

Chapter 13

MARKETING STRATEGY

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Objectives of the chapter

Every multinational has a marketing strategy designed to help identify opportunities and take advantage of them. This plan of action typically involves consideration of four primary areas: the product or service to be sold, the way in which the output will be promoted, the pricing of the good or service, and the distribution strategy to be used in getting the output to the customer. The primary purpose of this chapter is to examine the fundamentals of international marketing strategy. We will look at five major topics: market assessment, product strategy, promotion strategy, price strategy, and place strategy. We will consider such critical marketing areas as product screening, modification of goods and services in order to adapt to local needs, modified product life cycles, advertising, personal selling, and ways in which MNEs tailor-make their distribution systems.

The specific objectives of this chapter are to:

- 1 *Examine* the process used to conduct an international market assessment of goods and services.
- 2 *Study* the criteria that affect an MNE's decision to alter a good or service in order to adapt it to local market tastes.
- 3 *Describe* some of the ways in which MNEs use advertising and personal selling techniques to promote their products in worldwide markets.
- 4 *Review* some of the major factors that influence international pricing and distribution strategies.



ACTIVE LEARNING CASE

Volkswagen in the United States

During the 1960s, Volkswagen AG, the “people’s car” in German and “VW” to everyone else, held more market share in the United States than all other auto imports combined. In the 1970s, despite growing foreign competition, VW sales reached 300,000 units annually. This included the early version of the famous VW Golf, branded the Rabbit in the US market (and the Caribe in Latin America), under the audacious advertising slogan: “Why Detroit’s engineers are secretly praising Volkswagen’s Rabbit.” However, the 1980s and early 1990s were not good for the company: annual sales in the US market were down to 150,000 units. The Rabbit in particular developed a bad reputation for its build quality, in contrast to the marketing PR. In less than 10 years, market share had dropped from 3 percent to 0.5 percent, and VW had become a minor competitor in the North American part of the triad. Part of the problem had been that VW’s American cars were competing head on with US brands that produced the traditional mid-sized car. VW could produce great cars in this range, but could not achieve the cost advantage of Japanese competitors.

In the early 2000s, however, VW made a great comeback in the United States, particularly on the back of sales of the New Beetle, which was introduced in March 1998. The car is distinct not only because it appeals to the nostalgia of the Old Beetle, but also because of its slick European design. The New Beetle was the third-largest VW seller, after the Jetta and the Passat. In addition to brisk first-year sales, the Beetle was selected as the 1999 North American Car of the Year by an independent jury of 48 journalists who cover the auto industry for daily newspapers, magazines, television, radio, and the Internet. In 2002, VW delivered over 420,000 vehicles to the US market and accounted for approximately 10.1 percent of the passenger car import market. Including imports and domestic production, VW held about 6.6 percent of the US passenger car market. But a period of success was brought to an end by the rising costs of producing cars in Europe relative to the declining US dollar. By 2005 VW was losing money on each car it exported to the United States, leaving it with \$1.1 billion of losses from its US operations. Its North American sales stood at 224,195, rising to 235,140 in 2006, but with continued weak profitability. This is despite a return to marketing the VW Golf under the Rabbit name once again.

In its home region of Europe, where VW is the market leader, nearly 20 percent of all new cars sold are from the Volkswagen Group. In 2009, during the economic downturn, Volkswagen’s revenue was €105.187 billion and it delivered a total of over 6.3 million vehicles to



Source: Corbis/Greg Smith

customers worldwide, a slight increase in sales by 0.6 percent year-on-year compared to the reporting period 2008. European region accounts for 71.49 percent of VW’s total revenue, of which Germany alone accounts for 28.4 percent and the rest of Europe 43.1 percent. North America as a whole accounts for only 10.83 percent, and the rest of world (Asia-Pacific and South America) accounts for 17.76 percent. The year 2010 witnessed an impressive growth 15.4 percent in the number of vehicle sales of 7.3 million units. VW achieved revenue of €126.875 billion, significantly exceeding the 2009 year figure and representing an increase of 20.6 percent, greater than that of the market as a whole, thanks to its strategies with model range updated and rationally expanded. For example, in the year 2010, the VW passenger car brand updated its outstanding range by launching a new generation of numerous models, including the Passat and the Touran. In addition, vehicles designed for specific markets were presented. Therefore, the brand’s operating profit increased significantly.

Despite its resurgence in the United States, VW is still facing many problems: as at February 16, 2008, 20.26 percent of VW’s shares are still held by the government of Lower Saxony, which prevents VW from cutting labor costs in Germany. As a result, VW is stuck paying \$1,700 more to make a car in Germany than if it were manufacturing it in Eastern Europe or Portugal, limiting its ability to compete on price. This had not been a major problem when VW’s reputation for quality allowed it to charge a premium, but since Mercedes-Benz and BMW started to compete in VW’s market segment, the company’s edge on quality diminished.

VW's problems are not new. A decade earlier the company had to reinvent itself to become competitive without reducing its labor costs. At the time, its strategy consisted of brand acquisition and manufacturing improvements. In about a decade VW purchased the Skoda, SEAT, Audi, Bentley, Scania (on February 20, 2009, the VW acquired Scania AB), Lamborghini, and Bugatti brands and set out to create synergies in their manufacturing processes. In the early 1990s, VW was making 30 different models using 16 floor plants. This was subsequently slimmed down to 4 floor plants, making 54 models, with significant savings. This means that many of its cars, whether sold under the Skoda, Audi, or VW brand, share many parts. It is each brand's reputation and design that now carry the car. Under the hood, a Skoda is very similar to a VW but the company has ensured a different market by letting Czech engineers design the Skoda. This brand-based strategy has paid off, increasing VW's market share around the world. Yet, as critics point out, the company's return on capital is lower than that of its competitors, and its brands might eventually erode each other's market share. VW continues

to bargain with its union and with its major shareholder to curb labor costs in Germany or to be allowed to close plants there. However, the compromises continue to put it at a disadvantage with competitors. In addition, consumers might not take long to realize that a Skoda, which is promoted as part of the VW family, is cheaper but equivalent to a VW. Its upmarket brands, such as the Lamborghini and Bentley, might also suffer from a perception that many of their parts are comparable to that of VW's other brands.

Websites: www.vw.com; www.gm.com; www.ford.com; www.daimlerchrysler.com.

Sources: Alan M. Rugman, *The Regional Multinationals* (Cambridge: Cambridge University Press, 2005); Bernard Avishai, "A European Platform for Global Competition," *Harvard Business Review*, July/August 1991, pp. 103–113; www.vw.com; Christine Tierney, Andrea Zammert, Joann Muller and Katie Kerwin, "Volkswagen," *Business Week*, July 23, 2001; "Problems with the People's Car," *The Economist*, March 14, 2002; David Kiley, *Getting the Bugs Out: The Rise, Fall and Comeback of Volkswagen in America* (New York: Wiley, 2001); "Higher Wages or More Job Security," *The Economist*, September 16, 2004; Michael Frank, "2005 Volkswagen Touareg V-10," *Forbes.com*, June 21, 2005; Gail Edmondson, "Volkswagen Still on Shaky Ground," *Business Week*, August 22, 2006; Kristina Spiller, "VW Looks to Triple Market Share in US," *Financial Times*, January 8, 2007; Volkswagen, *Annual Report*, 2009 and 2010.

- 1 How would VW use market assessment to evaluate sales potential for its cars in the United States?
- 2 Does VW need to modify its cars for the US market? Why or why not?
- 3 Would the nature of VW's products allow the company to use an identical promotional message worldwide, or would the company have to develop a country-by-country promotion strategy?
- 4 How would currency fluctuations affect VW's profit in the US market?
- 5 What type of distribution system would be most effective for VW in the United States?

INTRODUCTION

International marketing
The process of identifying the goods and services that customers outside the home country want and then providing them at the right price and place

International marketing is the process of identifying the goods and services that customers outside the home country want and then providing them at the right price and location.¹ In the international marketplace, this process is similar to that carried out at home, but with some important modifications that can adapt marketing efforts to the needs of the specific country or geographic locale.² For example, some MNEs are able to use the same strategy abroad as they have at home. This is particularly true in promotions where messages can carry a universal theme. Some writing implement firms advertise their pens and pencils as "the finest writing instruments in the world," a message that transcends national boundaries and can be used anywhere. Many fast-food franchises apply the same ideas because they have found that people everywhere have the same basic reasons for coming there to eat. In most cases, however, a company must tailor-make its strategy so that it appeals directly to the local customer.

These changes fall into five major areas: market assessment, product decisions, promotion strategies, pricing decisions, and place or distribution strategies. The latter four areas—product, promotion, price, and place—are often referred to as the four Ps of marketing,³ and they constitute the heart of international marketing efforts.

