Fake News and Alternative Facts

opening case

Advertising is an important part of marketing, but mass advertising, which is generally despised by a lot of people around the world, is more and more becoming an ancient way of doing business. Today, with big data, business analytics, and much more sophisticated international marketing research, customization of advertisements in line with a company's marketing mix is becoming a must for most multinational corporations. That is not to say that you will not get the customary call to your phone about supporting some cause that you are not interested in, or that an advertisement during a prime time TV show will be for a product you want. Some level of mass marketing will most likely always exist as a form of spreading the word and getting the buzz into the marketplace, engaging people who have not been identified (yet) as within the company's prime target market, or simply trying to sell more (commodity) products by the old adage that advertising leads to sales.

But we as customers expect more. The least the companies can do, we now expect, is to understand our wants and needs and target advertisements to us appropriately. In such cases, it is also not really an advertisement—it is a form of messaging that informs us of opportunities that we had perhaps not considered. This is one of the strategic elements of Facebook, for example. Today, more than two billion people use Facebook on a monthly basis. Companies around the world can target just the right segment of those two billion Facebook users with advertisements in people's newsfeeds based on interests and characteristics that are likely to be important and/or similar to existing or potential customers (e.g., demographics, interests, and behaviors). This is targeted global messaging with a much higher probability of customer action than traditional advertising.

While targeted, customized ads seem like they should be preferred over mass advertisements that often annoy people, these customized ads by Facebook and Google, as heavyweights in this space, also annoy customers! Interestingly, Mark Zuckerberg's former pollster at Facebook, Tavis McGinn, concluded based on a survey that Facebook is having a negative impact on the global society. In effect, customers want companies marketing to them to know who they are and what they may potentially want and need, but they don't want companies to be too intrusive into their personal life. This is a gigantic challenge that has put Facebook in a negative light. As the founder of Facebook, Zuckerberg clearly set out to collect "big data" on everyone interacting in some way with Facebook and even those who are nonusers.

Amazingly, Facebook with all its sophisticated technology and user tracking got caught off guard in the rollout of the fake news and alternative facts debacle that became pronounced in 2016 through 2018. Organizations, in particular political action organizations, used Facebook for fake news distribution about political competitors (e.g., Donald Trump vs. Hillary Clinton) and political referendum votes (e.g., United Kingdom leaving the European Union). Facebook's solution apparently is to reduce the visual prominence of feed stories that are fact-checked as false by third-party fact-checkers instead of

continued

editorializing those stories by removing them from the Facebook newsfeeds. Clearly, the editorializing/removal would constitute a form of censoring, but if the information is deemed to be inaccurate, what obligation should Facebook have to mark such postings as false and/or remove them altogether?

That people and organizations are using alternative facts when they don't like or agree with real news based on real data and information is surely problematic. Proponents of "alternative facts" say that it is a way to provide additional facts and information while opponents, of course, say that alternative facts are simply lies and inaccurate information. Most people would argue that information and data should be presented in an accurate, trustworthy, and correct manner, and there is really no middle ground. Interestingly, that is not the crux of the debate. The focus is instead on interpreting the truth of the data and information, the key word being "interpretation." Apparently everything is open to interpretation. If there is even a tiny sliver of a chance that a piece of data or information is not trustworthy and accurate, a portion of the populace will interpret the data or information as inaccurate if they dislike it (97 percent of the world's climate scientists agree that global warming is real, but the larger population still cannot totally agree that it is!).

The prevalence of "fake news" and "alternative facts," whatever your opinion of them, creates a conundrum for global marketing professionals and companies marketing globally. For now, what is real news or not is in the eye of the beholder. What is promotional or trustworthy for one customer can be viewed as an opinionated viewpoint or a downright false claim by another in the overheated atmosphere where a general mistrust prevails. Clearly fake news is not new and did not start in 2016, even though it got popularized at that time. Companies can leverage big data, business analytics, and international marketing research today in sophisticated ways that potentially should be good for society and useful to the consumer. But the temptation to make fake news is a troublesome development abetted by technology—at least as long as (some) people believe the storyline. ●

Sources: Rani Molla and Kurt Wagner, "Many Believe Facebook Is Having a Negative Impact on Society around the World," *Recode*, April 12, 2018; Thuy Ong, "Facebook Is Shrinking Fake News Posts in the News Feed," *The Verge*, April 30, 2018; "Scientists Agree: Global Warming is Happening and Humans Are the Primary Cause," Union of Concerned Scientists, January 9, 2018; "Demand for Lies and Misinformation Encourages Media Organizations to Provide Them," *The Economist*, April 5, 2018; and "Fake News: You Ain't Seen Nothing Yet," *The Economist*, July 1, 2017.

Introduction

Chapter 15 looked at the roles of global production and supply chain management in an international business. This chapter continues our focus on specific business functions by examining the roles of global marketing and research and development (R&D). We focus on how marketing and R&D can be performed so they will reduce the costs of value creation and add value by better serving customer needs in the global marketplace. This includes distribution strategy (sometimes also called marketing channels), which is part of global supply chains that we discussed in Chapter 15.

globalEDGE — Get Insights by Industry

When conducting research and development (R&D) and creating international marketing campaigns, the vast majority of global companies focus on the customers' needs in a particular industry. Industries worldwide are classified according to the Harmonized Commodity Description and Coding System, or simply HS Codes, which are maintained by the World Customs Organization. The HS Codes are divided into about 20 sections for its roughly 5,000 commodity groups. The "Get Insights by Industry" section on globalEDGE™ (globaledge.msu.edu/global-insights/by/industry) is a great source for international business–related resources, statistics, risk assessments, regulatory agencies, corporations, and events for these 20 industry sectors. An interesting aspect of each industry section on globalEDGE™ is the rating provided of the industry's level of fragmentation. Highly concentrated industries are dominated by many large firms that are capable of shaping the industry's direction and price levels. Highly fragmented industries have many companies involved, with none of them really large enough to be able to influence the industry's direction or price levels. Which do you think is more fragmented: consumer products or technology? Check out the industry section on globalEDGE™ for an answer.

In Chapter 13, we spoke of the tension existing in most international businesses between the need to reduce costs and, at the same time, respond to local conditions, which tends to raise costs. This tension continues to be a persistent theme in this chapter. Basically, the world is becoming more globalized in some respects but remains different in others. A global marketing strategy that views the world's consumers as similar in their tastes and preferences is consistent with the mass production of a standardized output. By mass-producing a standardized output—whether it be soap, semiconductor chips, or high-end apparel—the firm can realize substantial unit cost reductions from experience curve effects and other economies of scale.

At the same time, ignoring country differences in consumer tastes and preferences can lead to failure. Some industries are more ripe for globalization than others; check out the globalEDGE™ "Get Insights by Industry" section for comparisons. Strategically, the global marketing function of a company needs to determine when product standardization is appropriate, how standardized it can be, and when it is not in the business's best interest to standardize a product too much. And, even if product standardization is appropriate, the way in which a product is positioned in a market and the promotions and messages used to sell that product may still have to be customized so that they resonate with local consumers.

Thankfully, we are now in a time when homogenization of customers' needs and wants, especially of younger populations across developed and emerging nations, help marketing professionals sell products and services globally. To some degree, the globalization of product and service needs is age-dependent. Younger people want more similar products worldwide and actually expect to be able to buy any products anywhere and get them immediately. Globalization is also industry-dependent in that some industries are more likely to be able to standardize their products and value proposition (e.g., electronics) than other industries (e.g., furniture), at least not to the same degree, based on customers' desires. This chapter is exciting as a learning experience because globalization has increased the pressure on marketing to deliver on product quality and availability in a far-spanning way worldwide, with effective distribution strategies, appropriate communication strategies, and competitive pricing strategies.

We consider marketing and R&D within the same chapter because of their close relationship. A critical aspect of the marketing function is identifying gaps in the market so that the firm can develop new products to fill those gaps. Developing new products requires R&D—thus the linkage between marketing and R&D. A firm should develop new products with market needs in mind, and marketing is best suited to define those needs for R&D personnel, given, among many things, its closeness to the market via front-line customer service personnel. Also, marketing personnel are well suited to communicate to R&D personnel whether to produce globally standardized or locally customized products. The reason marketing is so well positioned to communicate with R&D about (1) customer needs and wants and (2) degree of product standardization or customization needed is that the marketing function is responsible for the international marketing research that is conducted by the global company. Overall, our thinking here is in line with long-standing research that maintains that a major contributor to the success of new-product introductions is a close relationship between marketing and R&D.[1]

In this chapter, we begin by reviewing the debate on the globalization of markets. Then we discuss the issue of market segmentation. Next, we look at four elements that constitute a firm's marketing mix: product attributes, distribution strategy, communication strategy, and pricing strategy (these are sometimes called the 4 Ps for *product*, *place*, *promotion*, and *price* in many basic marketing texts). The **marketing mix** is the set of choices the firm offers to its targeted markets. Many firms vary their marketing mix from country to country, depending on differences in national culture, economic development, product standards, distribution channels, and so on. The best way to think about the marketing mix is that it represents the tactical activities and behaviors that are implemented by a global company based on its international marketing strategy to offer the best possible "mix" of product, distribution, communication, and price to a specific target market in a country or region.

marketing mix
Choices about product attributes, distribution strategy, communication strategy, and pricing strategy that a firm offers its targeted markets.

