.S. legislators are passing laws that allow such drug imports.[7]

Exclusive distribution, a practice often used by companies to maintain high retail margins to encourage retailers to provide extra service to customers, to stock large assortments, or to maintain the exclusive-quality image of a product, can create a favorable condition for parallel importing. Perfume and designer brands such as Gucci and Cartier are especially

[6]Barrie McKenna, "New Shot Fired in Net Drug Battle," *Toronto Globe and Mail*, June 2, 2005, p. B3.

[7]"Senate Passes Bill to Keep Drug Import Bans Out of Trade Deals," *FDA Week* 11, no. 37 (September 16, 2005).

Exhibit 18.1
How Gray Market Goods End Up in U.S. Stores



1. A major manufacturer agrees to sell its products, at a price competitive for an overseas market, to "Buyer X" who promises to sell the products overseas.
2. The manufacturer ships the goods to Buyer X.
3. Buyer X has a local freight forwarder at the port take possession of the goods.
4. Instead of shipping the goods to their supposed destination, the freight forwarder (at the behest of Buyer X) sends them to smaller distributors and discount outlets in the United States.
5. The freight forwarder sends a bogus bill of lading to the manufacturer, so the company believes the goods have been sold overseas.

prone to gray markets. To maintain the image of quality and exclusivity, prices for such products traditionally include high profit margins at each level of distribution; characteristically, there are differential prices among markets and limited quantities of product, and distribution is restricted to upscale retailers. Wholesale prices for exclusive brands of fragrances are often 25 percent more in the United States than wholesale prices in other countries. These are ideal conditions for a lucrative gray market for unauthorized dealers in other countries who buy more than they need at wholesale prices lower than U.S. wholesalers pay. They then sell the excess at a profit to unauthorized U.S. retailers but at a price lower than the retailer would have to pay to an authorized U.S. distributor.

The high-priced designer sportswear industry is also vulnerable to such practices. Nike, Adidas, and Calvin Klein were incensed to find their products being sold in one of Britain's leading supermarket chains, Tesco. Nike's Air Max Metallic trainers, which are priced at £120 ($196) in sports shops, could be purchased at Tesco for £50 ($80). Tesco had bought £8 million in Nike sportswear from overstocked wholesalers in the United States (Exhibit 18.1). To prevent parallel markets from developing when such marketing and pricing strategies are used, companies must maintain strong control over distribution and prices.

Companies that are serious about restricting the gray market must establish and monitor controls that effectively police distribution channels. In some countries they may get help from the courts. A Taiwan court ruled that two companies that were buying Coca-Cola in the United States and shipping it to Taiwan were violating the trademark rights of both the Coca-Cola Company and its sole Taiwan licensee. The violators were prohibited from importing, displaying, or selling products bearing the Coca-Cola trademark. In other countries, the courts have not always come down on the side of the trademark owner. The reasoning is that once the trademarked item is sold, the owner's rights to control the trademarked item are lost. In a similar situation in Canada, the courts did not side with the Canadian exporter who was buying 50,000 cases of Coke a week and shipping them to Hong Kong and Japan. The exporter paid $4.25 a case, plus shipping of $1.00 a case, and sold them at $6.00, a nifty profit of 75 cents a case. Coca-Cola sued, but the court ruled that the product was bought and sold legally.

Parallel imports can do long-term damage in the market for trademarked products.[8] Customers who unknowingly buy unauthorized imports have no assurance of the quality of the item they buy, of warranty support, or of authorized service or replacement parts. Purchasers of computers, for example, may not be able to get parts because authorized dealers have no obligation to service these computers. In the case of software, the buyer may be purchasing a counterfeit product and will not be authorized for technical support. Furthermore, when a product fails, the consumer blames the owner of the trademark, and the quality image of the product is sullied.

Approaches to International Pricing

Whether the orientation is toward control over end prices or net prices, company policy relates to the net price received. Cost and market considerations are important; a company cannot sell goods below cost of production and remain in business, and it cannot sell goods at a price unacceptable in the marketplace. Firms unfamiliar with overseas marketing and firms producing industrial goods orient their pricing solely on a cost basis. Firms that employ pricing as part of the strategic mix, however, are aware of such alternatives as market segmentation from country to country or market to market, competitive pricing in the marketplace, and other market-oriented pricing factors,[9] including cultural differences in perceptions of pricing.[10]

Full-Cost versus Variable-Cost Pricing

Firms that orient their price thinking around cost must determine whether to use variable cost or full cost in pricing their goods. In **variable-cost pricing**, the firm is concerned only with the marginal or incremental cost of producing goods to be sold in overseas markets. Such firms regard foreign sales as bonus sales and assume that any return over their variable cost makes a contribution to net profit. These firms may be able to price most competitively in foreign markets, but because they are selling products abroad at lower net prices than they are selling them in the domestic market, they may be subject to charges of dumping. In that case, they open themselves to antidumping tariffs or penalties that take away from their competitive advantage. Nevertheless, variable-cost (or *marginal-cost*) pricing is a practical approach to pricing when a company has high fixed costs and unused production capacity. Any contribution to fixed cost after variable costs are covered is profit to the company.

In contrast, companies following the **full-cost pricing** philosophy insist that no unit of a similar product is different from any other unit in terms of cost and that each unit must bear its full share of the total fixed and variable cost. This approach is suitable when a company has high variable costs relative to its fixed costs. In such cases, prices are often set on a cost-plus basis, that is, total costs plus a profit margin. Both variable-cost and full-cost policies are followed by international marketers.

Skimming versus Penetration Pricing

Firms must also decide when to follow a skimming or a penetration pricing policy. Traditionally, the decision of which policy to follow depends on the level of competition, the innovativeness of the product, market characteristics, and company characteristics.[11]

A company uses **skimming** when the objective is to reach a segment of the market that is relatively price insensitive and thus willing to pay a premium price for the value received. If limited supply exists, a company may follow a skimming approach to maximize revenue and to match demand to supply. When a company is the only seller of a new or innovative

[8]For an interesting look at how enforcement efforts work, see Kersi D. Anita, Mark E. Bergen, Shantanu Dutta, and Robert J. Fisher, "How Does Enforcement Deter Gray Market Incidence?" *Journal of Marketing* 70 (2006), pp. 92–106.

[9]Pradeep K. Chintagunta and Ramaroa Desiraju, "Strategic Pricing and Detailing Behavior in International Markets," *Marketing Science* 24, no. 1 (2005), pp. 67–80.

[10]Lee C. Simmons and Robert M. Schindler, "Cultural Superstitions and the Price Endings Used in Chinese Advertising," *Journal of International Marketing* 11, no. 2 (2003), pp. 101–111; Manoj Thomas and Vick Morwitz, "Penny Wise and Pound Foolish: The Left-Digit Effect in Price Cognition," *Journal of Consumer Research* 32, no. 2 (2005), pp. 54–64.

[11]Cavusgil, Chan, and Zhang, "Strategic Orientations in Export Pricing."

CROSSING BORDERS 18.2

Don't Squeeze the Charmin, Mr. Whipple—Or Change the Color

The British pay twice the price as the Germans and the French, and nearly two-and-a-half times as much as Americans, for a standard four-roll pack of toilet paper. Why? Is it price gouging, the impact of the euro, the relative value of the English pound, or just culture?

The answer is rather simple: British consumers insist on a softer, more luxurious texture than their less discriminating continental and American cousins. British toilet paper is four grams heavier per square meter because it contains more fiber than European tissues. Extensive consumer testing has established that British consumers are not willing to be fobbed off with anything less.

Another factor distinguishes the British preference for a special toilet paper roll. Go to any supermarket, and you will be confronted by an extraordinary choice of more than 50 colors, sizes, and brands. Honeysuckle, warm pink, summer peach, pearl white, meadow green, breeze blue, and magnolia are just some of the shades on offer. The reason for this variety apparently is that the British shopper insists that toilet paper match the color scheme of the bathroom. On the continent, consumers settle happily for white, with pink thrown in as a wild alternative.

Procter & Gamble captured 10 percent of the market in less than five months after offering a stronger Charmin, but it may have gone too far. There were complaints that the "wet strength" of Charmin was unsuitable for U.K. toilets. The U.K. sewage system could handle Charmin alone, but the issue was whether the system would get clogged if several rival tissues adopted the stronger tissue. Procter & Gamble agreed to halve the strength of its Charmin toilet tissue, but will the price come down? And most recently, the P&G product has also been rated worst on a forest-friendly scale by Greenpeace. Complying with this latest criticism will surely raise costs.

Sources: "Going Soft," The Economist, March 4, 2000; "P&G Unblocks Sewage Row with Toilet Paper Revamp," Reuters, May 10, 2000; Timothy Kenny, "Eurasia: Of Toilet Paper, Escalators and Hope," The Wall Street Journal Europe, September 16, 2005, p. A9; "Skip it, Eco-Worrier," The Times (London), December 1, 2007, p. 11.

product, a skimming price may be used to maximize profits until competition forces a lower price.[12] Skimming often is used in markets with only two income levels: the wealthy and the poor. Costs prohibit setting a price that will be attractive to the lower-income market, so the marketer charges a premium price and directs the product to the high-income, relatively price-insensitive segment. Apparently this was the policy of Johnson & Johnson's pricing of diapers in Brazil before the arrival of P&G. Today such opportunities are fading away as the disparity in income levels is giving way to growing middle-income market segments. The existence of larger markets attracts competition and, as is often the case, the emergence of multiple product lines, thus leading to price competition.

A **penetration pricing policy** is used to stimulate market and sales growth by deliberately offering products at low prices. Penetration pricing most often is used to acquire and hold share of market as a competitive maneuver. However, in country markets experiencing rapid and sustained economic growth, and where large shares of the population are moving into middle-income classes, penetration pricing may be used to stimulate market growth even with minimum competition. Penetration pricing may be a more profitable strategy than skimming if it maximizes revenues as a base for fighting the competition that is sure to come.

