VALUE AND SATISFACTION

CUSTOMER LIFE VALUE CUSTOMER PARTICIPATION SOCIAL RESPONSIBILITY

GLOBALIZATION

CUSTOMER COMPETITORS CHANNELS SUPPLIERS

BRAND POSITIONING E-COMMERCE

BIG DATA FORECASTING DEMAND CROWDSOURCING

SOCIAL MEDIA MOBILE MARKETING

IDENTIFYING OPPORTUNITIES CUSTOMER LOYALTY BRAND EQUITY

SERVICES MARKETING

A FRAMEWORK FOR MARKETING MANAGEMENT

6E

DATA-DRIVEN

STRATEGY

NEW PRODUCT DEVELOPMENT

KOTLER KELLER

PUBLIC RELATIONS METRICS

MARKET SHARE PROFITS ADVERTISING

CONSUMER BEHAVIOR DIGITAL COMMUNICATIONS PRODUCT

BUYING PROCESS

ENVIRONMENT STAKEHOLDERS LIFE CYCLE

PRICING STRATEGIES CO-CREATION CUSTOMER VALUE ANALYSIS

ENGAGEMENT

COMPETITIVE ADVANTAGE

TECHNOLOGY INNOVATION GROWTH

Part 7: Managing the Marketing Organization for Long-Term Success

Chapter 18

Managing Marketing Responsibly in the Global Economy

In this chapter, we will address the following questions:

1. What factors should a company review before deciding to enter global markets? (Page 276)
2. What are the major ways of entering foreign markets? (Page 278)
3. To what extent must the company adapt its marketing to each foreign market? (Page 279)
4. What are the keys to effective internal marketing? (Page 282)
5. How can companies be socially responsible marketers? (Page 283)

Marketing Management at Patagonia

Patagonia, maker of high-end outdoor clothing and equipment, has always put environmental issues at the core of what it does. Company founder Yvon Chouinard actively promotes a post-consumerist economy in which goods are "high quality, recyclable, and repairable." Under Chouinard's leadership, Patagonia ran a full-page ad in the New York Times headlined "Don't Buy This Jacket." Below a photo of the retailer's R2 jacket was text explaining that despite its many positive features, the jacket still imposed many environmental costs (using 135 liters of water and 20 pounds of carbon dioxide to manufacture). The ad concluded by promoting the Common Threads Initiative asking consumers to engage in five behaviors: (1) reduce (what you buy); (2) repair (what you can); (3) reuse (what you have); (4) recycle (everything else); and (5) reimagine (a sustainable world). With $400 million in worldwide annual sales, Patagonia is always trying to find better environmental solutions for everything it does and makes.[1]

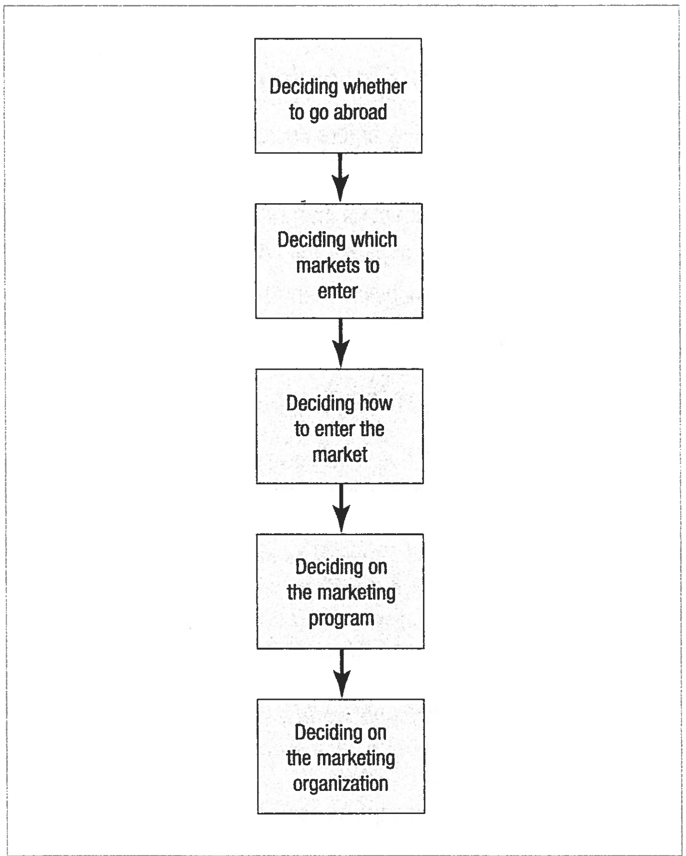
Healthy long-term growth for a brand requires holistic marketers to engage in a host of carefully planned, interconnected marketing activities and satisfy a broad set of constituents and objectives, especially if they seek growth outside domestic markets. In this chapter, we consider how firms expand into global markets, how they use internal marketing, and how they address social responsibility, sustainability, and ethics.