Given the importance of the marketing mix and having the right products, we include three sections on those topics in this chapter after we provide a detailed discussion of the marketing mix elements. First, we have a section on configuring an appropriate marketing mix for each unique international market segment. This includes a set of sample questions to ask for each of the marketing mix elements (product, distribution, communication, and price) to gauge how

standardized or customized a marketing mix should be for a certain international market segment. Next, we discuss international market research as a way to better understand how to configure the marketing mix for international market segments. Third, we focus a discussion on product development issues, with a particular emphasis on new-product development. Here we integrate R&D, marketing, and production issues along with management issues such as cross-functional teams.

Globalization of Markets and Brands

In a now-classic *Harvard Business Review* article, Theodore Levitt wrote lyrically about the globalization of world markets. Levitt's arguments have become something of a lightning rod in the debate about the extent of globalization. According to Levitt,

> A powerful force drives the world toward a converging commonality, and that force is technology. It has proletarianized communication, transport, and travel. The result is a new commercial reality—the emergence of global markets for standardized consumer products on a previously unimagined scale of magnitude.
>
> Gone are accustomed differences in national or regional preferences. The globalization of markets is at hand. With that, the multinational commercial world nears its end, and so does the multinational corporation. The multinational corporation operates in a number of countries and adjusts its products and practices to each—at high relative costs. The global corporation operates with resolute consistency—at low relative cost—as if the entire world were a single entity; it sells the same thing in the same way everywhere.
>
> Commercially, nothing confirms this as much as the success of McDonald's from the Champs Élysées to the Ginza, of Coca-Cola in Bahrain and Pepsi-Cola in Moscow, and of rock music, Greek salad, Hollywood movies, Revlon cosmetics, Sony television, and Levi's jeans everywhere.
>
> Ancient differences in national tastes or modes of doing business disappear. The commonalty of preference leads inescapably to the standardization of products, manufacturing, and the institutions of trade and commerce.[2]

This is eloquent and evocative writing, but is Levitt correct? The rise of the global media phenomenon from CNN to MTV and the ability of such media to help shape a global culture would seem to lend weight to Levitt's argument. If Levitt is correct, his argument has major implications for the marketing strategies pursued by international businesses. However, many academics feel that Levitt overstates his case.[3] Although Levitt may have a point when it comes to many basic industrial products, such as steel, bulk chemicals, and semiconductor chips, globalization in the sense used by Levitt seems to be the exception rather than the rule in many consumer goods markets and industrial markets. Even a firm such as McDonald's, which Levitt holds up as the archetypal example of a consumer products firm that sells a standardized product worldwide, modifies its menu from country to country in light of local consumer preferences. In select Arab countries and Pakistan, for example, McDonald's sells the McArabia, a chicken sandwich on Arabian-style bread, and in France, the Croque McDo, a hot ham and cheese sandwich.[4]

On the other hand, Levitt is probably correct to assert that modern transportation and communications technologies are facilitating a convergence of certain tastes and preferences among consumers in the more advanced countries of the world, and this has become even more prevalent since he wrote his article. By extension, in the long run, technological and other forces may lead to the evolution of a global culture. At present, however, the continuing persistence of some unique cultural and economic differences between nations acts as a brake on many trends toward the standardization of consumer tastes and preferences across nations. While we see more homogenization and standardization of needs and wants among younger people, typically 40 years and younger, there are still wide gaps in tastes among older people. What will be interesting to find out is if this increased homogenization among younger people will remain when they become older. Some indications exist that standardization of needs and wants stays with people when they become older, but, at least anecdotally, we also see people adopt more culturally specific needs as they grow older.

So, we may never see a world where globalization is fully spread across the almost 200 countries that exist (see globaledge.msu.edu for a comparison of information and data on the countries in the world). Some writers have argued that the rise of global culture does not mean that consumers share the same tastes and preferences.[5] Rather, people in different nations, often with conflicting viewpoints, are increasingly participating in a shared "global" conversation, drawing on shared symbols that include global brands from Nike and Dove to Coca-Cola and Sony but also Toyota and Volkswagen, as the world's largest automobile makers.[6] But the way in which these brands are perceived, promoted, and used still varies from country to country, depending on local differences in tastes and preferences.

Another reason it appears that globalization is spreading is that certain products simply exist everywhere—but that does not mean consumers everywhere prefer those products over more local options if such product alternatives existed. Better technology, production processes, and innovation may lead to better local product alternatives in the future that can compete with global products. If so, international marketing is going to be even more critical than it already is for global and local companies.[7] Furthermore, trade barriers and differences in product and technical standards also constrain a firm's ability to sell a standardized product to a global market using a standardized marketing strategy. We discuss the sources of these differences in subsequent sections when we look at how products must be altered from country to country. In short, Levitt's fully standardized international marketplace is some way off in many industries.

Will Toyota Stay Number 1?

Yundong, or Cloud Action, is Toyota China's first-ever strategic plan for its business in China. China is the "most important" market in the world, but the Japanese carmaker has less than 10 percent of the auto market, far behind global rivals such as General Motors and Volkswagen. The auto giant aims to become a company "that is beyond consumers' expectations and creates happiness and fortune for consumers and the regions where it operates," emphasizing local responsiveness to Chinese customers but still maintaining a global strategy. The Yundong plan combines the company's global strategy and local marketing operation, which will bring advanced technologies to the local market, improve the local management and marketing system, and build "exciting" products "that touch the hearts of Chinese consumers and are beyond their expectations" according to company officials. China is clearly an important market if Toyota is to maintain the overall worldwide leadership in auto sales. Do you think Toyota will capture a significant share of the Chinese auto market? And do you think Toyota can maintain its number one position in the worldwide auto market?

Sources: ChinaDaily.com; and J. Korcenlewski, "Toyota Is World's Top-Selling Automaker for Second Year in a Row," *Autoblog*, January 26, 2014, www.autoblog.com/2014/01/26/toyota-worlds-largest-automaker-2014.

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Market Segmentation

Market segmentation refers to identifying distinct groups of consumers whose needs, wants, and purchasing behavior differ from others in important ways. Markets can be segmented in numerous ways: by geography, demography (e.g., gender, age, income, race, education level), sociocultural factors (e.g., social class, values, religion, lifestyle choices), and psychological factors (e.g., personality). Because different segments exhibit different needs, wants, and patterns of purchasing behavior, firms often adjust their marketing mix from segment to segment. Thus, the precise design of a product, the pricing strategy, the distribution channels used, and the choice of communication strategy may all be varied from segment to segment. The goal is to optimize the fit between the purchasing behavior of consumers in a given segment and the marketing mix, thereby maximizing sales to that segment. Automobile companies, for example, use a different marketing mix to sell cars to different socioeconomic segments. Thus, Toyota uses its Lexus division to sell high-priced luxury cars to high-income consumers while selling its entry-level models, such as the Toyota Corolla, to lower-income consumers. Similarly, computer manufacturers will offer different computer models, embodying different combinations of product attributes and price points, to appeal to consumers from different market segments (e.g., business users and home users).

market segmentation
Identifying groups of consumers whose purchasing behavior differs from others in important ways.

When managers in an international business consider market segmentation in foreign countries, they need to be cognizant of two main issues: the differences between countries in the structure of market segments and the existence of segments that transcend national borders. For example, some companies opt to target a country with a number of different product options based on the multiple unique market segments in a country. Other companies opt to target one unique market segment in a country that also has parallels in other countries. A segment that spans multiple countries, transcending national boarders, is often called an **intermarket segment**. Strategically, marketing managers have marketing mix options with these two choices. Targeting one country and its multiple potential market segments with multiple marketing mixes allows a company to focus on the cultural characteristics of one country (or the characteristics of a

intermarket segment
A segment of customers that spans multiple countries, transcending national borders.

manageable set of countries). Targeting many countries and the intermarket segment that has characteristics that are largely the same across countries allows a company to focus on the cultural characteristics that are universal for certain customers across countries.

These are important choices because the structure of the many potential market segments may differ significantly from country to country as well as within countries. In fact, an important market segment in a foreign country may have no parallel in the firm's home country, and vice versa. In such a case, the focus cannot be on an intermarket segment, at least not one involving the home-country market. The firm may have to develop a unique marketing mix to appeal to the needs, wants, and purchasing behavior of a certain segment in a given country. An example of such a market segment is given in the accompanying Management Focus, where Marvel Studios targets certain audiences with its various super hero movies—the most recent being the Black Panther, which has reached Marvel's most diverse audience ever.