Regardless of the formal pricing policies and strategies a company uses, the market sets the effective price for a product. Said another way, the price has to be set at a point at which the consumer will perceive value received, and the price must be within reach of the target market. As a consequence, many products are sold in very small units in some markets to bring the unit price within reach of the target market. Warner-Lambert's launch of its five-unit pack of Bubbaloo bubble gum in Brazil failed—even though bubble gum represents over 72 percent of the overall gum sector—because it was priced too high for the target market. A relaunch of a single-unit "pillow" pack brought the price within range and enabled the brand to quickly gain a respectable level of sales.

[12]Caroline Bingxin Li and Julie Juan Li, "Achieving Superior Financial Performance in China: Differentiation, Cost Leadership, or Both?" *Journal of International Marketing* 16, no. 3 (2008), pp. 1–22.

Chinese wait to enter Beijing's first Walmart outlet. Thousands crowded the Sam's Club store on the far western edge of Beijing as the world's biggest retailer made its first foray into a major Chinese city. Walmart now has more than 200 stores elsewhere in China; the first opened in 1996. The low-price-for-good-quality strategy of Walmart and other mass retailers such as Costco and Carrefour, the French supermarket chain, have resulted in lower retail prices in China, Japan, and other Asian countries they have entered.

As a country's economy grows and the distribution of wealth becomes more equitable, multiple income levels develop, distinct market segments emerge, and multiple price levels and price/quality perceptions increase in importance. As an example, the market for electronic consumer goods in China changed in just a few years. Instead of a market for imported high-priced and high-quality electronic goods aimed at the new rich versus cheaper, poorer quality, Chinese-made goods for the rest of the market, a multitiered market reflecting the growth of personal income has emerged.

Sony of Japan, the leading foreign seller of high-priced consumer electronic goods, was upstaged in the Chinese market when Aiwa, a competitor, recognized the emergence of a new middle-tier market for good-quality, modestly priced electronic goods. As part of a global strategy focused on slim margins and high turnover, Aiwa of Korea began selling stereo systems at prices closer to Chinese brands than to Sony's. Aiwa's product quality was not far behind that of Sony and was better than top Chinese brands, and the product resembled Sony's high-end systems. Aiwa's recognition of a new market segment and its ability to tap into it resulted in a huge increase in overall demand for Aiwa products.

Pricing decisions that were appropriate when companies directed their marketing efforts toward single market segments will give way to more sophisticated practices. As incomes rise in many foreign markets, the pricing environment a company encounters will be similar to that in the United States. As countries prosper and incomes become more equitably distributed, multiple market segments develop. As these segments emerge, Walmart, Carrefour, and other mass retailers enter the market to offer price-conscious customers good value at affordable prices. This scenario seems to repeat itself in country after country. Within these markets, an effective pricing strategy becomes crucial.

Price Escalation

LO3

Price escalation and how to minimize its effect

People traveling abroad often are surprised to find goods that are relatively inexpensive in their home country priced outrageously high in other countries. Because of the natural tendency to assume that such prices are a result of profiteering, manufacturers often resolve to begin exporting to crack these new, profitable foreign markets only to find that, in most cases, the higher prices reflect the higher costs of exporting. A case in point is a pacemaker for heart patients that sells for $2,100 in the United States. Tariffs and the Japanese distribution system add substantially to the final price in Japan. Beginning with the import tariff, each time the pacemaker changes hands, an additional cost is incurred. The product passes first through the hands of an importer, then to the company with primary responsibility for sales and service, then to a secondary or even a tertiary local distributor, and finally to the hospital. Markups at each level result in the $2,100 pacemaker selling for over $4,000 in Japan. Inflation results in price escalation, one of the major pricing obstacles facing the MNC marketer. This escalation is true not only for technical products like the pacemaker but for such products as crude oil, soft drinks, and beer. Estimates indicate that if tariffs and trade barriers on these products were abolished, the consumer would enjoy savings of 6.57 trillion yen.

Costs of Exporting

Excess profits exist in some international markets, but generally the cause of the disproportionate difference in price between the exporting country and the importing country, here termed **price escalation**, is the added costs incurred as a result of exporting products from one country to another. Specifically, the term relates to situations in which ultimate prices are raised by shipping costs, insurance, packing, tariffs, longer channels of distribution, larger middlemen margins, special taxes, administrative costs, and exchange rate fluctuations. The majority of these costs arise as a direct result of moving goods across borders from one country to another and often combine to escalate the final price to a level considerably higher than in the domestic market.

Taxes, Tariffs, and Administrative Costs

A tariff, or duty, is a special form of taxation. Like other forms of taxes, a tariff may be levied for the purpose of protecting a market or for increasing government revenue. A tariff is a fee charged when goods are brought into a country from another country. The level of tariff is typically expressed as the rate of duty and may be levied as specific, ad valorem, or compound. A specific duty is a flat charge per physical unit imported, such as 15 cents per bushel of rye. Ad valorem duties are levied as a percentage of the value of the goods imported, such as 20 percent of the value of imported watches. Compound duties include both a specific and an ad valorem charge, such as $1 per camera plus 10 percent of its value. Tariffs and other forms of import taxes serve to discriminate against all foreign goods.

A Japanese wholesale store manager of a meat market in Tokyo arranges packs of beef imported from Australia. Earlier in the day, the government had announced Japan plans to raise its tariff on refrigerated beef imports to 50 percent from 38.5 percent, following a spike in imports. The price tag reads: "Premium beef, sirloin steak from Australia @ 258 yen per 100 grams." Tariffs are one of the main causes of price escalation for imported products.

Fees for import certificates or for other administrative processing can assume such levels that they are, in fact, import taxes. Many countries have purchase or excise taxes that apply to various categories of goods; value-added or turnover taxes, which apply as the product goes through a channel of distribution; and retail sales taxes. Such taxes increase the end price of goods but in general do not discriminate against foreign goods. Tariffs are the primary discriminatory tax that must be taken into account in reckoning with foreign competition.

In addition to taxes and tariffs, a variety of administrative costs are directly associated with exporting and importing a product. Export and import licenses, other documents, and the physical arrangements for getting the product from port of entry to the buyer's location mean additional costs. Although such costs are relatively small, they add to the overall cost of exporting.

Inflation

In countries with rapid inflation or exchange variation, the selling price must be related to the cost of goods sold and the cost of replacing the items. Goods often are sold below their cost of replacement plus overhead, and sometimes are sold below replacement cost. In these instances, the company would be better off not to sell the products at all. When payment is likely to be delayed for several months or is worked out on a long-term contract, inflationary factors must be figured into the price. Inflation and lack of control over price were instrumental in an unsuccessful new-product launch in Brazil by the H. J. Heinz Company; after only two years, Heinz withdrew from the market. Misunderstandings with the local partner resulted in a new fruit-based drink being

Shoppers look at stacks of discount clothing jutting out on a sidewalk to attract potential buyers at Tokyo's Sugamo shopping district. With the stock market plunging to 16-year lows, talk of deflationary dangers, and a morass of confusion in its political leadership, Japan appeared to be headed toward a serious economic crisis. The central bank played down the possibility of deflation, saying that falling prices show the market is finally opening up to competition.

sold to retailers on consignment; that is, they did not pay until the product was sold. Faced with a rate of inflation of over 300 percent at the time, just a week's delay in payment eroded profit margins substantially. Soaring inflation in many developing countries has made widespread price controls a constant threat in many countries.

Because inflation and price controls imposed by a country and/or the global marketplace[13] are beyond the control of companies, they use a variety of techniques to inflate the selling price to compensate for inflation pressure and price controls. They may charge for extra services, inflate costs in transfer pricing, or break up products into components and price each component separately.

Inflation causes consumer prices to escalate, and consumers face ever-rising prices that eventually exclude many of them from the market. In contrast, deflation results in ever-decreasing prices, creating a positive result for consumers, but both put pressure to lower costs on everyone in the supply chain.

Deflation

The Japanese economy was in a deflationary spiral for a number of years. In a country better known for $10 melons and $100 steaks, McDonald's now sells hamburgers for 52 cents, down from $1.09; a flat screen 32-inch color television is down from $4,000 to $2,400; and clothing stores compete to sell fleece jackets for $8, down from $25 two years earlier. Consumer prices have dropped to a point that they are similar to those Japanese once found only on overseas shopping trips. The high prices prevalent in Japan before deflation allowed substantial margins for everyone in the distribution chain. As prices continued to drop over several years, those less able to adjust costs to allow some margin with deflated prices fell by the wayside. Entirely new retail categories—100-yen discount shops, clothing chains selling low-cost imported products from China, and warehouse-style department stores—have become the norm. Sales at discount stores grew by 78 percent in the late 1990s. Discounting is the way to prosper in Japan, which again helps fuel deflation. While those in the distribution chain adjusted to a different competitive environment or gave up, Japanese consumers were reveling in their newfound spending power. Japanese tourists used to travel to the United States to buy things at much cheaper prices, but as one consumer commented, "Nowadays, I feel prices in Japan are going down and America is no longer cheaper." Although she was accustomed to returning from trips to the United States carrying suitcases of bargains, she returned from her last two-week vacation with purchases that fit in one fanny pack.

In a deflationary market, it is essential for a company to keep prices low and raise brand value to win the trust of consumers. Whether experiencing deflation or inflation, an exporter has to place emphasis on controlling price escalation.

