Part 1 INTRODUCTION

1 Introduction to Global Marketing

Consider the following proposition: *We live in a global marketplace.* McDonald's restaurants, Sony digital TVs, LEGO toys, Swatch watches, Burberry trench coats, and Caterpillar earthmoving equipment are found practically everywhere on the planet. Global companies are fierce rivals in key markets. For example, American auto industry giants General Motors and Ford are locked in a competitive struggle with Toyota, Hyundai, and other global Asian rivals as well as European companies such as Volkswagen. U.S.-based Intel, the world's largest chip maker, competes with South Korea's Samsung. In the global cell phone market, Nokia (Finland), Ericsson (Sweden), Motorola (United States), and Samsung are key players. Appliances from Whirlpool and Electrolux compete for precious retail space with products manufactured and marketed by China's Haier Group and LG of South Korea.

Now consider a second proposition: *We live in a world in which markets are local.* In China, for example, Yum Brands' new East Dawning fast-food chain competes with local restaurants such as New Asia Snack.[1] France's domestic film industry generates about 40 percent of local motion picture box office receipts; U.S.-made movies account for about 50 percent. In Turkey, local artists such as Sertab Erener account for more than 80 percent of recorded music sales. *Kiki*, a Japanese magazine for teenage girls, competes for newsstand sales with *Vogue Girl*, *Cosmo Girl*, and other titles from Western publishers. In Germany, children's television powerhouse Nickelodeon competes with local broadcaster Super RTL. In Brazil, many consumers are partial to Antarctica and other local soft drink brands made from guaraná, a berry that grows in the Amazon region.

The global marketplace versus local markets paradox lies at the heart of this textbook. In later chapters, we will investigate the nature of local markets in more detail. For now, however, we will focus on the first part of the paradox. Think for a moment about brands and products that are found throughout the world. Ask the average consumer where this global "horn of plenty" comes from, and you'll likely hear a variety of answers. It's certainly true that some brands—McDonald's, Corona Extra, Swatch, Waterford, Benetton, and Burberry, for instance—are strongly identified with a particular country. In much of the world, McDonald's is the quintessential American fast-food restaurant, just as Burberry is synonymous with British country life. However, for many other products, brands, and companies, the sense of identity with a particular country is becoming blurred. Which brands are Japanese? American? Korean? German? Where is Nokia headquartered? When is a German car *not* a German car? Can a car be both German *and* American? Consider:

- A 2005 American-built Ford Mustang has 65 percent American and Canadian content; a 2005 American-built Toyota Sienna XLE minivan has 90 percent American and Canadian content.[2]

1 Janet Adamy, "East Eats West: One U.S. Chain's Unlikely Goal: Pitching Chinese Food in China," *The Wall Street Journal*, October 20, 2006, pp. A1, A8.

2 Jathon Sapsford and Norihiko Shirouzu, "Mom, Apple Pie and . . . Toyota?" *The Wall Street Journal*, May 11, 2006, p. B1.

England's Burberry Group celebrated its 150th anniversary in 2006. Burberry's trademark is registered in more than 90 countries. The company's signature plaid pattern—often referred to as "the check"—is incorporated into a wide range of apparel items and accessories. The Burberry brand is enjoying renewed popularity throughout the world; sales in Asia are particularly strong. New CEO Angela Ahrendts wants to broaden the brand's appeal. To do this, she intends to introduce two new logos: an equestrian knight and the cursive signature of company founder Thomas Burberry.

- China's Nanjing Automobile Group has purchased the rights to the MG, the legendary two-seat British sports car. Nanjing plans to manufacture MGs in a new factory in Oklahoma.
- German carmaker BMW exports the X5 sport utility vehicle that it builds in Spartanville, South Carolina, to more than 100 countries.

INTRODUCTION AND OVERVIEW

As the preceding examples illustrate, the global marketplace finds expression in many ways. Some are quite subtle, others are not. While shopping, you may have noticed more multilanguage labeling on your favorite products and brands. Your local filling station may have changed its name from Getty to Lukoil, reflecting the Russian energy giant's expanding global reach. Wal-Mart buys about $10 billion worth of goods from China each year. When you shop at your local gourmet coffee store, you may have noticed that some beans are labeled "Fair Trade Certified." Your toll-free telephone call to a software technical support service or an airline customer service center may be answered in Mumbai. Quentin Tarantino's movie *Kill Bill* was filmed on soundstages in China, and Chinese films such as *Hero* and *House of Flying Daggers* have been international hits. Possibly you heard or read recent news accounts of antiglobalization protesters disrupting meetings of the World Trade Organization in Cancún, London, or some other major city.

The growing importance of global marketing is the one aspect of a sweeping transformation that has profoundly affected the people and industries of many nations during the past 160 years. International trade has existed for centuries; beginning in 200 BC, for example, the legendary Silk Road connected the East with the West. Even so, prior to 1840, students sitting at their desks would not have had any item in their possession that was manufactured more than a few miles from where they lived—with the possible exception of the books they were reading. From the mid-1800s to the early 1920s, with Great Britain the dominant economic power in the world, international trade flourished. A series of global upheavals, including World War I, the Bolshevik Revolution, and the Great Depression, brought that era to an end. Then, following World War II, a new era began. Unparalleled expansion into global markets by companies that previously served only customers located in their home country characterizes this new global era.

Three decades ago, the phrase *global marketing* did not even exist. Today, savvy businesspeople utilize global marketing for the realization of their companies' full commercial potential. That is why, no matter whether you live in Asia, Europe, North America, or South America, you may be familiar with the brands mentioned in the opening paragraphs. However, there is another, even more critical reason why companies need to take global marketing seriously: survival. A management team that fails to understand the importance of global marketing risks losing its domestic business to competitors with lower costs, more experience, and better products.

But what is global marketing? How does it differ from "regular" marketing? **Marketing** is an organizational function and a set of processes for creating, communicating, and delivering value to customers and for managing customer relationships in ways that benefit the organization and its stakeholders.[3] Marketing activities center on an organization's efforts to satisfy customer wants and needs with products and services that offer competitive value. The marketing mix (product, price, place, and promotion) comprises a contemporary marketer's primary tools. Marketing is a universal discipline, as applicable in Argentina as it is in Zimbabwe.

This book is about *global marketing*. An organization that engages in **global marketing** focuses its resources and competencies on global market opportunities and threats. A fundamental difference between "regular" marketing and "global" marketing is the scope of activities. A company that engages in global marketing conducts important business activities outside the home-country market. The scope issue can be conceptualized in terms of the familiar product or market matrix of growth strategies (see Table 1-1). Some companies pursue a *market development strategy*; this involves seeking new customers by introducing existing products or services into new geographical markets. For example, as Wal-Mart expands into Guatemala and other Central America countries, it is implementing a market development strategy. Global marketing may also take the form of a *diversification strategy* in which a company creates new products or services and introduces them into new geographical markets. This is the strategy that South Korea's LG Electronics has used to target the American home appliance market. LG's product offerings include a stylish, high-tech refrigerator priced at $3,000; the unit features a built-in flat-panel LCD television. LG's commitment to innovative products prompted Home Depot to start carrying the LG appliance line.[4] When successfully formulated and implemented, these globally oriented growth strategies can result in increased revenues for a company.

Companies that engage in global marketing frequently encounter unique or peculiar features in specific countries or regions of the world. In China, for example, product piracy is rampant. Companies doing business there must take extra care to protect their intellectual property and deal with "knockoffs." In some regions of the world, bribery and corruption are deeply entrenched. A successful global marketer understands specific concepts and has a broad and deep understanding of the world's varied business environments. He or she also must understand the strategies that, skillfully implemented in conjunction with universal marketing fundamentals,

Table 1-1

Product/Market Growth Matrix

		Product Orientation	
		Existing Products	**New Products**
Market Orientation	Existing markets	1. Market penetration strategy	2. Product development strategy
	New markets	3. Market development strategy	4. Diversification strategy

3 American Marketing Association.

4 Cheryl Lu-Lien Tan, "The New Asian Import: Your Oven," *The Wall Street Journal*, June 22, 2005, pp. D1, D4.

increase the likelihood of market success. This book concentrates on the major dimensions of global marketing. A brief overview of marketing is presented next, although the authors assume that the reader has completed an introductory marketing course or has equivalent experience.

PRINCIPLES OF MARKETING: A REVIEW

As defined in the previous section, marketing is one of the functional areas of a business, distinct from finance and operations. Marketing can also be thought of as a set of activities and processes that, along with product design, manufacturing, and transportation logistics, comprise a firm's **value chain**. Decisions at every stage, from idea conception to support after the sale, should be assessed in terms of their ability to create value for customers.

For any organization operating anywhere in the world, the essence of marketing is to surpass the competition at the task of creating perceived value (i.e., a superior value proposition) for customers. The **value equation** is a guide to this task:

Value = Benefits/Price (money, time, effort, etc.)

The marketing mix is integral to the equation because benefits are a combination of the product, promotion, and distribution. As a general rule, value, as the customer perceives, can be increased in two basic ways. Markets can offer customers an improved bundle of benefits or lower prices (or both). Marketers may strive to improve the product itself, to design new channels of distribution, to create better communications strategies, or a combination of all three. Marketers may also seek to increase value by finding ways to cut costs and prices. Nonmonetary costs are also a factor, and marketers may be able to decrease the time and effort that customers must expend to learn about or seek out the product.[5] Companies that use price as a competitive weapon may scour the globe to ensure an ample supply of low-wage labor or access to cheap raw materials. Companies can also reduce prices if costs are low because of process efficiencies in manufacturing or because of economies of scale associated with high production volumes.

Recall the definition of a market: *people or organizations that are both able* and *willing to buy*. In order to achieve market success, a product or brand must measure up to a threshold of acceptable quality and be consistent with buyer behavior, expectations, and preferences. If a company is able to offer a combination of superior product, distribution, or promotion benefits *and* lower prices than the competition, it should enjoy an extremely advantageous position. Toyota, Nissan, and other Japanese automakers made significant gains in the American market in the 1980s by creating a superior value proposition: They offered cars with higher quality and lower prices than those made by General Motors, Ford, and Chrysler.

However, some of Japan's initial auto exports were market failures. In the late 1960s, for example, Subaru of America began importing the Subaru 360 automobile and selling it for $1,297. After *Consumer Reports* judged the 360 "not acceptable," sales ground to a halt. Similarly, the Yugo automobile achieved a modest level of U.S. sales in the 1980s (despite a "don't buy" rating from a consumer magazine) because its sticker price of $3,999 made it the cheapest new car available. Low quality was the primary reason for the market failure of both the Subaru 360 and the Yugo.[6] Wal-Mart's departure from the German market was due in part to the fact that Germans could find lower prices at stores known as "hard discounters." In addition, many German consumers prefer to go to several small shops rather than seek out the convenience of a single "all-in-one" store.

[5] With certain categories of differentiated goods, including designer clothing and other luxury products, higher price is often associated with increased value.

[6] The history of the Subaru 360 is documented in Randall Rothman, *Where the Suckers Moon: The Life and Death of an Advertising Campaign* (New York: Vintage Books, 1994), Chapter 4.

Competitive Advantage, Globalization, and Global Industries

When a company succeeds in creating more value for customers than its competitors, that company is said to enjoy **competitive advantage** in an industry.[7] Competitive advantage is measured relative to rivals in a given industry. For example, your local Laundromat is in a local industry; its competitors are local. In a national industry, competitors are national. In a global industry—consumer electronics, apparel, automobiles, steel, pharmaceuticals, furniture, and dozens of other sectors—the competition is, likewise, global (and, in many industries, local as well). Global marketing is essential if a company competes in a global industry or one that is globalizing.

The transformation of formerly local or national industries into global ones is part of a broader process of *globalization*, which Thomas L. Friedman defines as follows:

> Globalization is the inexorable integration of markets, nation-states and technologies to a degree never witnessed before—in a way that is enabling individuals, corporations and nation-states to reach around the world farther, faster, deeper and cheaper than ever before, and in a way that is enabling the world to reach into individuals, corporations and nation-states farther, faster, deeper, and cheaper than ever before.[8]

From a marketing point of view, globalization presents companies with tantalizing opportunities—and challenges—as executives decide whether or not to offer their products and services everywhere. At the same time, globalization presents companies with unprecedented opportunities to reconfigure themselves; as John Micklethwait and Adrian Wooldridge put it, "the same global bazaar that allows consumers to buy the best that the world can offer also allows producers to find the best partners."[9]

National Football League (NFL) Europe and Major League Soccer (MLS) are dedicated to promoting, respectively, American football in globally and soccer in the United States. The NFL is focusing on a handful of key markets: Canada, Germany, Japan, Mexico, the United Kingdom, and China. Placekicker Gao Wei hopes to be in the lineup when the Seattle Seahawks and the New England Patriots play an exhibition game in Beijing's Workers Stadium in 2008.

Soccer United Marketing, an MLS offshoot, has purchased English-language TV rights for several World Cup championships. As MLS's Don Garber notes, "In the global culture the universal language is soccer. That's the sweet spot. If it weren't for the shrinking world caused by globalization, we wouldn't have the opportunity we have today."[10]

[7] Jay Barney notes that "a firm is said to have a competitive advantage when it is implementing a value-creating strategy not simultaneously being implemented by any current or potential competitors." See Barney, "Firm Resources and Sustained Competitive Advantage," *Journal of Management* 17, no. 1 (1991), p. 102.

[8] Thomas L. Friedman, *The Lexus and the Olive Tree* (New York: Anchor Books, 2000), p. 9.

[9] John Micklethwait and Adrian Wooldridge, *A Future Perfect: The Challenge and Hidden Promise of Globalization* (New York: Crown Publishers, 2000), p. xxvii.

[10] Grant Wahl, "Football vs. Fútbol," *Sports Illustrated*, July 5, 2004, pp. 68–72.

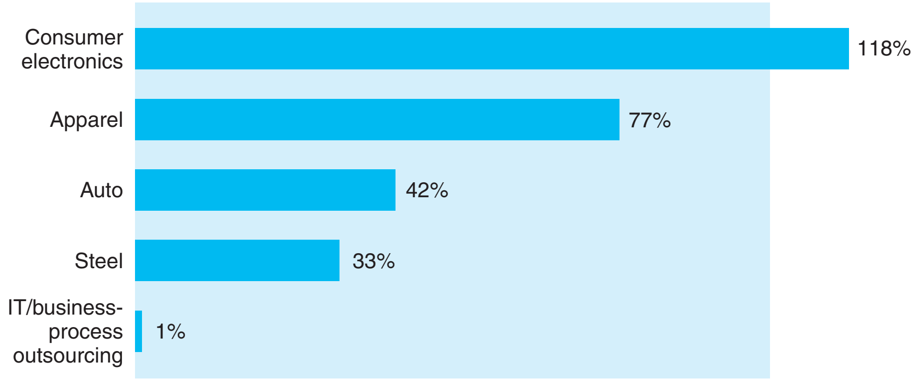


Figure 1-1

Degree of Industry Globalization

Source: Diana Farrell, "Assessing Your Company's Global Potential," Harvard Business Review 82, no. 12 (December 2004), p. 85.