INTERNATIONAL MARKET ASSESSMENT

International market assessment

An evaluation of the goods and services that the multinational can sell in the global marketplace

International marketing strategy starts with **international market assessment**, an evaluation of the goods and services that the MNE can sell in the global marketplace. This assessment typically involves a series of analyses aimed at pinpointing specific offerings and geographic targets. The first step is called the initial screening.

Initial screening: basic need and potential

Initial screening

The process of determining the basic need and potential of the multinational's goods and services in foreign markets

Initial screening is the process of determining the basic need and potential of the MNE's goods and services in foreign markets. This screening answers the question: who might be interested in buying our output? International auto manufacturers list the EU countries, North America, and Japan as potential buyers. Boeing targets the countries that will be rebuilding their air fleets in the next few decades. Kellogg's, General Mills, and Nestlé are interested in the United States and the European Union as well as any developing nations that offer potential new markets.

One way to carry out initial screening is by examining the current import policies of other countries and identifying the goods and services being purchased from abroad. A second way is by determining local production. A third is to examine the demographic changes taking place in the country that will create new, emerging markets. These cursory efforts help an MNE to target potential markets. Following the initial screening, the company begins to narrow its selection.

Second screening: financial and economic conditions

Secondary screening is used to reduce the list of market prospects by eliminating those that fail to meet financial and economic considerations. Financial considerations include inflation rates, interest rates, expected returns on investment, the buying habits of customers, and the availability of credit. These factors are important in determining whether markets that passed the initial, general screening are also financially feasible.

Economic considerations relate to a variety of market demand influences, including market indicators. **Market indicators** are used for measuring the relative market strengths of various geographic areas, and focus on three important areas: market size, market intensity, and market growth. **Market size** is the relative size of each market as a percentage of the total world market. For example, industrialized countries account for a sizable part of the market for cellular telephones, and a few nations such as the United States and Japan account for the largest percentage of this total. Nevertheless, non-industrialized countries with large populations also have a significant market size. In fact, China, the world's largest country in terms of population, is also the world's largest mobile phone market in terms of subscribers.⁴ **Market intensity** is the "richness" of the market, or the degree of purchasing power in one country compared to others. For example, the United States and Canada are extremely rich markets for automobiles, telephones, and computers, so MNEs selling these products tend to highlight these two countries. **Market growth** is the annual increase in sales. For example, the market for cell phones and laptop computers in the United States will continue to grow in the years ahead, whereas the market for autos will grow much more slowly. However, given the large purchasing power in the US economy, MNEs selling these products will continue to target the United States. In recent years, other economies, such as South Korea, have become increasingly rich in terms of purchasing power, so they too are now target markets for high-tech products. Infrastructure and economic development can also influence market growth. For example, consumers in developing countries who have not yet been able to acquire a fixed line might choose instead to purchase a portable phone.

Market indicators

Indicators used for measuring the relative market strengths of various geographic areas

Market size

An economic screening consideration used in international marketing; it is the relative size of each market as a percentage of the total world market

Market intensity

The richness of a market or the degree of purchasing power in one country as compared to others

Market growth

The annual increase in sales in a particular market

Trend analysis

The estimation of future demand by either extrapolating the growth over the last three to five years and assuming that this trend will continue or by using some form of average growth rate over the recent past

Estimation by analogy

A method of forecasting market demand or market growth based on information generated in other countries, such as determining the number of refrigerators sold in the United States as a percentage of new housing starts and using this statistic in planning for the manufacture of these products in other world markets

Regression analysis

A mathematical approach to forecasting that attempts to test the explanatory power of a set of independent variables

Cluster analysis

A marketing approach to forecasting customer demand that involves grouping data based on market area, customer, or similar variables

Quite often these data are analyzed through the use of quantitative techniques. Sometimes these approaches are fairly simple. **Trend analysis**, for example, is the estimation of future demand either by extrapolating the growth over the last three to five years and assuming that this trend will continue or by using some form of average growth rate over the recent past. A similar approach is **estimation by analogy**, through which forecasters predict market demand or growth based on information generated in other countries. For example, if the number of refrigerators sold in the United States is 2.5 times the number of new housing starts, a US MNE that is planning to manufacture these products in the European Union will estimate demand based on the same formula. A more sophisticated approach is the use of **regression analysis**, a mathematical approach to forecasting that attempts to test the explanatory power of a set of independent variables. In the case of selling refrigerators in the European Union, for example, these would include economic growth, per capita income, and the number of births, in addition to other variables such as new housing starts. Another sophisticated approach is **cluster analysis**, a marketing approach that involves grouping data on the basis of market area, customer, and so on, based on similar variables, so that a marketing strategy can be formulated for each group. For example, US MNEs providing services in such areas as insurance, legal, financial, and management consulting know that their approaches must often vary from country to country.

Third screening: political and legal forces

The third level of screening involves taking a look at political and legal forces. A primary consideration is entry barriers in the form of import restrictions or limits on local ownership of business operations. Analysis of these barriers often results in identifying loopholes around the various restrictions or data that indicate barriers are far less extensive than initially believed.⁵ For example, some MNEs have been able to sidestep legal restrictions by forming joint ventures with local firms. Production restrictions or limitations on profit remittance that restrict operating flexibility must also be considered. Government stability is an important factor in starting a successful operation; however, it is often difficult to predict. Despite the eagerness of investors to flock to the Russian market in the early 1990s, auto makers were hesitant to invest in Russia because of its uncertain political and economic environment. It was only in 1998 that Fiat made a commitment to the Russian market.⁶ Another consideration is the protection offered for patents, trademarks, and copyrights. In some countries, such as China and Taiwan, pirating has been fairly common, resulting in markets being flooded with counterfeit or look-alike products.

Fourth screening: socio-cultural forces

The fourth level of screening typically involves the consideration of socio-cultural forces such as language, work habits, customs, religion, and values. As noted earlier, culture greatly affects the way people live, and MNEs need to examine how well their operations will fit into each particular culture. For example, although Japanese auto manufacturers have set up assembly plants in the United States, those operations are not identical to the ones in Japan because of the work habits and customs of Americans. In the United States, the work pace is less frantic and most people are unwilling to work the typical 5½-day week which is so common in Japan. Moreover, US managers are accustomed to going home to their families after work, whereas Japanese managers often go out for dinner and drinks and discuss business until late in the evening. MNEs will examine these socio-cultural differences in determining where to locate operations.

Another study by an advertising firm shows that Muslims in the United States are among the richest and well educated of the US population. Their buying patterns are

heavily influenced by Islamic law. The religious beliefs and cultural norms of this subgroup of the US population particularly influence their buyer preferences in the consumer markets of food, finance, and packaged goods.⁷

Fifth screening: competitive environment

The fifth level of screening is typically focused on competitive forces. If three or four locations are equally attractive, an MNE will often make a final choice based on the degree of competition that exists in each locale. In some cases companies do not want to enter markets where there is strong competition. However, they will often decide to enter a competitive market because they believe the potential benefits far outweigh the drawbacks. By going head-to-head with the competition, the company can force itself to become more efficient and effective and thus improve its own competitiveness. The MNE can take market share away from competitors and put them on the defensive, forcing them to commit more resources to defending the market under attack and thereby reducing their ability to retaliate effectively. Of course, these conditions do not always hold true, but they help illustrate why MNEs consider entering markets that are dominated by competitors.

Final selection

Before making a final selection, MNEs usually enhance their information by visiting the sites and talking to trade representatives or local officials. Such field trips are very common and can do a great deal to supplement currently available information. Sometimes these trips take the form of a trade mission: a visit sponsored by commercial officers in a country's local embassy and designed to bring together executives from MNEs that are interested in examining the benefits of doing business in the particular country.

Based on the outcome of the screenings and the supplemental data, the MNE chooses which goods and services to offer overseas. The marketing strategy employed in this process revolves around what are commonly called the four Ps of marketing: product, promotion, price, and place.

✓ Active learning check

Review your answer to Active Learning Case question 1 and make any changes you like. Then compare your answer to the one below.

1 How would VW use market assessment to evaluate sales potential for its cars in the United States?

There are several steps VW could take. One is to look at the number of cars being imported into the country, as well as the number being built locally; this would provide important information regarding current product supply. Another would be to find out the number of auto registrations and how fast it is growing annually; this would be useful in predicting new sales potential. A third would be to examine the trend of new car sales over the last couple of years and forecast overall industry sales for the next two to three years. A fourth would be to compare the strengths offered by VW cars to those offered by the competition and evaluate how the company can position its offering for maximum market penetration.