Exchange Rate Fluctuations

At one time, world trade contracts could be easily written because payment was specified in a relatively stable currency. The American dollar was the standard, and all transactions could be related to the dollar. Now that all major currencies are floating freely relative to one another, no one is quite sure of the future value of any currency. Increasingly, companies are insisting that transactions be written in terms of the vendor company's national currency, and forward hedging is becoming more common. If exchange rates are not carefully considered in long-term contracts, companies find themselves unwittingly giving 15 to 20 percent discounts. The added cost incurred by exchange rate fluctuations on a day-to-day basis must be taken into account, especially where there is a significant time lapse between signing the order and delivery of the goods. Exchange rate differentials mount. Whereas Hewlett-Packard gained nearly half a million dollars additional profit through

[13]Neil Shah, "Fears Rise of Euro Government Default," *The Wall Street Journal*, February 4, 2010, online.

During the mid-1990s, Mexico knocked three zeroes off the peso in response to a major devaluation. Venezuela did the same in 2008.[14] In 2005 Turkey knocked six zeroes off its lira toward its potential alignment with the European Union. Both actions affected perceptions of key constituencies. Both bills are worth about 75¢.

exchange rate fluctuations in one year, Nestlé lost a million dollars in six months. Other companies have lost or gained even larger amounts.

Varying Currency Values

In addition to risks from exchange rate variations, other risks result from the changing values of a country's currency relative to other currencies,[15] such as consumers' perceptions of value.[16] Consider the situation in Germany for a purchaser of U.S. manufactured goods from mid-2001 to mid-2003. During this period, the value of the U.S. dollar relative to the euro went from a strong position (U.S.$1 to € 1.8315) in mid-2001 to a weaker position in mid-2003 (U.S.$1 to €0.8499). A strong dollar produces price resistance because a larger quantity of local currency is needed to buy a U.S. dollar. Conversely, when the U.S. dollar is weak, demand for U.S. goods increases because fewer units of local currency are needed to buy a U.S. dollar. The weaker U.S. dollar, compared with most of the world's stronger currencies, that existed in mid-2003 stimulated exports from the United States. Consequently, when the dollar strengthens, U.S. exports will soften.

When the value of the dollar is weak relative to the buyer's currency (i.e., it takes fewer units of the foreign currency to buy a dollar), companies generally employ cost-plus pricing. To remain price competitive when the dollar is strong (i.e., when it takes more units of the foreign currency to buy a dollar), companies must find ways to offset the higher price caused by currency values. When the rupee in India depreciated significantly against the

[14] Annually *The Economist* publishes its Big Mac index, which predicts currency fluctuations. See "Cheesed Off," July 8, 2009, p. 74.

[15] Klaus Wertenbrouch, Dilip Soman, and Amitava Chattopadhyay, "On the Perceived Value of Money: The Reference Dependence of Currency Numerosity Effects," *Journal of Consumer Research* 34 (2007), pp. 1–10.

[16] "Venezuela: Chavez's New Currency Targets Inflation," *Tulsa World*, January 1, 2008, p. A6.

A woman looks at a poster offering a half-priced bacon and lettuce hamburger, reduced from U.S.$3.20 to $1.60 during a monthly discount at a McDonald's restaurant in downtown Tokyo. McDonald's Japan announced that it would reduce the price of hamburgers by 30 percent for a month to return to customers the profit the company made by the strong yen against U.S. dollars in importing the raw materials from abroad. McDonald's move created goodwill among its customers at a time when it is forced to lower prices to "hike" sales in an economy that is suffering a major downturn. This move is a good example of how differences in the value of currencies can be positive for a company, as in this case, or negative when the value of the dollar is much stronger than the local currency.

Middleman and Transportation Costs

Sample Effects of Price Escalation

Exhibit 18.2
Sample Causes and Effects of Price Escalation

	Domestic Example	Foreign Example 1: Assuming the Same Channels with Wholesaler Importing Directly	Foreign Example 2: Importer and Same Margins and Channels	Foreign Example 3: Same as 2 but with 10 Percent Cumulative Turnover Tax
Manufacturing net	$ 5.00	$ 5.00	$ 5.00	$5.00
Transport, CIF	n.a.	6.10	6.10	6.10
Tariff (20 percent CIF value)	n.a.	1.22	1.22	1.22
Importer pays	n.a.	n.a.	7.32	7.32
Importer margin when sold to wholesaler (25 percent on cost)	n.a.	n.a.	1.83	1.83 +0.73
Wholesaler pays landed cost	5.00	7.32	9.15	9.88
Wholesaler margin (33⅓ percent on cost)	1.67	2.44	3.05	3.29 +0.99
Retailer pays	6.67	9.76	12.20	14.16
Retail margin (50 percent on cost)	3.34	4.88	6.10	7.08 +1.42
Retail price	$10.01	$14.64	$18.30	$22.66

Notes: All figures in U.S. dollars; CIF = cost, insurance, and freight; n.a. = not applicable. The exhibit assumes that all domestic transportation costs are absorbed by the middleman. Transportation, tariffs, and middleman margins vary from country to country, but for the purposes of comparison, only a few of the possible variations are shown.

It assumes that a constant net price is received by the manufacturer, that all domestic transportation costs are absorbed by the various middleman and reflected in their margins, and that the foreign middlemen have the same margins as the domestic middlemen. In some instances, foreign middleman margins are lower, but it is equally probable that these margins could be greater. In fact, in many instances, middlemen use higher wholesale and retail margins for foreign goods than for similar domestic goods.

Notice that the retail prices in Exhibit 18.2 range widely, illustrating the difficulty of price control by manufacturers in overseas retail markets. No matter how much the manufacturer may wish to market a product in a foreign country for a price equivalent to US$10, there is little opportunity for such control. Even assuming the most optimistic conditions for Foreign Example 1, the producer would need to cut its net by more than one-third to absorb freight and tariff costs if the goods are to be priced the same in both foreign and domestic markets. Price escalation is everywhere: A man's dress shirt that sells for $40 in the United States retails for $80 in Caracas. A $20 U.S. electric can opener is priced in Milan at $70; a $35 U.S.-made automatic toaster is priced at $80 in France.

Unless some of the costs that create price escalation can be reduced, the marketer is faced with a price that may confine sales to a limited segment of wealthy, price-insensitive customers. In many markets, buyers have less purchasing power than in the United States and can be easily priced out of the market. Furthermore, once price escalation is set in motion, it can spiral upward quickly. When the price to middlemen is high and turnover is low, they may insist on higher margins to defray their costs, which, of course, raises the price even higher. Unless price escalation can be reduced, marketers find that the only buyers left are the wealthier ones. If marketers are to compete successfully in the growth of markets around the world, cost containment must be among their highest priorities. If costs can be reduced anywhere along the chain, from manufacturer's cost to retailer markups, price escalation will be reduced. A discussion of some of the approaches to reducing price escalation follows.

Approaches to Reducing Price Escalation

Three methods used to reduce costs and lower price escalation are lowering the cost of goods, lowering tariffs, and lowering distribution costs.

Lowering Cost of Goods

If the manufacturer's price can be lowered, the effect is felt throughout the chain. One of the important reasons for manufacturing in a third country is an attempt to reduce manufacturing costs and thus price escalation. The impact can be profound if you consider that the hourly cost of skilled labor in a Mexican maquiladora is less than $3 an hour including benefits, compared with more than $10 in the United States.

In comparing the costs of manufacturing microwave ovens in the United States and in Korea, the General Electric Company found substantial differences. A typical microwave oven cost GE $218 to manufacture compared with $155 for Samsung, a Korean manufacturer. A breakdown of costs revealed that assembly labor cost GE $8 per oven and Samsung only 63 cents. Perhaps the most disturbing finding for GE was that Korean laborers delivered more for less cost: GE produced four units per person, whereas the Korean company produced nine.

Although Korea remains an important offshore manufacturing location, China has emerged as a global manufacturing powerhouse backed by an inexpensive labor force, rapidly improving production quality, new sources of capital, a more dynamic private sector, and a deliberately undervalued currency. China supplies a growing range of products to the global marketplace. Japan, the land of zero-defect quality control, is increasingly happy with the competence of Chinese workers. Star Manufacturing, a Japanese precision machine tool manufacturing company, moved 30 percent of its production to China because China's cheap labor and cheap resources reduced its production costs by 20 percent.

Eliminating costly functional features or even lowering overall product quality is another method of minimizing price escalation. For U.S.-manufactured products, the quality and additional features required for the more developed home market may not be necessary in countries that have not attained the same level of development or consumer demand. In the price war between P&G and Kimberly-Clark in Brazil, the quality of the product was decreased to lower the price. Remember that the grandmother in the grocery store chose the poorest quality and lowest priced brand of diaper. Similarly, functional features on washing machines made for the United States, such as automatic bleach and soap dispensers, thermostats to provide four different levels of water temperature, controls to vary water volume, and bells to ring at appropriate times, may be unnecessary for many foreign markets. Eliminating them means lower manufacturing costs and thus a corresponding reduction in price escalation. Lowering manufacturing costs can often have a double benefit: The lower price to the buyer may also mean lower tariffs, because most tariffs are levied on an ad valorem basis.

Lowering Tariffs

When tariffs account for a large part of price escalation, as they often do, companies seek ways to lower the rate. Some products can be reclassified into a different, and lower, customs classification.[17] An American company selling data communications equipment in Australia faced a 25 percent tariff, which affected the price competitiveness of its products. It persuaded the Australian government to change the classification for the type of products the company sells from "computer equipment" (25 percent tariff) to "telecommunication equipment" (3 percent tariff). Like many products, this company's products could be legally classified under either category. One complaint against customs agents in Russia is the arbitrary way in which they often classify products. Russian customs, for instance, insists on classifying Johnson & Johnson's 2-in-1 Shower Gel as a cosmetic with a 20 percent tariff rather than as a soap substitute, which the company considers it, at a 15 percent tariff.