Is there more to a global industry than simply global competition? Definitely. As defined by management guru Michael Porter, a **global industry** is one in which competitive advantage can be achieved by integrating and leveraging operations on a worldwide scale. Put another way, an industry is global to the extent that a company's industry position in one country is interdependent with its industry position in other countries. Indicators of globalization include the ratio of cross-border trade to total worldwide production, the ratio of cross-border investment to total capital investment, and the proportion of industry revenue generated by companies that compete in all key world regions.[11] Figure 1-1 ranks several industries in terms of degree of globalization. The figure was created by calculating the ratio of the annual value of global trade in the sector—including components shipped to various countries during the production process—to the annual value of industry sales.

Achieving competitive advantage in a global industry requires executives and managers to maintain a well-defined strategic focus. **Focus** is simply the concentration of attention on a core business or competence. The importance of focus for a global company is evident in the following comment by Helmut Maucher, former chairman of Nestlé SA:

> Nestlé is focused: We are food and beverages. We are not running bicycle shops. Even in food we are not in all fields. There are certain areas we do not touch. For the time being we have no biscuits [cookies] in Europe and the United States for competitive reasons, and no margarine. We have no soft drinks because I have said we either buy Coca-Cola or we leave it alone. This is focus.[12]

However, company management may choose to initiate a change in focus as part of an overall strategy shift. Even Coca-Cola has been forced to sharpen its focus on its core beverage brands. Following sluggish sales in 2000 and 2001, former Chairman and CEO Douglas Daft formed a new alliance with Nestlé that jointly developed and marketed coffees and teas. Daft also tried to transform Coca-Cola's Minute Maid unit into a global division that marketed juice brands worldwide. As Daft explained:

> We're a network of brands and businesses. You don't just want to be a total beverage company. Each brand has a different return on investment, is sold differently, drunk for different reasons, and has different managing structures. If you mix them all together, you lose the focus.[13]

[11] Vijay Govindarajan and Anil Gupta, "Setting a Course for the New Global Landscape," *Financial Times—Mastering Global Business,* part I (1998), p. 3.

[12] Elizabeth Ashcroft, "Nestlé and the Twenty-First Century," *Harvard Business School Case* 9–595–074, 1995. See also Ernest Beck, "Nestlé Feels Little Pressure to Make Big Acquisitions," *The Wall Street Journal,* June 22, 2000, p. B4.

[13] Betsy McKay, "Coke's 'Think Local' Strategy Has Yet to Prove Itself," *The Wall Street Journal,* March 1, 2001, p. B6.

In 2006, Honda Motor announced plans to build a new $550 million auto assembly plant in the Midwest. Michigan, Ohio, and other job-hungry states were under consideration as potential sites. To encourage Honda to build the plant in their town, 200 residents of Greensburg, Indiana posed for this photo while standing in the shape of Honda's "H" logo. Jordan Fischer, a photographer for the Greensburg Daily News, captured this image from the roof of a nearby building. Honda eventually did choose Greensburg as the site for its plant, which will produce 200,000 fuel-efficient cars each year and employ 2,000 people.

Examples abound of corporate executives addressing the issue of focus, often in response to changes in the global business environment. In recent years Fiat, Volvo, Electrolux, Toshiba, Colgate, Royal Philips Electronics, Henkel, Bertelsmann, and many other companies have stepped up efforts to sharpen their strategic focus on core businesses. Specific actions can take a number of different

LESSONS from the global marketplace

Managing Global Growth

The beginning of the twenty-first century has challenged deal-making top executives at several global companies. In 1998, Edgar Bronfman, Jr., the CEO of Montreal-based Seagram Company, paid $1 billion for music giant PolyGram NV and sold Seagram's Tropicana orange juice unit to PepsiCo. Bronfman then sold Chivas Regal, several other major spirits brands, and Seagram's wine business to Diageo PLC and Pernod Ricard SA. Collectively, these transactions shifted Seagram's focus from beverages to entertainment; the combination of PolyGram with Seagram's MCA record unit created a global music powerhouse. In 2000, Bronfman agreed to a $32 billion takeover by France's Vivendi. The resulting company, Vivendi Universal, was tightly focused in two industry sectors: environmental services and communications. The strategic plan for the communications businesses called for distributing Universal's entertainment content via an Internet portal that PCs, wireless phones, and other electronic devices could access. However, Vivendi Universal had taken on too much debt, and Chairman Jean-Marie Messier was forced to resign in 2002. In 2003, the theme park, movie, and television businesses were sold to GE. Today, the company is known simply as Vivendi.

ABB Inc., the Swiss and Swedish electrical and engineering firm that was once comprised of 1,300 companies in 140 countries, is another global giant that has been forced to restructure. During the 1990s, ABB was frequently cited as a textbook example of a successful transnational company. Former Chief Executive Percy Barnevik was legendary in business circles for his charismatic and visionary leadership. However, one of his acquisitions, Combustion Engineering, an American producer of power-plant boilers, proved disastrous because of asbestos-related liability claims. Although his decentralized management structure helped the company grow, it also resulted in conflict and breakdowns in communication between far-flung management units. Between 1997 and 2003, two chief executives—Göran Lindahl and Jörgen Centerman—came and went in quick succession. The company lost nearly $700 million in 2001; also in 2001, Barnevik, who had remained with the company as a nonexecutive chairman, was forced to resign after a scandal involving pension benefits. The following year, losses totaled nearly $800 million. ABB's next chief executive, Jürgen Dormann, sold the finance unit and other non-core assects in an effort to reduce debt; the slimmed-down company's two core businesses are focused around automation and power technologies. Commenting on Barnevik's legacy, Dormann noted "We had a lack of focus as Percy went on an acquisition spree . . . The company wasn't disciplined enough."

Sources: Bruce Orwall, "Universal Script: Vivendi-Seagram Deal Has the Former MCA Playing Familiar Role," The Wall Street Journal, *June 20, 2000, pp. A1, A8; John Carreyrou and Martin Peers, "Damage Control: How Messier Kept Cash Crisis at Vivendi Hidden for Months,"* The Wall Street Journal, *October 31, 2002, pp. A1, A15; Dan Bilefsky and Anita Raghavan, "Blown Fuse: How 'Europe's GE' and Its Star CEO Tumbled to Earth,"* The Wall Street Journal, *January 23, 2003, pp. A1, A8.*

STRATEGIC DECISION-MAKING *in global marketing*

IBM

IBM originally succeeded in the data-processing industry by focusing on customer needs and wants better than Univac. After decades of success, however, IBM remained focused on mainframe computers, despite customers who were increasingly turning to PCs. IBM was a key player in the early days of the PC revolution, but its corporate culture was still oriented toward mainframes. "Big Blue" faltered in the early 1990s—it lost more than $8 billion in 1993—in part because competitors specializing in PCs had become even *more* clearly focused on what PC customers needed and wanted; namely, low prices and increased speed. Within a few years, however, then-CEO Lou Gerstner succeeded in refocusing the company's PC business and broadening its scope to higher-margin products such as servers for electronic commerce. Gerstner and e-business marketing chief Abby Kohnstamm also leveraged IBM's reputation for providing expertise-based solutions for its customers; in 2006, global services accounted for 53 percent of revenues and 37 percent of profits. In 2006, IBM became even more tightly focused with the sale of its personal computer business to China's Lenovo.

forms besides alliances, including mergers, acquisitions, divestitures, and folding some businesses into other company divisions.[14]

Value, competitive advantage, and the focus required to achieve them are universal in their relevance and they should guide marketing efforts in any part of the world. Global marketing requires attention to these issues on a worldwide basis and utilization of an information system capable of monitoring the globe for opportunities and threats. A fundamental premise of this book can be stated as follows: Companies that understand and engage in global marketing can offer more overall value to customers than companies that do not have that understanding. There are many who share this conviction. In the mid-1990s, for example, C. Samuel Craig and Susan P. Douglas noted:

"We believe a company can only think in one set of terms. If you are premium, you have to focus on it."

Helmut Panke, Chairman Bayerische Motoren Werke AG[15]

> Globalization is no longer an abstraction but a stark reality. . . . Choosing not to participate in global markets is no longer an option. All firms, regardless of their size, have to craft strategies in the broader context of world markets to anticipate, respond, and adapt to the changing configuration of these markets.[16]

Evidence is mounting that companies in a range of industries are getting the message. For example, three Italian furniture companies have joined together to increase sales outside of Italy and ward off increased competition from Asia. Luxury goods purveyors such as LVMH and Prada Group provided the model for the new business entity, which unites Poltrona Frau, Cassina, and Cappellini.[17] Hong Kong's Tai Ping Carpets International is also globalizing. Top managers have been dispersed to different parts of the world; while the finance and technology functions are still in Hong Kong, the marketing chief is based in New York City and the head of operations is in Singapore. As company director John Ying noted, "We're trying to create a minimultinational."[18]

14 Robert A. Guth, "How Japan's Toshiba Got Its Focus Back," *The Wall Street Journal,* December 12, 2000, p. A6.

15 Scott Miller, "BMW Bucks Diversification to Focus on Luxury Models," *The Wall Street Journal,* March 20, 2002, p. B4.

16 C. Samuel Craig and Susan P. Douglas, "Responding to the Challenges of Global Markets: Change, Complexity, Competition, and Conscience," *Columbia Journal of World Business* 31, no. 4 (Winter 1996), pp. 6–18.

17 Gabriel Kahn, "Three Italian Furniture Makers Hope to Create a Global Luxury Powerhouse," *The Wall Street Journal,* October 31, 2006, p. B1.

18 Phred Dvorak, "Big Changes Drive Small Carpet Firm," *The Wall Street Journal,* October 30, 2006, p. B3.

GLOBAL MARKETING: WHAT IT IS AND WHAT IT ISN'T

The discipline of marketing is universal. It is natural, however, that marketing practices will vary from country to country, for the simple reason that the countries and peoples of the world are different. These differences mean that a marketing approach that has proven successful in one country will not *necessarily* succeed in another country. Customer preferences, competitors, channels of distribution, and communication media may differ. An important task in global marketing is learning to recognize the extent to which marketing plans and programs can extend worldwide, as well as the extent to which they must adapt.

The way a company addresses this task is a reflection of its **global marketing strategy (GMS)**. Recall that in single country marketing, strategy development addresses two fundamental issues: choosing a target market and developing a marketing mix. The same two issues are at the heart of a firm's GMS, although they are viewed from a somewhat different perspective (see Table 1-2). *Global market participation* is the extent to which a company has operations in major world markets. *Standardization versus adaptation* is the extent to which each marketing mix element can be standardized (i.e., executed the same way) or adapted (i.e., executed in different ways) in various country markets. GMS has three additional dimensions that pertain to marketing management. First, *concentration of marketing activities* is the extent to which activities related to the marketing mix (e.g., promotional campaigns or pricing decisions) are performed in one or a few country locations. *Coordination of marketing activities* refers to the extent to which marketing activities related to the marketing mix are planned and executed interdependently around the globe. Finally, *integration of competitive moves* is the extent to which a firm's competitive marketing tactics in different parts of the world are interdependent. The GMS should enhance the firm's performance on a worldwide basis.[19]

Some brands are found in virtually every country; Coke is a case in point. Coke is the best-known, strongest brand in the world; its enviable global position has resulted in part from the Coca-Cola Company's willingness and ability to back its flagship brand with a network of local bottlers and a strong local marketing effort. However, companies that engage in global marketing do not necessarily conduct business in every one of the world's 200-plus country markets. For example, in the $30 billion market for recorded music, 12 countries—including the United States, Japan, the United Kingdom, and France—account for 70 percent of sales. Global marketing *does* mean widening business horizons to encompass the world in scanning for opportunities and threats. The decision to enter one or more particular markets outside the home country depends on a company's resources,

Table 1-2

Comparison of Single-Country Marketing Strategy and Global Marketing Strategy

Single-Country Marketing Strategy	Global Marketing Strategy
Target Market Strategy	Global Market Participation
Marketing Mix Development	Marketing Mix Development
Product	Product adaptation or standardization
Price	Price adaptation or standardization
Promotion	Promotion adaptation or standardization
Place	Place adaptation or standardization
	Concentration of Marketing Activities
	Coordination of Marketing Activities
	Integration of Competitive Moves

[19] Shaoming Zou and S. Tamer Cavusgil, "The GMS: A Broad Conceptualization of Global Marketing Strategy and Its Effect on Performance," *Journal of Marketing* 66, no. 4 (October 2002), pp. 40–56.

its managerial mind-set, and the nature of opportunities and threats. Today, most observers agree that Brazil, Russia, India, and China—four emerging markets known collectively as BRIC—represent significant growth opportunities. Throughout this text, marketing issues and opportunities in these countries are highlighted in "BRIC Briefing Book" sidebars.

The issue of standardization versus adaptation has been at the center of a long-standing controversy among both academicians and business practitioners. Much of the controversy dates back to Professor Theodore Levitt's 1983 article in the *Harvard Business Review,* "The Globalization of Markets." Levitt argued that marketers were confronted with a "homogeneous global village." He advised organizations to develop standardized, high-quality world products and market them around the globe by using standardized advertising, pricing, and distribution. Some well-publicized failures by Parker Pen and other companies that tried to follow Levitt's advice brought his proposals into question. The business press frequently quoted industry observers who disputed Levitt's views. As Carl Spielvogel, chairman and CEO of the Backer Spielvogel Bates Worldwide advertising agency, told the *Wall Street Journal* in the late 1980s, "Theodore Levitt's comment about the world becoming homogenized is bunk. There are about two products that lend themselves to global marketing—and one of them is Coca-Cola."[20]

Global marketing made Coke a worldwide success. However, that success was *not* based on a total standardization of marketing mix elements. For example, Coca-Cola achieved success in Japan by spending a great deal of time and money to become an insider; that is, the company built a complete local infrastructure with its sales force and vending machine operations. Coke's success in Japan is a function of its ability to achieve "global localization," being as much of an insider as a local company but still reaping the benefits that result from world-scale operations.[21] Similarly, in India, the company's local Thums Up cola brand competes with—and even outsells—the flagship cola.[22]

What does the phrase *global localization* really mean? In a nutshell, it means that a successful global marketer must have the ability to "think globally and act locally." As we will see many times in this book, *global* marketing may include a combination of standard (e.g., the actual product itself) and nonstandard (e.g., distribution or packaging) approaches. A global product may be the same product everywhere and yet different. Global marketing requires marketers to behave in a way that is both global *and* local at the same time by responding to similarities and differences in world markets. Kenichi Ohmae summed up this paradox as follows:

> The essence of being a global company is to maintain a kind of tension within the organization without being undone by it. Some companies say the new world requires homogeneous products—"one size fits all"—everywhere. Others say the world requires endless customization—special products for every region. The best global companies understand it's neither and it's both. They keep the two perspectives in mind simultaneously.[23]