PRODUCT STRATEGIES

Product strategies vary depending on the specifics of the product itself and the characteristics of the target market segment. Some products can be manufactured and sold successfully both in the United States and abroad by using the same strategies. Other products must be modified or adapted and sold according to a specially designed strategy. Figure 13.1 shows a range of possibilities. Products and services located on the left side of the continuum require little modification; those on the right must be modified to fit the market. To some degree this range of options parallels the more general international business manager's challenge to strike an appropriate balance between being "global or local", to standardize or customize, to integrate across all dimensions of the business or respond to local differences.

Little or no modification

Industrial goods and technical services are good examples of products that need little or no modification. A bulldozer, a laptop, and a photocopying machine serve the same purposes and are used the same way in the United States as they are in France or in China.⁸ Alterations would be minor and would include such things as adapting the machine to the appropriate electric voltage or changing the language used for its instructions and labels. The same is true for many types of services. For example, international engineering and construction firms find that their product strategies are similar worldwide. People interested in having a dam or power plant constructed use the same basic concepts and have similar needs throughout the world. In fact, experience is the greatest selling point in convincing clients to hire an MNE in engineering or construction. Foreign design and construction firms that proved themselves in the Burj Al Arab Hotel project in Dubai, for example, were invited to participate in the unprecedented Palm Jumeirah artificial island project.

Companies with a strong international brand image have also been able to succeed without a differentiation strategy. For example, the world-famous Scotch Chivas Regal is sold in many countries and is identical in each one. Schweppes (tonic water) and Perrier are internationally known and are also identical worldwide.

Moderate to high modification

A number of factors can compel an MNE to use moderate to high product modification. These include economics, culture, local laws, and product life cycle.

Little if any modification required	Moderate amount of modification required	Extensive modification required
Heavy equipment	Automobiles	High-style consumer goods
Electronic watches	Clothing	Cosmetics
Notebook computers	Appliances	Prepackaged foods
Chemical processes	Pharmaceuticals	Education products
Writing implements	Aircraft	Advertising
Cameras	Athletic running shoes	Packaging
Tennis rackets	Television sets	Restaurant meals
Cigarettes	Beer	Health services
		Cultural products
		Consumer distribution

Figure 13.1 Selected examples of product modification in the international arena

Economics

There are many examples of how economic considerations affect the decision to modify a product. For example, chewing gum packages often contain 10 to 20 sticks in the United States. But in many other countries, weak customer purchasing power necessitates packaging the gum with only five sticks. Countries vary in terms of the use of cars versus public transport and in terms of average house sizes (therefore storage space), so buying patterns also vary accordingly and firms must customize product size and packaging to suit local preferences.

Economics is also important when the cost of a product is either too high or too low to make it attractive in another country. For example, cash registers are electronic in economically advanced countries; virtually no one uses hand-cranked machines. However, in many other countries they are too expensive and sophisticated for most retail stores and small establishments, so MNEs like National Cash Register continue to manufacture the hand-cranked versions. On the other hand, inexpensive calculators are widely used throughout the world, and many stores use handheld calculators to total customer purchases (although in some places calculations may be cross-checked for accuracy with an abacus).

Similarly, in economically advanced countries products are likely to have frills or extras, whereas only the basic model is offered in poorer countries. For example, bicycles in the United States are used for exercise and recreation and have a number of special features that make bicycle riding particularly enjoyable, whereas in many other countries they are a primary source of transportation. US bikes are built for comfort and ease of handling; elsewhere they are built for economy and ease of maintenance. As a result, manufacturers need to modify the product to fit customer needs.

Culture

A product must sometimes be adapted to different ways of doing things. Consider washing machines. The French prefer washers that load from the top, the British like front-loading units, the Germans prefer high-speed machines that take out most of the moisture in the spin-dry process, and the Italians like slower spin speeds because they prefer to hang-dry laundry in the sun. So manufacturers which sell washing machines in the European Union must produce a variety of different units.

Food is an item that often must be modified or sold differently. In fast-food franchises like McDonald's, portions of the menu are similar throughout the world while other items are designed to cater specifically to local tastes. Coffee in South American units tends to be a much stronger blend than that sold in North America. In certain parts of Europe and Asia, the food is more highly seasoned in keeping with local tastes. For products that are not modified, the marketing focus is different because of the way the item is used. Schweppes, for example, is typically served as a mixer in the United States and UK, where drinks like gin and tonic are popular. In France, however, it is drunk without alcohol. Clearly, marketing approaches differ in these two situations. The marketing message is also important when selling hard liquors. The products remain the same, but many places have social customs that frown on excessive consumption. In these cases, MNEs such as Seagram of Canada have tailored their advertising messages along the lines of moderate drinking and the use of mixers to reduce the alcoholic content per serving.

Culture also influences purchasing decisions on the basis of style or aesthetics. Cosmetics and other beauty aids are good examples. Perfumes that sell well in Europe often have difficulty gaining market share in the United States because they do not appeal to American women. Similarly, many products that sell well in the United States, such as shampoos and deodorants, have limited market appeal elsewhere. People may not use these products, or they may find it hard to differentiate a product from local offerings. For example, Gillette has found it is difficult to develop a distinctive edge in selling toiletries because many people feel these products are all basically the same.

Convenience and comfort are other culturally driven factors that help explain the need for product modification. Early Japanese autos in the United States were designed to attack other foreign imports, specifically the VW Beetle. Researchers found that the two biggest complaints with the Beetle were the small amount of room in the back seat and the heater, which took too long to warm up the car. Aware that Americans wanted an economical car with these additional features, Japanese imports offered greater leg room for back seat passengers and a heater that was superior to the VW offering. Within a few years these imports had begun to erode VW's market share. Foreign manufacturers also identified a group that wanted several convenience and comfort features. The result has been the emergence of luxury Japanese and German cars that now compete extremely well with US models in the upper end of the market.

Other culturally based reasons for product modifications include color and language. In the United States, the color black is worn for mourning, whereas in other countries white is for mourning and thus is not used for consumer goods. Similarly, most American shampoos are light colored, whereas in some Oriental countries consumers prefer dark-colored shampoo. Language can be an important point of modification because a product may need to carry instructions about contents or use. In locations where two or more languages are spoken, such as Canada and Switzerland, this information is provided in all appropriate languages. Language is also important in conveying the right image for the product. Quite often it is difficult to replicate the message because the saying or slogan has no meaning in another language.

Local laws

Local laws can require product modification in order to meet environmental and safety requirements. For example, US emission-control laws have required Japanese and European car importers to make significant model changes before their autos can be sold in the United States. Food and pharmaceutical regulations require packaging and labeling that are often quite different from those in the home country. In Saudi Arabia, the label of any product containing animal fat or meat must clearly state the kind of animal used and the fact that no swine products are included. Brand name protection can also require product modification. Ford found that in Mexico it had to rename its Ford Falcon because this brand name was registered to another firm. The same thing happened to Ford in the case of the Mustang in Germany.

Product life cycle

Another reason for modifying a product is to cope with its limited product life cycle (PLC). Although Ford was extremely profitable in Europe during the 1980s, those earnings had disappeared by the early 1990s because Ford did not develop new, competitive products.⁹ Contrast this to Coca-Cola of Japan, which introduces an average of one new soft drink per month and has the competition scurrying to keep up. Yet Kola Real has been particularly effective in offsetting the technology and marketing of Coca-Cola to bring its own products to market in Mexico. The case **International Business Strategy in Action: Kola Real Group** describes the company's approach.

One of the most effective strategies has been to shorten the PLC by offering new goods and services before the demand for the old ones has dropped significantly. Figure 13.2 provides a graphic illustration. Note that there are two types of PLCs: (1) the standard PLC, which covers an extended time continuum, often four to five years, and (2) a short life cycle that lasts a much shorter time. Many companies are discovering that by shortening the PLC and offering new product adaptations they are able to capture and retain a large market share. This is typically done by offering a new product, then modifying it, and bringing out a new version before the competition can effectively combat the first offering. For example, Intel first offered a Pentium processor. This was followed by the introduction of the Pentium II, Pentium III, and Pentium IV processor, all of which were faster



INTERNATIONAL BUSINESS STRATEGY IN ACTION

Kola Real Group

You may have heard of the cola wars in the 1980s and early 1990s, but you probably have not heard of the current Mexico cola war. Mexico is the world's second-largest market for non-alcoholic drinks and an important market for the world's largest cola brands. Coca-Cola derives 11 percent of its world sales from this market, and in 2000 it held about 70 percent of the market for carbonated drinks. Pepsi had 15 percent of the market, with the remaining 15 percent dispersed among smaller competitors. Mexico was, by all accounts, a saturated market. But since 2002, when upstart Kola Real entered the market, the competitive environment has gotten tougher for the big players. Today, Coca-Cola is constantly monitoring the marketing schemes of Kola Real to prevent further erosion of its market share.