Competing On a Global Basis

Many companies have been global marketers for decades—firms like Shell and Toshiba. But global competition is intensifying in more product categories as new firms make their mark on the international stage. In a **global industry**, competitors' strategic positions in major geographic or national markets are affected by their overall global positions.[2] A **global firm** operates in more than one country and captures R&D, production, logistical, marketing, and financial advantages not available to purely domestic competitors.

To sell overseas, many successful global U.S. brands have tapped into universal consumer values and needs—such as Nike with athletic performance. Global marketing extends beyond products. Services represent the fastest-growing sector of the global economy and account for two-thirds of global output, one-third of global employment, and nearly 20 percent of global trade. For a company of any size or type to go global, it must make a series of decisions (see Figure 18.1).

FIGURE 18.1 Major Decisions in International Marketing



Deciding Whether to Go Abroad

Several factors can draw companies into the international arena. Some international markets present better profit opportunities than the domestic market. A firm may need a larger customer base to achieve economies of scale or want to reduce its dependence on any one market. Sometimes a firm decides to counterattack global competitors in their home markets, or it sees its customers going abroad and requiring international service.

Before making a decision to go abroad, the company must also weigh several risks. First, the company might not understand foreign preferences and could fail to offer a competitively attractive product. Second, it might not understand the foreign country's business culture or how to deal effectively with foreign regulations. Third, it might lack managers with international experience. Finally, the other country might change its commercial laws, devalue its currency, or undergo a political revolution and expropriate foreign property.

Deciding Which Markets to Enter

In deciding to go abroad, the company needs to define its marketing objectives and policies. What proportion of international to total sales will it seek? Most companies start small when they venture abroad. Some plan to stay small; others have bigger plans. Typical entry strategies are the *waterfall* approach, gradually entering countries in sequence, and the *sprinkler* approach, entering many countries simultaneously. Increasingly, firms—especially technology-intensive firms or online ventures—are *born global* and market to the entire world from the outset.

The company must also choose the countries to enter based on the product and on factors such as geography, income, population, and political climate. Competitive considerations come into play too. It may make sense to go into markets where competitors have already entered to force them to defend their market share as well as to learn from them how they are marketing in that environment. Getting a toehold in a fast-growing market can be a very attractive option even if that market is likely to soon be crowded with more competitors.[3]

Many companies prefer to sell to neighboring countries because they understand them better and can control their entry costs more effectively. Also, given more familiar language, laws, and culture, many U.S. firms prefer to sell in Canada, England, and Australia rather than in larger markets such as Germany and France. Companies should be careful, however, in choosing markets according to cultural distance. Besides overlooking potentially better markets, they may only superficially analyze real differences that put them at a disadvantage.[4]