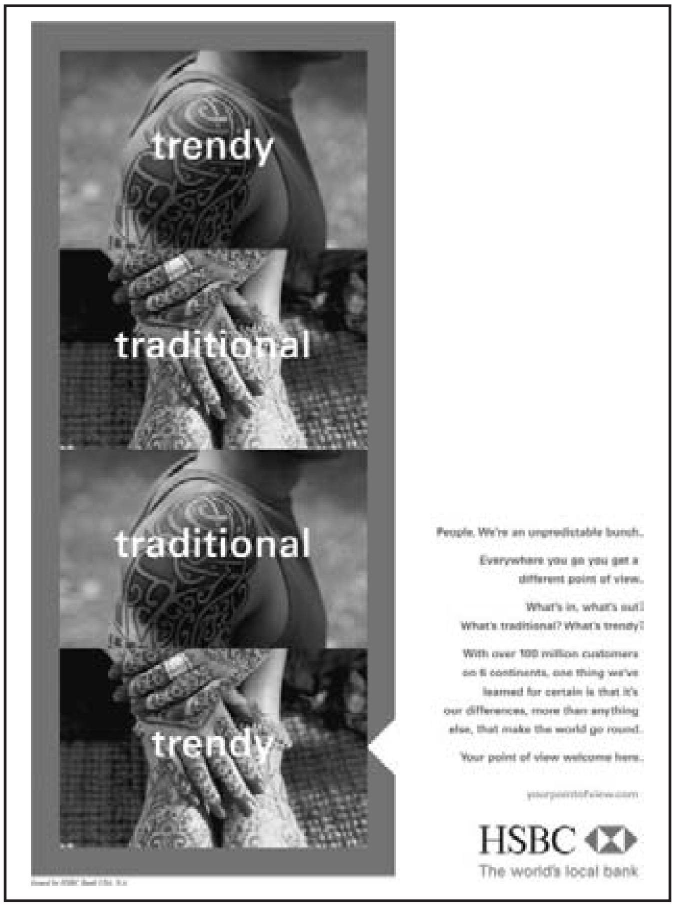
As the Coca-Cola Company has convincingly demonstrated, the ability to think globally and act locally can be a source of competitive advantage. Because the company is adept at adapting sales promotion, distribution, and customer service efforts to local needs, Coke has become a billion-dollar-plus brand in six

[20] Joanne Lipman, "Ad Fad: Marketers Turn Sour on Global Sales Pitch Harvard Guru Makes," *The Wall Street Journal,* May 12, 1988, p. 1.
[21] Kenichi Ohmae, *The Borderless World: Power and Strategy* (New York: Harper Perennial, 1991), pp. 26–27.
[22] Nikhil Deogun and Jonathan Karp, "For Coke in India, Thums Up Is the Real Thing," *The Wall Street Journal,* April 29, 1998, pp. B1, B2.
[23] William C. Taylor and Alan M. Webber, *Going Global: Four Entrepreneurs Map the New World Marketplace* (New York: Penguin Books USA, 1996), pp. 48–49.

markets outside the United States: Brazil, Germany, Great Britain, Japan, Mexico, and Spain. This type of success does not happen overnight. For example, Coca-Cola managers initially did not understand the Japanese distribution system. However, with considerable investment of time and money, they succeeded in establishing a sales force that was as effective in Japan as it was in the United States. The Japanese unit has also created numerous new beverage products expressly for the Japanese market; these include Georgia-brand canned coffee and Qoo, a noncarbonated juice drink. Although the company has experienced a recent sales decline in Japan, it remains a key market that accounts for about 20 percent of the Coca-Cola Company's total worldwide operating revenues.[24]

The Coca-Cola Company supports its Coke, Fanta, and Powerade brands with marketing mix elements that are both global and local. Dozens of other companies also have successfully pursued global marketing by creating strong global brands. This has been accomplished in various ways. The Altria Group for example, made Marlboro the world's number one cigarette by identifying the brand with a cowboy. By creating distinctive, user-friendly handset designs, Nokia has become the world's leading cell phone brand. In automobiles, Daimler AG's Mercedes enjoys global recognition thanks to Germany's reputation for excellence in automotive engineering. Virtually all Nokia phones are manufactured in Finland; by contrast, some Mercedes models are manufactured outside Germany. Gillette uses the same packaging for its flagship Mach3 razor everywhere in the world. Italy's Benetton utilizes a sophisticated distribution system to quickly deliver the latest fashions to its worldwide network of stores.

HSBC Holdings is the largest banking firm in the United Kingdom. The company has more than 1,000 offices in 80 countries, including HSBC USA, HSBC Bank Canada, and HSBC Bank Middle East. HSBC takes pride in being "The world's local bank." The company's current marketing campaign extends that notion by asking the question, "Isn't it better to be open to other people's points of view?" The campaign is integrated with a Web site, www.yourpointofview.com; visitors to the site can view all of HSBC's ads and also write blog-entries on weekly topics of general interest.



[24] Chad Terhune, "Coke Tries to Pop Back in Vital Japan Market," *The Wall Street Journal*, July 11, 2006, pp. C1, C3.

The backbone of Caterpillar's global success is a network of dealers who support a promise of "24-hour parts and service" anywhere in the world. As these examples indicate, there are many different paths to success in global markets. In this book, we do *not* propose that global marketing is a knee-jerk attempt to impose a totally standardized approach to marketing around the world. A central issue in global marketing is how to tailor the global marketing concept to fit particular products, businesses, and markets.[25]

As shown in Table 1-3, McDonald's global marketing strategy is based on a combination of global and local marketing mix elements. For example, a vital element in McDonald's business model is a restaurant system that can be set up virtually anywhere in the world. McDonald's offers core menu items—hamburgers, French fries, and soft drinks—in most countries, and the company also customizes menu offerings in accordance with local eating customs. The average price of a Big Mac in the United States is $3.10. By contrast, in China, Big Macs sell for the equivalent of $1.31. In absolute terms, Chinese Big Macs are cheaper than American ones. But is it a fair comparison? Real estate costs vary from country to country, as do per capita incomes. McDonald's prices can be understood in terms of the length of time a person must work to earn enough money to buy a Big Mac. Each year UBS, a Swiss bank, publishes a study of purchasing power based on a weighted average of hourly wages across 13 occupations. For example, in Los Angeles and Tokyo, earnings from 10 minutes of work can buy a Big Mac; by contrast, in Bogotá and Nairobi, the corresponding figures are, respectively, 97 minutes and 91 minutes.[26]

Some of Coke's many faces around the world. Although the basic design of the label is the same (white letters against a red background), the Coca-Cola name is frequently translated into local languages. In the left-hand column, the Arabic label (second from top) is read from right to left; the Chinese label's (fourth from the top) translation is "delicious/happiness."

[25] John A. Quelch and Edward J. Hoff, "Customizing Global Marketing," *Harvard Business Review* 64, no. 3 (May–June 1986), p. 59.
[26] "Working Time Required to Buy . . . ," *Prices and Earnings*, 2006 Edition (UBS), p. 11.

Table 1-3

Examples of Effective Global Marketing—McDonald's

Marketing Mix Element	Standardized	Localized
Product	Big Mac	McAloo Tikka potato burger (India)
Promotion	Brand name	Slang nicknames, for example, Macca's (Australia), MakDo (Philippines), McDoo" (Germany)
	Advertising slogan "i'm loving it"	*McJoy* magazine "Hawaii Surfing Hula" promotion (Japan)
Place	Free-standing restaurants in high-traffic public areas	McDonald's Switzerland operates themed dining cars on Swiss national rail system; McDonald's served on Stena Line ferry from Helsinki to Oslo; home delivery (India)
Price	Average price of a Big Mac is $3.10 (United States); same in Turkey	$5.21 (Switzerland); $1.31 (China)

The particular approach to global marketing that a company adopts will depend on industry conditions and its source or sources of competitive advantage. For example:

- Harley-Davidson's motorcycles are perceived around the world as *the* all-American bike. Should Harley-Davidson start manufacturing motorcycles in a low-wage country such as Mexico?
- The success of Honda and Toyota in world markets was initially based on exporting cars from factories in Japan. Now, both companies have invested in manufacturing and assembly facilities in the Americas, Asia, and Europe. From these sites, the automakers supply customers in the local market and also export to the rest of the world. For example, each year Honda exports tens of thousands of Accords and Civics from U.S. plants to Japan and dozens of other countries. Will European consumers continue to buy Honda vehicles exported from America? Will American consumers continue to snap up American-built Toyotas?
- As of 2007, Gap operated 2,692 stores in the United States and more than 450 stores internationally. The company sources most of its clothing from apparel factories in Honduras, the Philippines, India, and other low-wage countries. Should Gap open more stores in Asia?

The answer to these questions is: It all depends. Because Harley's competitive advantage is based in part on its "Made in the USA" positioning, shifting production outside the United States is not advisable. The company has opened a new production facility in Kansas and taken a majority stake in Buell Motorcycle, a manufacturer of "American street bikes." Toyota's success in the United States is partly attributable to its ability to transfer world-class manufacturing skills to America while using advertising to stress that American workers build the Camry with many components purchased from American suppliers. As noted, several hundred Gap stores are located outside the United States; key country markets include Canada, the United Kingdom, Japan, and France. Japan may present an opportunity for Gap to increase revenues and profits in a major non-U.S. market. A recent annual report noted that, in terms of sales revenues, the apparel market outside the United States is twice as large as that within the United States. Also, "American style" is in high demand in Japan and other parts of the world. Gap's management team has responded to this situation by selectively targeting key country markets—especially areas with high population densities—while

Gap is a global brand, but recently the company has struggled to connect with customers in the United States. Despite its problems, the company continues to expand overseas. Gap's first Asian stores outside of Japan opened recently. The Singapore Gap, with 9,000 square feet of floor space, is located in the Wisma Atria mall; the opening of the Singapore store, and another in Malaysia, mark the time the company has used franchising as an expansion strategy. Joshua Schulman, Gap's managing director of international strategic alliances, explained, "As we have a strong following of customers from these markets who shop at Gap while abroad, these markets will be ideal for the Gap brand's franchise debut."

Source: Courtesy of Monica Almeida/*The New York Times.*

continuing to concentrate on trends in the U.S. fashion marketplace. However, recent operating difficulties in the core U.S. market led to the departure of several executives; CEO Paul Pressler left Gap early in 2007 after five years at the helm. This situation suggests that management's top priority at this time should be the domestic market.[27]

THE IMPORTANCE OF GLOBAL MARKETING

The largest single market in the world in terms of national income is the United States representing roughly 25 percent of the total world market for all products and services. U.S. companies that wish to achieve maximum growth potential must "go global" because 70 percent of world market potential is outside their home country. Management at Coca-Cola clearly understands this; it generates about 75 percent of the company's operating income and two-thirds of its operating revenue outside North America. Non-U.S. companies have an even greater motivation to seek market opportunities beyond their own borders; their opportunities include the 300 million people in the United States. For example, even though the dollar value of the home market for Japanese companies is the second largest in the world (after the United States), the market *outside* Japan is almost 90 percent of the world potential for Japanese companies. For European countries, the picture is even more dramatic. Even though Germany is the largest single country market in Europe, about 94 percent of the world market potential for German companies is outside Germany.

Many companies have recognized the importance of conducting business activities outside their home country. Industries that were essentially national in scope only a few years ago are dominated today by a handful of global companies. The rise of the global corporation closely parallels the rise of the national corporation, which emerged from the local and regional corporation in the 1880s

[27] Gap's transformation into a global brand is chronicled in Nina Munk, "Gap Gets It," *Fortune*, August 3, 1998, pp. 68–74+; see also Jayne O'Donnell and Mindy Fetterman, "Can Gap Be Saved?" *USA Today*, January 24, 2007, pp. 1B, 2B.

and 1890s in the United States. The auto industry provides a dramatic example: In the early twentieth century, there were thousands of auto companies scattered around the globe. The United States alone was home to more than 500 automakers. Today, fewer than 20 major companies remain worldwide. A dramatic illustration of the ongoing consolidation in the auto industry is Daimler-Benz's $36 billion takeover of Chrysler in 1998. In most industries, the companies that will survive and prosper in the twenty-first century will be global enterprises. Some companies that fail to formulate adequate responses to the challenges and opportunities of globalization will be absorbed by more dynamic, visionary enterprises. Others—ABB, for example—will undergo wrenching transformations and, if the effort succeeds, will emerge from the process greatly transformed. There is a third, grimmer, scenario as well: Some companies will simply disappear. Table 1-4 lists the top 25 of *Fortune* magazine's 2006 ranking of the 500 largest service and manufacturing companies by revenues. Market capitalization figures are listed in the third column.

Four of the companies in the top 10 are giants in the global auto industry: GM, Ford, Daimler AG, and Toyota. Note too that, measured by market capitalization, Toyota (ranked eighth in revenue) is the world's most valuable car company. Today, Toyota sells more cars worldwide than Ford; its market capitalization (roughly $200 billion) is nearly equal to the *combined* valuations of the eight leading Western automakers! Clearly, Toyota is doing something right. Oil companies occupy half of the spots in the top 10 rankings by revenues; ExxonMobil also ranked first in profitability in the *Fortune* Global 500. This showing is not surprising given the recent surge in oil prices. Wal-Mart, the world's top retailer, rounds

OPEN *to* discussion

Are We Ready for One World?

William Greider believes that the globalization of industries and markets will have some unintended, possibly dire, consequences in the coming years. In his book *One World, Ready or Not*, Greider describes how the logic of commerce and capital in the closing years of the twentieth century created an economic revolution and launched great social transformations. As Greider sees it, the message of globalization contains good news and bad news. The good news is that modern technology and global marketing are enabling people and nations throughout the world to leap into the modern era. The bad news, Greider warns, is that modern technology tends to be more individualistic and antiegalitarian than the mass assembly technology that revolutionized production in the first part of the twentieth century. As a result, disregard for basic human rights and the exploitation of the weak in developing nations may result in great social upheavals and, eventually, a breakdown in the global system.

One issue that concerns Greider is the fact that productivity and revenues at many global corporations have risen dramatically, while overall worldwide employment has not. Meanwhile, a dispersal of productive wealth is underway as global corporations establish operations in key developing countries like Brazil and China. Many economists agree that this dispersal will narrow the gap between poor and rich nations. Back in the industrialized nations, however, there is an increasing sense of social distress as workers see their plants close and jobs shipped out of the country. One by-product of globalization, Greider observes, is that it pits the interests of the older, more prosperous workers against the interests of newly recruited, lower-paid workers. Greider warns that deeper political instability lies ahead for the United States, Germany, France, and Britain as workers take up the fight to save their jobs.

In addition, the globalization of industries such as steel, automobiles, and consumer electronics has created surplus production capacity on a massive scale. Greider notes that the U.S. economy serves as a sort of safety valve for the global system. Because the U.S. market places relatively few restrictions on imports, this "benevolent openness" means that the United States serves as a "buyer of last resort" by absorbing much of the world's excess production. As a result of the chronic imbalance in the trading system, the United States continues to post massive trade deficits that defy conventional economic analysis.

What can, or should, be done? Greider argues that U.S.-based global companies that create jobs overseas at the expense of domestic jobs should not be permitted to finance export deals by borrowing from tax-supported agencies such as the Export-Import Bank. At the same time, Greider says that American public interest would be better served if government policy shifted away from supporting and underwriting the interests of global companies and focused instead on jobs and wages. Finally, Greider advocates the use of emergency tariffs to reduce the trade deficit if American policy makers are unable to gain more access in foreign markets to U.S. export.