Kola Real was founded in 1988 by the Añaños family in the capital city of the province of Ayacucho, Peru. At the time, the founders were rural immigrants running from the violence brought about by the emergence of the Shining Path guerrillas in the countryside. Once in the city, they realized that the demand for carbonated drinks was not being met by either Coca-Cola or Pepsi, which routinely discontinued deliveries because their trucks were often robbed by the guerrillas or common criminals. So Jorge Añaños, an agricultural engineer, developed a formula for a new drink. The family borrowed \$30,000 and started producing it. In the early 1990s the rest of the family joined the firm to market the drink and opened a series of plants in the provinces. It was only in 1997 that the firm entered Lima, the largest market in Peru. Today, the firm has a 20 percent market share in its domestic market.

Kola Real's first international excursion was to Venezuela in 1999. At the time, plastic containers accounted for only 3 percent of the carbonated market. Kola Real saw an opportunity in this because the cost of plastic bottles is lower than for glass. More recently the firm controlled 17 percent of the Venezuelan market. In 2001, it entered the Ecuador market because of its proximity to the northern part of Peru; it managed to hold 12 percent of that market.

Kola Real was lured to the Mexican market because of its size and its high per capita consumption of carbonated beverages. It established its first plant in 2002, choosing Puebla because it is well linked to the rest of the country, the cost of land is reasonable, there is an excellent source of water, and it is not too far from Mexico City. Only two years later, the firm had captured 4 percent of the market. A new plant opened in the northern part of Mexico in 2005 and is expected to contribute to the company's goal

of reaching a 10 percent market share by 2009. Cielo, its bottled water, is presently the market leader.

A number of factors have contributed to Kola Real's success. One is that it has chosen the poorest part of the population as its market segment. When the firm started operations in Ayacucho, the city was filled with poor rural immigrants. Both the guerrillas and the Peruvian military had all but destroyed the province's economy. And this was the province that had given birth to the insurgents. There was a heightened displeasure with social injustice. Kola Real responded by providing a much cheaper product under the banner "The drink at the just price." By doing this, it not only appealed to its customers but assured them that its slogan did not use the words *cheap* or *inexpensive*, which would have undermined the quality of the product. This slogan and the accompanying low price were then exported across the nation and into the three other Latin American markets, where they were welcomed by the same lower-income population segments.

Another reason is that the firm's expenses are very austere, allowing it to offer the lowest prices in the market and still enjoy a substantial profit. Whenever possible, the firm has maintained its own distribution system. Administrative costs are kept to a minimum. Although its plants use top-of-the-line technology for production, the administrative offices are very modestly furnished. Finally, the firm relies on word of mouth to market its products.

Analysts argue that large competitors are often unable or unwilling to respond to the poorest segments of society in Latin America, relying instead on large-scale distribution to establishments servicing the middle and upper classes. Before Kola Real entered the Mexican market, the same bottle of Coca-Cola that cost \$1.00 in the United States cost \$1.40 in Mexico—despite the lower per capita income. Although Kola Real may be found at Carrefour stores across Mexico, the firm relies heavily on its sales force to push the product in small establishments, which account for 80 percent of the Mexican market and serve the chosen market segment. Kola Real argues that by providing more personalized and fitted service to these points of sale it has increased the size of the market, not stolen a big chunk of the large players' market.

Coca-Cola is not sitting idly by. When Kola Real introduced the 2.6 liter "Big Cola" at a price of \$0.75 to market to poor large families, Coca-Cola followed suit and introduced its own 2.5 liter bottle. However, it sells it for almost twice as much at \$1.30. To counter Kola Real growing expansion, Coca-Cola began to offer discounts and

incentives to many of its clients. This led to a warning from the Mexican bureau that regulates competition. Meanwhile, Kola Real recently introduced the 3.1 liter Mega Big Cola in Mexico. In the future, it is likely to introduce a larger variety of carbonated drinks.

There have always been no-frills carbonated drinks in Latin America. They have been able to succeed despite being inefficient because of the large difference between production costs and the price charged by the market leaders.

Kola Real's international success was possible because it manufactured and marketed its products efficiently.

Websites: www.cocacola-femsa.com.mx; www.coca-cola.com; www.pepsico.com; www.carrefour.com.mx.

Sources: Mario Vargas Llosa, "Los Años," *Caretas*, November 20, 2003; David Suarez, "Grupo Real se expande con éxito en cuatro países," *businessperu.com.pe*, February 2004; "Cola Down Mexico Way," *The Economist*, October 9, 2003; Christopher J. Robertson, Anthony van der Hoek and Rhonda Kallman, "Case Study: Kola Real's low-cost international expansion strategy," *Thunderbird International Business Review*, vol. 50, no. 1 (2007), pp. 59–74.

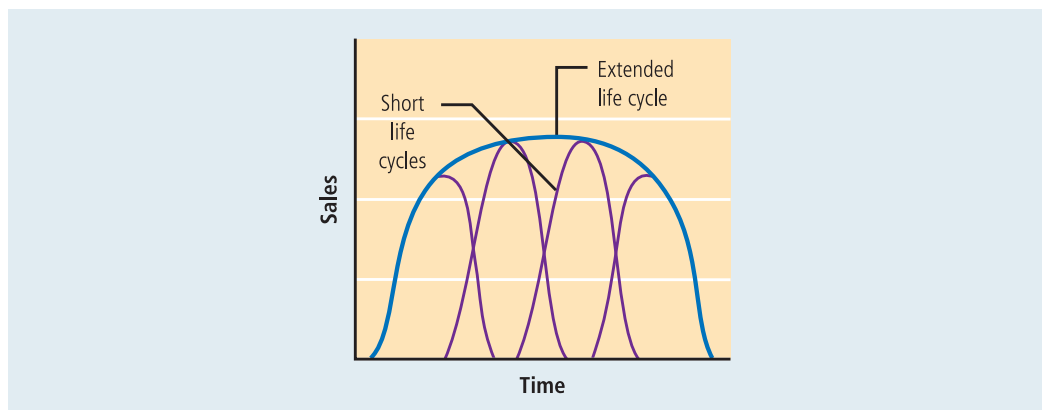


Figure 13.2 Product life cycles: two different approaches

than their predecessors. As processors get faster, they consume more energy and generate more heat, so for the meantime, until these issues are resolved, Intel cannot produce faster processors. As a result, more task-specific chips have been introduced.¹⁰ The Centrino processor now caters to wireless users and the Deskrino caters to desktop users. The video game platform market provides another example of strategic continuous innovation. Nintendo and Sony constantly introduce new products and games to capture the market, always leaving the competition scurrying to keep up.¹¹ As long as a firm can continue such an adaptation strategy, it can outmode the old product (and those of competitors as well) and maintain market position. At some point the competition may gain the advantage by offering a product that revolutionizes the field, but as long as a product improvement strategy remains viable, the firm will continue to be the product leader. This strategy is being implemented by MNEs throughout the world.

✓ Active learning check

Review your answer to Active Learning Case question 2 and make any changes you like. Then compare your answer to the one below.

2 Does VW need to modify its cars for the US market? Why or why not?

Based on the case data, it appears that VW needs to make some changes in styling and engineering. The company is convinced that Americans will buy cars that offer German engineering and quality, but in the past it has made the mistake of producing cars that look "too American." Because of this, many people bought cars from Ford, GM, and Chrysler because there were no distinctive qualities that VW could use in attracting these buyers. By modifying its cars and giving them European styling and German engineering, VW can lead from strength and exploit its market advantage.

PROMOTION

Promotion

The process of stimulating demand for a company's goods and services

Promotion is the process of stimulating demand for a company's goods and services.¹² MNEs promote their goods and services through advertising and personal selling. The specific approach used, however, will be determined by the nature of the product.

Nature of the product

In promoting a product, a company can use a variety of approaches. The choice is heavily influenced by whether the firm believes the same message can be used worldwide or needs to be adapted, and whether the product will remain the same or need to be modified. Here are four variations on this theme:

- *Identical product and identical message.* This approach is used when the MNE intends to sell the same product worldwide and believes that an identical promotional appeal can be used in all markets. A. T. Cross, for example, uses this strategy because writing instruments do not need to be adapted to local markets.
- *Identical product but different message.* This strategy is used when the product satisfies a different need in various markets. For example, in the United States many car companies tout the luxury and convenience of their products, whereas in other countries the same cars are promoted on the basis of their fuel efficiency or ability to meet basic transportation needs.
- *Modified product but same message.* This strategy is used when the market requires a different version of the product but the needs of the consumer are the same. For example, whether washing machines load from the top or the front, they provide the same function and meet the same customer needs. Similarly, in many countries the seasoning of foods differs from that of foods sold in the United States. So although the product is changed, the promotion message remains the same because the buyer's needs are the same.
- *Modified product and modified message.* When the product use and buying habits of customers are different from those in the MNE's home market, both the product and promotion message will be modified. For example, breakfast cereal companies such as Kellogg's and General Mills are developing new versions of their popular American cereals for sale in the European market. Many Europeans do not eat cereal for breakfast, however, so the promotion campaign is geared toward changing eating habits rather than getting consumers to switch product loyalty.