How a product is classified is often a judgment call. The difference between an item being classified as jewelry or art means paying no tariff for art or a 26 percent tariff for jewelry. For example, a U.S. customs inspector could not decide whether to classify a $2.7 million Fabergé egg as art or jewelry. The difference was $0 tariff versus $700,000. An experienced freight forwarder/customs broker saved the day by persuading the customs agent that the

[17]Matthew Dolan, "To Outfox the Chicken Tax, Ford Strips Its Own Vans," *The Wall Street Journal*, September 22, 2009, pp. A1, A14.

CROSSING BORDERS 18.3

What Does It Mean To Be Human? 5.2 Percent, That's What

"What does it mean to be human?" asked Judge Barzilay in her chambers at the U.S. Court of International Trade. At the heart of the problem were some 60 little plastic figures of Marvel Enterprises' X-Men and other comic figures.

Marvel subsidiary Toy Biz Inc. sought to have its heroes from a range of comic characters declared nonhuman. At the time, tariffs were higher on dolls (12 percent) than toys (6.8 percent). According to the U.S. tariff code, human figures are dolls, whereas figures representing animals or "creatures," such as monsters and robots, are deemed toys.

Thus began the great debate over the figures' true being. Barbie is a doll. Pooh Bear's a toy. That much is easy. But what about Wolverine, the muscular X-Man with the metal claws that jut out from his fists? Wolverine has known many forms in his more than 40 years as a Marvel character. But is he human? Or consider Kraven, a famed hunter, who once vanquished Spiderman, thanks in part to the strength he gained from drinking secret jungle elixirs.

Toy Biz argued that the figures "stand as potent witnesses for their status as nonhuman creatures." How could they be humans if they possessed "tentacles, claws, wings or robotic limbs"? The U.S. Customs Service argued that each figure had a "distinctive individual personality." Some were Russians, Japanese, black, white, women, even handicapped. Wolverine, the government insisted, was simply "a man with prosthetic hands."

To weigh the question, Judge Barzilay sat down with a sheaf of opposing legal briefs and more than 60 action figures, including Wolverine, Storm, Rogue, Kraven, and Bonebreaker. Judge Barzilay described in her ruling how she subjected many of the figures to "comprehensive examinations." At times, that included "the need to remove the clothes of the figure." The X-Men, oddly, gave her the least trouble. They are mutants, she declared, who "use their extraordinary and unnatural powers on the side of good or evil." Thus, the X-Men are "something other than human." Tougher for the judge were figures from the Fantastic Four and Spiderman series. After careful examination and thought, the judge found Kraven exhibited "highly exaggerated muscle tone in arms and legs." He wore a "lion's mane-like vest." Both features helped relegate him to the netherworld of robots, monsters, and devils. Case closed.

Toy Biz Inc. was elated, but fans were incensed—no way are X-Men mere creatures. "Marvel's superheroes are supposed to be as human as you or I. They live in New York. They have families and go to work. And now they're no longer human?" The current author of Marvel's Uncanny X-Men comic book series is also incredulous. He worked hard for a year, he says, to emphasize the X-Men's humanity, to show "that they're just another strand in the evolutionary chain." But "Don't fret, Marvel fans, a decision that the X-Men figures indeed do have 'nonhuman' characteristics further proves our characters have special, out-of-this world powers."

Although this scenario may seem trivial, it highlights just how arbitrary tariff classification can be. It pays to argue your case if you believe a product can be classified at a lower rate. For every $100,000 of plastic figures Toy Biz imports, the reclassification saves it $5,200. Not a bad day's work, considering the hundreds of thousands of dollars worth of figures the company imports annually—not to mention the undisclosed sum Toy Biz can recoup from years of overpaid tariffs.

Sources: Niel King Jr., "Is Wolverine Human? A Judge Answers No; Fans Howl in Protest," The Wall Street Journal, January 20, 2003; Marie Beerens, "Marvel's Two Movies Should Fuel Demand," Investor's Business Daily, February 19, 2008; Paul Bond, "Hasbro, Marvel Will Play Together through '17," Hollywood Reporter, February 18, 2009, p. 8.

Fabergé egg was a piece of art. Because the classification of products varies among countries, a thorough investigation of tariff schedules and classification criteria can result in a lower tariff.

Besides having a product reclassified into a lower tariff category, it may be possible to modify a product to qualify for a lower tariff rate within a tariff classification. In the footwear industry, the difference between "foxing" and "foxlike" on athletic shoes makes a substantial difference in the tariff levied. To protect the domestic footwear industry from an onslaught of cheap sneakers from the Far East, the tariff schedules state that any canvas or vinyl shoe with a foxing band (a tape band attached at the sole and overlapping the shoe's upper by more than one-quarter inch) be assessed at a higher duty

Hugh Jackman portraying Wolverine, an X-Men fictional character from Marvel Enterprises. A tariff classification issue arose when the company declared the imported toy characters as nonhuman toys and U.S. Customs said that they were human figure dolls—tariffs on dolls at that time were 12 percent versus 6.8 percent for toys. U.S. Customs alleged that the X-Men figures were human figures and thus should be classified as dolls, not figures featuring animals or creatures, which would mean that they could be classified as toys. Product classifications are critical when tariffs are determined. See Crossing Borders 18.3 for more details on this case.

rate. As a result, manufacturers design shoes so that the sole does not overlap the upper by more than one-quarter inch. If the overlap exceeds one-quarter inch, the shoe is classified as having a foxing band; less than one-quarter inch, a foxlike band. A shoe with a foxing band is taxed at 48 percent and one with a foxlike band (one-quarter inch or less overlap) is taxed a mere 6 percent.

There are often differential rates between fully assembled, ready-to-use products and those requiring some assembly, further processing, the addition of locally manufactured component parts, or other processing that adds value to the product and can be performed within the foreign country. For example, a ready-to-operate piece of machinery with a 20 percent tariff may be subject to only a 12 percent tariff when imported unassembled. An even lower tariff may apply when the product is assembled in the country and some local content is added.

Repackaging also may help to lower tariffs. Tequila entering the United States in containers of one gallon or less carries a duty of $2.27 per proof gallon; larger containers are assessed at only $1.25. If the cost of rebottling is less than $1.02 per proof gallon, and it probably would be, considerable savings could result. As will be discussed shortly, one of the more important activities in foreign trade zones is the assembly of imported goods, using local and frequently lower cost labor.

Lowering Distribution Costs

Shorter channels can help keep prices under control. Designing a channel that has fewer middlemen may lower distribution costs by reducing or eliminating middleman markups. Besides eliminating markups, fewer middlemen may mean lower overall taxes. Some countries levy a value-added tax on goods as they pass through channels. Goods are taxed each time they change hands. The tax may be cumulative or noncumulative. A cumulative value-added tax is based on total selling price and is assessed every time the goods change hands. Obviously, in countries where value-added tax is cumulative, tax alone provides a special incentive for developing short distribution channels. Where that is achieved, tax is paid only on the difference between the middleman's cost and the selling price. While many manufacturers had to cut prices in wake of Japan's deflation, Louis Vuitton, a maker of branded boutique goods, was able to increase prices instead. A solid brand name and direct distribution have permitted Vuitton's price strategy. Vuitton's leather monogrammed bags have become a Japanese buyer's "daily necessity," and Vuitton distributes directly and sets its own prices.

Using Foreign Trade Zones to Lessen Price Escalation

Some countries have established foreign or free trade zones (FTZs) or free ports to facilitate international trade.[18] More than 300 of these facilities operate throughout the world, storing or processing imported goods. As free trade policies in Africa, Latin America, eastern Europe, and other developing regions expand, an equally rapid expansion has taken place in the creation and use of foreign trade zones. In a free port or FTZ, payment of import duties is postponed until the product leaves the FTZ area and enters the country. An FTZ is, in essence, a tax-free enclave and not considered part of the country as far as import regulations are concerned. When an item leaves an FTZ and is imported officially into the host country of the FTZ, all duties and regulations are imposed.

Utilizing FTZs can to some extent control price escalation resulting from the layers of taxes, duties, surcharges, freight charges, and so forth. Foreign trade zones permit many of

[18]Liu Li, "Free Trade Zone in Pipeline in Xinjiang," *China Daily*, September 20, 2005.

Exhibit 18.3
How Are Foreign Trade Zones Used?

There are more than 100 foreign trade zones (FTZs) in the United States, and FTZs exist in many other countries as well. Companies use them to postpone the payment of tariffs on products while they are in the FTZ. Here are some examples of how FTZs in the United States are used.

- A Japanese firm assembles motorcycles, jet skis, and three-wheel all-terrain vehicles for import as well as for export to Canada, Latin America, and Europe.
- A U.S. manufacturer of window shades and miniblinds imports and stores fabric from Holland in an FTZ, thereby postponing a 17 percent tariff until the fabric leaves the FTZ.
- A manufacturer of hair dryers stores its product in an FTZ, which it uses as its main distribution center for products manufactured in Asia.
- A European-based medical supply company manufactures kidney dialysis machines and sterile tubing using raw materials from Germany and U.S. labor. It then exports 30 percent of its products to Scandinavian countries.
- A Canadian company assembles electronic teaching machines using cabinets from Italy; electronics from Taiwan, Korea, and Japan; and labor from the United States, for export to Colombia and Peru.

In all these examples, tariffs are postponed until the products leave the FTZ and enter the United States. Furthermore, in most situations the tariff is at the lower rate for component parts and raw materials versus the higher rate that would be charged if products were imported directly as finished goods. If the finished products are not imported into the United States from the FTZ but are shipped to another country, no U.S. tariffs apply.

Sources: Lewis E. Leibowitz, "An Overview of Foreign Trade Zones," Europe, Winter–Spring 1987, p. 12; "Cheap Imports," International Business, March 1993, pp. 98–100; "Free-Trade Zones: Global Overview and Future Prospects," http://www.stat-usa.gov, 2010.

these added charges to be avoided, reduced, or deferred so that the final price is more competitive. One of the more important benefits of the FTZ in controlling prices is the exemption from duties on labor and overhead costs incurred in the FTZ in assessing the value of goods.