Sources: William Greider, One World, Ready or Not: The Manic Logic of Global Capitalism *(Upper Saddle River, NJ: Simon & Schuster, 1997); William Greider, "Who Governs Globalism?"* American Prospect, *no. 30 (January–February 1997), pp. 73–80.*

Company	Revenues (US$ millions)	Market Capitalization (US$ millions)
1. ExxonMobil (USA)	339,938	435,162
2. Wal-Mart Stores (USA)	315,654	193,401
3. Royal Dutch/Shell Group (UK/NL)	306,731	NA
4. BP (Britain)	267,600	224,066
5. General Motors (USA)	192,604	19,536
6. Chevron (USA)	189,481	153,034
7. Daimler AG (Germany)	186,106	60,072
8. Toyota Motor (Japan)	185,805	196,921
9. Ford Motor (USA)	177,210	16,139
10. ConocoPhillips (USA)	166,683	103,831
11. General Electric (USA)	157,153	362,535
12. Total (France)	152,360	163,434
13. ING Group (Netherlands)	138,253	95,586
14. Citigroup (USA)	131,045	248,799
15. AXA (France)	129,839	75,706
16. Allianz (Germany)	121,406	83,451
17. Volkswagen (Germany)	118,376	NA
18. Fortis (Belgium/Netherlands)	112,351	NA
19. Crédit Agricole (France)	110,764	NA
20. AIG (USA)	108,905	187,933
21. Assicurazioni Generali (Italy)	101,403	NA
22. Siemens (Germany)	100,098	86,952
23. Sinopec (China)	98,784	3,607
24. NTT (Japan)	94,869	68,960
25. Carrefour (France)	94,454	NA

Source: Adapted from "The *Fortune* Global 500," *Fortune,* July 24, 2006, p. 113. Figures cited from the most recent fiscal year.

Table 1-4

The Fortune *Global 500: Largest Corporations by Revenues*

out the top 10 ranks. Wal-Mart currently generates only about one-third of its revenues outside the United States. However, global expansion is the key to the company's growth strategy over the next few years.

Examining the size of individual product markets, measured in terms of annual sales, provides another perspective on global marketing's importance. Many of the companies identified in Table 1-4 are key players in the global marketplace. Annual sales in select global industry sectors markets are shown in Table 1-5. Table 1-6 shows annual sales in individual countries for select product categories.

MANAGEMENT ORIENTATIONS

The form and substance of a company's response to global market opportunities depend greatly on management's assumptions or beliefs—both conscious and unconscious—about the nature of the world. The world view of a company's personnel can be described as ethnocentric, polycentric, regiocentric, and geocentric.[28] Management at a company with a prevailing ethnocentric orientation may consciously make a decision to move in the direction of geocentricism. The orientations are collectively known as the **EPRG framework**.

[28] Adapted from Howard Perlmutter, "The Tortuous Evolution of the Multinational Corporation," *Columbia Journal of World Business* (January–February 1969).

Table 1-5

How Big Is the Market I? Product Category

Product or Service	Size of Market	Key Players and Brands
Textiles and clothing	$350 billion	Bangladesh, Macau, Cambodia, Pakistan, El Salvador, China, India
Cigarettes	$295 billion	Altria Group (USA); British American Tobacco (UK); Japan Tobacco (Japan)
Cosmetics	$200 billion	L'Oréal SA (France); Estée Lauder (USA); Shiseido (Japan)
Personal computers	$175 billion	Hewlett-Packard (USA); Dell (USA)
Bottled water	$100 billion	Nestlé (Switzerland); Groupe Danone (France); Coca-Cola (USA); PepsiCo (USA)
White goods (major appliances)	$85 billion	Whirlpool (USA); Electrolux (Sweden); Bosch-Siemens (Germany)
Construction equipment	$70 billion	Caterpillar (USA); Komatsu (Japan); Volvo (Sweden)
Cell phones	$60 billion	Nokia (Finland); Motorola (USA); Samsung (South Korea)
Luxury goods	$55 billion	LVMH Group (France); Richemont (Switzerland); PPR (France)
LCD and plasma flat-screen TVs	$54 billion	Samsung (South Korea); Sony (Japan)
Recorded music	$32 billion	Sony BMG (Japan/Germany); Warner Music (USA); EMI (UK); Universal Music Group (France)
Crop seeds	$30 billion	Monsanto (USA); DuPont (USA)
DRAM chips	$26 billion	Samsung (South Korea); Infineon Technologies AG (Germany); Hynix Semiconductor (South Korea)
Customer relationship management (CRM) services	$6 billion	Oracle (USA); SAP (Germany)
Regional jet aircraft	$5.9 billion	Bombardier (Canada); Embraer (Brazil)

Source: Compiled by the authors.

Table 1-6

How Big Is the Market II?—Individual Country/Regional Markets

Country	Category	Annual Sales
United States	Online retail	$172 billion
	Wood furniture	$23 billion
	Video game consoles and games	$10 billion
	Toothpaste	$1.5 billion
	Ringtones	$600 million
Japan	Pharmaceuticals	$50 billion
	Luxury goods	$10.5 billion
India	Total retail	$300 billion
	Soft drinks	$2.3 billion
	Chocolate	$157 million
Europe	Online retail	$48 billion
	Cigarettes	$18 billion
	Home appliances (wholesale)	€20 billion
China	Consumer electronics	$85 billion
	Home appliances	$38 billion
	Cosmetics and toiletries	$10.3 billion
	Auto parts	$19 billion
	Pharmaceuticals	$11.7 billion

Source: Compiled by the authors.

Country or Region	Category	Annual Sales
Latin America	Automobiles	4 million vehicles
European Union	Shoes	2.5 billion pairs
Worldwide	Flat-panel TVs	50 million units

Table 1-7

How Big Is the Market III?—Individual Country/Regional Markets by Product Category and Units Sold

Ethnocentric Orientation

A person who assumes that his or her home country is superior to the rest of the world is said to have an **ethnocentric orientation**. Ethnocentrism is sometimes associated with attitudes of national arrogance or assumptions of national superiority. Company personnel with an ethnocentric orientation see only similarities in markets, and *assume* that products and practices that succeed in the home country will be successful anywhere. At some companies, the ethnocentric orientation means that opportunities outside the home country are largely ignored. Such companies are sometimes called *domestic companies*. Ethnocentric companies that conduct business outside the home country can be described as *international companies;* they adhere to the notion that the products that succeed in the home country are superior. This point of view leads to a **standardized** or **extension approach** to marketing based on the premise that products can be sold everywhere without adaptation.

In the ethnocentric international company, foreign operations or markets are typically viewed as being secondary or subordinate to domestic ones. (We are using the term *domestic* to mean the country in which a company is headquartered). An ethnocentric company operates under the assumption that "tried and true" headquarters knowledge and organizational capabilities can be applied in other parts of the world. Although this can sometimes work to a company's advantage, valuable managerial knowledge and experience in local markets may go unnoticed. For a manufacturing firm, ethnocentrism may mean foreign markets are viewed as a dumping ground for surplus domestic production. Plans for overseas markets are developed utilizing policies and procedures modeled on those employed at home. Little or no systematic marketing research is conducted outside the home country, and no major modifications are made to products. Even if customer needs or wants differ from those in the home country, those differences are ignored at headquarters.

Nissan's ethnocentric orientation was quite apparent during its first few years of exporting cars and trucks to America. Designed for mild Japanese winters, the vehicles were difficult to start in many parts of the United States during the cold winter months. In northern Japan, many car owners would put blankets over the hoods of their cars. Nissan's assumption—which turned out to be false—was that Americans would do the same thing. As a Nissan spokesman said, "We tried for a long time to design cars in Japan and shove them down the American consumer's throat. That didn't work very well."[29] Until the 1980s, Eli Lilly and Company operated as an ethnocentric company: Activity outside the United States was tightly controlled by headquarters and the focus was on selling products originally developed for the U.S. market.[30] Similarly, executives at California's Robert Mondavi Corporation operated the company for many years as an ethnocentric international entity. As former CEO Michael Mondavi explains:

> Robert Mondavi was a local winery that thought locally, grew locally, produced locally, and sold globally. . . . To be a truly global company, I believe it's imperative

[29] Norihiko Shirouzu, "Tailoring World's Cars to U.S. Tastes," *The Wall Street Journal*, January 1, 2001, pp. B1, B6.

[30] T. W. Malnight, "Globalization of an Ethnocentric Firm: An Evolutionary Perspective," *Strategic Management Journal* 16, no. 2 (February 1995), p. 125.

the rest of the story

The Global Marketplace

Now that we've got you thinking about global marketing, it's time to test your knowledge of global current events. Some well-known companies and brands are listed in the left-hand column. The question is in what country is the parent corporation located? Possible answers are shown in the right-hand column. Write the letter corresponding to the country of your choice in the space provided; each country can be used more than once. Answers are provided at the bottom of the box.

____ 1. Firestone Tire & Rubber	a. Germany
____ 2. Ray Ban	b. France
____ 3. Rolls-Royce	c. Japan
____ 4. RCA televisions	d. Great Britain
____ 5. Dr Pepper	e. United States
____ 6. Ben & Jerry's Homemade	f. Switzerland
____ 7. Gerber	g. Italy
____ 8. Miller Beer	h. Sweden
____ 9. Rollerblade	i. Finland
____ 10. Case New Holland	j. China
____ 11. Weed Eater	
____ 12. Holiday Inn	
____ 13. Wild Turkey bourbon	
____ 14. Thinkpad	
____ 15. Wilson Sporting Goods	
____ 16. Right Guard	

Answers: *1. Japan (Bridgestone) 2. Italy (Luxottica SpA) 3. Germany (Volkswagen) 4. China (TTE) 5. Great Britain (Cadbury Schweppes PLC) 6. Great Britain/Netherlands (Unilever) 7. Switzerland (Nestlé) 8. Great Britain (SABMiller) 9. Italy (Benetton) 10. Italy (Fiat) 11. Sweden (AB Electrolux) 12. Great Britain (InterContinental Hotels Group PLC) 13. France (Groupe Pernod Ricard) 14. China (Lenovo) 15. Finland (Amer Group) 16. Germany (Henkel)*

> to grow and produce great wines in the world in the best wine-growing regions of the world, regardless of the country or the borders.[31]

Sixty years ago, most business enterprises—and especially those located in a large country like the United States—could operate quite successfully with an ethnocentric orientation. Today, however, as Mondavi's words make clear, ethnocentrism is one of the major internal weaknesses that must be overcome if a company is to transform itself into an effective global competitor.

Polycentric Orientation

The **polycentric orientation** is the opposite of ethnocentrism. The term *polycentric* describes management's belief or assumption that each country in which a company does business is unique. This assumption lays the groundwork for each

[31] Robert Mondavi, *Harvests of Joy: My Passion for Excellence* (New York: Harcourt Brace & Company, 1998), p. 333.

global MARKETING Q&A

Wall Street Journal: For years Boeing has been considered a global company, largely because of the enormous volume of airplanes that you sell. But only about 3 percent of your workforce is non-U.S. What is Boeing doing to expand its global nature?

Jim McNerney, CEO, Boeing: As an exporter, we will always have a preponderance of our talent based in the United States. We're not a 3M, where more than half the employment is outside the United States or more than half our production is outside the United States. It's a different business structure. Having said that, we can be a lot more global, both in terms of our localization and in terms of some global brains in the company. . . . That gets down to developing people outside the United States and making them part of our management development. And, as importantly, giving more experiences to our core team outside the United States and bringing them back.

Source: J. Lynn Lunsford, "Piloting Boeing's New Course," The Wall Street Journal, *June 13, 2006, pp. B1, B3.*

subsidiary to develop its own unique business and marketing strategies in order to succeed; the term *multinational company* is often used to describe such a structure. This point of view leads to a **localized** or **adaptation approach** that assumes products must be adapted in response to different market conditions. Until the mid-1990s, Citicorp's financial services around the world operated on a polycentric basis. James Bailey, a Citicorp executive, offered this description of the company: "We were like a medieval state. There was the king and his court and they were in charge, right? No. It was the land barons who were in charge. The king and his court might declare this or that, but the land barons went and did their thing."[32] Realizing that the financial services industry was globalizing, then-CEO John Reed attempted to achieve a higher degree of integration between Citicorp's operating units. Like Jack Welch at GE, Reed sought to instill a geocentric orientation throughout his company.

"What unites us through our brands, markets, and businesses is the group's identity, which we refer to as "a worldwide business with local presence." Everywhere we operate, our priority is to create or develop a strong brand that reflects consumer needs in that market as closely as possible."[33]

Franck Riboud, Chairman and CEO
Groupe Danone

Regiocentric Orientation

In a company with a **regiocentric orientation**, a region becomes the relevant geographic unit; management's goal is to develop an integrated regional strategy. For example, a U.S. company that focuses on the countries included in the North American Free Trade Agreement (NAFTA)—namely, the United States, Canada, and Mexico—has a regiocentric orientation. Similarly, a European company that focuses its attention on Europe is regiocentric. Some companies serve markets throughout the world, but do so on a regional basis. Such a company could be viewed as a variant of the multinational model discussed previously. For decades, a regiocentric orientation prevailed at General Motors: Executives in different parts of the world—Asia-Pacific and Europe, for example—were given considerable autonomy when designing vehicles for their respective regions. Company engineers in Australia, for example, developed models for sale in the local market. One result of this approach: A total of 270 different types of radios were being installed in GM vehicles around the world. As GM Vice Chairman Robert Lutz told an interviewer in 2004, "GM's global product plan used to be four regional plans stapled together."[34]

32 Saul Hansell, "Uniting the Feudal Lords at Citicorp," *The New York Times*, January 16, 1994, Section 3, p. 1.
33 Franck Riboud, "Think Global, Act Local," *Outlook* no. 3 (2003), p. 8.
34 Lee Hawkins, Jr., "New Driver: Reversing 80 Years of History, GM Is Reining in Global Fiefs," *The Wall Street Journal*, October 6, 2004, pp. A1, A14.

Geocentric Orientation

A company with a **geocentric orientation** views the entire world as a potential market and strives to develop integrated global strategies. A company whose management has adopted a geocentric orientation is sometimes known as a *global* or *transnational company.*[35] During the past several years, longstanding regiocentric policies at GM such as those discussed previously have been replaced by a geocentric approach. Among other changes, the new policy calls for engineering jobs to be assigned on a worldwide basis; a global council based in Detroit determines the allocation of the company's $7 billion annual product development budget. One goal of the geocentric approach: Save 40 percent in radio costs by using only 50 different radios.

It is a positive sign that, at many companies, management realizes the need to adopt a geocentric orientation. However, the transition to new structures and organizational forms can take time to bear fruit. As new global competitors emerge on the scene, management at long-established industry giants such as GM must face up to the challenge of organizational transformation. A decade ago, Louis R. Hughes, a GM executive, said, "We are on our way to becoming a transnational corporation." Basil Drossos, former president of GM de Argentina, echoed his colleague's words, noting, "We are talking about becoming a global corporation as opposed to a multinational company; that implies that the centers of expertise may reside anywhere they best reside."[36] For the moment, GM is still the world's number one automaker in terms of revenue. However, as Table 1-8 makes clear, Toyota has surpassed GM in terms of profitability and market value. And, in the first quarter of 2007, Toyota sold more vehicles worldwide than GM!

A global company can be further described as one that pursues either a strategy of serving world markets from a single country, or one that sources globally for the purposes of focusing on select country markets. In addition, global companies tend to retain their association with a particular headquarters country. Harley-Davidson and Waterford serve world markets from the United States and Ireland, respectively. By contrast, Gap sources its apparel from low-wage

Table 1-8

GM and Toyota Compared (2006)

	General Motors	Toyota
Revenue	$205 billion	$185 billion
Profit or <Loss>	<$11.3 billion>	$12.6 billion
Market value*	$17.5 billion	$197 billion
Worldwide car production	9.2 million	8.3 million
Percentage of worldwide workforce in the United States	45	11
Percentage of U.S. light-vehicle sales	24.8	15

*Share price × number of outstanding shares.