Advertising

Advertising

A non-personal form of promotion in which a firm attempts to persuade consumers to a particular point of view

Advertising is a non-personal form of promotion in which a firm attempts to persuade consumers to a particular point of view. In many cases MNEs use the same advertising message worldwide; again, because many products fill similar worldwide needs, a company can use a universal message and reduce advertising costs at the same time. However, there are times when the advertising must be adapted to the local market.¹³ Two of the most common reasons are that (1) the way in which the product is used differs from that in the home country, and (2) the advertising message does not make sense if translated directly. An example of the latter is the Nike commercials that encourage the viewer to "Just do it," or Budweiser commercials that ask, "Why ask why?" These ads make sense to American viewers, but they are too culturally grounded to be used in many other countries, and would leave the viewer confused as to what the advertiser was saying. As a result, advertisers are very careful to tie their messages to buyer needs and wants. On the other hand, there are many advertisements that have been only moderately modified or carried in their entirety because they *do* make sense in other cultures. For example, Nike's ads featuring such internationally known sports

stars as Tiger Woods and David Beckham transcend national boundaries, especially after the media exposure they have received. The case **International Business Strategy in Action: IKEA in international markets** provides some examples of how this is being done.

INTERNATIONAL BUSINESS STRATEGY IN ACTION



IKEA in international markets

From its founding as a small, private Swedish furniture retailer in 1943, IKEA has grown to become a multinational business with 127,000 employees and annual sales of €23.1 billion in 2010. As of August 2010, there are IKEA stores in more than 38 countries, with 280 stores in 26 countries belonging to the IKEA Group.

The parent company of the IKEA Group of companies INGKA Holding BV (the Netherlands) is owned by the Stichting INGKA Foundation in the Netherlands. The Stichting INGKA Foundation in the Netherlands was founded in 1982 by the IKEA founder, Mr. Ingvar Kamprad to create an ownership structure and an organization that stand for independence and taking a long term approach. It has two purposes: to reinvest in the IKEA group and to fund charity through the Stichting Foundation. The company is headquartered in Delft, the Netherlands.

In 2010, for the first time, IKEA published some information about its financial data to dismiss the “secretive” image. With the published data, it is clear that IKEA is a home region based private multinational in terms of sales, purchases and employees. For the year 2010, IKEA generated 79 percent of its total sales from Europe, 15 percent from North America and 6 percent from Asia and Australia. In addition, IKEA purchases 62 percent of goods for sales from Europe, 34 percent from Asia and 4 percent from North America. Furthermore, IKEA had 103,500 employees in Europe, 15,500 employees in North America and 8,000 employees in Asia and Australia.

With its international expansion strategy, today, Muscovites and Londoners can buy towels produced in Turkey at one of the retailer’s warehouse stores.

This internationalization process is all the more remarkable in that IKEA has remained true to the basic philosophy of its founder, Ingvar Kamprad, throughout its global expansion. Kamprad redesigned the furniture industry by introducing knock-down kits that customers could take away from the store and assemble themselves, enabling the company to stock larger quantities of furniture in its warehouses. Costs were lowered because these kits were easier to transport, took up less space in IKEA’s large warehouse stores, and there was no need for assembly or delivery. In turn, customers could have their furniture immediately and could transport it in their own cars, saving on delivery costs. IKEA did a lot more than just provide convenient, easy-to-transport products, however. First, the products are carefully designed and more stylish than bargain do-it-yourself competitors. Second, IKEA changed furniture shopping from its traditional frosty “showroom” mentality to a more “fun” place with children’s playpens, nurseries, and cafés in the stores. Indeed, a trip to an IKEA store is entertainment for the entire family. IKEA also built on the fast-growing informal suburban culture by providing abundant parking.

IKEA’s relaxed, informal, yet efficient image was extended to Oslo and Denmark in the 1960s. It entered Switzerland in 1973, Munich in 1974. By 1980, IKEA had opened an additional 10 stores across Germany and followed this with an expansion through Western Europe that culminated with its entry into the UK in 1987. In 1990, it entered the East European market with a store in Hungary; shortly after it entered Poland, the Czech Republic, and Slovakia. In 2000, it opened its first store in Moscow.

Expansion into other parts of the triad has been slower. In Asia and Oceania, IKEA opened its first store in Australia in 1975 and in Singapore in 1978. But its next expansion was in 1988, when it entered Hong Kong. Taiwan, Malaysia, and mainland China were added in the 1990s. In North America, IKEA opened a store in 1976 in Canada and used its Canadian operations to expand into



Source: Getty/Stephen Chernin

the United States in 1985. The company also has operations in the Middle East.

IKEA also brought innovation to the logistics of furniture production by setting up groups of key suppliers to produce components at low cost. It has more than 2,000 suppliers in 50 countries around the world. These subcontractors, in turn, make money by getting large-volume orders for standardized components from IKEA.

The company also has kept tight control over product design and quality to maintain its brand name and the distinctive identity of its furniture. It was able to expand rapidly because it did not have to establish expensive manufacturing facilities around Europe, but rather retained centralized control over the subcontractors.

IKEA's marketing strategy has been to build on the Swedish home-base stereotype of clean and efficient service. All furniture is well designed, modern, functional, durable, of high quality, and price competitive. Its image and brand name are well established and have survived numerous imitators. As a result, IKEA has been able to move from its Scandinavian base to being a strong regional player in Europe, and is now competing successfully in the global arena. The firm increasingly relies on a Web-based interface with customers, with different websites

for different countries to reflect local tastes. As with many consumer products firms, this is evolving from being just a marketing and sales tool into a market-research tool. The 3D kitchen designer, for example, allows customers to design their own kitchens online using appliances and furniture from IKEA. IKEA can then use these designs to understand changing customer preferences.

Overall, IKEA is a successful multinational business because it has introduced a highly differentiated product into a traditional industry and has built a globally recognized brand name for high-quality, inexpensive, and attractive furniture. It has also combined the generic strategies of differentiation, low cost, and niching and has outsourced both production and delivery components of the value chain.

Website: www.ikea.com.

Sources: Christopher A. Bartlett and Ashish Nanda, *Ingvar Kamprad and IKEA*, Harvard Business School Case No. 9-390-132; Joseph R. D'Cruz and Alan M. Rugman, "Developing International Competitiveness: The Five Partners Model," *Business Quarterly*, vol. 58, no. 2 (Winter 1993), pp. 60-72; James Schofield, "IKEA Wows the Russians," *BBC News*, February 22, 2002; Patric Jackson, "IKEA's Enormous Niche Market," *BBC News*, August 1, 2003; www.ikea.com; www.hoovers.com; Louise Armitstead, "Ikea Reveals Profits For First Time to Dispel 'Secretive' Image," *The Telegraph*, October 1, 2010; IKEA Welcome Inside 2010 Update http://www.ikea.com/ms/en_GB/pdf/yearly_summary/Welcome_inside_2010_update.pdf.

As in the United States, MNEs use several media to carry their advertising messages. The three most popular are television, radio, and newspapers. Some of the major differences between the approach used in the United States and that used in other countries include government regulation of media advertising and the fact that many stations do not carry advertising, although in recent years this has been changing. In particular, the use of television advertising has been increasing in Europe, whereas in other areas of the world, such as South America and the Middle East, newspapers remain the major medium for promotion efforts. However, there are restrictions on what can be presented. Examples include: (1) some countries prohibit **comparative advertising**, in which firms compare their products with those of the competition; (2) some countries do not allow certain products to be advertised because they want to discourage their use (such as alcoholic beverages and cigarettes) or because they want to protect national industries from MNE competition; and (3) some countries (such as Islamic nations) censor the use of any messages considered erotic.

Comparative advertising

The comparing of similar products for the purpose of persuading customers to buy a particular one

Personal selling

Personal selling

A direct form of promotion used to persuade customers to a particular point of view

Personal selling is a direct form of promotion used to persuade customers to a particular point of view. Some goods, such as industrial products or those that require explanation or description, rely heavily on personal selling. Avon, the cosmetics company, has been very successful with this approach even in countries where people are unaccustomed to buying cosmetics from a door-to-door salesperson. In Mexico, for example, Avon managed to gain acceptance by first introducing the idea of personal selling through a massive advertising campaign so that housewives became aware that the Avon salesperson was not a common door-to-door vendor but a professional trained to help clients look beautiful.