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Global Branding, Marvel Studios, and Walt Disney Company

Marvel Studios is an American TV and motion picture studio that is part of Marvel Entertainment, a wholly owned subsidiary of the Walt Disney Company. As a part of the Walt Disney Empire, Marvel Studios operates jointly with Walt Disney Studios on distribution and marketing of Marvel's films, such as the incredibly successful *Iron Man* and *Avengers* movies. Other high-profile projects of Marvel Studios have included the *X-Men*, *Spider-Man*, and *Captain America* franchises. Anything embedded in the global branding of the Walt Disney Company has tremendous potential, reach, and longevity.

Walter Elias "Walt" Disney was an American business mogul as well as animator, cartoonist, director, philanthropist, producer, screenwriter, and voice actor who lived from 1901 to 1966. An international icon, he started Disney Brothers Cartoon Studio with his brother, Roy O. Disney, in 1923. The current name of the Walt Disney Company has been around since 1986. Disney has one of the largest and most well-known studios in the world. It also operates numerous related businesses, such as the ABC broadcast TV network, cable TV networks (e.g., Disney Channel, ESPN), publishing, merchandising, theater divisions, theme parks (e.g., Disney World, Disneyland), and much more. Mickey Mouse is the primary symbol of the Walt Disney Company, and one of the most globally recognized brands ever!

Global branding is a staple at Walt Disney, and this branding prowess carries well to the Marvel Studios projects. In a global branding move, the post-credits to the original *Iron Man* movie had S.H.I.E.L.D. director Nick Fury visit Tony Stark's home. Fury told Stark that Iron Man is not "the only superhero in the world," and says that he wants to discuss the "Avenger's Initiative."

The *Avengers* and *Iron Man* movie franchises have made billions of dollars for Marvel Studios. They have also contributed heavily to making Robert Downey, Jr. one of the highest paid actors in Hollywood. Robert Downey, Jr. was born in 1965 in the United States. He made his movie debut at the age of five when he appeared in his father's movie titled *Pound*. The "up-and-down-and-up" career of Downey is also a fascinating global brand story. He is riding high with three incredible multi-sequel franchises—*Iron Man*, *The Avengers*, and *Sherlock Holmes*. He has also portrayed Tony Stark—his *Iron Man* and *Avengers* character—in several other related Marvel Studios projects (e.g., *The Incredible Hulk*, *Captain America: Civil War*, *Spider-Man: Homecoming*) and coming sequels.

Iron Man premiered April 30, 2008, in international markets and a few days later in the United States. Amazingly, the movie had been in development since 1990 at Universal Pictures, 20th Century Fox, and New Line Cinema. Marvel Studios reacquired the rights to the movie in 2006. The basic plot has playboy, philanthropist, and genius Tony Stark (played by Downey) as the "superhero." Iron Man is a fictional character that first appeared in the Marvel Comics, *Tales of Suspense*, in 1963. The character itself was created by Stan Lee. *Iron Man 2* was released in 2010, and *Iron Man 3* was released in 2013.

The Avengers premiered on April 11, 2012, at the El Capitan Theatre in Hollywood. The film's development began in 2005, is based on the Marvel Comics superhero team with the same name, and was written and directed by Joss Whedon. The Avengers are a superhero team with familiar heroes such as Iron Man, Captain America, Hulk, Thor, Black Widow, Hawkeye, and so on. No one really plays the superhero, although Scarlett Johansson's role as Black Widow was important to the movie franchise; it set the release date back from 2011 to 2012 to accommodate her inclusion. The second movie in the *Avengers* franchise came out on May 1, 2015, in the United States (*The Avengers: Age of Ultron*), and the third movie (*Avengers: Infinity War*) came out in 2018, with the next installment (*Avengers 4*) scheduled for release in May of 2019.

While the movie character Iron Man is heavily connected to Downey, he also plays an integral part of Tony Stark in *The Avengers*. In doing so, the actor has been part of Marvel Studios productions that have brought in more than $1.5 billion (*The Avengers*) and $1.2 billion (*Iron Man 3*). *Iron Man 1* and *Iron Man 2*, respectively, made more than $600 million each as well. In total, Downey has starred in six films that have made more than $500 million each at the box office worldwide and numerous other successful movies as a part of the Marvel Studios lineup.

The connection between Tony Stark as Iron Man in the *Iron Man* franchise and in the *Avengers* franchise is perhaps not needed for the movie plot in *The Avengers* or its sequels. Marvel Comics has drawn from more than 100 characters for its Avengers superheroes since 1963, but Iron Man was one of the original ones (along with Ant-Man, the Wasp, Thor, and the Hulk). The global branding success of Tony Stark, as played by Robert Downey Jr., across these two brands is also very advantageous for Marvel Studios' global branding.

Sources: Megan Peters, "The MCU Will Be Very Different After Avengers 4," *Comic Book*, April 23, 2017; K. Buchanan and J. Wolk, "How Vulture Ranked Its 2013 Most Valuable Stars List," *Vulture*, October 22, 2013; T. Culpan, "HTC Said to Hire Robert Downey Jr. for $12 Million Ad Campaign," *Bloomberg Businessweek*, June 20, 2013; C. Isidore, "Avengers Set to Rescue Disney and Hollywood," *CNNMoney*, May 7, 2012; and "Iron Man 3: Clank Clank Bang Bang," *The Wall Street Journal*, May 2, 2013.

In another example, a segment of consumers in China in the 55-to-65 age range has few parallels in other countries.[8] This group came of age during China's Cultural Revolution. The group's values have been shaped by their members' experiences during the Cultural Revolution. They tend to be highly sensitive to price and respond negatively to new products and most forms of marketing. Thus, firms doing business in China may need to customize their marketing mix to address the unique values and purchasing behaviors of the group. The existence of such a segment constrains the ability of firms to standardize their global marketing strategy.

In contrast, the existence of market segments that transcend national borders clearly enhances the ability of an international business to view the global marketplace as a single entity and pursue a global strategy—selling a standardized product worldwide and using the same basic marketing mix to help position and sell that product in a variety of national markets. For a segment to transcend national borders, consumers in that segment must have some compelling similarities along important dimensions—such as age, values, lifestyle choices—and those similarities must translate into similar needs, wants, and purchasing behavior. If this is true, the company can globalize its marketing mix efforts by adopting the so-called intermarket segment to target customers' needs, wants, and purchasing behavior. Although such segments clearly exist in certain industrial markets, they have historically been rarer in consumer markets.

The forecast, however, is that these intermarket segments will become more and more common with the increased globalization among younger consumers (40 years and younger) in the developed- and emerging-country markets. For example, one emerging global segment that is attracting the attention of international marketers of consumer goods is the global teenage segment. Global media are paving the way for a global youth segment. Evidence that such a segment exists comes from a study of the cultural attitudes and purchasing behavior of more than 6,500 teenagers in 26 countries.[9] The findings suggest that teens and young adults around the world are increasingly living parallel lives that share many common values. It follows that they are likely to purchase the same kind of consumer goods and for the same reasons.

Business Analytics

In the context of companies focusing on the global marketplace as their current or potential market to target customers, **business analytics** can be defined as the knowledge, skills, and technology that allow for the exploration as well as deeper investigation of a company's international business strategies and activities to gain insight and drive future strategy development and implementation. The extension of this definition is that business analytics has become the preferred terminology when we talk about understanding data and help companies develop and maintain a particular customer strategy.

Broadly, the process of using business analytics begins with a dataset that has been collected to address a specific international business issue. The knowledge and skills that the business analyst's previous experiences and education have resulted in serve as the guide for the type of data collected. After the data have been collected or compiled, technologies such as computer clouds, data warehousing, or traditional office computers can store data. If the database includes smaller datasets (e.g., a few hundred cases and dozens of variables), then storage can be done on almost any technological device (e.g., secured office computer). If the data is larger—"**big data**"—where the data include a massive volume of both structured and unstructured data that are so large they may be difficult to process using traditional database and software techniques, then the data would often be stored on large-scale servers (e.g., computer clouds, data warehousing).

Business analytics can be focused on one of three core applications: descriptive, predictive, and prescriptive. Descriptive analytics refers to the use of relatively simple statistical techniques to describe what is contained in a dataset. For example, the descriptive statistics can be an age bar chart that is used to depict Starbucks customers in Uppsala, Sweden (a medium-sized university town in the middle of Sweden). This would give the Starbucks franchise owner a basic understanding of the clientele he or she has developed and, perhaps, a better understanding of the type of bakery items to offer in the store. The purpose of descriptive analytics is to get a rough picture of what the data look like in the most general sense.

Predictive analytics can be defined as the use of advanced statistical techniques (and software) to identify and build predictive models that can help to identify trends and relationships not

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Understand the importance of business analytics and international market research.

business analytics

The knowledge, skills, and technology that allow for the exploration as well as deeper investigation of a company's international business strategies and activities to gain insight and drive future strategy development and implementation.

big data

A massive volume of structured and/or unstructured data that are so large they may be difficult to process using traditional database and software techniques.

readily observed in descriptive analyses. Oftentimes, we talk about the use of longitudinal data that can help show cause-and-effect relationships (i.e., an increase in social media exposure for Starbucks in Uppsala, Sweden leads to an increase in number of cups of coffee sold at the local Uppsala, Sweden Starbucks location within two weeks of the increased social media coverage).