By shipping unassembled goods to an FTZ in an importing country, a marketer can lower costs in a variety of ways:

- Tariffs may be lower because duties are typically assessed at a lower rate for unassembled versus assembled goods.
- If labor costs are lower in the importing country, substantial savings may be realized in the final product cost.
- Ocean transportation rates are affected by weight and volume; thus unassembled goods may qualify for lower freight rates.
- If local content, such as packaging or component parts, can be used in the final assembly, tariffs may be further reduced.

All in all, a foreign or free trade zone is an important method for controlling price escalation. Incidentally, all the advantages offered by an FTZ for an exporter are also advantages for an importer. U.S. importers use over 100 FTZs in the United States to help lower their costs of imported goods. See Exhibit 18.3 for illustrations of how FTZs are used.

Dumping

A logical outgrowth of a market policy in international business is goods priced competitively at widely differing prices in various markets. Marginal (variable) cost pricing, as discussed previously, is a way prices can be reduced to stay within a competitive price range. The market and economic logic of such pricing policies can hardly be disputed, but the practices often are classified as dumping and are subject to severe penalties and fines. Various economists define **dumping** differently. One approach classifies international shipments as dumped if the products are sold below their cost of production. Another approach characterizes dumping as selling goods in a foreign market below the price of the same goods in the home market.

World Trade Organization (WTO) rules allow for the imposition of a dumping duty when goods are sold at a price lower than the normal export price or less than the cost in the country of origin, increased by a reasonable amount for the cost of sales and profits, when this price is likely to be prejudicial to the economic activity of the importing country. A **countervailing duty** or *minimum access volume (MAV)*, which restricts the amount a country will import, may be imposed on foreign goods benefiting from subsidies, whether in production, export, or transportation.

For countervailing duties to be invoked, it must be shown that prices are lower in the importing country than in the exporting country and that producers in the importing country are being directly harmed by the dumping. A report by the U.S. Department of Agriculture indicated that levels of dumping by the United States hover around 40 percent for wheat and between 25 and 30 percent for corn, and levels for soybeans have risen steadily over the past four years to nearly 30 percent. These percentages, for example, mean that wheat is selling up to 40 percent below the cost of production. For cotton, the level of dumping for one year rose to a remarkable 57 percent, and for rice, it then stabilized at around 20 percent. The study indicated that these commodities are being dumped onto international markets by the United States in violation of WTO rules. The report found that after many years of accepting agricultural dumping, a few countries have begun to respond by investigating whether some U.S. agricultural exports are dumped. Brazil is considering a case against U.S. cotton before the WTO. Canada briefly imposed both countervailing and antidumping duties on U.S. corn imports; the United States did the same for Chinese apple juice concentrate.

Dumping is rarely an issue when world markets are strong. In the 1980s and 1990s, dumping became a major issue for a large number of industries when excess production capacity relative to home-country demand caused many companies to price their goods on a marginal-cost basis. In a classic case of dumping, prices are maintained in the home-country market and reduced in foreign markets.

Today, tighter government enforcement of dumping legislation is causing international marketers to seek new routes around such legislation. Assembly in the importing country is a way companies attempt to lower prices and avoid dumping charges. However, these *screw-driver plants,* as they are often called, are subject to dumping charges if the price differentials reflect more than the cost savings that result from assembly in the importing country. Another subterfuge is to alter the product so that the technical description will fit a lower duty category. To circumvent a 16.9 percent countervailing duty imposed on Chinese gas-filled, nonrefillable pocket flint lighters, the manufacturer attached a useless valve to the lighters so that they fell under the "nondisposable" category, thus avoiding the duty. Countries see through many such subterfuges and impose taxes. For example, the European Union imposed a $27 to $58 dumping duty per unit on a Japanese firm that assembled and sold office machines in the European Union. The firm was charged with valuing imported parts for assembly below cost.

The U.S. market is currently more sensitive to dumping than in the recent past. In fact, the Uruguay Round of the GATT included a section on antidumping that grew out of U.S. insistence on stricter controls on dumping of foreign goods in the United States at prices below those charged at home. Changes in U.S. law have enhanced the authority of the Commerce Department to prevent circumvention of antidumping duties and countervailing duties that have been imposed on a country for dumping. The United States and European Union have been the most ardent users of antidumping duties. A question asked by many though: Are dumping charges just a cover for protectionism? Previously, when an order was issued to apply antidumping and countervailing duties on products, companies charged with the violation would get around the order by slightly altering the product or by doing minor assembly in the United States or a third country. This effort created the illusion of a different product not subject to the antidumping order. The new authority of the Department of Commerce closes many such loopholes.

Leasing in International Markets

An important selling technique to alleviate high prices and capital shortages for capital equipment or high-priced durable goods[19] is the leasing system. The concept of equipment leasing has become increasingly important as a means of selling capital equipment in overseas markets. In fact, an estimated $50 billion worth (original cost) of U.S.-made and foreign-made equipment is on lease in western Europe.

The system of leasing used by industrial exporters is similar to the typical lease contracts used in the United States. Terms of the leases usually run one to five years, with

[19] Edward Taylor, "BMW to Cut Production, Raise Prices World-Wide," *The Wall Street Journal*, August 2–3, 2008, online.

Countertrade as a Pricing Tool

Countertrade

LO4

Countertrading and its place in international marketing practices

Barter

Economist Intelligence Unit–Country Finance

Soviet bloc. Corporate debts to suppliers, payments and services, even taxes—all have a noncash component or are entirely bartered. Many of these countries constantly face a shortage of hard currencies with which to trade and thus resort to countertrades when possible. A recent purchase of 48 F-16 Falcons from Lockheed Martin was pegged at $3.5 billion. The financial package included soft loans and a massive offset program—purchases from Polish manufacturers that more than erased the costs of the deal in foreign exchange. With an economy once short of hard currency, Russia has offered a wide range of products in barter for commodities it needed. For example, Russian expertise in space technology was offered for Malaysian palm oil and rubber, and military equipment was exchanged for crude palm oil or rice from Indonesia.[21] Today, an international company must include in its market-pricing toolkit some understanding of countertrading.

Problems of Countertrading

The crucial problem confronting a seller in a countertrade negotiation is determining the value of and potential demand for the goods offered as payment. Frequently there is inadequate time to conduct a market analysis; in fact, it is not unusual to have sales negotiations almost completed before countertrade is introduced as a requirement in the transaction.

Although such problems are difficult to deal with, they can be minimized with proper preparation. In most cases where losses have occurred in countertrades, the seller has been unprepared to negotiate in anything other than cash. Some preliminary research should be done in anticipation of being confronted with a countertrade proposal. Countries with a history of countertrading are identified easily, and the products most likely to be offered in a countertrade often can be ascertained. For a company trading with developing countries, these facts and some background on handling countertrades should be a part of every pricing toolkit. Once goods are acquired, they can be passed along to institutions that assist companies in selling bartered goods.

Barter houses specialize in trading goods acquired through barter arrangements and are the primary outside source of aid for companies beset by the uncertainty of a countertrade. Although barter houses, most of which are found in Europe, can find a market for bartered goods, this effort requires time, which puts a financial strain on a company because capital is tied up longer than in normal transactions.

In the United States, there are companies that assist with bartered goods and their financing. Citibank has created a countertrade department to allow the bank to act as a consultant as well as to provide financing for countertrades. It is estimated that there are now about 500 barter exchange houses in the United States, many of which are accessible on the Internet. Some companies with a high volume of barter have their own in-house trading groups to manage countertrades. The 3M Company (Minnesota Mining and Manufacturing), for example, has a wholly owned division, 3M Global Trading (www.3m.com/globaltrading), which offers its services to smaller companies.

The Internet and Countertrading

The Internet may become the most important venue for countertrade activities. Finding markets for bartered merchandise and determining market price are two of the major problems with countertrades. Several barter houses have Internet auction sites, and a number of Internet exchanges are expanding to include global barter.

Some speculate that the Internet may become the vehicle for an immense online electronic barter economy, to complement and expand the offline barter exchanges that take place now. In short, some type of electronic trade dollar would replace national currencies in international trade transactions. This e-dollar would make international business considerably easier for many countries, because it would lessen the need to acquire sufficient U.S. or other hard currency to complete a sale or purchase.

TradeBanc, a market-making service, has introduced a computerized technology that will enable members of trade exchanges to trade directly, online, with members of other trade exchanges anywhere in the world, as long as their barter company is a TradeBanc affiliate (www.tradebanc.com). The medium of exchange could be the Universal Currency proposed by the International Reciprocal Trade Association (IRTA; www.irta.com), an association of

[21]Zakki P. Hakim, "Ministry Eyes Rice-for-Planes Trade Deal," *Jakarta Post*, September 20, 2005, p. 13.

trade exchanges with members including Russia, Iceland, Germany, Chile, Turkey, Australia, and the United States. The IRTA has proposed to establish and operate a Universal Currency Clearinghouse, which would enable trade exchange members to easily trade with one another using this special currency. When the system is in full swing, all goods and services from all the participating affiliates would be housed in a single database. The transactions would be cleared by the local exchanges, and settlement would be made using IRTA's Universal Currency, which could be used to purchase anything from airline tickets to potatoes.[22]

Price Quotations

LO5

The mechanics of price quotations

In quoting the price of goods for international sale, a contract may include specific elements affecting the price, such as credit, sales terms, and transportation. Parties to the transaction must be certain that the quotation settled on appropriately locates responsibility for the goods during transportation and spells out who pays transportation charges and from what point. Price quotations must also specify the currency to be used, credit terms, and the type of documentation required. Finally, the price quotation and contract should define quantity and quality. A quantity definition might be necessary because different countries use different units of measurement. In specifying a ton, for example, the contract should identify it as a metric or an English ton and as a long or short ton. Quality specifications can also be misunderstood if not completely spelled out. Furthermore, there should be complete agreement on quality standards to be used in evaluating the product. For example, "customary merchantable quality" may be clearly understood among U.S. customers but have a completely different interpretation in another country. The international trader must review all terms of the contract; failure to do so may have the effect of modifying prices even though such a change was not intended.