Personal selling is also widely used in marketing products such as pharmaceuticals and sophisticated electronic equipment. For example, Pfizer and Upjohn use salespeople to call on doctors and other individuals who are in a position to recommend their products, and General Electric and salespeople use the same approach in selling overseas that they use in the United States.

Because many international markets are so large, some MNEs have also turned to telemarketing. This approach has been very successful in the United States, and the overseas subsidiaries of such US firms as IBM and Ford have been using telemarketing to generate new sales. European firms such as Peugeot have been adopting this approach as well.

MNEs have also focused attention on recruiting salespeople on an international basis. In some countries this work is not highly regarded, so MNEs have given these people managerial titles that command importance, such as territory manager or zone manager. Recruiting local talent is extremely important because these people are often better able to sell to local customers. If the product requires special training to sell, MNEs often bring new salespeople to the home office for training, introduce them to those who are manufacturing the products, and create a feeling of teamwork among the field staff and personnel so that the salespeople are energized to go back into the field and sell.

✓ Active learning check

Review your answer to Active Learning Case question 3 and make any changes you like. Then compare your answer to the one below.

- 3** Would the nature of VW's products allow the company to use an identical promotional message worldwide, or would the company have to develop a country-by-country promotion strategy?

This answer will depend on where VW is selling its product. In less developed countries, the message would be geared toward economy and efficiency. In more developed countries, the message would focus on styling, handling, engineering, and non-economic factors as well. So VW would need to develop a series of different messages to address the wide number of market niches. No one message would appeal to everyone in the same way.

PRICING

The pricing of goods and services in the international marketplace is often influenced by factors present in home-market pricing. These factors include government controls, market diversity, currency fluctuations, and price escalation forces.

Government controls

Every nation has government regulations that influence pricing practices. Some countries dictate minimum and maximum prices that can be charged to customers. Minimum prices can help protect local companies from more efficient international competitors because of a floor on price that can help ensure a profit for national firms. For example, if the minimum price for a particular type of personal computer is \$1,000 and local companies can produce and sell the product for \$700, they will make \$300 a unit. Foreign competitors may be able to produce and sell the product for \$500 and make a \$500 profit per unit, but the minimum price laws prevent them from driving out local competition. Without this law,

Dumping

The selling of imported goods at a price below cost or below that in the home country

overseas competitors might price the unit at \$600 and then raise the price dramatically after local competitors went out of business.

Governments also prohibit **dumping**, or the selling of imported goods at a price below cost or below the cost in the home country. The General Agreement on Tariffs and Trade (GATT) and WTO specifically prohibit this practice, which is designed to help MNEs drive out the local competition, establish a monopoly, and subsequently raise prices at will. A number of US firms have been influential in getting the US government to bring dumping charges against Japanese competitors.

Market diversity

Consumer tastes and demands vary widely in the international marketplace, resulting in MNEs having to price some of their products differently. For example, companies have found that they can charge more for goods sold overseas because of the demand. In the United States, there is a greater demand for light turkey meat than for dark turkey meat. The latter is typically sold at a lower price and is often purchased by animal food producers. However, the plump dark meat of turkey thighs has a strong market in Europe. As a result, firms like the Shenandoah Valley Poultry Company export thousands of metric tons of dark turkey meat to Europe each year.

A second factor influencing market diversity is the perceived quality of the product. For example, in the United States, German auto makers such as Mercedes found that some Americans were willing to pay a premium for German cars. In contrast, the Japanese are not willing to pay a premium for German autos, so Mercedes' pricing structure in Japan is different. More recently, Japanese luxury autos have proved to be strong competitors for Mercedes in the US market.

Another factor is the tax laws and attitudes about carrying debt. In the United States, some interest payments are tax deductible and most people have no aversion to assuming at least some debt. In many other countries, interest payments are not tax deductible and people are unaccustomed to carrying debt. In Japan, for example, little use is made of consumer credit. In pricing products, MNEs will adjust the local strategy to accommodate the impact of the tax laws and the consumer's willingness to assume debt.

Currency fluctuations

As noted in Chapter 7, when selling products overseas, MNEs often end up assuming the risks associated with currency fluctuations. This risk is particularly important when the companies have a return on investment target because this objective can become unattainable if the local currency is devalued. For example, if it costs Mercedes \$40,000 to manufacture and ship a particular model to the United States, and the company sells the car to its dealer for \$50,000, Mercedes is making a 25 percent profit on the sale (\$10,000/\$40,000). However, if the dollar decreases in value by 10 percent against the euro, then the company's profit percentage will decline and the firm will have to choose between the following options: (1) increase the price of the car to the dealer to make up the loss of dollar value; (2) absorb the loss and leave the price the same; or (3) absorb part of the loss and raise the price to the dealer to make up the difference. The value of the US dollar did fall, from a high of 0.85 euros in 2005 to a low of 0.66 by the end of 2007. During this period Mercedes was forced to absorb some of the losses because price increases would have resulted in sharply lowered demand for the cars and even less overall profit for the company. In 2007 and 2008, just as happened in the late 1980s, US firms found that their products were becoming much more attractive to European buyers, thanks to the lower value of the dollar and the accompanying rise in purchasing power of buyers on the Continent.

Table 13.1 The effect of MNE pricing on final consumer costs

MNE price	Price charged by each intermediary				
	1	2	3	4	5
\$10	\$12.00	\$14.40	\$17.28	\$20.74	\$24.88
\$13	\$15.60	\$18.72	\$22.46	\$26.96	\$32.35

Ultimate effect of a \$3 increase in MNE price: $\$32.35 - \$24.88 = \$7.47$ or 30 percent.

Price escalation forces

A problem similar to that discussed above is price escalation forces that drive up the cost of imported goods. In the case of Mercedes, for example, if the cost of the car rose from \$30,000 to \$33,000, the company would want to pass this along to the dealer. In the case of MNEs that sell through a marketing channel with a series of intermediaries, the effect of a price escalation can be even greater because everyone in the channel adds a percentage increase. For example, if an MNE exports and sells a consumer good for \$10 to a large wholesaler and there are five additional intermediaries in the channel, each of whom marks up the good by 20 percent, as seen in Table 13.1, the final price to the consumer is \$24.88. If the MNE's cost rises from \$10 to \$13, the final price to the consumer is now \$32.35, a 30 percent increase. So price increases by the MNE can dramatically affect what the customer pays, and as long as the company continues to export rather than manufacture locally, price will be a key marketing consideration because of its effect on consumer demand. In this example it is likely that customer demand would drop substantially unless there were no effective substitutes for the product.

✓ Active learning check

Review your answer to Active Learning Case question 4 and make any changes you like. Then compare your answer to the one below.

4 How would currency fluctuations affect VW's profit in the US market?

Currency fluctuations would affect VW's profit in the US market according to the value of the euro in relation to the dollar. If the value of the euro were to decline, VW's profit per car sold in the United States would rise because these dollars would buy more euros. Conversely, if the value of the euro increased, profit per car would decrease because these dollars would buy fewer euros.

PLACE

The importance of international logistics was discussed in Chapter 12. The focus of attention here will be on the distribution differences among countries and conditions with which MNEs must be familiar. **Distribution** is the course that goods take between production and the final consumer. This course often differs on a country-by-country basis, and MNEs will spend a considerable amount of time in examining the different systems in place, the criteria to use in choosing distributors and channels, and how to employ distribution segmentation.¹⁴

Distribution

The course that goods take between production and the final consumer

Different distribution systems

It is often difficult to standardize a distribution system and use the same approach in every country because there are many individual differences to be considered. For example, countries such as Finland feature a predominance of general line retailers that carry a wide assortment of merchandise. In contrast, the wholesale and retail structure in Italy is characterized by a wide array of stores, many of which specialize or carry limited lines of merchandise. So in distributing goods in these two countries, MNEs need to employ different strategies.

Consumer spending habits can also negate attempts to standardize distribution. In the United States, many intermediaries are geared to handling credit sales, whereas in Japan most consumer purchases are on a cash basis. In both Germany and the United States, mail-order buying has increased dramatically in recent years, whereas in Portugal and Spain the market is quite small. So the route that the goods take to the consumer will vary.

The location where consumers are used to buying will also influence distribution. In economically developed countries where supermarkets have become commonplace, customers purchase a wide variety of food and other products under one roof. In most countries, however, purchases are made in smaller stores, and distribution requires the MNE or the local sales manager to deal with a large number of retailers, each of which is selling a small amount of merchandise. In recent years, some wholesalers and retailers have been expanding their operations to other countries. Wal-Mart, the giant US retailer, has expanded into Mexico and Europe; in 1999 it bought the British supermarket chain Asda. However, most intermediaries operate exclusively within one country—another factor helping to explain why it is still difficult to standardize distribution on an international basis.