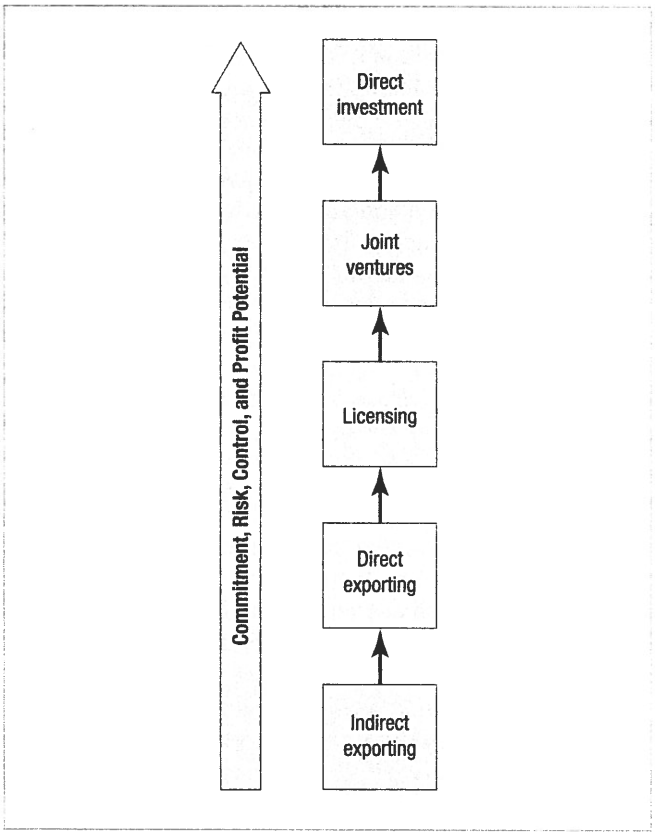
In general, a company prefers to enter countries that have high market attractiveness and low market risk and in which it possesses a competitive advantage. Also, regional economic integration—the creation of trading agreements between blocs of countries—has intensified in recent years. This means companies are more likely to enter entire regions at the same time.

Deciding How to Enter the Market

The broad choices in entering a market are *indirect exporting, direct exporting, licensing, joint ventures,* and *direct investment,* shown in Figure 18.2. Each succeeding strategy entails more commitment, risk, control, and profit potential.

- **Indirect and direct export.** Companies typically start with indirect export, working through independent intermediaries, and may move into direct export later because this order of entry requires less investment and less risk. Many companies use direct or indirect exporting to "test the waters" before building a plant overseas. Successful companies adapt their Web

FIGURE 18.2 Five Modes of Entry into Foreign Markets



sites to provide country-specific content and services to their highest-potential international markets, ideally in the local language.

- **Licensing.** The licensor issues a license to a foreign company to use a manufacturing process, trademark, patent, trade secret, or other item of value for a fee or royalty. The licensor gains entry at little risk; the licensee gains production expertise or a well-known product or brand name. The licensor, however, has less control over the licensee than over its own production and sales facilities. If the licensee is very successful, the firm has given up profits, and if and when the contract ends, it might find it has created a competitor.
- **Joint ventures.** Foreign investors may join local investors in a **joint venture** company in which they share ownership and control, sometimes desirable for political or economic reasons. However, the partners might disagree over investment, marketing, or other policies. One might want to reinvest earnings for growth, the other to declare more dividends. Joint ownership can also prevent a multinational company from carrying out specific manufacturing and marketing policies on a worldwide basis.
- **Direct investment.** The ultimate form of foreign involvement is direct ownership: The foreign company can buy part or full interest in a local company or build its own manufacturing or service facilities. One advantage is that the firm secures cost economies

through cheaper labor or raw materials, government incentives, and freight savings. Also, the firm strengthens its image in the host country because it creates jobs. In addition, it deepens its relationship with the government, customers, local suppliers, and distributors. Another advantage is retaining full control over its investment, with the ability to develop manufacturing and marketing policies that serve its long-term international objectives. Finally, the firm ensures its access to the market in case the host country insists that locally purchased goods must have domestic content. The main disadvantage is exposure to risks like blocked or devalued currencies, worsening markets, or expropriation. Note that, rather than bringing their brands into certain countries, many companies choose to acquire local brands for their brand portfolio.

Deciding on the Marketing Program

Companies must decide how much to adapt their marketing strategy to local conditions.[5] At one extreme is a *standardized marketing program* worldwide, which promises the lowest costs; Table 18.1 summarizes some pros and cons. At the other extreme is an *adapted marketing program* in which the company, consistent with the marketing concept, believes consumer needs vary and tailors marketing to each target group.

Most products require at least some adaptation because of global differences.[6] The best global brands are consistent in theme but reflect significant differences in consumer behavior, brand development, competitive forces, and the legal or political environment. Oft-heard—and sometime modified—advice to marketers of global brands is to "Think Global, Act Local" so brands will be relevant to consumers in every market. Warren Keegan has distinguished five product and communications adaptation strategies (see Figure 18.3).[7]

Product Strategies **Straight extension** introduces the product in the foreign market without any change, a successful strategy for consumer electronics, among other products. **Product adaptation** alters the product to meet local conditions or preferences, developing a *regional version* of its product, a *country version*, a *city version*, or different *retailer versions*. **Product**