[35] Although the definitions provided here are important, to avoid confusion we will use the term *global marketing* when describing the general activities of global companies. Another note of caution is in order: Usage of the terms *international*, *multinational*, and *global* varies widely. Alert readers of the business press are likely to recognize inconsistencies; usage does not always reflect the definitions provided here. In particular, companies that are (in the view of the authors as well as numerous other academics) global, are often described as *multinational enterprises* (abbreviated MNE) or *multinational corporations* (abbreviated MNC). The United Nations prefers the term *transnational company* rather than *global company*. When we refer to an "international company" or a "multinational," we will do so in a way that maintains the distinctions described in the text.

[36] Rebecca Blumenstein, "Global Strategy: GM Is Building Plants in Developing Nations to Woo New Markets," *The Wall Street Journal*, August 4, 1997, p. A4.

countries in all parts of the world; a sophisticated supply chain ensures timely delivery to its network of stores. Although Gap is a global brand, it focuses primarily on the key U.S. market. Harley-Davidson, Waterford, and Gap all may be thought of as global companies.

Transnational companies both serve global markets and utilize global supply chains; in addition, there is often a blurring of national identity. A true transnational would be characterized as "stateless." Toyota is a good example of a company that is coming close to fulfilling the criteria of transnationality. At global and transnational companies, management uses a combination of standardized (extension) and localized (adaptation) elements in the marketing program. A key factor that distinguishes global and transnational companies from international or multinational companies is *mind-set*: at global and transnational companies, decisions regarding extension and adaptation are not based on assumptions. Rather, such decisions are made on the basis of ongoing research into market needs and wants.

"These days everyone in the Midwest is begging Honda to come into their hometown. It is no longer viewed as a "Japanese" company, but a 'pro-American-worker corporation' flush with jobs, jobs, jobs." [37]

Douglas Brinkley, Professor of History
Tulane University

One way to assess a company's "degree of transnationality" is to compute an average of three figures: sales outside the home country to total sales; assets outside the home country to total assets; and employees outside the home country to total employees. Viewed in terms of these metrics, Nestlé, Unilever, Nortel Networks, Royal Philips Electronics, GlaxoSmithKline, and the News Corporation are all transnational companies. Each is headquartered in a relatively small home country market, a fact of life that has compelled management to adopt regiocentric or geocentric orientations to achieve revenue and profit growth.

The geocentric orientation represents a synthesis of ethnocentrism and polycentrism; it is a "world view" that sees similarities and differences in markets and countries and seeks to create a global strategy that is fully responsive to local needs and wants. A regiocentric manager might be said to have a world view on a regional scale; the world outside the region of interest will be viewed with an ethnocentric or a polycentric orientation, or a combination of the two. However, research suggests that many companies are seeking to strengthen their regional competitiveness rather than moving directly to develop global responses to changes in the competitive environment.[38]

The ethnocentric company is centralized in its marketing management, the polycentric company is decentralized, and the regiocentric and geocentric companies are integrated on a regional and global scale, respectively. A crucial difference between the orientations is the underlying assumption for each. The ethnocentric orientation is based on a belief in home-country superiority. The underlying assumption of the polycentric approach is that there are so many differences in cultural, economic, and marketing conditions in the world that it is futile to attempt to transfer experience across national boundaries. A key challenge facing organizational leaders today is managing a company's evolution beyond an ethnocentric, polycentric, or regiocentric orientation to a geocentric one. As noted in one highly regarded book on global business, "The multinational solution encounters problems by ignoring a number of organizational impediments to the implementation of a global strategy and underestimating the impact of global competition."[39]

[37] Douglas Brinkley, "Hoosier Honda," *The Wall Street Journal,* July 18, 2006, p. A14.
[38] Allan J. Morrison, David A. Ricks, and Kendall Roth, "Globalization Versus Regionalization: Which Way for the Multinational?" *Organizational Dynamics* (Winter 1991), p. 18.
[39] Michael A. Yoshino and U. Srinivasa Rangan, *Strategic Alliances: An Entrepreneurial Approach to Globalization* (Boston: Harvard Business School Press, 1995), p. 64.

BRIC Briefing Book

Global Market Growth in the Twenty-First Century

Executives at Boeing forecast that Chinese airline companies will order up to 2,300 aircraft valued at more than $180 billion between now and 2025. Chinese carriers—which include Air China and China Southern Airlines—will operate a total of 2,800 aircraft, making China the second largest aviation market in the world. Boeing (USA) will face tough competition from Airbus (EU).

Source: Don Phillips and David Lague, "Airbus Jet Deal May Put an Assembly Line in China," The New York Times, *December 6, 2005, p. C3.*

FORCES AFFECTING GLOBAL INTEGRATION AND GLOBAL MARKETING

The remarkable growth of the global economy over the past 60 years has been shaped by the dynamic interplay of various driving and restraining forces. During most of those decades, companies from different parts of the world in different industries achieved great success by pursuing international, multinational, or global strategies. During the 1990s, changes in the business environment have presented a number of challenges to established ways of doing business. Today, the growing importance of global marketing stems from the fact that driving forces have more momentum than restraining forces. The forces affecting global integration are shown in Figure 1-2.

Regional economic agreements, converging market needs and wants, technology advances, pressure to cut costs, pressure to improve quality, improvements in communication and transportation technology, global economic growth, and opportunities for leverage all represent important driving forces; any industry subject to these forces is a candidate for globalization.

Multilateral Trade Agreements

A number of multilateral trade agreements have accelerated the pace of global integration. NAFTA is already expanding trade among the United States, Canada, and Mexico. The General Agreement on Tariffs and Trade (GATT), which was ratified by more than 120 nations in 1994, has created the World Trade Organization (WTO) to promote and protect free trade. In Europe, the expanding membership of the European Union is lowering boundaries to trade within the region. The creation of a single currency zone and the introduction of the euro are also expected to expand dramatically European trade in the twenty-first century.

Figure 1-2

Driving and Restraining Forces Affecting Global Integration

LESSONS from the global marketplace

Philips Electronics: How Global Companies Win

Royal Philips Electronics is a giant $35 billion consumer electronics company headquartered in the Netherlands. Philips manufactures a vast array of products. For example, Philips Lighting is the largest manufacturer of lightbulbs in the world; in Western Europe alone, the Philips brand commands more than one-third share of the lightbulb market. Other divisions include domestic appliances, consumer electronics, industrial electronics, semiconductors, and medical systems.

Philips is a company that has changed with the times. For example, to meet the challenge of Japanese consumer electronics manufacturers such as Sony and Matsushita, Philips executives abandoned its polycentric, multinational approach and adopted a more geocentric orientation. A first step in this direction was to create industry groups in the Netherlands responsible for developing global strategies for research and development (R&D), marketing, and manufacturing. The change has paid off in Europe, where today Philips is the number one selling color television brand.

Despite such successes, the company lost $3.4 billion in 2002. Part of the problem is the fact that the company's U.S. consumer electronics division has been losing money for years. Even though Philips was a pioneer in developing new product categories, such as CD players, the company was mostly known for Philips-Magnavox, a low-end brand of television. Philips is stepping up its marketing efforts in the key North American market, which accounts for about 26 percent of overall consumer electronics sales. In 2001, Larry Blanford, formerly president of Maytag Corporation's appliance division, was assigned the task of revitalizing Philips' U.S. business. The stakes are high: Soon after Blanford took the job, the word was passed along from headquarters that if the U.S. unit didn't show a profit for 2004, it would be shut down.

Blanford mapped out a strategy designed to position Philips as a premium, high-tech brand and to boost sales of high-margin, must-have digital products such as wide-screen flat-panel HDTV monitors, DVD recorders, and portable MP3 music players. The U.S. sales team was quadrupled in size to 50 people; Blanford also instituted a policy requiring salespeople to visit at least two retail stores each week. Even as Philips works to improve relations with specialty electronics retailers, it has spent millions of dollars on consumer brand awareness advertising campaigns keyed to the themes "Getting Better" and "Sense and Simplicity." Some industry observers warned that Blanford had his work cut out for him. As a Dutch consumer electronics analyst noted, "In the U.S., Philips has been seen as a clunky brand, not at all sexy. They have a long road ahead to change people's minds."

Sources: Dan Bilefsky, "Lost in Translation: A European Electronics Giant Races to Undo Mistakes in U.S.," The Wall Street Journal, *January 7, 2004, pp. A1, A10; Gregory Crouch, "Philips Electronics Reports Best Profit in Three Years,"* The New York Times, *October 15, 2003, p. W1; Gregory Crouch, "Philips Electronics Lost $3.4 Billion Last Year,"* The New York Times, *February 12, 2003, p. W1; Dan Bilefsky, "Famed Philips Tries to Raise U.S. Profile,"* The Wall Street Journal, *October 3, 2002, p. B4; Dave Pringle and Dan Bilefsky, "Philips Plans to Unveil Digital Videodisc Recorder,"* The Wall Street Journal, *August 24, 2001, p. B7.*

Converging Market Needs and Wants and the Information Revolution

A person studying markets around the world will discover cultural universals as well as differences. The common elements in human nature provide an underlying basis for the opportunity to create and serve global markets. The word *create* is deliberate. Most global markets do not exist in nature; marketing efforts must create them. For example, no one *needs* soft drinks, and yet today in some countries per capita soft drink consumption *exceeds* the consumption of water. Marketing has driven this change in behavior, and today, the soft drink industry is a truly global one. Evidence is mounting that consumer needs and wants around the world are converging today as never before. This creates an opportunity for global marketing. Multinational companies pursuing strategies of product adaptation run the risk of falling victim to global competitors that have recognized opportunities to serve global customers.

The information revolution—what Thomas L. Friedman refers to as the *democratization of information*—is one reason for the trend toward convergence. Thanks to satellite dishes and globe-spanning TV networks, such as CNN and MTV, people in even the remotest corners of the globe can compare their own lifestyles and standards of living with those in other countries. In regional markets, such as Europe and Asia, the increasing overlap of advertising across national boundaries and the mobility of consumers have created opportunities for marketers to pursue pan-regional product positionings. The Internet is an even stronger driving force: When a company establishes a site on the Internet, it automatically becomes global. In addition, the Internet allows people everywhere in the world to reach out, buying and selling a virtually unlimited assortment of products and services.

Transportation and Communication Improvements

The time and cost barriers associated with distance have fallen tremendously over the past 100 years. The jet airplane revolutionized communication by making it possible for people to travel around the world in less than 48 hours. Tourism enables people from many countries to see and experience the newest products sold abroad. In 1970, 75 million passengers traveled internationally; according to figures compiled by the International Air Transport Association, that figure increased to nearly 540 million passengers in 2003. One essential characteristic of the effective global business is face-to-face communication among employees and between the company and its customers. Modern jet travel made such communication feasible. Today's information technology allows airline alliance partners such as United and Lufthansa to sell seats on each other's flights, thereby making it easier for travelers to get from point to point. Meanwhile, the cost of international telephone calls has fallen dramatically over the past several decades. That fact, plus the advent of new communication technologies such as e-mail, fax, video teleconferencing, Wi-Fi, and broadband Internet means that managers, executives, and customers can link up electronically from virtually any part of the world without traveling at all.

A similar revolution has occurred in transportation technology. The costs associated with physical distribution, both in terms of money and time, have been greatly reduced as well. The per-unit cost of shipping automobiles from Japan and Korea to the United States by specially designed auto-transport ships is less than the cost of overland shipping from Detroit to either U.S. coast. Another key innovation has been increased utilization of 20- and 40-foot metal containers that can be transferred from trucks to railroad cars to ships.

Product Development Costs

The pressure for globalization is intense when new products require major investments and long periods of development time. The pharmaceutical industry provides a striking illustration of this driving force. According to the Pharmaceutical Research and Manufacturers Association, the cost of developing a new drug in 1976 was $54 million. Today, the process of developing a new drug and securing regulatory approval to market it can take 14 years; the average total cost of bringing a new drug to market is estimated to exceed $400 million.[40] Such costs must be recovered in the global marketplace because no single national market is likely to be large enough to support investments of this size. Thus, Pfizer, Merck, GlaxoSmithKline, Novartis, Bristol-Myers Squibb, Sanofi-Aventis, and other leading pharmaceutical companies have little choice but to engage in global marketing. As noted earlier, however, global marketing does not necessarily mean operating everywhere; in the pharmaceutical industry, for example, seven countries account for 75 percent of sales. As shown in Figure 1-3, demand for pharmaceuticals in China and India is expected to triple over the next decade. In an effort to tap that market and to reduce development costs, Novartis and its rivals are establishing research and development centers in China.[41]

[40] Joseph A. DiMasi, Ronald W. Hansen, and Henry G. Grabowski, "The Price of Innovation: New Estimates of Drug Development Costs," *Journal of Health Economics* 22, no. 2 (March 2003), p. 151.

[41] Nicholas Zamiska, "Novartis to Establish Drug R&D Center in China," *The Wall Street Journal*, November 11, 2006, p. A3.

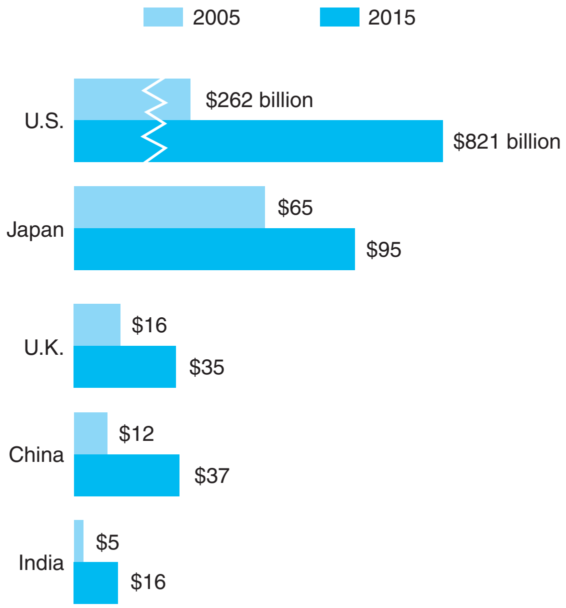


Figure 1-3

Estimated Spending on Prescription Drugs, Projections to 2015

Source: IMS Health.

Global marketing strategies can generate greater revenue and greater operating margins which, in turn, support design and manufacturing quality. A global and a domestic company may each spend 5 percent of sales on R&D, but the global company may have many times the total revenue of the domestic because it serves the world market. It is easy to understand how Nissan, Matsushita, Caterpillar, and other global companies have achieved world-class quality. Global companies "raise the bar" for all competitors in an industry. When a global company establishes a benchmark in quality, competitors must quickly make their own improvements and come up to par. For example, the U.S. auto manufacturers have seen their market share erode over the past four decades as Japanese manufacturers built reputations for quality and durability. Recently Detroit has faced

Caterpillar, the world's largest manufacturer of construction and mining equipment, diesel and natural gas engines, and industrial gas turbines, is also the technology leader in construction, transportation, mining, forestry, energy, logistics and electric power generation. In countries around the world Caterpillar turns on the lights, builds the roads, and brings the financing, the technology, and the experience to create lasting change. Caterpillar's goal is "to make sure the world will be better tomorrow, because of the work we're doing today." This ad highlights Caterpillar's role in making progress possible in China by converting toxic methane gas into clean electric power.

new threats: For example, when Ford rolled out its new F-150 pickup truck in January 2003, Toyota, Nissan, and other Japanese automakers were introducing their own full-sized truck models in the U.S. market for the first time. More recently, the Japanese have invested heavily in hybrid vehicles that are increasingly popular with eco-conscious drivers. The Toyota Prius is a case in point.