Choosing the best distribution system

MNEs use a number of criteria in creating the most efficient distribution system. One is to get the best possible distributors to carry their products. A key factor in evaluating potential distributors is the financial strength of the wholesaler or retailer, because the multinational wants to know that the distributor will be able to survive in the long run. MNEs that sell goods requiring periodic maintenance and servicing will be interested in businesses that can keep sufficient inventory on hand. This is particularly important when selling products such as autos, computers, and electronic equipment. A second factor is how well connected the distributor is in terms of knowing the right people and providing assistance in handling governmental red tape. This is a key consideration for Coca-Cola when choosing overseas distributors. A third factor is the number and types of product lines the distributor carries currently so that the multinational can identify intermediaries who are most likely to give its goods a strong marketing push.

In many cases, distributors have competitive products or feel that they do not need to add any new product lines. If the multinational wants to tap into this distribution system, it will have to formulate an incentive program that is designed to convince the distributor to carry its products. Some of the ways in which this is done include (1) helping to pay for local promotion campaigns of the product, (2) providing generous sales incentives, (3) conducting marketing research to identify customer niches and sales forecasts to help the distributor decide how much inventory to carry,¹⁵ and (4) ensuring that unsold or outmoded merchandise can be returned for a full refund.

Depending on the nature of the market and the competition, the multinational may give exclusive geographic distribution to one local seller or arrange to have a number of sellers jointly selling the product. For example, auto manufacturers often have more than one dealer in a major metropolis but are willing to give exclusive geographic distribution rights to dealers in rural areas. This is in contrast to food products that can be sold in a wide variety of outlets and for which exclusivity is unnecessary. In these cases the multinational will try to get a variety of distributors to carry the product.

✓ Active learning check

Review your answer to Active Learning Case question 5 and make any changes you like. Then compare your answer to the one below.

5 What type of distribution system would be most effective for VW in the United States?

VW would use the same type of distribution system as that employed by other car manufacturers (that is, auto dealerships). The big challenge would be to open new dealerships and thus increase market coverage. The market in the United States is fairly well blanketed with dealerships, but the company could look for successful dealers who would be willing to carry the VW line as well as their current offerings. Another approach is to build VWs in the United States and thus reduce the distance the product has to be transported along the distribution system. This not only reduces cost but also helps ensure faster delivery.

STRATEGIC MANAGEMENT AND MARKETING STRATEGY

Marketing strategies play a key role in helping MNEs formulate an overall plan of action. Many approaches are directly related to the major areas that have been examined in this chapter, including ongoing market assessment, the use of effective pricing, internet marketing, and “open innovation.” Table 13.2 illustrates the worldwide market penetration of several MNEs to be discussed in this section.

Ongoing market assessment

One of the major areas that MNEs are continuing to pay attention to is data collection and analysis for the purpose of developing and updating market assessments. In some cases this causes multinationals to change their market approach, whereas in other cases it supports maintaining a current strategy.

Clarins

The French cosmetics firm Clarins SA is a good example of a firm that is continuing to refine its market strategy based on market assessment data. For more than two decades the company has been gathering feedback from customers on what they like and do not like about the firm’s cosmetics. From these surveys the company has learned that women want makeup that is long lasting, easy to choose, and easy to apply. This information has been invaluable in helping Clarins increase market share in an industry where competition is fierce. In fact, the company’s growth rate in France has been more than twice the industry average, and Clarins is now achieving similar results in the US market. It is particularly interesting that this growth has been achieved despite the cost of Clarins’ products. For example, one of its facial hydrating formulas sells for over \$50. Aware of what up-scale customers are willing to buy, Clarins has been very successful in using market assessment information to develop and market high-quality skincare products. One marketing consultant has referred to Clarins as a “Body Shop for rich people”; certainly this target market has paid off well for the company.

Table 13.2 International market penetration: location of subsidiaries, holdings, and joint ventures

General Motors (US)		Clarins (French)	Daewoo (Korean)	Mitsubishi Electric (Japanese)	Royal Dutch/Shell Group (Dutch/British)	
North America						
Canada		Canada	Canada	Canada	Canada	Canada
Mexico		Mexico	Mexico	Mexico	Mexico	Mexico
US		US	US	US	US	US
Western Europe						
Austria	Italy	Austria	France	Austria	Austria	Italy
Belgium	Luxembourg	Belgium	Germany	Belgium	Belgium	Luxembourg
Denmark	Netherlands	France	Greece	Denmark	Denmark	Netherlands
Finland	Norway	Germany	Ireland	Finland	Faroe Islands	Norway
France	Portugal	Italy	Italy	France	Finland	Portugal
Germany	Spain	Netherlands	Netherlands	Germany	France	Spain
Greece	Sweden	Portugal	Portugal	Greece	Germany	Sweden
Iceland	Switzerland	Spain	Spain	Ireland	Gibraltar	Switzerland
Ireland	Turkey	Switzerland	Sweden	Iceland	Greece	Turkey
	UK	UK	UK	Italy	Iceland	UK
				Luxembourg	Ireland	
				Netherlands		
				Norway		
				Portugal		
				Spain		
				Sweden		
				Switzerland		
				Turkey		
				UK		
Central and Eastern Europe						
Bulgaria	Malta	Russia	Croatia	Bulgaria	Bulgaria	Poland
Croatia	Montenegro		Czech Rep.	Croatia	Croatia	Romania
Cyprus	Poland		Hungary	Czech Rep.	Czech Rep.	Russia
Czech Rep.	Romania		Poland	Estonia	Estonia	Serbia
Estonia	Russian Fed.		Romania	Hungary	Hungary	Slovakia
Hungary	Serbia		Russia	Kazakhstan	Latvia	Slovenia
Latvia	Slovakia		Ukraine	Latvia	Lithuania	
Lithuania	Slovenia		Uzbekistan	Lithuania	Montenegro	
Macedonia				Montenegro		
				Poland		
				Romania		
				Russia		
				Serbia		
				Slovakia		
				Slovenia		
				Ukraine		
				Uzbekistan		
Asia and Oceania						
Australia		Hong Kong	Australia	Australia	Australia	Indonesia
China		Japan	Azerbaijan	Azerbaijan	Azerbaijan	Japan
Hong Kong		Malaysia	Bangladesh	China	Brunei	Kazakhstan
India		Singapore	China	Hong Kong	Cambodia	Malaysia
Indonesia		South Korea	Hong Kong	India	China	New Zealand
Japan		Taiwan	India	Indonesia	Fiji	Pakistan
Malaysia			Indonesia	Japan	Guam	Philippines
New Zealand			Japan	South Korea	India	Singapore

(continued)

General Motors (US)	Clarins (French)	Daewoo (Korean)	Mitsubishi Electric (Japanese)	Royal Dutch/Shell Group (Dutch/British)
Philippines		Malaysia	Malaysia	South Korea
Singapore		Myanmar	New Zealand	Sri Lanka
South Korea		Philippines	Pakistan	Taiwan
Taiwan		Singapore	Philippines	Thailand
Thailand		South Korea	Singapore	Vietnam
Vietnam		Taiwan	Taiwan	
		Thailand	Thailand	
		Vietnam	Vietnam	
South America, Central America, and the Caribbean				
Argentina		Argentina	Argentina	Argentina
Brazil		Brazil	Brazil	Barbados
Chile		Chile	Chile	Bolivia
Colombia		Colombia	Colombia	Brazil
Ecuador		Panama	Panama	Chile
Uruguay		Peru	Peru	Colombia
Venezuela		Venezuela	Venezuela	Costa Rica
				Dominican Rep.
				Ecuador
				El Salvador
				French Antilles and Guiana
				Guatemala
				Honduras
				Nicaragua
				Panama
				Peru
				Puerto Rico
				Surinam
				Trinidad & Tobago
				Venezuela
Middle East				
Bahrain	Oman	UAE	Iran	Kuwait
Israel	Qatar		Iraq	Saudi Arabia
Jordan	Saudi Arabia		Israel	UAE
Kuwait	Syria		Jordan	Lebanon
Lebanon	United Arab Emirates (UAE)		Libyan Arab Jamahiriya	
			Saudi Arabia	
			UAE	
				Iran
				Jordan
				Kuwait
				Oman
				Qatar
				Saudi Arabia
				Syria
				UAE
				Yemen
Africa				
Egypt		Algeria	Egypt	Algeria
South Africa		Angola	South Africa	Angola
		Egypt		Benin
		Kenya		Botswana
		Morocco		Burkina Faso
		Nigeria		Cameroon
		South Africa		Cape Verde
		Tunisia		Congo
				Côte d'Ivoire
				Djibouti
				Egypt
				Ethiopia
				Gabon
				Gambia
				Ghana
				Guinea
				Kenya
				La Rion
				Lesotho
				Libya
				Madagascar
				Mali
				Mauritius
				Morocco
				Mozambique
				Namibia
				Nigeria
				Senegal
				South Africa
				Sudan
				Swaziland
				Tanzania
				Togo
				Tunisia
				Uganda
				Zimbabwe

Sources: Adapted from www.gm.com; www.shell.com; www.mitsubishi.com; www.clarins-financials.com; www.daewoo.com. All data from websites are available as of June 2010.