TABLE 18.1 Globally Standardized Marketing Pros and Cons

Advantages
Economies of scale in production and distribution
Lower marketing costs
Power and scope
Consistency in brand image
Ability to leverage good ideas quickly and efficiently
Uniformity of marketing practices
Disadvantages
Ignores differences in consumer needs, wants, and usage patterns for products
Ignores differences in consumer response to marketing programs and activities
Ignores differences in brand and product development and the competitive environment
Ignores differences in the legal environment
Ignores differences in marketing institutions
Ignores differences in administrative procedures

FIGURE 18.3 Five International Product and Communication Strategies

Communications	Product: Do Not Change Product	Product: Adapt Product	Product: Develop New Product
Do Not Change Communications	Straight extension	Product adaptation	Product invention
Adapt Communications	Communication adaptation	Dual adaptation	Product invention

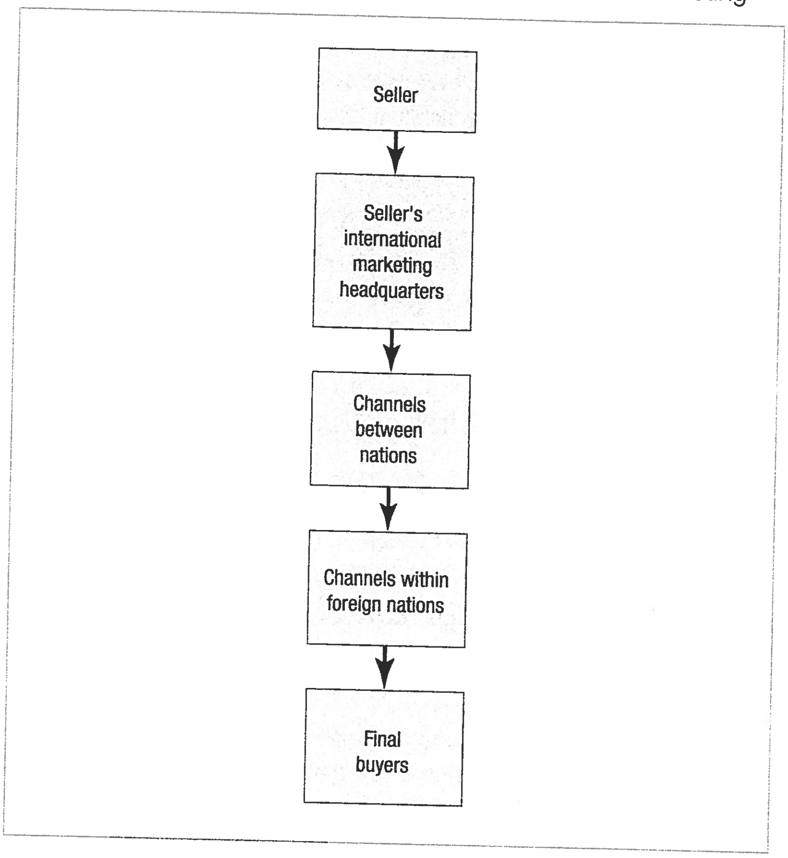
invention creates something new. It can take two forms: *backward invention* (reintroducing earlier product forms well adapted to a foreign country's needs) or *forward invention* (creating a new product to meet a need in another country). When they launch products and services globally, marketers may need to change certain brand elements.[8] Even a brand name may require a choice between phonetic and semantic translations.[9]

Global Communication Strategies Changing marketing communications for each local market is a process called **communication adaptation**. If it adapts both the product and the communications, the company engages in **dual adaptation**. Consider the message. The company can use one message everywhere, varying only the language and name. Or it can use the same message and creative theme globally but adapt the execution. Another approach, which Coca-Cola and Goodyear have used, consists of developing a global pool of ads from which each country selects the most appropriate. Finally, some companies allow their country managers to create country-specific ads, within guidelines. Personal selling tactics may need to change too.