[22] You may want to visit the American Countertrade Association, http://www.countertrade.org, for a detailed discussion of the services offered by a countertrader.

CROSSING BORDERS 18.4 Psychological Pricing in China, the Lucky 8

Retailers in the United States often use prices ending in 99, and this tactic has been shown to be effective in a number of consumer studies. One explanation has to do with consumers' tendency to ignore the digits after the first rather than bothering to round to the closest number. Thus, $2.99 seems more like $2 than $3. Another explanation suggests the prices ending in 99 signal a sale price, and are therefore more attractive to consumers interested in sale prices.

A psychological pricing tactic in Chinese cultures is to include eights in the prices. Eight is attractive to Chinese consumers because it is the luckiest number among all, and the more eights the better. The number eight (八, ba) said in Chinese Mandarin sounds like the word for "prosperity" (发, fa), and it works similarly in Cantonese as well.

Thus, the 88th floor is a lucky and more valuable one in high-rise buildings in the region – in Hong Kong buildings that have far fewer floors can still get premium prices of the penthouse on the 88th floor by simply skipping "unlucky" floors omitting intermediate floors, particularly the unlucky numbers such as four. And automobile license plates and phone numbers with consecutive 8s can be worth hundreds of thousands of dollars. Finally, the opening ceremonies for the Olympic Games in Beijing began at 8 seconds, 8 minutes after 8pm (local time) on 8/8/08, thus guaranteeing the success of the Games.

Research has also shown a systematic bias in both advertised prices and stock prices for the number eight in Chinese markets. For example, among 499 prices for a variety of products listed in newspapers in Shanghai, Hong Kong, and Taiwan, 39.9% ended in 8, and the next most common ending number was 14.7% for 5. The unlucky number 4 (related to death) appeared at the end of only 1.4% of the prices. A similar study was conducted on Shanghai and Shenzen stock exchange data, and found a strong preference for share prices ending in 8, and an aversion to prices ending in the number 4.

Sources: See C. Simmons and Robert M. Schindler, "Cultural Superstitions and the Price Endings Used in Chinese Advertising," Journal of International Marketing, 11(2), 2003, pp. 101-111; N. Mark Lam and John L. Graham, China Now: Doing Business in the World's Most Dynamic Market (New York: McGraw-Hill, 2007); Philip Brown and Jason Mitchell, "Culture and Stock Price Clustering: Evidence for the Peoples' Republic of China," Pacific-Basin Finance Journal, 16(1/2), 2008, pp. 95–120.

Administered Pricing

Administered pricing is an attempt to establish prices for an entire market. Such prices may be arranged through the cooperation of competitors; through national, state, or local governments; or by international agreement. The legality of administered pricing arrangements of various kinds differs from country to country and from time to time. A country may condone price fixing for foreign markets but condemn it for the domestic market, for instance.

In general, the end goal of all administered pricing activities is to reduce the impact of price competition or eliminate it. Price fixing by business is not viewed as an acceptable practice (at least in the domestic market), but when governments enter the field of price administration, they presume to do it for the general welfare to lessen the effects of "destructive" competition.

The point at which competition becomes destructive depends largely on the country in question. To the Japanese, excessive competition is any competition in the home market that disturbs the existing balance of trade or gives rise to market disruptions. Few countries apply more rigorous standards in judging competition as excessive than Japan, but no country favors or permits totally free competition. Economists, the traditional champions of pure competition, acknowledge that perfect competition is unlikely and agree that some form of workable competition must be developed.

The pervasiveness of price-fixing attempts in business is reflected by the diversity of the language of administered prices; pricing arrangements are known as agreements, arrangements, combines, conspiracies, cartels, communities of profit, profit pools, licensing, trade associations, price leadership, customary pricing, or informal interfirm agreements.[23] The arrangements themselves vary from the completely informal, with no spoken or acknowledged agreement, to highly formalized and structured arrangements. Any type of price-fixing arrangement can be adapted to international business, but of all the forms mentioned, cartels are the most directly associated with international marketing.

Cartels

A **cartel** exists when various companies producing similar products or services work together to control markets for the types of goods and services they produce. The cartel association may use formal agreements to set prices, establish levels of production and sales for the participating companies, allocate market territories, and even redistribute profits. In some instances, the cartel organization itself takes over the entire selling function, sells the goods of all the producers, and distributes the profits.

Oil prices quadrupled in the mid-1970s because of OPEC's control of supplies. The $100+ per barrel oil you see in this picture was caused by burgeoning demand in China and around the world in 2008. Pertamina is the Indonesian national oil company.

The economic role of cartels is highly debatable, but their proponents argue that they eliminate cutthroat competition and rationalize business, permitting greater technical progress and lower prices to consumers. However, most experts doubt that the consumer benefits very often from cartels.

The Organization of Petroleum Exporting Countries (OPEC) is probably the best known international cartel. Its power in controlling the price of oil has resulted from the percentage of oil production it controls. In the early 1970s, when OPEC members provided the industrial world with 67 percent of its oil, OPEC was able to quadruple the price of oil. The sudden rise in price from $3 a barrel to $11 or more a barrel was a primary factor in throwing the world into a major recession. In 2000, OPEC members lowered production, and the oil price rose from $10 to over $30, creating a dramatic increase in U.S. gasoline prices. Non-OPEC oil-exporting countries benefit from the price increases, while net importers of foreign oil face economic repercussions.

One important aspect of cartels is their inability to maintain control for indefinite periods. Greed by cartel members and other problems generally weaken the control of the

[23]Dana Nunn and Miklos Sarvary, "Pricing Practices and Firms' Market Power in International Cellular Markets: An Empirical Study," *International Journal of Research in Marketing* 21, no. 4 (2004), pp. 377–95.

cartel. OPEC members tend to maintain a solid front until one decides to increase supply, and then others rapidly follow suit. In the short run, however, OPEC can affect global prices. Indeed, at this writing, world oil prices are above $100 a barrel, but most analysts attribute this increase more to burgeoning demand[24] than OPEC's ability to control supply.[25]

A lesser-known cartel, but one that has a direct impact on international trade, is the cartel that exists among the world's shipping companies. Every two weeks about 20 shipping-line managers gather for their usual meeting to set rates on tens of billions of dollars of cargo. They do not refer to themselves as a cartel but rather operate under such innocuous names as "The Trans-Atlantic Conference Agreement" (www.tacaconf.com). Regardless of the name, they set the rates on about 70 percent of the cargo shipped between the United States and northern Europe. Shipping between the United States and Latin American ports and between the United States and Asian ports also is affected by shipping cartels. Not all shipping lines are members of cartels, but a large number are; thus they have a definite impact on shipping. Although legal, shipping cartels are coming under scrutiny by the U.S. Congress, and new regulations may soon be passed.

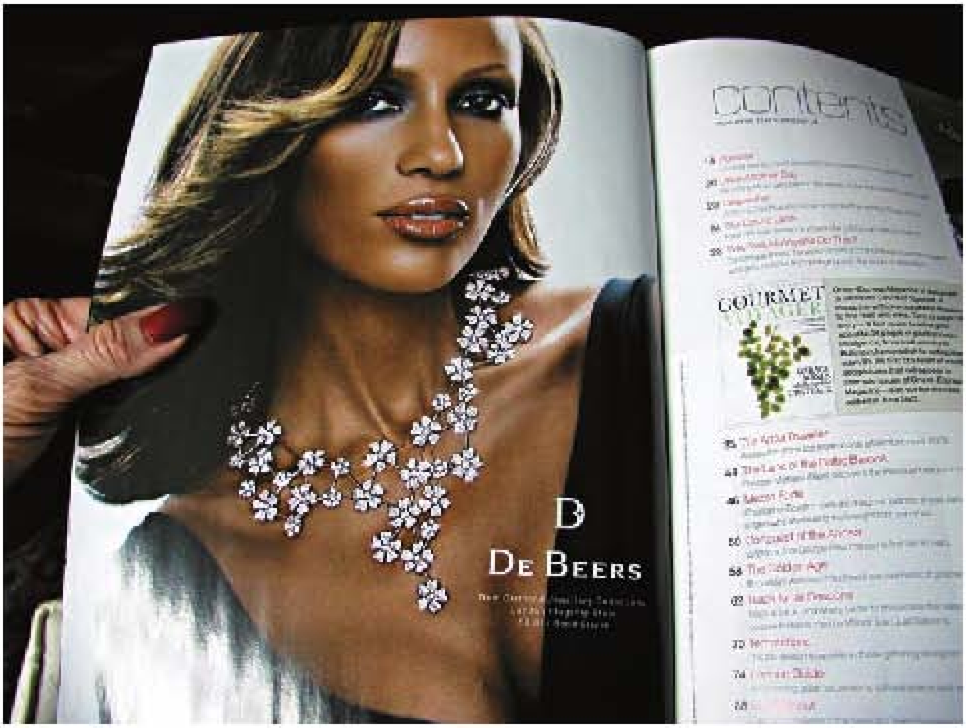
Another cartel is the diamond cartel controlled by De Beers. For more than a century, De Beers has smoothly manipulated the diamond market by keeping a tight control over world supply.[26] The company mines about half the world's diamonds and takes in another 25 percent through contracts with other mining companies. In an attempt to control the other 25 percent, De Beers runs an "outside buying office" where it spends millions buying up diamonds to protect prices. The company controls most of the world's trade in rough gems and uses its market power to keep prices high.