Shell Oil

Shell Oil is an MNE whose market assessment has showed the importance of not making significant changes in product or delivery systems.¹⁶ In recent years, Shell has limited its product diversification to tightly linked and synergistic energy and chemical businesses. The company has learned that it is most profitable when staying close to what it knows best. Today Shell works to balance its upstream (exploration and production), downstream (refining and marketing), and related chemical (industrial, agricultural, and petrochemical) businesses. It is also developing a strong network of service stations around the world and has learned that its ability to assess situations and react quickly is an important element in its marketing strategy.

Shell is also famous as both an active user and a developer of scenario planning.¹⁷ These were historically used to examine energy futures, in terms of supply and demand, as well as exploration opportunities and relative risks. But they have expanded to encompass a range of socio-political, economic, and environmental trends and the likelihood and impact of specific disruptive events. Shell is now used by many firms as a benchmark firm for tools and practices to help “future-proof” strategies.

Effective pricing

Some MNEs use a high-price strategy and skim the cream off the top of the market. Others employ a low-price strategy designed to penetrate and capture a larger share of the middle and lower parts of the market. Depending on the nature of the market, both strategies can be successful.

Bang & Olufsen

Bang & Olufsen is a Danish electronics company that manufactures stereo components, televisions, and video equipment.¹⁸ The firm targets the upper end of the market, selling to style-conscious consumers who are unlikely to flinch at paying \$4,000 for an audio system, \$4,100 for a 28-inch color television with matching video recorder, or \$5,600 for a 28-inch video system. One of the primary reasons customers buy from Bang & Olufsen is that the products are well engineered and designed. Televisions are sleek, thin, and modern looking; stereo consoles are trim, polished, and futuristic in design. But, rather than developing a stereotypical image as a provider of “boys’ toys,” the firm focuses heavily on women’s design preferences as more than half of all buying decisions are made by women (and they exert a strong influence on the other half).¹⁹ While many customers prefer to buy less stylish-looking products at one-third the price, Bang & Olufsen continues to have a steady stream of consumers who are willing to pay top dollar. Because of this, the company’s worldwide sales are now over \$800 million. See more about Bang & Olufsen in the Real Case below.

Wal-Mart and Cifra Inc.

In 1997, Wal-Mart acquired a controlling interest in Cifra Inc. of Mexico, the country’s biggest retailer.²⁰ Established in 1957, Cifra was selling a wide variety of products by the 1990s, from powdered milk and canned chili to Korean television sets and video cassette recorders. Wal-Mart’s acquisition fueled expansion throughout Mexico. Today, Wal-Mart has 545 stores there including department stores, warehouse retailers, clothing stores, and restaurants. One of Wal-Mart Cifra’s biggest selling points is low prices. The company pushes what is called a “bodega concept”: fast-moving, non-perishable goods that are sold in bulk in poor neighborhoods. By keeping gross margins in the range of 10–12 percent and net profits at 3–5 percent, the bodegas are able to average over \$1 million per store each month. These sales are more than twice those of similar Kmart and Wal-Mart stores in the United States.

Internet marketing and “open innovation”

The Internet is becoming a central tool, not just for marketing but for market research and innovation, for many multinational firms. Because consumers, and industry buyers, increasingly use the Internet to assess the portfolio of products and services offered by a company, websites have become critically important for marketing purposes. They provide a window into the quality, credibility, achievements, and ethics of a firm, all of which underpin its corporate brand. Moreover, this now happens across a global platform that reaches more people in more countries than traditional marketing media such as radio or TV.²¹

Some large multinationals have been highly adaptive in keeping pace with the development of more sophisticated online platforms. Many have developed quite subtle positions in Facebook and MySpace, for example, using these to promote specific products, but also convey a particular kind of image by interacting with young, early adopters on these kinds of user networks.²² This kind of online branding and marketing has evolved into a science of its own, partly because marketers have found online platforms play by different rules and often encourage a more liberal, unregulated environment than found in the ‘real’ world. British advertisers, including Vodafone, Virgin Media, and insurance firm Prudential, withdrew adverts from Facebook when they found themselves next to the ultra right-wing British National Party (BNP) which was also promoting itself on the site.²³

As shown by the IKEA example above, firms have moved beyond using websites as one-way channels to present information and images to customers; now they are interactive portals for developing a better understanding of, and relationship with, product and service “users.” **Open innovation** is the term used to describe interactive, collaborative networks of product or service providers and customers. They allow users of products and services to help shape their development, and enable companies to design, develop, and distribute them more efficiently, by building in user preferences.²⁴ The Internet has proved to be ideal for developing open innovation platforms.

Shell, above, provides a good example. It has established Shell “GameChanger”²⁵ as an online venturing network to gather radically new ideas for innovations in the “energy and mobility” industry. For the best ideas it can provide funds and contacts for would-be entrepreneurs and has a stage-gate process for assessing proof of concept into development. The firm is effectively using the Internet to externalize part of its high-risk, blue-sky innovation activity.

Spreadshirt.com (www.spreadshirt.com/) provides another good example. Rather than designing T-shirts and other clothing, by second-guessing changing customer preferences, Spreadshirt invites customers to design their own online which can then be produced by the firm. This is similar to Dell’s value chain business model, whereby customers can piece together a preferred desktop PC before ordering it. Spreadshirt’s production is outsourced abroad, so its main activity is to connect consumers with production processes. But, through the flow of design ideas coming from a global network of potential customers, it is able to: (1) achieve economies of scale by focusing on the standard clothing designs that attract the most customers; (2) assess changing customer markets, and changing market segments, as they evolve over time; and (3) innovate more efficiently by focusing resources on the best new product development opportunities.

It is important to understand the significance of these kinds of online activities as tools and techniques for helping solve some of the major dilemmas facing all multinational managers. Key questions faced by market analysts are: how much do we need to customize our products or services for particular market segments (geographic, demographic, cultural, etc.) to maximize market share and profitability? What kinds of product, service, design, marketing, branding features can we standardize to optimize profitability? How are the preferences of different customer groups changing over time and where should we

Open innovation

Interactive, collaborative networks of product or service providers and customers or users which help firms innovate more efficiently

focus our innovation efforts? Open innovation and interactive Internet networks, like the ones described above, can harness the direct input of (often unsuspecting) customers and users from all around the world to help solve these dilemmas.

KEY POINTS

- 1 Marketing strategy begins with an international market assessment: the evaluation of the goods and services the MNE can sell in the global marketplace. There are a number of steps in this process, including an initial screening that is designed to determine the basic need potential of the company's goods and services, followed by additional screenings that culminate in a final selection of those outputs that the company will market internationally.
- 2 Product strategies will vary depending on the specific good and the customer. Some products need little or no modification, and others require extensive changes. Some of the factors that influence the amount of modification include economics, culture, local laws, and the product life cycle.
- 3 There are a number of ways in which MNEs promote their products, although the final decision is often influenced by the nature of the product. The two major approaches used in promotion are advertising and personal selling. Many multinationals try to use the same message worldwide because it is easier and more economical. However, this is not always possible because some messages either have no meaning in other languages or lack the impact of those in other markets. Similarly, while personal selling is used in some markets, in other markets the customer is unaccustomed to this promotion approach and non-personal approaches must be used, or the customer must be educated to accept this new form.
- 4 Pricing in international markets is influenced by a number of factors, including government controls, market diversity, currency fluctuations, and price escalation forces.
- 5 Place strategy involves consideration of distribution, or the course goods will take between production and final consumer. This course often differs on a country-by-country basis, and MNEs will spend a considerable amount of time in examining the different systems in place, the criteria to use in choosing distributors and channels, and how distribution segmentation can be accomplished.
- 6 MNEs are using a variety of marketing strategies when formulating their strategic plans. Three of the most important strategies are ongoing market assessment, effective pricing internet marketing, and 'open innovation'.
- 7 The Internet has become an essential part of any firm's marketing and market analysis toolkit. It is also ideal for developing open innovation platforms to connect better with users and customers.

Key terms

- international marketing
- international market assessment
- initial screening
- market indicators
- market size
- market intensity
- market growth
- trend analysis
- estimation by analogy
- regression analysis
- cluster analysis
- promotion
- advertising
- comparative advertising
- personal selling
- dumping
- distribution
- open innovation