Prescriptive analytics can be defined as the use of management science methodologies (i.e., applied mathematical techniques) to guide a company in its endeavors to best use allocable resources. For example, the Starbucks store in Uppsala, Sweden has a limited budget to allocate to advertising to target customers (which is often the case for franchise owners for their specific store). In such a case, management science tools (e.g., linear programming) can be used to optimally allocate advertising spending to various advertising opportunities (e.g., social media interactions driven by the local Starbucks store, advertising in the newspaper or on the local radio station, or messaging via Snapchat, Instagram, and similar vehicles). The goal then is to allocate the Starbucks store's limited resources optimally and to include the best possible trends or future opportunities.

Whether we talk about "small data" or "big data," business analytics can be used to better understand a company's current products and services in the global marketplace and future business opportunities. To effectively configure the marketing mix and answer questions such as those in Table 16.1 (which we will discuss later in this chapter), global companies use the toolkit offered within business analytics and conduct international marketing research.

INTERNATIONAL MARKETING RESEARCH

international market research
The systematic collection, recording, analysis, and interpretation of data to provide knowledge that is useful for decision making in a global company.

To effectively segment the global marketplace, companies conduct international marketing research. **International market research** is defined as the systematic collection, recording, analysis, and interpretation of data to provide knowledge that is useful for decision making in a global company. Compared with market research that is domestic only, international market research involves additional issues such as (1) translation of questionnaires and reports into appropriate foreign languages and (2) accounting for cultural and environmental differences in data collection. In this section, some of the more prominent international market research companies are highlighted; the basic steps and issues in conducting international market research are then discussed.

International market research is one of the most critical aspects of understanding the global marketplace. Given this importance, global companies often have their own in-house marketing research department to continually assess customers' needs, wants, and purchasing behavior.[10] In addition, global companies also typically undertake ongoing data collection to assess customers' satisfaction with products and services offered.[11] J.D. Power (www.jdpower.com) and the American Customer Satisfaction Index (ACSI) (www.theacsi.org) are two of the most prominent companies that measure customer satisfaction of a cross-section of the industries globally. In addition, for large-scale projects such as better understanding a new country market, global companies often work with outside marketing research firms for input. A sample of prominent international market research firms includes Nielsen, Kantar, Ipsos, and the NPD Group.

- Nielsen (www.nielsen.com) is an international market research company with headquarters in New York in the United States and Diemen in the Netherlands. The company was founded in 1923, is active in more than 100 countries, employs about 40,000 people, and has revenue of about $6 billion annually.[12] Nielsen says on its website that "Whether you're eyeing markets in the next town or across continents, we understand the importance of knowing what consumers watch and buy."[13]
- Kantar (www.kantar.com) is an international market research company based in London. The company was founded in 1993 as the market research, insight, and consultancy division of WPP (an advertising and public relations firm). It operates in more than 100 countries, employs some 28,000 people, and has revenues of about $4 billion annually. As a conglomerate of research companies, Kantar works with more than half of the *Fortune* 500 companies (a *kantar* is a measure for cotton that is still used in the ports of Egypt today).
- Ipsos (www.ipsos.com) is an international market research company based in Paris, France. The company was founded in 1975, has offices in some 90 countries, employs about 15,000 people, and has revenue of about $2 billion annually. Ipsos is now the only major

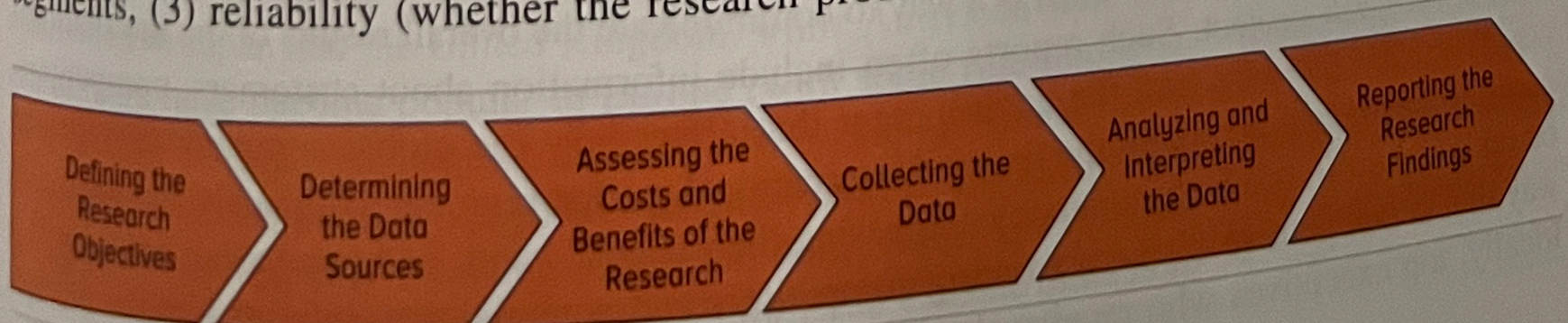
international market research firm that is controlled and operated by market researchers; it focuses on a mantra of BQC ("better, quicker, cheaper") as a way to be competitive in the global marketplace.

- NPD Group (www.npd.com) is an international market research firm based in Port Washington, New York.[14] The company was founded in 1967, has 25 worldwide offices, employs about 5,000 people, and is a privately held company (estimated to have revenues of about $500 million annually). NPD Group is known for its retail tracking services and market size and trends analysis. Today, it tracks businesses that represent more than $1 trillion in sales worldwide.

Nielsen, Kantar, Ipsos, and the NPD Group, along with many other market research firms, follow a similar process when conducting international market research. The basic data that companies want collected in international market research include (1) data on the country and potential market segments (geography, demography, sociocultural factors, and psychological factors), (2) data to forecast customer demands within specific country or world region (social, economic, consumer, and industry trends), and (3) data to make marketing mix decisions (product, distribution, communication, and price). The data collection needed to address these three areas always entails give-and-take in terms of time, cost, and available data collection techniques. The process, however, is somewhat universal across both domestic and international settings and includes (1) defining the research objectives, (2) determining the data sources, (3) assessing the costs and benefits of the research, (4) collecting the data, (5) analyzing and interpreting the research, and (6) reporting the research findings.[15] Each step is discussed in more detail in the following paragraphs (see Figure 16.1).

Defining the research objectives includes both (1) defining the research problem and (2) setting objectives for the international market research. At the outset of any international market research project, one of the problem areas is to have a baseline understanding of a country market or target segment that is sufficient enough to properly capture what should be done and what can be accomplished with the research. Oftentimes, the research starts with a relatively vague idea of the research problem and the objectives, subsequently refined when a better understanding of country markets and potential customer segments has been reached and more data have been collected.[16] One of the most critical aspects of the early stages of international market research is a willingness to refine the research problem and objectives throughout the process; not doing so may lead to unwanted conclusions. For example, not understanding the scope of the research problem (i.e., children turning to more electronic devices and video games) and accompanying objectives led Mattel Inc., the world's largest toy maker by sales, to suffer dismal holiday season sales. While the NPD Group reported that U.S. toy sales dropped just 1 percent, Mattel's CEO, Bryan G. Stockton, concluded that "our product innovations and our marketing programs were not strong enough."[17]

Determining the data sources that will address specific research problems and ultimately achieve the objectives is often not an easy task, especially if the international market research spans more than one country market. In market research, we talk about two forms of data that can be used: primary and secondary data.[18] Primary data refers to data collected by the global company and/or its recruited international market research agency for the purpose of addressing the research problem and objectives defined by the company. Given the costs of collecting international data, most companies try to avoid duplicating similar data that have been collected previously. However, for more than half of the world's countries, so-called secondary data that can be helpful can be tough to come by, are often unreliable, and typically do not address what global companies require to better understand the needs, wants, and purchasing behaviors of targeted customers. Secondary data refers to data that have been collected previously by organizations, people, or agencies for purposes other than specifically addressing the research problem and objectives at hand. Overall, the data used in international market research should be evaluated based on (1) availability, (2) comparability across countries and potential market segments, (3) reliability (whether the research produces consistent results), and (4) validity



16.1 FIGURE

International market research steps.

Source: C. W. L. Hill and G. T. M. Hult, Global Business Today (New York: McGraw-Hill Education, 2018).

(whether the research measures what it set out to measure). globalEDGE.msu.edu is a great starting point for secondary data on countries and industries, among many data categories, and the research firms mentioned earlier (i.e., Nielsen, Kantar, Ipsos, and the NPD Group) are great organizations used by many global companies for primary data collection worldwide.