The legality of cartels at present is not clearly defined. Domestic cartelization is illegal in the United States, and the European Union also has provisions for controlling cartels. The United States does permit firms to take cartel-like actions in foreign markets, though it does not allow foreign-market cartels if the results have an adverse impact on the U.S. economy. Archer Daniels Midland Company, the U.S. agribusiness giant, was fined

[24]"CPC to Continue Freeze on Oil Prices," *China Post*, March 2, 2008; Neil King Jr., Chip Cummins, and Russell Gold, "Oil Hits $100, Jolting Markets," *The Wall Street Journal*, January 3, 2008, p. A1.

[25]Robert J. Samuelson, "The Triumph of OPEC," *Newsweek*, March 17, 2008, p. 45.

[26]Eric Onstad, "De Beers May Spurn Low-Margin Russian Supply," *Reuters News*, July 20, 2007.



The De Beers company is one of the world's largest cartels, and for all practical purposes, it controls most of the world's diamonds and thus is able to maintain artificially high prices for diamonds. One of the ways in which it maintains control is illustrated by a recent agreement with Russia's diamond monopoly, in which De Beers will buy at least $550 million in rough gem diamonds from Russia, or about half of the country's annual output. By controlling supply from Russia, the second largest producer of diamonds, the South African cartel can keep prices high.

$205 million for its role in fixing prices for two food additives, lysine and citric acid. German, Japanese, Swiss, and Korean firms were also involved in that cartel. The group agreed on prices to charge and then allocated the share of the world market each company would get—down to the tenth of a decimal point. At the end of the year, any company that sold more than its allotted share was required to purchase in the following year the excess from a co-conspirator that had not reached its volume allocation target.

Although EU member countries have had a long history of tolerating price fixing, the European Union is beginning to crack down on cartels in the shipping, automobile, and cement industries, among others. The unified market and single currency have prompted this move. As countries open to free trade, powerful cartels that artificially raise prices and limit consumer choice are coming under closer scrutiny. However, the EU trustbusters are fighting tradition—since the trade guilds of the Middle Ages, cozy cooperation has been the norm. In each European country, companies banded together to control prices within the country and to keep competition out.

Government-Influenced Pricing

Companies doing business in foreign countries encounter a number of different types of government price setting. To control prices, governments may establish margins, set prices and floors or ceilings, restrict price changes, compete in the market, grant subsidies, and act as a purchasing monopsony or selling monopoly.[27] The government may also influence prices by permitting, or even encouraging, businesses to collude in setting manipulative prices. As an aside, of course, some companies need no help in price fixing—which often is illegal.[28]

The Japanese government traditionally has encouraged a variety of government-influenced price-setting schemes, However, in a spirit of deregulation that is gradually moving through Japan, Japan's Ministry of Health and Welfare will soon abolish regulation of business hours and price setting for such businesses as barbershops, beauty parlors, and laundries. Under the current practice, 17 sanitation-related businesses can establish such price-setting schemes, which are exempt from the Japanese Anti-Trust Law.

Governments of producing and consuming countries seem to play an ever-increasing role in the establishment of international prices for certain basic commodities. There is, for example, an international coffee agreement, an international cocoa agreement, and an international sugar agreement. And the world price of wheat has long been at least partially determined by negotiations between national governments.

Despite the pressures of business, government, and international price agreements, most marketers still have wide latitude in their pricing decisions for most products and markets.

Getting Paid: Foreign Commercial Payments

LO6

The mechanics of getting paid

The sale of goods in other countries is further complicated by additional risks encountered when dealing with foreign customers. Risks from inadequate credit reports on customers, problems of currency exchange controls, distance, and different legal systems, as well as the cost and difficulty of collecting delinquent accounts, require a different emphasis on payment systems. In U.S. domestic trade, the typical payment procedure for established customers is an *open account*—that is, the goods are delivered, and the customer is billed on an end-of-the-month basis. However, the most frequently used term of payment in foreign commercial transactions for both export and import sales is a letter of credit, followed closely in importance by commercial dollar drafts or bills of exchange drawn by the seller on the buyer. Internationally, open accounts are reserved for well-established customers, and cash in advance is required of only the poorest credit risks or when the character of the merchandise is such that not fulfilling the terms of

[27]"Apple, EU Reach iTunes Pricing Deal," *The Wall Street Journal*, January 9, 2008, online.

[28]"Canada Probes Allegations of Chocolate Price-Fixing," *The Wall Street Journal*, November 28, 2007, online; John R. Wilke, "Two U.K. Airlines Settle Price-Fixing Claims," *The Wall Street Journal*, February 15, 2008, p. A4.

"That's as worthless as a three-dollar bill"—so the old saying goes. Cuba actually has two currencies, the Cuban peso and the Cuban convertible peso. The latter is what you see above and you can exchange it for euros or Canadian dollars, but not U.S. dollars. The non-convertible Cuban peso's current value is about U.S.$1.08. The Cuban peso can be used only for domestic transactions and is worth about one-sixth of its convertible brother.

the contract may result in heavy loss. Because of the time required for shipment of goods from one country to another, advance payment of cash is an unusually costly burden for a potential customer and places the seller at a definite competitive disadvantage.

Terms of sales are typically arranged between the buyer and seller at the time of the sale. The type of merchandise, amount of money involved, business custom, credit rating of the buyer, country of the buyer, and whether the buyer is a new or old customer must be considered in establishing the terms of sale. The five basic payment arrangements—letters of credit, bills of exchange, cash in advance, open accounts, and forfaiting—are discussed in this section.

Letters of Credit

Export **letters of credit** opened in favor of the seller by the buyer handle most American exports. Letters of credit shift the buyer's credit risk to the bank issuing the letter of credit. When a letter of credit is employed, the seller ordinarily can draw a draft against the bank issuing the credit and receive dollars by presenting proper shipping documents.[29] Except for cash in advance, letters of credit afford the greatest degree of protection for the seller.

The procedure for a letter of credit begins with completion of the contract. (See Exhibit 18.4 for the steps in a letter-of-credit transaction.) Letters of credit can be revocable or irrevocable. An *irrevocable letter of credit* means that once the seller has accepted the credit, the buyer cannot alter it in any way without permission of the seller. Added protection is gained if the buyer is required to confirm the letter of credit through a U.S. bank. This irrevocable, confirmed letter of credit means that a U.S. bank accepts responsibility to pay regardless of the financial situation of the buyer or foreign bank. From the seller's viewpoint, this step eliminates the foreign political risk and replaces the commercial risk of the buyer's bank with that of the confirming bank. The confirming bank ensures payment against a confirmed letter of credit. As soon as the documents are presented to the bank, the seller receives payment.

The international department of a major U.S. bank cautions that a letter of credit is not a guarantee of payment to the seller. Rather, payment is tendered only if the seller complies exactly with the terms of the letter of credit. Because all letters of credit must be exact in their terms and considerations, it is important for the exporter to check the terms of the letter carefully to be certain that all necessary documents have been acquired and properly completed.

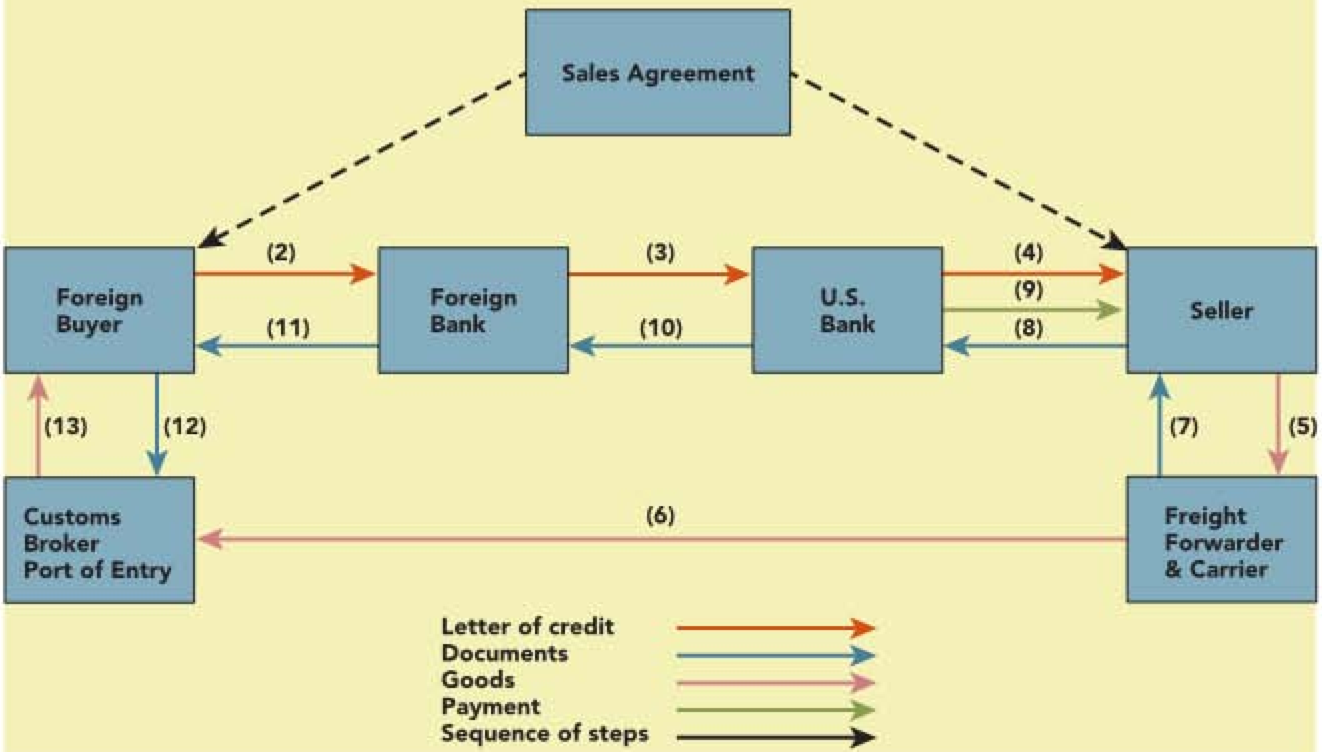
The process of getting a letter of credit can take days, if not weeks. Fortunately, this process is being shortened considerably as financial institutions provide letters of credit on

[29] Unless, of course, the letter of credit is revoked: "Neuocrine Biosciences: $5M Letter of Credit Cancelled," *Dow Jones Corporate Filings Alert*, January 14, 2008.