Price Multinationals selling abroad must contend with **price escalation**, raising the price to cover the added cost of transportation, tariffs, middleman margins, and the risk of currency fluctuations so it can earn the same profit. Pricing choices include setting a uniform price in all markets, a market-based price in each market, or a cost-based price in each market. Many multinationals are plagued by the **gray market**, which diverts branded products from authorized distribution channels either in-country or across international borders. Dealers in the low-price country buy and ship the goods to another country to take advantage of price differences. Multinationals try to prevent gray markets by policing distributors, raising their prices to lower-cost distributors, or altering product characteristics or service warranties for different countries.[10]

Counterfeit Products As companies develop global supply chain networks and move production farther from home, the chance for corruption, fraud, and quality-control problems rises.[11] Sophisticated overseas factories seem able to reproduce almost anything. Fakes take a big bite of the profits of luxury brands such as Hermès, LVMH Moët Hennessy Louis Vuitton, and Tiffany, but faulty counterfeits can literally kill people. Cell phones with counterfeit batteries, fake brake pads made of compressed grass trimmings, and counterfeit airline parts pose safety risks to consumers. Toxic cough syrup in Panama, tainted baby formula in China, and fake teething powder in Nigeria have all led to the deaths of children in recent years.[12]

FIGURE 18.4 Whole-Channel Concept for International Marketing



Distribution Taking a whole-channel view of distribution, there are three links between the seller and the final buyer (see Figure 18.4). When multinationals first enter a country, they prefer to work with local distributors with good local knowledge, but friction often arises later.[13] Distribution channels across countries vary considerably, as do the size and character of retail units. Large-scale retail chains dominate the U.S. scene, but much foreign retailing is in the hands of small, independent retailers. Markups are high, but the real price comes down through haggling. Breaking bulk remains an important function of intermediaries and helps perpetuate long channels of distribution, a major obstacle to the expansion of large-scale retailing in developing countries. Although large retailers are increasingly moving into new global markets, some have had mixed success abroad.

Country-of-Origin Effects *Country-of-origin perceptions* are the mental associations and beliefs triggered by a country. Government officials want to strengthen their country's image to help domestic marketers that export and to attract foreign firms and investors. Marketers want to use positive country-of-origin perceptions to sell their products and services. Global marketers know that buyers hold distinct attitudes and beliefs about brands or products from different countries.[14] The mere fact that a brand is perceived as successful on a global stage—whether it sends a quality signal, taps into cultural myths, or reinforces a sense of social responsibility—may lend credibility and respect.[15]

Marketers must look at country-of-origin perceptions from both a domestic and a foreign perspective. Patriotic appeals underlie marketing strategies all over the world, but they can lack uniqueness and even be overused, especially in economic or political crises. As international trade grows, consumers may view certain brands as symbolically important in their own cultural identity or as playing an important role in keeping jobs in their own country.

Internal Marketing

Marketing succeeds only when all departments work together to achieve customer goals: when engineering designs the right products, finance furnishes the right amount of funding, purchasing buys the right materials, production makes the right products on the right schedule, and accounting measures profitability in the right ways. Such interdepartmental harmony can only truly coalesce, however, when senior management clearly communicates a vision of how the company's marketing orientation and philosophy serve customers. Internal marketing emphasizes that satisfying customers is the responsibility of *all* employees, not just those in the marketing department.

Let's look at how marketing departments are being organized, how they can work effectively with other departments, and how firms can foster a creative marketing culture across the organization.[16]

Organizing the Marketing Department

Modern marketing departments can be organized in a number of different, sometimes overlapping ways: functionally, geographically, by product or brand, by market, or in a matrix.

- **Functional organization.** In the most common form of marketing organization, functional specialists (such as the marketing research manager) report to a marketing vice president who coordinates their activities. The main advantage is administrative simplicity. This form also can result in inadequate planning as the number of products and markets increases and each functional group vies for budget and status.
- **Geographic organization.** A company selling in a national market often organizes its sales force (and sometimes its marketing) along geographic lines.[17] Some companies are adding *area market specialists* (regional or local marketing managers) to support sales efforts in high-volume markets.
- **Product- or brand-management organization.** Companies producing a variety of products and brands often establish a product- (or brand-) management organization. This does not replace the functional organization but serves as another layer of management. A group product manager supervises product category managers, who in turn supervise specific product and brand managers. This makes sense if the company's products are quite different or there are more than a functional organization can handle. Other alternatives are *product teams*, assigning two or more minor products to one manager, and *category management* (focusing on product categories to build the firm's brands).
- **Market-management organization.** When customers fall into different user groups with distinct buying preferences and practices, a *market-management organization* is desirable. Market managers supervise several market-development managers, market specialists, or industry specialists and draw on functional services as needed. Market managers are staff, with duties like those of product managers. This organization shares many advantages and disadvantages of product-management systems. Many companies are reorganizing along market lines and becoming *market-centered organizations*. When

customers have diverse and complex requirements, a *customer-management organization*, which deals with individual customers rather than the mass market or market segments, may be appropriate.[18]