Assessing the costs and benefits of the research often relates to the cost of collecting primary data that can address the research problem and objectives directly versus using available secondary data. If secondary data are available, such data are typically available as a less costly alternative to collecting primary data. The costs that drive up the spending in primary data collections broadly include survey development and sampling frame issues. For the survey, the questions have to be developed so that they clearly communicate the attitudes, attributes, or characteristics about a product or customer issue in such a way that the respondent recognizes the value. This also means overcoming any barriers or differences in language, answer choices, and cultural values and beliefs. For example, the most common way of converting a survey question into another language is to have the question translated into the foreign language (e.g., from English to Spanish) and then back-translated into English again by another person. The two English versions are then compared to ensure similarity in the back-translated version with the original. For the sampling frame, one of the core issues internationally is to make sure that comparable samples can be drawn in the countries in which international market research is conducted. This includes identifying reliable lists or groups of potential people to survey and cultivating potential people to respond to the survey.[19]

Collecting the data simply refers to gathering data via primary or secondary methods that address the research problem and objectives that the global company has established. The two mechanisms to collect data are quantitative and qualitative data collection. Quantitative methods include experiments, clinical trials, observing and recording events, and administering surveys with closed-end questions. The goal of quantitative methods is to systematically gain an understanding of customers' needs, wants, and purchase behavior via numerical data and computational techniques. A popular way of collecting quantitative data today is to use online surveys and consumer mail panels. Most large international market research firms have access to global customer mail panels and potential sampling frames that target both business-to-business customers and end-customers. Qualitative methods include in-depth interviews, observation methods, and document reviews. Here, the focus is broad-based questions aimed at gaining an in-depth understanding of customers' needs, wants, and purchase behaviors.

Analyzing and interpreting the research begins when the data have been collected. Assuming the survey is reliable and valid, whether the data come from primary or secondary data collection methods, analyzing and interpreting the data is an important step in the international market research process. It takes a fairly high degree of knowledge—both statistically and culturally—to analyze and interpret international market research. First, statistically the goal should be to use the technique that best addresses the research problem—often stated in the form of research questions or hypothesis (a specified relationship between study variables). There is a plethora of quantitative and qualitative methods of analyzing data, often taught in sophisticated marketing research programs around the world.[20] In these programs, software such as SAS, SPSS, LISREL, and Smart-PLS[21] are used for quantitative analysis, and ATLAS.ti and MAXQDA are used for qualitative methods. Second, the researcher interpreting the findings must be in tune culturally with the values, beliefs, norms, and artifacts that affect a respondent's answers in a certain world region, country, and/or subculture. If possible, it is always advisable to include at least one native of the country being researched to add to the understanding of the research findings, social customs, semantics, attitudes, and business customs. For example, some societies have a tendency to not provide extreme answers (e.g., strongly agree or strongly disagree) to questions but instead answer by using middle-of-the-scale choices (e.g., Japan), while other countries use more of the extreme answer choices (e.g., the United States).

Reporting the research findings is a way to communicate the overall results of the international market research project. Such reports often include information about customers, competitors, countries, the industry, and the environment that affect how the global company develops an appropriate marketing mix for the targeted international market segment. Ultimately, the focus will be on how best to reach customers by addressing their needs, wants, and purchasing behavior in a way that is competitive vis-à-vis existing competitors and potential new entrants into the market. Ideally, top executives who receive the report should have been part of the formulation of the

research problem and objectives earlier on in the international market research process. Preferably, they should also take part in some of the fieldwork to collect the data to better understand the voices of customers. If critical employee levels of the global company—from front-line service employees to market researchers to top executives—are insiders of the culture in which the customers are targeted, a lot of misunderstanding and faulty market research can be prevented. The worst-case scenario would be if customers misunderstand the questions and managers misunderstand the answers! One such example was the case of the Toyota accelerator debacle. Toyota had issues with accelerator pedals that could get stuck, causing vehicles to speed unintentionally.[22] Toyota was slow to correct the problems with the accelerator due to a disconnect between identifying the problem (i.e., it did not know why the accelerator pedals got stuck), analyzing the damage, and reporting it to senior management for rectification. Culturally, Japan prides itself on quality products, which means that disclosing poor quality, assuming responsibility, communicating with senior management, and fixing the problem are very difficult tasks within a Japanese firm.

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Product Attributes

LO 16-2

Explain why it might make sense to vary the attributes of a product from country to country.

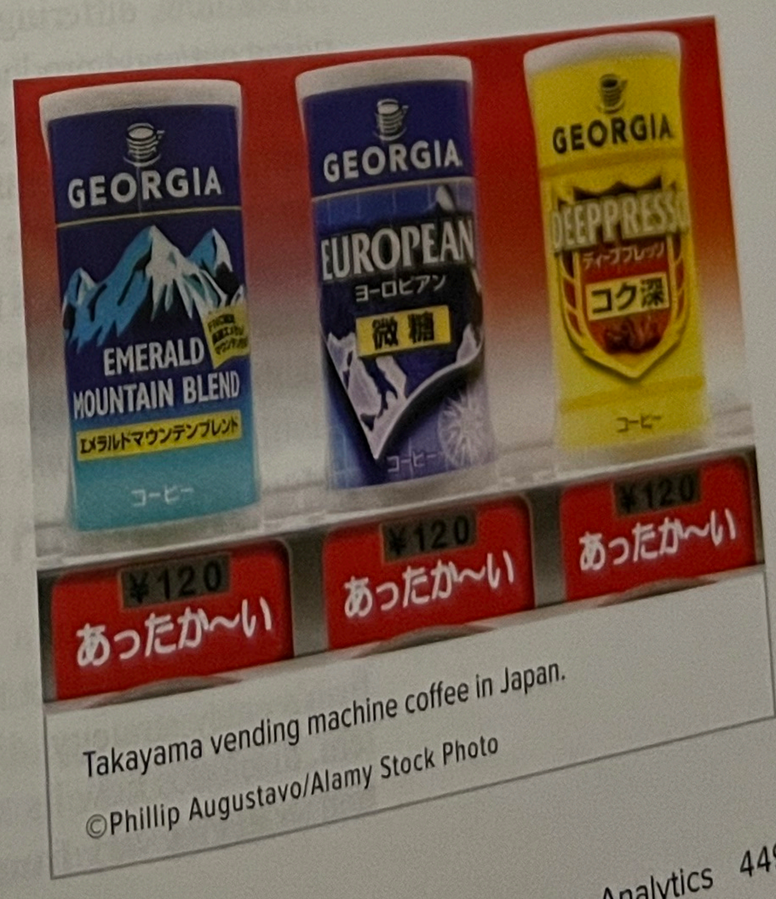
A product can be viewed as a bundle of attributes.[23] For example, the attributes that make up a car include power, design, quality, performance, fuel consumption, and comfort; the attributes of a hamburger include taste, texture, and size; a hotel's attributes include atmosphere, quality, comfort, and service. Products sell well when their attributes match consumer needs (and when their prices are appropriate). BMW cars sell well to people who have high needs for luxury, quality, and performance precisely because BMW builds those attributes into its cars. If consumer needs were the same the world over, a firm could simply sell the same product worldwide. However, consumer needs vary from country to country, depending on culture and the level of economic development. A firm's ability to sell the same product worldwide is further constrained by countries' differing product standards. This section reviews each of these issues and discusses how they influence product attributes.

CULTURAL DIFFERENCES

We discussed countries' cultural differences in Chapter 4. Countries differ along a whole range of dimensions, including social structure, language, religion, and education.[24] These differences have important implications for marketing strategy.[25] For example, "hamburgers" do not sell well in Islamic countries, where the consumption of ham is forbidden by Islamic law (thus, the sandwich's name is changed). The most important aspect of cultural differences is probably the impact of tradition. Tradition is particularly important in foodstuffs and beverages. For example, reflecting differences in traditional eating habits, the Findus frozen food division of Nestlé, the Swiss food giant, markets fish cakes and fish fingers in Great Britain, but beef bourguignon and coq au vin in France and vitéllo con funghi and braviola in Italy. In addition to its normal range of products, Coca-Cola in Japan markets Georgia, a cold coffee in a can, and Aquarius, a tonic drink, both of which appeal to traditional Japanese tastes.

For historical and idiosyncratic reasons, a range of other cultural differences exist among countries. For example, scent preferences differ from one country to another. SC Johnson, a manufacturer of waxes and polishes, encountered resistance to its lemon-scented Pledge furniture polish among older consumers in Japan. Careful market research revealed the polish smelled similar to a latrine disinfectant used widely in Japan. Sales rose sharply after the scent was adjusted.[26]

There is some evidence of the trends Levitt talked about. Tastes and preferences are becoming more cosmopolitan. Coffee is gaining ground against tea in Japan and the United Kingdom, while American-style frozen dinners have become popular in Europe (with some fine-tuning to local tastes). Taking advantage of these trends, Nestlé has found that it can market its instant coffee, spaghetti bolognese, and Lean Cuisine frozen dinners in essentially the same manner in both North America and Western Europe. However, there is no market for Lean Cuisine dinners in most of the rest of the world, and there may not be for years or decades.