World Economic Trends

Economic growth has been a driving force in the expansion of the international economy and the growth of global marketing for three reasons: First, economic growth in key developing countries has created market opportunities that provide a major incentive for companies to expand globally. At the same time, slow growth in industrialized countries has compelled management to look abroad for opportunities in nations or regions with high rates of growth.

Second, economic growth has reduced resistance that might otherwise have developed in response to the entry of foreign firms into domestic economies. When a country such as China is experiencing rapid economic growth, policy makers are likely to look more favorably on outsiders. A growing country means growing markets; there is often plenty of opportunity for everyone. It is possible for a "foreign" company to enter a domestic economy and establish itself without threatening the existence of local firms. The latter can ultimately be strengthened by the new competitive environment. Without economic growth, however, global enterprises may take business away from domestic ones. Domestic businesses are more likely to seek governmental intervention to protect their local position if markets are not growing. Predictably, the worldwide recession of the early 1990s created pressure in most countries to limit foreign access to domestic markets.

The worldwide movement toward free markets, deregulation, and privatization is a third driving force. The trend toward privatization is opening up formerly closed markets; tremendous opportunities are being created as a result. In a recent book, Daniel Yergin and Joseph Stanislaw described these trends as follows:

> It is the greatest sale in the history of the world. Governments are getting out of businesses by disposing of what amounts to trillions of dollars of assets. Everything is going—from steel plants and phone companies and electric utilities to airlines and railroads to hotels, restaurants, and nightclubs. It is happening not only in the former Soviet Union, Eastern Europe, and China but also in Western Europe, Asia, Latin America, and Africa—and in the United States.[42]

For example, when a nation's telephone company is a state monopoly, it is much easier to require it to buy only from national companies. An independent, private company will be more inclined to look for the best offer, regardless of the nationality of the supplier. Privatization of telephone systems around the world is creating huge opportunities for companies such as Lucent Technologies and Northern Telcom.

Leverage

A global company possesses the unique opportunity to develop leverage. In the context of global marketing, **leverage** means some type of advantage that a company enjoys by virtue of the fact that it has experience in more than one country. Leverage allows a company to conserve resources when pursuing opportunities in new geographical markets. In other words, leverage enables a company to

[42] Daniel Yergin and Joseph Stanislaw, *The Commanding Heights* (New York: Simon & Schuster, 1998), p. 13.

expend less time, less effort, or less money. Four important types of leverage are experience transfers, scale economies, resource utilization, and global strategy.

Experience Transfers

A global company can leverage its experience in any market in the world. It can draw upon management practices, strategies, products, advertising appeals, or sales or promotional ideas that have been market-tested in one country or region and apply them in other comparable markets. For example, Whirlpool has considerable experience in the United States dealing with powerful retail buyers such as Sears and Circuit City. The majority of European appliance retailers have plans to establish their own cross-border "power" retailing systems; as former Whirlpool CEO David Whitwam explained, "When power retailers take hold in Europe, we will be ready for it. The skills we've developed here are directly transferable."[43]

Chevron is another example of a global company that gains leverage through experience transfers. As H. F. Iskander, general manager of Chevron's Kuwait office, explains:

> Chevron is pumping oil in different locations all over the world. There is no problem we have not confronted and solved somewhere. There isn't a rock we haven't drilled through. We centralize all that knowledge at our headquarters, analyze it, sort it out, and that enables us to solve any oil-drilling problem anywhere. As a developing country you may have a national oil company that has been pumping your own oil for twenty years. But we tell them, "Look, you have twenty years of experience, but there's no diversity. It is just one year of knowledge twenty times over." When you are operating in a multitude of countries, like Chevron, you see a multitude of different problems and you have to come up with a multitude of solutions. You have to, or you won't be in business. All those solutions are then stored in Chevron's corporate memory. The key to our business now is to tap that memory, and bring out the solution that we used to solve a problem in Nigeria in order to solve the same problem in China or Kuwait.[44]

Scale Economies

The global company can take advantage of its greater manufacturing volume to obtain traditional scale advantages within a single factory. Also, finished products can be manufactured by combining components manufactured in scale-efficient plants in different countries. Japan's giant Matsushita Electric Company is a classic example of global marketing in action; it achieved scale economies by exporting VCRs, televisions, and other consumer electronics products throughout the world from world-scale factories in Japan. The importance of manufacturing scale has diminished somewhat as companies implement flexible manufacturing techniques and invest in factories outside the home country. However, scale economies were a cornerstone of Japanese success in the 1970s and 1980s.

Leverage from scale economies is not limited to manufacturing. Just as a domestic company can achieve economies in staffing by eliminating duplicate positions after an acquisition, a global company can achieve the same economies on a global scale by centralizing functional activities. The larger scale of the global company also creates opportunities to improve corporate staff competence and quality.

43 William C. Taylor and Alan M. Webber, *Going Global: Four Entrepreneurs Map the New World Marketplace* (New York: Penguin USA, 1996), p. 18.
44 Friedman, pp. 221–222.

Resource Utilization

A major strength of the global company is its ability to scan the entire world to identify people, money, and raw materials that will enable it to compete most effectively in world markets. For a global company, it is not problematic if the value of the "home" currency rises or falls dramatically because for this company there really is no such thing as a home currency. The world is full of currencies, and a global company seeks financial resources on the best available terms. In turn, it uses them where there is the greatest opportunity to serve a need at a profit.

Global Strategy

The global company's greatest single advantage can be its global strategy. A global strategy is built on an information system that scans the world business environment to identify opportunities, trends, threats, and resources. When opportunities are identified, the global company adheres to the three principles identified earlier: It leverages its skills and focuses its resources to create superior perceived value for customers and achieve competitive advantage. *The global strategy is a design to create a winning offering on a global scale*. This takes great discipline, much creativity, and constant effort. The reward is not just success, it's survival. For example, French automaker Renault operated for many years as a regional company. During that time, its primary struggle was a two-way race with Peugeot Citroën for dominance in the French auto industry. However, in an industry dominated by Toyota and other global competitors, Chairman Louis Schweitzer had no choice but to formulate a global strategy. Initiatives include acquiring a majority stake in Nissan Motor and Romania's Dacia. Schweitzer has also invested $1 billion in a plant in Brazil and is spending hundreds of millions of dollars in South Korea.[45]

A note of caution is in order: A global strategy is no guarantee of ongoing organizational success. The severe downturn in the business environment in the early years of the twenty-first century has wreaked havoc with strategic plans. As noted earlier in the chapter, ABB and Vivendi Universal struggled as their chief executives' ambitious global visions came to grief and expensive strategic bets did not pay off. Although both companies survived, they are smaller, more focused entities than they were in the mid-1990s. Companies that cannot formulate or successfully implement a coherent global strategy may lose their independence, as evidenced by the fortunes of Gerber, Helene Curtis, and others. Some strategic bets do not yield the expected results, as seen in the deals that created DaimlerChrysler and AOL Time Warner.

Restraining Forces

Despite the impact of the driving forces identified previously, several restraining forces may slow a company's efforts to engage in global marketing. In addition to the market differences discussed earlier, important restraining forces include management myopia, organizational culture, national controls, and opposition to globalization. As we have noted, however, in today's world the driving forces predominate over the restraining forces. That is why the importance of global marketing is steadily growing.

[45] John Tagliabue, "Renault Pins Its Survival on a Global Gamble," *The New York Times*, July 2, 2000, Section 3, pp. 1, 6; Don Kirk and Peter S. Green, "Renault Rolls the Dice on Two Auto Projects Abroad," *The New York Times*, August 29, 2002, pp. W1, W7.

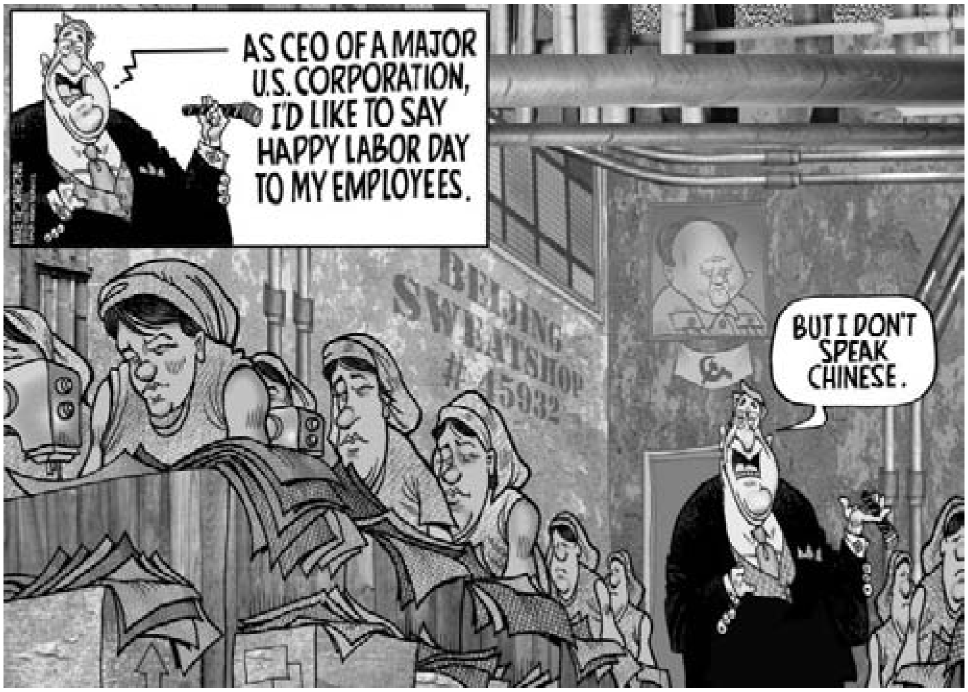
Management Myopia and Organizational Culture

In many cases, management simply ignores opportunities to pursue global marketing. A company that is "nearsighted" and ethnocentric will not expand geographically. Myopia is also a recipe for market disaster if headquarters attempts to dictate when it should listen. Global marketing does not work without a strong local team that can provide information about local market conditions. Executives at Parker Pen once attempted to implement a top-down marketing strategy that ignored experience gained by local market representatives. Costly market failures resulted in Parker's buyout by managers of the former U.K. subsidiary. Eventually, the Gillette Company acquired Parker.

In companies where subsidiary management "knows it all," there is no room for vision from the top. In companies where headquarters management is all-knowing, there is no room for local initiative or an in-depth knowledge of local needs and conditions. Executives and managers at successful global companies have learned how to integrate global vision and perspective with local market initiative and input. A striking theme emerged during interviews conducted by one of the authors with executives of successful global companies. That theme was the respect for local initiative and input by headquarters executives, and the corresponding respect for headquarters' vision by local executives.

Opposition to Globalization

To many people around the world, globalization and global marketing represent a threat. The term *globaphobia* is sometimes used to describe an attitude of hostility toward trade agreements, global brands, or company policies that appear to result in hardship for some individuals or countries while benefiting others. Globaphobia manifests itself in various ways, including protests or violence directed at policy makers or well-known global companies. Opponents of globalization include labor unions, college and university students, nongovernmental organizations (NGOs), and others. In the United States, for example, some people believe that globalization has depressed the wages of American workers and resulted in the loss of both blue-collar and white-collar



Concerns about surging Chinese imports and possible loss of jobs have fueled antiglobalization sentiment in America. Some products that are "Made in China" have come under even closer scrutiny following revelations about tainted pet food, toothpaste that may contain chemical toxins, and toys contaminated with lead paint.

jobs even as companies post record profits. In many developing countries, there is a growing suspicion that the world's advanced countries—starting with the United States—are reaping most of the rewards of free trade. As an unemployed miner in Bolivia put it, "Globalization is just another name for submission and domination. We've had to live with that here for 500 years and now we want to be our own masters."[46]

National Controls

Every country protects the commercial interests of local enterprises by maintaining control over market access and entry in both low- and high-tech industries. Such control ranges from a monopoly controlling access to tobacco markets to national government control of broadcast, equipment, and data transmission markets. Today, tariff barriers have been largely removed in the high-income countries, thanks to the WTO, GATT, NAFTA, and other economic agreements. However, **nontariff barriers (NTBs)** such as "Buy Local" campaigns, food safety rules, and other bureaucratic obstacles still make it difficult for companies to gain access to some individual country and regional markets.

OUTLINE OF THIS BOOK

This book has been written for students and businesspersons interested in global marketing. Throughout the book, we present and discuss important concepts and tools specifically applicable to global marketing.

The book is divided into five parts. Part I consists of Chapter 1, an overview of global marketing and the basic theory of global marketing. Chapters 2 through 5 comprise Part II, in which we cover the environments of global marketing. Chapters 2 and 3 cover economic and regional market characteristics, including the location of income and population, patterns of trade and investment, and stages of market development. In Chapter 4, we examine social and cultural elements; and in Chapter 5, we present the legal, political, and regulatory dimensions.

We devote Part III to topics that must be considered when approaching global markets. We cover marketing information systems and research in Chapter 6. Chapter 7 discusses market segmentation, targeting, and positioning. Chapter 8 covers the basics of importing, exporting, and sourcing. We devote Chapter 9 to various aspects of global strategy, including strategy alternatives for market entry and expansion.

We devote Part IV to global considerations pertaining to the marketing mix. Chapters 10 through 14 cover in detail the application of product, price, channel, and marketing communications decisions in response to global market opportunity and threat.

The three chapters in Part V address issues of corporate strategy, leadership, and the impact of the digital revolution on global marketing. Chapter 15 includes an overview of strategy and competitive advantage. Chapter 16 addresses some of the leadership challenges facing the chief executives of global companies. In addition, the chapter covers the organization and control of global marketing programs and the importance of corporate social responsibility and ethical business practices. The final chapter explores the ways that the Internet, e-commerce, and other aspects of the digital revolution are creating new opportunities and challenges for global marketers.

[46] Larry Rohter, "Bolivia's Poor Proclaim Abiding Distrust of Globalization," *The New York Times*, October 17, 2003, p. A3.

summary

A company that engages in **global marketing** focuses its resources on global market opportunities and threats. Successful global marketers such as Nestlé, Coca-Cola, and Honda use familiar **marketing mix** elements—the four Ps—to create global marketing programs. Marketing, R&D, manufacturing, and other activities comprise a firm's **value chain**; firms configure these activities to create superior customer **value** on a global basis. Global companies also maintain strategic **focus** while relentlessly pursuing **competitive advantage**. The marketing mix, value chain, competitive advantage, and focus are universal in their applicability, irrespective of whether a company does business only in the home country or has a presence in many markets around the world. However, in a **global industry**, companies that fail to pursue global opportunities risk being pushed aside by stronger global competitors.

A firm's **global marketing strategy (GMS)** can enhance its worldwide performance. The GMS addresses several issues. First is the nature of the marketing program in terms of the balance between a **standardization (extension) approach** to the marketing mix elements and a **localization (adaptation) approach** that is responsive to country or regional differences. Second, is the **concentration of marketing activities** in a few countries or the dispersal of such activities across many countries. Companies that engage in global marketing can also engage in **coordination of marketing activities**. Finally, a firm's GMS will address the issue of **global market participation**.