- **Matrix-management organization.** Companies that produce many products for many markets may adopt a *matrix organization* employing both product and market managers. However, this is costly and can create conflicts about authority and responsibility. Some corporate marketing groups assist top management with overall opportunity evaluation, provide divisions with consulting assistance on request, help divisions that have little or no marketing, and promote the marketing concept throughout the company.

Relationships with Other Departments

Under the marketing concept, all departments need to "think customer" and work together to satisfy customer needs and expectations. Yet departments define company problems and goals from their own viewpoints, so conflicts of interest and communications problems are unavoidable. The marketing vice president or the CMO must usually work through persuasion rather than through authority to coordinate the company's internal marketing activities and coordinate marketing with finance, operations, and other company functions to serve the customer. Many companies now focus on key processes rather than on departments because departmental organization can be a barrier to smooth performance. They appoint process leaders, who manage cross-disciplinary teams that include marketing and salespeople.

Building a Creative Marketing Organization

Many companies realize they're not yet really market and customer driven—they are product and sales driven. Transforming into a true market-driven company requires, among other actions: (1) developing a company-wide passion for customers; (2) organizing around customer segments instead of products; and (3) understanding customers through qualitative and quantitative research. Although it's necessary to be customer oriented, it's not enough. The organization must also be creative. The answer is to build a capability in strategic innovation and imagination. This capability comes from assembling tools, processes, skills, and measures that let the firm generate more and better new ideas than its competitors.[19] See "Marketing Insight: The Marketing CEO" for concrete actions that will improve marketing capabilities.

Socially Responsible Marketing

Effective internal marketing must be matched by a strong sense of ethics, values, and social responsibility.[20] The most admired—and most successful—companies in the world abide by high standards of business and marketing conduct that serve people's interests, not only their own. Procter & Gamble has made "brand purpose" a key component of the company's marketing strategies, with award-winning cause programs such as Tide laundry detergent's "Loads of Hope."[21] This differentiation is only one rationale for investing in corporate social responsibility. Another is to build a bank of public goodwill to offset potential criticisms. In addition, companies need to understand the social pressures and opportunities facing their companies as they make decisions about investing in social responsibility.

Corporate Social Responsibility

Raising the level of socially responsible marketing calls for making a three-pronged attack that relies on proper legal, ethical, and social responsibility behavior.

marketing insight: The Marketing CEO

What steps can a CEO take to create a market- and customer-focused company?

1. *Convince senior management of the need to become customer focused.* The CEO personally exemplifies strong customer commitment and rewards those who do likewise.
2. *Appoint a senior marketing officer and marketing task force.* The marketing task force should include the CEO; C-level executives from sales, R&D, purchasing, manufacturing, finance, and human resources; and other key individuals.
3. *Get outside help and guidance.* Consulting firms have considerable experience helping companies adopt a marketing orientation.
4. *Change the company's reward measurement and system.* As long as purchasing and manufacturing are rewarded for keeping costs low, they will resist accepting some costs required to serve customers better. As long as finance focuses on short-term profit, it will oppose major investments designed to build satisfied, loyal customers.
5. *Hire strong marketing talent.* The company needs a chief marketing officer who not only manages the marketing department but also gains respect from and influence with other C-level executives.
6. *Develop strong in-house marketing training programs.* Design marketing training programs for corporate management, divisional managers, marketing and sales personnel, manufacturing personnel, and others.
7. *Install a modern marketing planning system.* The planning format will require managers to think about the marketing environment, opportunities, competitive trends, and other forces as they prepare strategies—and hold them accountable for performance.
8. *Establish an annual marketing excellence recognition program.* Business units that believe they've developed exemplary marketing plans should submit a description of their plans and results. Reward winning teams and share winning ideas across the company.
9. *Shift from a department focus to a process-outcome focus.* Appoint process leaders and cross-disciplinary teams to reengineer and implement key fundamental processes.
10. *Empower the employees.* Encourage and reward employees for new ideas and empower them to settle customer complaints.