Takayama vending machine coffee in Japan.

©Phillip Augustavo/Alamy Stock Photo

Can Spotify and Coca-Cola Leverage Their Partnership for Sales?

Swedish music-streaming service Spotify has gained access to Coca-Cola's global marketing engine, and Coca-Cola can use Spotify tunes in its online marketing. Spotify is hoping that Coke will teach the world to click its play button. The Swedish digital music service has a broad-ranging marketing deal with Coca-Cola Co. that could help turbocharge the number of people who are exposed to, and ultimately sign up for, Spotify. For Spotify, getting access to Coca-Cola's formidable global marketing engine will come in handy as it expands its international footprint. In return, Coca-Cola can now use Spotify's service to instantly add music to its online marketing repertoire. For instance, the drink giant can add songs to its Facebook page via Spotify without having to negotiate licenses for each tune (Spotify already has financial agreements with major record labels to pay royalties for every song that is played on its digital service). These co-branding deals sometimes motivate customers to buy more from each company—if you are a fan of Spotify, you may buy more from Coca-Cola, and vice versa. If your favorite company co-branded with a company you have never bought from, would you try that company's products?

Sources: A. Pham, "Spotify and Coca-Cola Form Marketing Partnership," *Los Angeles Times*, April 18, 2012, http://articles.latimes.com/2012/apr/18/business/la-fi-ct-spotify-coca-cola-20120419; and "Spotify and Coca-Cola Partner to Share Music with the World," Spotify press release, http://press.spotify.com.

Although some cultural convergence has occurred, particularly among the advanced industrial nations of North America and Western Europe, Levitt's global culture characterized by standardized tastes and preferences is still a long way off.

ECONOMIC DEVELOPMENT

Just as important as differences in culture are differences in the level of economic development. We discussed the extent of country differences in economic development in Chapter 3. Consumer behavior is influenced by the level of economic development of a country. Firms based in highly developed countries such as the United States tend to build a lot of extra performance attributes into their products. These extra attributes are not usually demanded by consumers in less developed nations, where the preference is for more basic products. Thus, cars sold in less developed nations typically lack many of the features found in developed nations, such as air-conditioning, power steering, power windows, radios, and CD players. For most consumer durables, product reliability may be a more important attribute in less developed nations, where such a purchase may account for a major proportion of a consumer's income, than it is in advanced nations.

Contrary to Levitt's suggestions, consumers in the most developed countries are often not willing to sacrifice their preferred attributes for lower prices. Consumers in the most advanced countries often shun globally standardized products that have been developed with the lowest common denominator in mind. They are willing to pay more for products that have additional features and attributes customized to their tastes and preferences. For example, demand for top-of-the-line four-wheel-drive sport-utility vehicles—such as Chrysler's Jeep, Ford's Explorer, and Toyota's Land Cruiser—has been largely restricted to the United States. This is due to a combination of factors, including the high income level of U.S. consumers, the country's vast distances, the relatively low cost of gasoline, and the culturally grounded "outdoor" theme of American life.

PRODUCT AND TECHNICAL STANDARDS

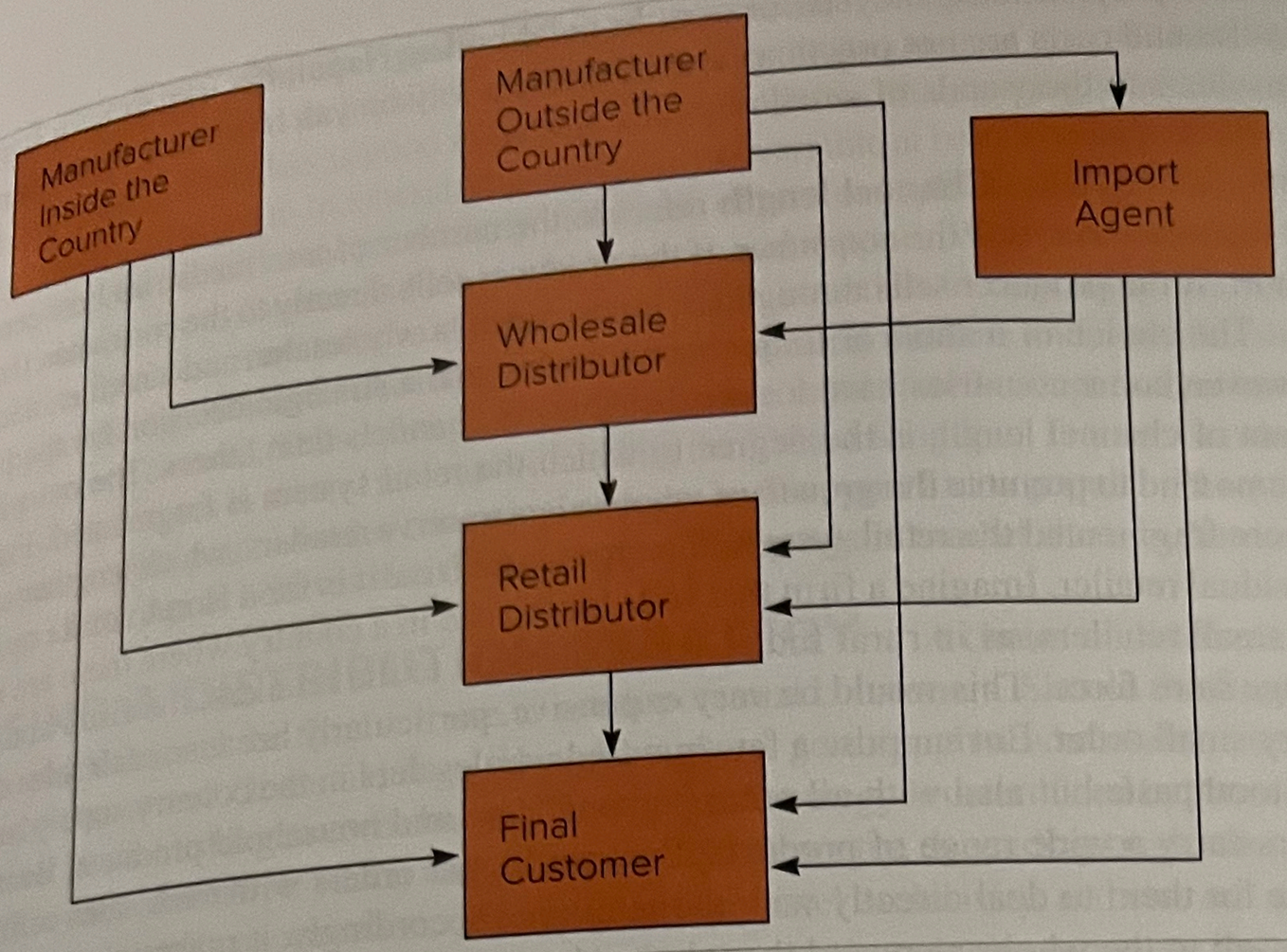
Even with the forces that are creating some convergence of consumer tastes and preferences among advanced, industrialized nations, Levitt's vision of global markets may still be a long way off because of national differences in product and technological standards.[27] However, if anything, the increased development and implementation of regional trade agreements, often taking into account technical standards setting, may influence certain regional markets to become more globalized, as Levitt suggested.

For now, differing government-mandated product standards can often result in companies ruling out mass production and marketing of a fully global and standardized product. Differences in technical standards also constrain the globalization of markets. Some of these differences result from idiosyncratic decisions made long ago, rather than from government actions, but their long-term effects are profound. For example, DVD equipment manufactured for sale in the United States will not play DVDs recorded on equipment manufactured for sale in Great Britain, Germany, and France (and vice versa). Thankfully, most songs and movies are now streamed and, thus, can be played in a compatible way almost anywhere in the world.[28]

LO 16-3
Recognize why and how a firm's distribution strategy might vary among countries.

Distribution Strategy

A critical element of a firm's marketing mix is its distribution strategy: the means it chooses for delivering the product to the consumer.[29] The way the product is delivered is determined by the firm's entry strategy, discussed in Chapter 13. This section examines a typical distribution system, discusses how its structure varies between countries and looks at how appropriate distribution strategies vary from country to country.



16.2 FIGURE

A typical distribution system.

Source: C. W. L. Hill and G. T. M. Hult, Global Business Today (New York: McGraw-Hill Education, 2018).

Figure 16.2 illustrates a typical distribution system consisting of a channel that includes a wholesale distributor and a retailer. If the firm manufactures its product in the particular country, it can sell directly to the consumer, to the retailer, or to the wholesaler. The same options are available to a firm that manufactures outside the country. Plus, this firm may decide to sell to an import agent, which then deals with the wholesale distributor, the retailer, or the consumer. Later in the chapter, we consider the factors that determine the firm's choice of channel.

DIFFERENCES BETWEEN COUNTRIES

The four main differences between distribution systems worldwide are retail concentration, channel length, channel exclusivity, and channel quality.