The importance of global marketing today can be seen in the company rankings compiled by the *Wall Street Journal*, *Fortune*, *Financial Times*, and other publications. Whether ranked by revenues, market capitalization, or some other measure, most of the world's major corporations are active regionally or globally. The size of global markets for individual industries or product categories helps explain why companies "go global." Global markets for some product categories represent hundreds of billions of dollars in annual sales; other markets are much smaller. Whatever the size of the opportunity, successful industry competitors find that increasing revenues and profits means seeking markets outside the home country.

Company management can be classified in terms of its orientation toward the world: **ethnocentric**, **polycentric**, **regiocentric**, or **geocentric**. The terms reflect progressive levels of development or evolution. An ethnocentric orientation characterizes *domestic* and *international companies*; international companies pursue marketing opportunities outside the home market by extending various elements of the marketing mix. A polycentric worldview predominates at a *multinational company*, where country managers operating autonomously adapt the marketing mix. When management moves to integrate and coordinate activities on a regional basis, the decision reflects a regiocentric orientation. Managers at *global* and *transnational companies* are geocentric in their orientation and pursue both extension and adaptation strategies in global markets.

The dynamic interplay of several driving and restraining forces shapes the importance of global marketing. Driving forces include market needs and wants, technology, transportation and communication improvements, product costs, quality, world economic trends, and a recognition of opportunities to develop **leverage** by operating globally. Restraining forces include market differences, management myopia, organizational culture, and national controls.

discussion questions

1. What are the basic goals of marketing? Are these goals relevant to global marketing?
2. What is meant by "global localization"? Is Coca-Cola a global product? Explain.
3. Describe some of the global marketing strategies available to companies. Give examples of companies that use the different strategies.
4. How do the global marketing strategies of Harley-Davidson and Toyota differ?
5. Describe the difference between ethnocentric, polycentric, regiocentric, and geocentric management orientations.
6. Identify and briefly describe some of the forces that have resulted in increased global integration and the growing importance of global marketing.
7. Define *leverage* and explain the different types of leverage available to companies with global operations.

global marketing and the world wide web

Virtually every company mentioned in this chapter is using the Internet as a communications tool. You can learn a great deal about a company's geographic scope and marketing activities by visiting its Web site. Many companies also post their annual reports online; you can read and print them if your computer is equipped with Adobe's Acrobat software. A company's universal resource locator (URL) is often based on its name (e.g., **www.caterpillar.com**) or initials (e.g., **www.ibm.com**). If, after a couple of tries, you are unable to locate a company's home page, consult Hoover's (**www.hoovers.com**). You may already be familiar with the company's printed reference book, *Hoover's Handbook*. Hoover's Web site offers free company capsules that contain basic information including names of top executives, headquarters address, annual sales, and links to other corporate Web sites.

build your global marketing skills

1. Each August, *Fortune* magazine publishes its survey of the Global 500. The top 25 companies for 2005 are shown in Table 1-4. Browse through the list and choose any company that interests you. Compare its 2005 ranking with the most recent ranking (which you can find either by referring to the print version of *Fortune* or by visiting ww. fortune. com). How has the company's ranking changed? Consult additional sources (e.g., magazine articles, annual reports, the company's Web site) to enhance your understanding of the factors and forces that contributed to the company's move up or down in the rankings.

2. The following is a list of countries from various regions of the world. What category of goods do you think is the number one export from each? Possible answers are shown in the right-hand column. Write the letter corresponding to the product or product category of your choice in the space provided; each product answer can be used more than once. The answers follow.

_____	1. Brazil	a. cocoa
_____	2. Finland	b. gold
_____	3. Ghana	c. telecommunication and technology products
_____	4. Saudi Arabia	d. aircraft equipment and parts
_____	5. Nigeria	e. petroleum
_____	6. Australia	f. metal ores and extractive minerals
_____	7. Russia	g. electronics
_____	8. Singapore	h. motor vehicles
_____	9. Germany	i. coffee beans
_____	10. Peru	

Answers: 1. d 2. c 3. a 4. e 5. e 6. 7. e 8. g 9. h 10. b

sharpen your critical thinking skills

There's a saying in the business world that "nothing fails like success." In this chapter, you read about some of Gap's recent problems. How can a fashion retailer that was once *the* source for wardrobe staples such as chinos and white T-shirts suddenly lose its marketing edge? Motorola is another company that has fallen victim to its own success. The company's Razr model was a huge hit with customers, but Motorola has struggled to leverage that success. Also, Starbucks CEO Howard Shultz has recently warned that his company and brand risk becoming commoditized. Conduct some exploratory research to learn more about these companies. What lessons can be learned from their recent market performance?

suggested readings

For readers who want to better understand China, we recommend the following:

James McGregor, *One Billion Customers: Lessons from the Front Lines of Doing Business with China* (New York: Free Press, 2005).

James Kynge, *China Shakes the World* (New York: Houghton Mifflin, 2006).

Case 1-1

McDonald's Expands Globally While Adjusting Its Local Recipe

McDonald's Corporation is a fast-food legend whose famous golden arches can be found in 118 different countries. The company is the undisputed leader in the quick service restaurant (QSR) segment of the hospitality industry, with more than twice the systemwide revenues of Burger King. McDonald's built its reputation by promising and delivering three things to customers: inexpensive food with consistent taste regardless of location; quick service; and a clean, familiar environment. The company was also a pioneer in the development of convenience-oriented features such as drive-through windows and indoor playgrounds for children. Today, thanks to memorable advertising and intensive promotion efforts, McDonald's is one of the world's most valuable brands. The golden arches are said to be the second most recognized symbol in the world, behind the Olympic rings. In the United States alone, McDonald's typically spends about twice as much on advertising as Burger King and Wendy's.

Today, however, the company faces competitive attacks from several directions. During the 1990s, a wide range of upscale food and beverage purveyors arrived on the scene. For example, consumers are flocking to Starbucks coffee bars where they spend freely on lattes and other coffee-based specialty drinks. The "fast-casual" segment of the industry that includes companies such as Panera Bread, Cosi, and Baja Fresh is attracting customers seeking higher-quality menu items in more comfortable surroundings. Meanwhile, Subway overtook McDonald's as the restaurant chain with the most outlets in the United States. Some industry observers suggested that, in terms of both food offerings and marketing, McDonald's was losing touch with modern American lifestyles.

Table 1 *McDonald's Sales by Region: Increase (Decrease)*

	United States	Europe	APMEA	Latin America	Canada	Total
2005	4.4%	2.6%	4.0%	11.6%	0.3%	3.9%
2004	9.6%	2.4%	5.6%	13.0%	5.4%	6.9%
2003	6.4%	(0.9)%	(4.2)%	2.3%	0.0%	2.4%

Until recently, the picture appeared brighter outside the United States. Thanks to changing lifestyles around the globe, more people are embracing the notion of fast food. McDonald's responded to the opportunities by stepping up its rate of new unit openings. As shown in Tables 1 and 2, McDonald's International is organized into four geographic regions: (1) Europe; (2) Asia/Pacific, Middle East, and Africa (APMEA); (3) Latin America; and (4) Canada. In 2005, the offices of the country heads for Europe and Asia were moved from headquarters to their respective regions; now, for example, the head of APMEA manages his business from Hong Kong. Commenting on the change, Ken Koziol, vice president of worldwide restaurant innovation, explained, "McDonald's was built on a strong foundation of a core menu that we took around the world but we need to make sure we are more locally relevant. Taste profiles and desires are changing."

Asia-Pacific

The Indian market appears to hold huge potential for McDonald's. In fall 1996, the company opened its first restaurants in New Delhi and Mumbai. In Delhi, the golden arches competes with Nirula's, a quick-service restaurant chain with about two dozen outlets; in addition, there are hundreds of smaller regional chains throughout India. The U.S.-based Subway chain opened its first Indian location in 2001; Pizza Hut, KFC, and Domino's Pizza are also setting up shop. The Pizza Hut on Juhu Road in Mumbai is housed in a three-story-tall building with large plate glass windows and central air conditioning; on most nights, a long line of customers forms outside. Indian demand for meals from the major fast-food chains is growing at an estimated rate of 40 percent annually; analysts forecast that the market would grow to $1.3 billion by 2005. Management identifies strategic locations in areas with a great deal of pedestrian traffic such as the shopping street in Bandra in the Mumbai suburbs. Other restaurant locations include a site near a college in Vile Parle and another opposite the Andheri train station. Prices are lower than in other countries; most sandwiches cost about 40 rupees (less than $1). Drinks cost 15 rupees, and a packet of French fries is 25 rupees. A complete meal costs the equivalent of about $2.

Table 2 *Total Number of Systemwide Restaurants*

	United States	Europe	APMEA	Latin America	Canada	Other	Total
2005	13,727	6,352	7,692	1,617	1,378	1,120	31,886
2004	13,673	6,287	7,567	1,607	1,362	1,065	31,561
2003	13,609	6,186	7,475	1,578	1,339	942	31,129

Source: McDonald's corporate Web site; accessed December 28, 2005.

Because the Hindu religion prohibits eating beef, McDonald's developed the lamb-based Maharaja Mac specifically for India. Despite protests from several Hindu nationalist groups, the first McDonald's attracted huge crowds to its site near the Victoria railway terminal; customers included many tourists from across India and from abroad as well as locals commuting to and from work. In short order, however, Hindu activists renewed their protests, this time accusing the company of using beef tallow in its cooking. Management responded by posting signs reading "No beef or beef products sold here," but the doubts raised by the controversy kept many potential customers away. In an effort to bring back the crowds, McDonald's has worked steadily to prove that it is sensitive to Indian tastes and traditions. As is the case throughout the world, McDonald's emphasizes that most of the food ingredients it uses—as much as 95 percent—are produced locally. In addition, to accommodate vegetarians, each restaurant has two separate food preparation areas. The "green" kitchen is devoted to vegetarian fare such as the spicy McAloo Tikka potato burger, Pizza McPuff, and Paneer Salsa McWrap. Meat items are prepared on the red side. Even the mayonnaise is made without eggs. Some of the new menu items developed for India are being introduced in Europe and the United States.

" he tastes of the urban, upwardly mobile Indian are evolving, and more Indians are looking to eat out and experiment. The potential Indian customer base for a McDonald's or a Subway is larger than the size of entire developed countries."

Sapna Nayak, food analyst at Raobank India

China is currently home to the world's largest McDonald's. The first Chinese location opened in mid-1992 in central Beijing, a few blocks from Tiananmen Square. Despite having a 20-year lease for its first store, McDonald's found itself in the middle of a dispute between the central government and Beijing's city government. City officials decided to build a new $1.2 billion commercial complex in the city center and demanded that McDonald's vacate the site. However, central government officials had not approved the city's plans. McDonald's was forced to abandon the location; despite the turbulent start, McDonald's now has more than 800 restaurants in China. The restaurants purchase 95 percent of their supplies, including lettuce, from local sources.

In Asia and elsewhere, McDonald's protects itself from currency fluctuations by purchasing as much as possible from local suppliers. For example, the company's Singapore locations now buy chicken patties from Thailand rather than from the United States. However, French fries must still be imported from Australia or the United States. To help offset higher costs, McDonald's offers customers the choice of rice as a side dish at a lower price.

Western Europe

The golden arches are a familiar sight in Europe, particularly in England, France, and Germany; there is even a four-star Golden Arch hotel in Zurich. Overall, Europe contributes 25 percent of sales and 45 percent of operating income, making it a key world region. However, from 1999 to 2000, Europe posted a 3 percent decline in sales, due in large part to consumer concerns about mad cow disease. The chain's British business was hit especially hard; the public health scare about mad cow disease that began in 1996 resulted in bans on British beef exports to continental Europe. Responding to public concerns, McDonald's immediately substituted imported beef at its British restaurants. By mid-1997, convinced that British beef was safe, McDonald's put it back on the menu. Ironically, no sooner had the beef furor subsided than Burger King brought its aptly named Big King sandwich ("20 percent more beef than a Big Mac") to England. In 2000 and 2001, concerns over the safety of the meat supply surfaced again amid an outbreak of hoof-and-mouth disease and ongoing media reports about mad cow disease. The public's reduced appetite for beef was reflected in decreases in systemwide sales, revenues, and operating income for McDonald's European division in 2000.

France's tradition of culinary excellence makes it a special case in Europe; dining options range from legendary three-star Michelin restaurants to humble neighborhood bistros. From the time McDonald's opened its first French outlet in 1972, policy makers and media commentators have voiced concerns about the impact of fast food on French culture. Even so, with nearly 1,000 outlets, France today represents McDonald's third-largest market in Europe. However, controversy has kept the company in the public eye. For example, some French citizens objected when McDonald's became the official food of the World Cup finals that were held in France in 1998.

In August 1999, a sheep farmer named Jose Bové led a protest against construction of the 851st French McDonald's near the village of Millau. The group used construction tools to dismantle the partially finished structure. Bové told the press that the group had singled out McDonald's because, in his words, it is a symbol of America, "the place where they not only promote globalization and industrially produced food but also unfairly penalize our peasants." In 2002, executives at McDonald's France even ran an ad in *Femme Actuelle* magazine suggesting that children should eat only one meal at McDonald's per week.

McDonald's French franchisees experience some of the same competitive pressures facing the U.S. units; there are also key differences. On the plus side, for example, Burger King closed its last restaurant in France in 1998. However, local bistros operators have enjoyed great success selling fresh-baked baguettes filled with ham and brie, effectively neutralizing McDonald's advantage of fast service and low prices. In response, executives hired an architecture firm to develop new restaurant designs specifically for the French market.

A total of eight different themes were developed; many of the redesigned stores have hardwood floors and exposed brick walls. Signs are in muted colors rather than the chain's signature red and yellow, and the golden arches are displayed more subtly. Overall, the restaurants don't look like McDonald's elsewhere. The first redesigned store is located on the Champs Elysées on a site previously occupied by a Burger King; called "Music," the restaurant provides diners with the opportunity to listen to music on iPods and watch music videos on TV monitors. In some locations, lime green Danish designer armchairs have replaced plastic seats. As McDonald's locations in France underwent style makeovers, some franchisees reported sales increases of 10 percent to

20 percent. Impressed by these results, some American franchisees began undertaking similar renovations.

Central and Eastern Europe

On January 31, 1990, after 14 years of negotiation and preparation, the first Bolshoi Mac went on sale in what was then the Soviet Union; by the end of the decade, there were more than two dozen McDonald's restaurants in Russia. The first Moscow McDonald's was built on Pushkin Square, near a major metro station just a few blocks from the Kremlin. It has 700 indoor seats and another 200 outside. It boasts 800 employees and features a 70-foot counter with 27 cash registers, equivalent to 20 ordinary McDonald's rolled into one. At present, there are more than 70 McDonald's locations in Russia, but the original Pushkin Square store enjoys the distinction of being the busiest McDonald's in the world. To ensure a steady supply of high-quality raw materials, the company built McComplex, a huge $45 million processing facility on the outskirts of Moscow. McDonald's also worked closely with local farmers to boost yields and quality; today, the company sources 75 percent of its ingredients from a network of 100 in-country suppliers.