Legal Behavior Organizations must ensure every employee knows and observes relevant laws.[22] For example, it's illegal for salespeople to lie to consumers or mislead them about buying a product. They may not offer bribes to influence a B-to-B purchase. Their statements must match advertising claims, and they may not obtain or use competitors' technical or trade secrets through bribery or industrial espionage. They must not disparage competitors or competing products by suggesting things that are not true.

Ethical Behavior It's not always easy to draw a clear line between normal marketing practice and unethical behavior. Some issues can generate controversy or sharply divide critics, such as acceptable marketing to children.[23] Of course, certain business practices are clearly unethical or illegal. These include bribery, theft of trade secrets, false and deceptive advertising, exclusive dealing and tying agreements, quality or safety defects, false warranties, inaccurate labeling, price-fixing or undue discrimination, and barriers to entry and predatory competition.

Companies must adopt and disseminate a written code of ethics, build a company tradition of ethical behavior, and hold their people fully responsible for observing ethical and legal guidelines. The general distrust of companies among U.S. consumers is evident in research showing the percentage of those who view corporations unfavorably is almost 40 percent.[24]

Social Responsibility Behavior Increasingly, people want information about a company's record on social and environmental responsibility to help them decide which companies to buy from, invest in, and work for.[25] Corporate philanthropy also can pose dilemmas. Merck, DuPont, Walmart, and Bank of America have each donated $100 million or even more to charities in a year. Yet good deeds can be overlooked—even resented—if the company is seen as exploitive or fails to live up to a "good guys" image. Some critics worry that cause marketing or "consumption philanthropy" may replace virtuous actions with less thoughtful consumer buying, reduce emphasis on real solutions, or deflect attention from the fact that markets may create many social problems to begin with.[26]

Sustainability

Sustainability—the ability to meet humanity's needs without harming future generations—now tops many corporate agendas. Major corporations outline in great detail how they are trying to improve the long-term impact of their actions on communities and the environment. Coca-Cola, AT&T, and DuPont have even installed Chief Sustainability Officers.[27]

As one sustainability consultant put it, "There is a triple bottom line—people, planet, and profit—and the people part of the equation must come first. Sustainability means more than being eco-friendly, it also means you are in it for the long haul."[28] Some feel companies that score well on sustainability exhibit high-quality management in that "they tend to be more strategically nimble and better equipped to compete in the complex, high-velocity, global environment."[29] Consumer interest is also creating market opportunities, such as for organic products.

Heightened interest in sustainability has also unfortunately resulted in *greenwashing*, which gives products the appearance of being environmentally friendly without living up to that promise. One study revealed that half the labels on allegedly green products focus on an eco-friendly benefit (such as recycled content) while omitting information about significant environmental drawbacks (such as transportation costs).[30] Because insincere firms have jumped on the green bandwagon, consumers bring a healthy skepticism to environmental claims. They are also unwilling to sacrifice product performance and quality, nor are they necessarily willing to pay a price premium for green products.[31] Unfortunately, green products can be more expensive because ingredients are costly and transportation costs are higher for lower shipping volumes.

Cause-Related Marketing

Many firms blend corporate social responsibility initiatives with marketing activities.[32] **Cause-related marketing** links the firm's contributions toward a designated cause to customers' engaging directly or indirectly in revenue-producing transactions with the firm. Cause marketing is part of *corporate societal marketing (CSM)*, which Minette Drumwright and Patrick Murphy define as marketing efforts "that have at least one noneconomic objective related to social welfare and use the resources of the company and/or of its partners."[33] Drumwright and Murphy also include traditional and strategic philanthropy and volunteerism in CSM.

A successful cause-marketing program can improve social welfare, create differentiated brand positioning, build strong consumer bonds, enhance the company's public image, create a reservoir of goodwill, boost internal morale and galvanize employees, drive sales, and increase the firm's market value.[34] Specifically, from a branding point of view, cause marketing can (1) build brand awareness, (2) enhance brand image, (3) establish brand credibility, (4) evoke brand feelings, (5) create a sense of brand community, and (6) elicit brand engagement.[35] It has a particularly interested audience in socially minded 18- to 34-year-old Millennial consumers who, not surprisingly, are more likely than the general population to use social media to learn about cause activities and engage with companies about them.[36]