Retail Concentration

In some countries, the retail system is very concentrated, but it is fragmented in others. In a **concentrated retail system**, a few retailers supply most of the market. A **fragmented retail system** is one in which there are many retailers, none of which has a major share of the market. Many of the differences in concentration are rooted in history and tradition. In the United States, the importance of the automobile and the relative youth of many urban areas have resulted in a retail system centered on large stores or shopping malls to which people can drive. This has facilitated system concentration. Japan, with a much greater population density and a large number of urban centers that grew up before the automobile, has a more fragmented retail system, with many small stores serving local neighborhoods and to which people frequently walk. In addition, the Japanese legal system protects small retailers. Small retailers can try to block the establishment of a large retail outlet by petitioning their local government.

concentrated retail system
A retail system in which a few retailers supply most of the market.

fragmented retail system
A retail system in which there are many retailers, none of which has a major share of the market.

There is a tendency for greater retail concentration in developed countries. Three factors that contribute to this are the increases in car ownership, the number of households with refrigerators and freezers, and the number of two-income households. All these factors have changed shopping habits and facilitated the growth of large retail establishments sited away from traditional shopping areas. The last decade has seen consolidation in the global retail industry, with companies such as Walmart and Carrefour attempting to become global retailers by acquiring retailers in different countries. This has increased retail concentration.

In contrast, retail systems are very fragmented in many developing countries, which can make for interesting distribution challenges. In rural China, large areas of the country can be reached only by traveling rutted dirt roads. In India, Unilever has to sell to retailers in 600,000 rural villages, many of which cannot be accessed via paved roads, which means products can reach their

destination only by bullock, bicycle, or cart. In neighboring Nepal, the terrain is so rugged that even bicycles and carts are not practical, and businesses rely on yak trains and the human back to deliver products to thousands of small retailers.

channel length
The number of intermediaries that a product has to go through before it reaches the final consumer.

Channel Length

Channel length refers to the number of intermediaries between the producer (or manufacturer) and the consumer. If the producer sells directly to the consumer, the channel is very short. If the producer sells through an import agent, a wholesaler, and a retailer, a long channel exists. The choice of a short or long channel is, in part, a strategic decision for the producing firm. However, some countries have longer distribution channels than others. The most important determinant of channel length is the degree to which the retail system is fragmented. Fragmented retail systems tend to promote the growth of wholesalers to serve retailers, which lengthens channels.

The more fragmented the retail system, the more expensive it is for a firm to make contact with each individual retailer. Imagine a firm that sells toothpaste in a country where there are more than a million small retailers, as in rural India. To sell directly to the retailers, the firm would have to build a huge sales force. This would be very expensive, particularly because each sales call would yield a very small order. But suppose a few hundred wholesalers in the country supply retailers not only with toothpaste but also with all other personal care and household products. Because these wholesalers carry a wide range of products, they get bigger orders with each sales call, making it worthwhile for them to deal directly with the retailers. Accordingly, it makes economic sense for the firm to sell to the wholesalers and the wholesalers to deal with the retailers.

Because of such factors, countries with fragmented retail systems also tend to have long channels of distribution, sometimes with multiple layers. The classic example is Japan, where there are often two or three layers of wholesalers between the firm and retail outlets. In countries such as Great Britain, Germany, and the United States, where the retail systems are far more concentrated, channels are much shorter. When the retail sector is very concentrated, it makes sense for the firm to deal directly with retailers, cutting out wholesalers. A relatively small sales force is required to deal with a concentrated retail sector, and the orders generated from each sales call can be large. Such circumstances tend to prevail in the United States, where large food companies may sell directly to supermarkets rather than going through wholesale distributors.

Another factor that is shortening channel length in some countries is the entry of large discount superstores, such as Carrefour, Walmart, and Tesco. The business model of these retailers is, in part, based on the idea that in an attempt to lower prices, they cut out wholesalers and instead deal directly with manufacturers. Thus, when Walmart entered Mexico, its policy of dealing directly with manufacturers, instead of buying merchandise through wholesalers, helped shorten distribution channels in that nation. Similarly, Japan's historically long distribution channels are now being shortened by the rise of large retailers, some of them foreign-owned, such as Walmart, and some of them indigenous enterprises that are imitating the American model, all of which are progressively cutting out wholesalers and dealing directly with manufacturers.

exclusive distribution channel
A distribution channel that outsiders find difficult to access.

Channel Exclusivity

An **exclusive distribution channel** is one that is difficult for outsiders to access. For example, it is often difficult for a new firm to get access to shelf space in supermarkets. This occurs because retailers tend to prefer to carry the products of established manufacturers of foodstuffs with national reputations rather than gamble on the products of unknown firms. The exclusivity of a distribution system varies among countries. Japan's system is often held up as an example of a very exclusive system. In Japan, relationships among manufacturers, wholesalers, and retailers often go back decades. Many of these relationships are based on the understanding that distributors will not carry the products of competing firms. In return, the distributors are guaranteed an attractive markup by the manufacturer. As many U.S. and European manufacturers have learned, the close ties that result from this arrangement can make access to the Japanese market difficult. However, it is possible to break into the Japanese market with a new consumer product. Procter & Gamble did during the 1990s with its Joy brand of dish soap. P&G was able to overcome a tradition of exclusivity for two reasons. First, after two decades of lackluster economic performance, Japan is changing. In their search for profits, retailers are far more willing than they have been historically to violate the old norms of exclusivity. Second, P&G has been in Japan long enough and has a broad enough portfolio of consumer products to give it considerable leverage with distributors, enabling it to push new products out through the distribution channel.

Channel Quality

Channel quality refers to the expertise, competencies, and skills of established retailers in a nation and their ability to sell and support the products of international businesses. Although the quality of retailers is good in most developed nations, in emerging markets and less developed nations from Russia to Indonesia, channel quality is variable at best. The lack of a high-quality channel may impede market entry, particularly in the case of new or sophisticated products that require significant point-of-sale assistance and after-sales services and support. When channel quality is poor, an international business may have to devote considerable attention to upgrading the channel, for example, by providing extensive education and support to existing retailers and, in extreme cases, by establishing its own channel. Thus, after pioneering its Apple retail store concept in the United States, Apple opened retail stores in several nations—including the United Kingdom, France, Germany, Japan, and China—to provide point-of-sales education, service, and support for its popular iPhone, iPad, and MacBook products. Apple believes that this strategy will help it gain market share in these nations.

channel quality
The expertise, competencies, and skills of established retailers in a nation and their ability to sell and support the products of international businesses.

CHOOSING A DISTRIBUTION STRATEGY

A choice of distribution strategy determines which channel the firm will use to reach potential consumers. Should the firm try to sell directly to the consumer? Or should it go through retailers, go through a wholesaler, use an import agent, or invest in establishing its own channel? The optimal strategy is determined by the relative costs and benefits of each alternative, which vary from country to country, depending on the four factors we have just discussed: retail concentration, channel length, channel exclusivity, and channel quality.

Because each intermediary in a channel adds its own markup to the products, there is generally a critical link among channel length, the final selling price, and the firm's profit margin. The longer a channel, the greater the aggregate markup, and the higher the price that consumers are charged for the final product. To ensure that prices do not get too high as a result of markups by multiple intermediaries, a firm might be forced to operate with lower profit margins. Thus, if price is an important competitive weapon, and if the firm does not want to see its profit margins squeezed, other things being equal, the firm would prefer to use a shorter channel.

However, the benefits of using a longer channel may outweigh these drawbacks. As we have seen, one benefit of a longer channel is that it cuts selling costs when the retail sector is very fragmented. Thus, it makes sense for an international business to use longer channels in countries where the retail sector is fragmented and shorter channels in countries where the retail sector is concentrated. Another benefit of using a longer channel is market access—the ability to enter an exclusive channel. Import agents may have long-term relationships with wholesalers, retailers, or important consumers and thus be better able to win orders and get access to a distribution system. Similarly, wholesalers may have long-standing relationships with retailers and be better able to persuade them to carry the firm's product than the firm itself would.

Import agents are not limited to independent trading houses; any firm with a strong local reputation could serve as well. For example, to break down channel exclusivity and gain greater access to the Japanese market, when Apple Computer originally entered Japan, it signed distribution agreements with five large Japanese firms, including business equipment giant Brother Industries, stationery leader Kokuyo, Mitsubishi, Sharp, and Minolta. These firms use their own long-established distribution relationships with consumers, retailers, and wholesalers to push Apple computers through the Japanese distribution system. Today, Apple has supplemented this strategy with its own stores in the country.

If such an arrangement is not possible, the firm might want to consider other, less traditional alternatives to gaining market access. Frustrated by channel exclusivity in Japan, some foreign manufacturers of consumer goods have attempted to sell directly to Japanese consumers using direct mail and catalogs. Finally, if channel quality is poor, a firm should consider what steps it could take to upgrade the quality of the channel, including establishing its own distribution channel.

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LO 16-4
Identify why and how advertising and promotional strategies might vary among countries.