From the outset, George Cohon, the Canadian who is senior chairman of McDonald's Russia, decreed that the restaurants would accept rubles, which was the only currency ordinary Russian citizens were allowed to possess. It was a gutsy decision because the ruble was not convertible; in other words, rubles were worthless outside Russia. Among the handful of other Western eateries in Moscow at the time, some required that customers pay in dollars or other "hard" (i.e., convertible) currencies; by contrast, Pizza Hut's Moscow restaurant offered separate service lines for ruble patrons and those paying in hard currency. Although McDonald's Russia could not initially send any profits out of the country, there was another alternative: reinvesting rubles in choice Moscow real estate and opening additional restaurants.

The turmoil stemming from the dissolution of the Soviet Union and Russia's sometimes tortuous journey toward a market economy during the 1990s has presented the management of McDonald's Russia with a number of challenges. Although massive public demonstrations followed a failed coup attempt in August 1991, the protesters did not target McDonald's. Perhaps management's biggest challenge to date was the currency crisis that began in the summer of 1998 when the Russian government devalued the ruble and defaulted on its foreign debt. Many companies immediately raised prices to compensate for the precipitous drop in the ruble's value, and customers stopped buying.

Ukraine and Belarus are among the other members of the Commonwealth of Independent States with newly opened restaurants. The first Ukrainian McDonald's opened in Kiev in 1997; the company envisions 100 locations by 2007 for a total investment of $120 million. McDonald's has also set its sights on Central Europe, where plans call for hundreds of new restaurants to be opened in Croatia, Slovakia, Romania, and other countries.

Refocusing on the U.S. Market

By the late 1990s, McDonald's strategy of growing its U.S. business by opening new restaurants was not yielding the desired results. In 1998, McDonald's struggles led to a management shake up: Chairman and CEO Michael R. Quinlan relinquished the top position to Jack M. Greenberg, who had headed McDonald's USA. Greenberg immediately launched a range of new growth-oriented initiatives, including the company's first forays outside the core business. For example, McDonald's acquired a majority stake in the Chipotle Mexican Grill chain. The move signaled McDonald's recognition both of the increasing popularity of ethnic foods and of heightened interest among consumers in healthy eating. McDonald's also acquired Aroma, a coffeehouse chain in London. The acquisition trend continued as McDonald's snapped up Donatos Pizza and Boston Market, a floundering chain featuring home-style cooking. As Greenberg conceded, "There are pieces of the business we can't do under the arches. When you're out with friends on a Saturday night for pizza and wine, you don't go to McDonald's." Greenberg envisioned that these partner brands would add at least 2 percent to McDonald's growth rate within a few years. In addition, McCafé, a gourmet coffee shop modeled on a successful Australian concept, was tested in downtown Chicago, and a McTreat ice cream parlor had a trial run in Houston.

"McDonald's comes off as uncool. If you want to be chic, you eat sushi. Indian food is even more cutting edge. McDonald's is like white bread."

Daniel, a 26-year-old architectural draftsman in San Francisco

In 2002, Greenberg resigned and Jim Cantalupo became CEO. Cantalupo was a retired vice chairman whose 28-year career at McDonald's included considerable international experience. He pledged to review all his predecessor's initiatives, including the noncore acquisitions. He also vowed to get the company back on track by focusing on the basics, namely customer service, clean restaurants, and reliable food. Unhappy with the company's recent "Smile" advertising theme, Cantalupo took the extraordinary step of calling a summit meeting of senior creative personnel from 14 advertising agencies representing McDonald's 10 largest international markets. Foremost among them was New York-based DDB Worldwide, the lead agency on the McDonald's account that handles advertising in 34 countries including Australia, the United States, and Germany. In addition, Leo Burnett is responsible for ads targeting children. McDonald's marketing and advertising managers from key countries were also summoned to the meeting at company headquarters in Oakbrook, Illinois.

As Larry Light, former global chief marketing officer for McDonald's, noted:

> Creative talent is a rare talent, and creative people don't belong to geographies, to Brazil or France or Australia. We're going to challenge our agencies to be more open-minded about sharing between geographies.

Charlie Bell, a former executive at McDonald's Europe who was promoted to chief operating officer, didn't mince words about the company's advertising. "For one of the world's best brands, we have missed the mark," he said before the summit meeting. In June, the company announced that it had picked the phrase "i'm lovin' it" as its new global marketing theme; the idea was proposed by Heye & Partner, a DDB Worldwide unit located in Germany. Tragically, within a few months, both

Cantalupo and Bell died unexpectedly. Jim Skinner, the company's current chief executive officer, instituted a "Plan to Win" initiative to increase McDonald's momentum.

Even as McDonald's executives attempted to come to grips with the problems facing their company, various business experts offered advice of their own. In the mid-1990s, one market analyst said, "McDonald's is similar to Coca-Cola ten years ago. It's on the verge of becoming an international giant, with the United States as a major market, but overseas as the driving force." Adrian J. Slywotzky, author of *Value Migration*, noted, "McDonald's needs to move the question from 'How can we sell more hamburgers?' to 'What does our brand allow us to consider selling to our customers?'" Mark DiMassimo, chief executive of a New York-based company that specializes in brand advertising, calls McDonald's "a large lost organization that is searching for a strategy." In his view, "The company must focus, focus, focus, and stand for one thing."

There is evidence that, several years on, the "Plan to Win" strategy is gaining traction. *Consumer Reports* magazine lauded the company's efforts to upgrade its coffee program. Consumers have embraced "better-for-you" menu items such as salads and sandwiches. The company is also seeking ways to be more environmentally conscious by using less plastic packaging and recycling more. Denis Hennequin, the executive in charge of European operations, is pleased with the results of his plan to redefine McDonald's image. He said, "I'm changing the story. We've got to be loyal to our roots, we have to be affordable, we have to be convenient . . . but we have to add new dimensions." In 2007, bolstered in part by strong sales growth in Europe, McDonald's stock price reached its highest level in years.

Discussion Questions

1. Identify the key elements in McDonald's global marketing strategy. In particular, how does McDonald's approach the issue of standardization?
2. Do you think government officials in developing countries such as Russia, China, and India welcome McDonald's? Do consumers in these countries welcome McDonald's? Why or why not?
3. At the end of 2003, McDonald's announced it was selling the Donatos Pizza unit. Then, in 2006, the Chipotle chain was spun off. In light of these strategic actions, assess McDonald's prospects for success beyond the burger-and-fries model.
4. Is it realistic to expect that McDonald's—or any well-known company—can expand globally without occasionally making mistakes or generating controversy? Why do antiglobalization protesters around the world frequently target McDonald's?

Visit the Web site

www. mcdonalds. com *includes a directory to country-specific sites*

Sources: Jenny Wiggins, "Burger, Fries, and a Shake-Up," *Financial Times* (January 27, 2007), p. 7; Steven Gray, "Beyond Burgers: McDonald's Menu Upgrade Boosts Meal Prices and Results," *The Wall Street Journal,* February 18–19, 2006, pp. A1, A7; Jeremy Grant, "Golden Arches Bridge Local Tastes," *Financial Times,* February 9, 2006, p. 10; Saritha Rai, "Tastes of India in U.S. Wrappers," *The New York Times,* April 29, 2003, pp. W1, W7; Bruce Horovitz, "It's Back to Basics for McDonald's," *USA Today,* May 21, 2003, pp. 1B, 2B; Sherri Day, "After Years at Top, McDonald's Strives to Regain Ground," *The New York Times,* March 3, 2003, pp. A1, A19; Sherri Day and Stuart Elliot, "At McDonald's, an Effort to Restore Lost Luster," *The New York Times,* April 8, 2003, pp. B1, B4; Shirley Leung and Suzanne Vranica, "Happy Meals Are No Longer Bringing Smiles at McDonald's," *The Wall Street Journal,* January 31, 2003, p. B1; Shirley Leung and Ron Lieber, "The New Menu Option at McDonald's: Plastic," *The Wall Street Journal,* November 26, 2002, pp. D1, D2; Shirley Leung, "McHaute Cuisine: Armchairs, TVs and Espresso—Is It McDonald's?" *The Wall Street Journal,* August 30, 2002, pp. A1, A6; Bruce Horovitz, "McDonald's Tries a New Recipe to Revive Sales," *USA Today,* July 10, 2001, pp. 1A, 2A; Geoff Winestock and Yaroslav Trofimov, "McDonald's Reassures Italians About Beef," *The Wall Street Journal,* January 16, 2001, pp. A3, A6; Kevin Helliker and Richard Gibson, "The New Chief Is Ordering Up Changes at McDonald's," *The Wall Street Journal,* August 24, 1998, pp. B1, B4; Bethan Hutton, "Fast-Food Group Blows a McBubble in Slow Economy," *Financial Times,* May 8, 1998, p. 24; Bruce Horovitz, "'My Job Is Always on the Line,'" *USA Today,* March 16, 1998, p. 8B; David Leonhardt, "McDonald's: Can It Regain Its Golden Touch?" *Business Week,* March 9, 1998, pp. 70–74+; Richard Tomkins, "When the Chips Are Down," *Financial Times,* August 16, 1997, p. 13; Yumiko Ono, "Japan Warms to McDonald's Doting Dad Ads," *The Wall Street Journal,* May 8, 1997, pp. B1, B12.

Case 2-1

Acer Inc.

Acer Inc. is a leading marketer of notebook and desktop PCs. The company, which posted sales of $9.6 billion in 2005, also produces other products such as flat-screen monitors and personal digital assistants. As Taiwan gained a reputation as the "tech workshop of the world," Acer was able to become Taiwan's number one exporter by manufacturing and marketing computers sold under its own brand name. Acer also produced equipment on an original equipment manufacturer (OEM) basis for well-known global companies such as IBM, Dell, and Hitachi. Company founder, Chairman, and CEO Stan Shih built Acer into one of Taiwan's most successful companies.

Despite Acer's success, the company had trouble breaking into the American market. Between 1995 and 1997, Acer's U.S. market share dropped from 15 percent to 5 percent. In the late 1990s, Shih noted, "In the United States and Europe, we are relatively weak. The local players there are very strong. The problem is that we don't have good experience in marketing in those regions. It's a people issue, not a product issue." Shih has discovered that building brands in the business-to-business market is easier than building brands in the business-to-consumer market. "Business-to-consumer brands have more value but also face more challenges. People involved in business-to-business are usually rational, but consumers in business-to-consumer are usually emotional in choosing their brands," he says.

In 2000, in a major restructuring, Acer spun off its manufacturing operations. The reason: Shih wanted to transform Acer from a top 10 global PC manufacturer into a "marketing and services powerhouse." Shih also refocused Acer's distribution and marketing on the vast, fast-growing China market. Acer and

other key players in Taiwan's high-tech industry stand to benefit from closer economic ties with the mainland giant, which joined the WTO in 2001. WTO rules require that both China and Taiwan eliminate limitations on foreign investment. As a result, the Taiwan-based producers from which Acer now sources its products have most of their factories in China.

Shih envisions building a solid market base in greater China (mainland China, Taiwan, and Hong Kong) and expanding from there to the rest of the world. "The market in China is very critical for Taiwanese companies to become global companies," Shih says. "Innovation is not necessarily related to whether you are smart or not. The reality is that if you don't have a big market it's not easy to innovate because the return on investment is too low. The potential of China is not just big markets and low-cost labor. Actually, it's also for highly educated engineers or professionals." Shih believes that, if greater China becomes the company's "home" market (as opposed to just Taiwan), Acer will capture critical economies of scale that will allow it to develop innovative new products that will succeed in China as well as the rest of the world.

Shih understands that it is crucial for Acer to develop a strong brand image in China. "The challenge for this region is really the poor image that is often associated with products here," says Shih. Shih believes that it is necessary for all companies to be stable and secure in the local market before pursuing regional, then global markets. He continues, "Another important feature is also the government and the general public. They have to understand the role of supporting activities for local brands. If they do not support or use the locally made products, there will be no improvement in this area."

Ronald Chwang, Acer's chief technology officer, anticipates that Acer's knowledge of China's market will help the company achieve its growth and market share objectives; as he puts it, "Now we have a market where we understand the culture and the people's needs. That should enable Acer to move a lot of hardware." J. T. Wang, Acer's president, points out, "China and Taiwan share not just the same language and culture, but a lot of our Taiwanese suppliers are already there. We can take our brand global by building a strong home market."

Still, Acer faces tough competition in China. Lenovo, a local mainland brand, dominates with about one-third of the market. Wang believes Acer is well positioned to overtake local mainland firms such as Lenovo to become the leader in PC sales in China. Shih believes Acer will have an advantage compared to local PC makers because Acer is "more global." At the same time, Shih is convinced his company will be able to compete with better-known global companies that are entering China because Acer is more "local" than they are. Acer's international identity gives the company access to advanced business practices, technology, and economies of scale that companies like Lenovo do not have. "We have more technology. . . . We have more global exposure. . . . We have more international know-how. . . . We can gradually gain more market share," Shih says.

Shih admits that sales of Acer's desktop PCs in China have developed more slowly than he expected. He attributes this to Acer's poor brand recognition in the mainland. However, Shih made a strategic bet that the company's notebook computers would help Acer establish a quality name and high-end image. Meanwhile, Lenovo acquired IBM's Thinkpad notebook business in a move that catapulted the company into third place among the world's computer makers.

Shih had promised his wife he would retire at the end of 2004 when he turned 60 years old. He kept his promise, stepping down in December of that year. Why? "This way the company can have new blood," he said. "Acer is solid and stable, but a little bit old-fashioned. Sometimes we are not aggressive enough among the middle and high level managers." The move is paying off: Acer is currently the top notebook brand in Europe, and its low prices are a crucial selling point in key emerging markets, such as India and Eastern Europe. By all indications, Acer is on track to surpass Lenovo and become the world's third largest PC marketer by the end of 2007. Will the new leadership team headed by J. T. Wang be able to replicate Acer's European success in the United States and Asia?

Discussion Questions

1. Acer's strategy has been described as "divide and conquer." Explain.
2. How did the "global markets–local markets" paradox figure into Shih's strategy for China?
3. Can Acer become the world's third largest PC company, behind Dell and Hewlett-Packard?
4. Growth in the U.S. PC market has started to slow down. Despite strong competition from Dell and Hewlett-Packard, Acer's U.S. market share increased from 1 percent in 2004 to 3.3 percent by the end of 2006. What are Acer's prospects for gaining further share in the United States?

This case was prepared by Research Assistant Alanah Davis under the supervision of Professor Mark Green.

Sources: Jane Spencer, "Taiwan's Acer May Take Bronze," *The Wall Street Journal,* November 16, 2006, p. B6; Jason Dean, "PC Underdog Raises Its Sights," *The Wall Street Journal,* September 20, 2005, p. C6; "Special Report—Stars of Asia—Managers," *Business Week,* July 12 2004; Bruce Einhorn, Amy Reinhardt, and Maureen Kline, "Acer: How Far Can It Ride This Hot Streak?" *Business Week,* May 17, 2004, p. 52; Hiawatha Bray, "Acer Embodies Taiwanese Climb up Manufacturing Food Chain," *Boston Globe,* June 24, 2002; Simon Burns and Kathy Wilhelm, "Acer Who?" *Far Eastern Economic Review* (May 24, 2001), pp. 47; Wai-Chan Chan, Martin Hirt, and Stephen M. Shaw, "The Greater China High-Tech Highway," *The McKinsey Quarterly* no. 4 (October 11, 2002); Charles S. Lee, "Acer's Last Stand?" *Fortune,* June 10, 2002; Yu Wui Wui, "Marketing Asian Brands," *New Straits Times–Management Times,* October 4, 2000.