Exhibit 18.4
A Letter-of-Credit Transaction

Here is what typically happens when payment is made by an irrevocable letter of credit confirmed by a U.S. bank. Follow the steps in the illustration below.

1. Exporter and customer agree on terms of sale.
2. Buyer requests its foreign bank to open a letter of credit.
3. The buyer's bank prepares an irrevocable letter of credit (LC), including all instructions, and sends the irrevocable letter of credit to a U.S. bank.
4. The U.S. bank prepares a letter of confirmation and letter of credit and sends to seller.
5. Seller reviews LC. If acceptable, arranges with freight forwarder to deliver goods to designated port of entry.
6. The goods are loaded and shipped.
7. At the same time, the forwarder completes the necessary documents and sends documents to the seller.
8. Seller presents documents, indicating full compliance, to the U.S. bank.
9. The U.S. bank reviews the documents. If they are in order, issues seller a check for amount of sale.
10. The documents are airmailed to the buyer's bank for review.
11. If documents are in compliance, the bank sends documents to buyer.
12. To claim goods, buyer presents documents to customs broker.
13. Goods are released to buyer.



Source: Based on "A Basic Guide to Exporting," U.S. Department of Commerce, International Trade Administration, Washington, DC.

the Internet. As one example, AVG Letter of Credit Management LLC uses eTrade Finance Platform (ETFP), an e-commerce trade transaction system that enables exporters, importers, freight forwarders, carriers, and trade banks to initiate and complete trade transactions over the Internet. The company advertises that the efficiencies afforded by the Internet make it possible to lower the cost of an export letter of credit from $500-plus to $25.[30]

Bills of Exchange

Another important form of international commercial payment is **bills of exchange** drawn by sellers on foreign buyers. In letters of credit, the credit of one or more banks is involved,

[30] "QuestaWeb Offers Totally Automated Letter of Credit Feature," , March 3, 2008.

but with bills of exchange (also known as *dollar drafts*), the seller assumes all risk until the actual dollars are received. The typical procedure is for the seller to draw a draft on the buyer and present it with the necessary documents to the seller's bank for collection. The documents required are principally the same as for letters of credit. On receipt of the draft, the U.S. bank forwards it with the necessary documents to a correspondent bank in the buyer's country; the buyer is then presented with the draft for acceptance and immediate or later payment. With acceptance of the draft, the buyer receives the properly endorsed bill of lading that is used to acquire the goods from the carrier.

Dollar drafts have advantages for the seller because an accepted draft frequently can be discounted at a bank for immediate payment. Banks, however, usually discount drafts only with recourse; that is, if the buyer does not honor the draft, the bank returns it to the seller for payment. An accepted draft is firmer evidence in the case of default and subsequent litigation than an open account would be.

Cash in Advance

The portion of international business handled on a cash-in-advance basis is not large. Cash places unpopular burdens on the customer and typically is used when credit is doubtful, when exchange restrictions within the country of destination are such that the return of funds from abroad may be delayed for an unreasonable period, or when the American exporter for any reason is unwilling to sell on credit terms. Although full payment in advance is employed infrequently, partial payment (from 25 to 50 percent) in advance is not unusual when the character of the merchandise is such that an incomplete contract can result in heavy loss. For example, complicated machinery or equipment manufactured to specification or special design would necessitate advance payment, which would be, in fact, a nonrefundable deposit.

Open Accounts

Sales on open accounts are not generally made in foreign trade except to customers of long standing with excellent credit reputations or to a subsidiary or branch of the exporter. Open accounts obviously leave sellers in a position where most of the problems of international commercial finance work to their disadvantage. Sales on open accounts are generally not recommended when the practice of the trade is to use some other method, when special merchandise is ordered, when shipping is hazardous, when the country of the importer imposes difficult exchange restrictions, or when political unrest requires additional caution.

Forfaiting

Inconvertible currencies and cash-short customers can kill an international sale if the seller cannot offer long-term financing. Unless the company has large cash reserves to finance its customers, a deal may be lost. **Forfaiting** is a financing technique for such a situation.

The basic idea of a forfaiting transaction is fairly simple: The seller makes a one-time arrangement with a bank or other financial institution to take over responsibility for collecting the account receivable. The exporter offers a long financing term to its buyer but intends to sell its account receivable, at a discount, for immediate cash. The forfaiter buys the debt, typically a promissory note or bill of exchange, on a nonrecourse basis. Once the exporter sells the paper, the forfaiter assumes the risk of collecting the importer's payments. The forfaiting institution also assumes any political risk present in the importer's country.[31]

Forfaiting is similar to factoring, but it is not the same. In *factoring,* a company has an ongoing relationship with a bank that routinely buys its short-term accounts receivable at a discount—in other words, the bank acts as a collections department for its client. In forfaiting, however, the seller makes a one-time arrangement with a bank to buy a specific account receivable.

All these ways of payment and the associated fees and, of course, the prices to be paid are most often negotiated between buyers and sellers. This leads us to the topic of the next chapter, international negotiations.

[31]For more information about forfaiting, visit http://www.afia-forfaiting.org.

Summary

Pricing is one of the most complicated decision areas encountered by international marketers. Rather than deal with one set of market conditions, one group of competitors, one set of cost factors, and one set of government regulations, international marketers must take all these factors into account, not only for each country in which they are operating but often for each market within a country. Market prices at the consumer level are much more difficult to control in international than in domestic marketing, but the international marketer must still approach the pricing task on a basis of established objectives and policy, leaving enough flexibility for tactical price movements. Controlling costs that lead to price escalation when exporting products from one country to another is one of the most challenging pricing tasks facing the exporter. Some of the flexibility in pricing is reduced by the growth of the Internet, which has a tendency to equalize price differentials between country markets.

The continuing growth of Third World markets coupled with their lack of investment capital has increased the importance of countertrades for most marketers, making countertrading an important tool to include in pricing policy. The Internet is evolving to include countertrades, which will help eliminate some of the problems associated with this practice.

Pricing in the international marketplace requires a combination of intimate knowledge of market costs and regulations, an awareness of possible countertrade deals, infinite patience for detail, and a shrewd sense of market strategy. Finally, letters of credit and other issues related to getting paid are discussed.

Key Terms

Parallel market
Gray market
Exclusive distribution
Variable-cost pricing
Full-cost pricing
Skimming
Penetration pricing policy
Price escalation
Dumping
Countervailing duty
Countertrade
Barter
Administered pricing
Cartel
Letters of credit
Bills of exchange
Forfaiting

Questions

1. Define the key terms listed above.
2. Discuss the causes of and solutions for parallel imports and their effect on price.
3. Why is it so difficult to control consumer prices when selling overseas?
4. Explain the concept of price escalation and why it can mislead an international marketer.
5. What are the causes of price escalation? Do they differ for exports and goods produced and sold in a foreign country?
6. Why is it seldom feasible for a company to absorb the high cost of international transportation and reduce the net price received?
7. Price escalation is a major pricing problem for the international marketer. How can this problem be counteracted? Discuss.
8. Changing currency values have an impact on export strategies. Discuss.
9. "Regardless of the strategic factors involved and the company's orientation to market pricing, every price must be set with cost considerations in mind." Discuss.
10. "Price fixing by business is not generally viewed as an acceptable practice (at least in the domestic market), but when governments enter the field of price administration, they presume to do it for the general welfare to lessen the effects of 'destructive' competition." Discuss.
11. Do value-added taxes discriminate against imported goods?
12. Explain specific tariffs, ad valorem tariffs, and compound tariffs.
13. Suggest an approach a marketer may follow in adjusting prices to accommodate exchange rate fluctuations.
14. Explain the effects of indirect competition and how they may be overcome.
15. Why has dumping become such an issue in recent years?
16. Cartels seem to rise, after they have been destroyed. Why are they so appealing to business?
17. Discuss the different pricing problems that result from inflation versus deflation in a country.
18. Discuss the various ways in which governments set prices. Why do they engage in such activities?
19. Discuss the alternative objectives possible in setting prices for intracompany sales.
20. Why do governments so carefully scrutinize intracompany pricing arrangements?
21. Why are costs so difficult to assess in marketing internationally?
22. Discuss why countertrading is on the increase.

23. Discuss the major problems facing a company that is countertrading.
24. If a country you are trading with has a shortage of hard currency, how should you prepare to negotiate price?
25. Of the four types of countertrades discussed in the text, which is the most beneficial to the seller? Explain.
26. Why should a "knowledge of countertrades be part of an international marketer's pricing toolkit"? Discuss.
27. Discuss the various reasons purchasers impose countertrade obligations on buyers.
28. Discuss how FTZs can be used to help reduce price escalation.
29. Why is a proactive countertrade policy good business in some countries?
30. Differentiate between proactive and reactive countertrade policies.
31. One free trade zone is in Turkey. Visit www.esbas.com.tr and discuss how it might be used to help solve the price escalation problem of a product being exported from the United States to Turkey.
32. Visit Global Trading (a division of 3M) at www.mmm.com/globaltrading/edge.html and select "The Competitive Edge" and "Who We Are." Then write a short report on how Global Trading could assist a small company that anticipates having merchandise from a countertrade.