Communication Strategy

Another critical element in the marketing mix is communicating the attributes of the product to prospective customers. A number of communication channels are available to a firm, including **social media** (a technology that facilitates the sharing of information and the building of virtual global networks and communities), direct selling, sales promotion, and various forms of advertising. A firm's communication strategy is partly defined by its choice of channel. Unfortunately,

social media
A technology that facilitates the sharing of information and the building of virtual global networks and communities.

the number of channels available today has also resulted in companies having less control over the messaging that they try to do regarding their products and services.

Traditionally, some firms have relied on direct selling, others on point-of-sale promotions, and others on mass advertising; still others have used several channels simultaneously to communicate their message to prospective customers. Prior to social media, firms were able to "signal" what type of product or service they offered in the global marketplace. Today, that messaging is collectively done by customers and the companies. Consequently, multinational corporations need to have active, interactive social media platforms to go along with the more traditional direct selling, sales promotion, and various forms of advertising that they use.

This section on communications strategy looks first at the barriers to these types of international communications. Keep in mind that the approach to communicating with and among customers (e.g., social media, direct selling, sales promotion, and various forms of advertising) is one aspect of the global company's communication strategy. The other is the potential barriers to communication and forms of advertising that can be used. Operating within these constraints and opportunities, the accompanying Management Focus illustrates nicely how an old-fashioned brand such as Burberry used social media marketing to resurrect and reinvent its high-profile luxurious brand.

management FOCUS

Burberry's Social Media Marketing

Burberry, the icon British luxury apparel retailer founded in 1856 by Thomas Burberry and famed for its trench coats and plaid-patterned accessories, has been on a roll in recent years. In the late 1990s, one critic described Burberry as "an outdated business with a fashion cache of almost zero." But by 2019, Burberry has become widely recognized as one of the world's premier luxury brands with a strong presence in many of the world's richest cities, some 500 retail stores, about 10,800 employees, and revenues in excess of $3.6 billion. The reason is that Burberry used social media to become a digital marketing icon and one of the top social media brands.

Two successive American CEOs were behind Burberry's transformation, and it started before the current revolution of the digital marketplace. The first, Rose Marie Bravo, joined the company in 1997 from Saks Fifth Avenue. Bravo saw immense hidden value in the Burberry brand. One of her first moves was to hire world-class designers to re-energize the brand. The company also shifted its orientation toward a younger, hipper demographic, perhaps best exemplified by the ads featuring supermodel Kate Moss that helped to reposition the brand. By the time Bravo retired in 2006, she had transformed Burberry into what one commentator called an "achingly hip," high-end fashion brand whose raincoats, clothes, handbags, and other accessories were must-have items for younger, well-heeled, fashion-conscious consumers worldwide.

Bravo was succeeded by Angela Ahrendts, whose career had taken her from a small town in Indiana and a degree at Ball State University, through Warnaco and LizClaiborne, to become the CEO of Burberry at age 46. Ahrendts realized that for all of Bravo's success, Burberry still faced significant problems. The company had long pursued a licensing strategy, allowing partners in other countries to design and sell their own offerings under the Burberry label. This lack of control over the offering was hurting its brand equity. The Spanish partner, for example, was selling casual wear that bore no relationship to what was being designed in London. So long as this state of affairs continued, Burberry would struggle to build a unified global brand.

Ahrendts's solution was to start acquiring partners and/or buying back licensing rights in order to regain control over the brand. Hand in hand with this, she pushed for an aggressive expansion of the company's retail store strategy. The company's core demographics under Ahrendts remained the well-heeled, younger, fashion-conscious set. To reach this demographic, Burberry has focused on 25 of the world's wealthier cities. Key markets include New York, London, and Beijing, which according to Burberry account for more than half the global luxury fashion trade. As a result of this strategy, the number of retail stores increased from 211 in 2007 to 556 in 2019.

An important aspect of Burberry's strategy has been to embrace digital marketing tools to reach its tech-savvy customer base. Indeed, there are few luxury brand companies that have utilized digital technology as aggressively as Burberry. Burberry has simulcast its runway shows in 3-D in New York, Los Angeles, Dubai, Paris, and Tokyo. Viewers at home can stream the shows over the Internet and post comments in real time. Outerwear and bags are made available through "click and buy" technology with delivery several months before they reach the stores. Burberry had more than 17 million Facebook fans as of 2018. At "The Art of the Trench," a company-run social media site, people can submit photos of themselves in the company's iconic rainwear.

The global marketing strategy seems to be working. Between 2007 and 2018, revenues at Burberry increased from some $1.3 billion to $3.6 billion. In April 2014, Angela Ahrendts was replaced as CEO by Christopher Bailey (Ahrendts took a position as senior vice president of retail and online at Apple, Inc.). Bailey, with a heritage from Halifax, United Kingdom, first started with Burberry in May 2001 as a creative director. One of the branding decisions that happened on his creative director watch was to remove the Burberry brand's iconic check pattern from virtually all Burberry products, leaving only 10 percent of the products with the famous check pattern. He also masterminded the design of Burberry's largest store, 121 Regent Street in London, United Kingdom, which opened as a bricks-and-mortar incarnation of the brand's website.

Sources: S. Davis, "Burberry's Blurred Lines: The Integrated Customer Experience," *Forbes*, March 27, 2014; A. Ahrendts, "Burberry's CEO on Turning an Aging British Icon into a Global Luxury Brand," *Harvard Business Review*, January-February 2013; Nancy Hass, "Earning Her Stripes," *The Wall Street Journal*, September 9, 2010; "Burberry Shines as Aquascutum Fades," *The Wall Street Journal*, April 17, 2010; Peter Evans, "Burberry Sales Ease from Blistering Pace," *The Wall Street Journal*, April 17, 2010; and "Burberry Case Study," Market Line, http://marketline.com.

BARRIERS TO INTERNATIONAL COMMUNICATION

International communication occurs whenever a firm uses a marketing message to sell its products in another country. The effectiveness of a firm's international communication can be jeopardized by three potentially critical variables: cultural barriers, source effects, and noise levels.

Cultural Barriers

Cultural barriers can make it difficult to communicate messages across cultures. We discussed some sources and consequences of cultural differences between nations in Chapter 4 and in the previous section of this chapter. Because of cultural differences, a message that means one thing in one country may mean something quite different in another. Benetton, the Italian clothing manufacturer and retailer, ran into cultural problems with its advertising. The company launched a worldwide advertising campaign with the theme "United Colors of Benetton" that had won awards in France. One of its ads featured a black woman breast-feeding a white baby, and another one showed a black man and a white man handcuffed together. Benetton was surprised when the ads were attacked by U.S. civil rights groups for promoting white racial domination. Benetton withdrew its ads and fired its advertising agency, Eldorado of France.

The best way for a firm to overcome cultural barriers is to develop cross-cultural literacy (see Chapter 4). In addition, it should use local input, such as a local advertising agency, in developing its marketing message. If the firm uses direct selling rather than advertising to communicate its message, it should develop a local sales force whenever possible. Cultural differences limit a firm's ability to use the same marketing message and selling approach worldwide. What works well in one country may be offensive in another.

Is the Google Advertising Model Viable in the Long Term?

Google's share of the Internet ads is at about 33 percent of the $304 billion market, making it the undisputed Goliath of online advertising. Google also continues to grow, thanks to acquisitions such as DoubleClick, YouTube, and even drone company Titan Aerospace. Facebook is solidly in the number two spot in Internet ads but is gaining market share. Google is also a heavyweight in mobile ads. Research experts predict that new ad dollars will come from emerging markets such as China, Russia, and Indonesia. Over the next three years, about half of all global ad growth will come from 10 developing markets—with Brazil, Russia, India, and China combined accounting for 33 percent. Currently, there are four markets in which Internet ads account for more than 30 percent of total spending: Canada, Norway, Sweden, and the United Kingdom. Basically, the world is shifting its ad spending to the Internet and similar options. With that in mind, where can global companies reach you via advertisements if they wanted to target you? And do you think the Google advertisement business model is viable as a way to reach customers for the long term?

Source and Country of Origin Effects

Source effects occur when the receiver of the message (the potential consumer in this case) evaluates the message on the basis of status or image of the sender. Source effects can be damaging for an international business when potential consumers in a target country have a bias against foreign firms. For example, a wave of "Japan bashing" swept the United States in the early 1990s. Worried that U.S. consumers might view its products negatively, Honda responded by creating ads that emphasized the U.S. content of its cars to show how "American" the company had become.

source effects
Effects that occur when the receiver of the message (i.e., a potential consumer) evaluates the message on the basis of status or image of the sender.

Many international businesses try to counter negative source effects by deemphasizing their foreign origins. When the French antiglobalization protester José Bové was hailed as a hero by some in France for razing a partly built McDonald's, the French franchisees of McDonald's responded with an ad depicting a fat, ignorant American who could not understand why McDonald's France used locally produced food that wasn't genetically modified. The edgy ad worked, and McDonald's French operations are now among the most robust in the company's global network.[30]

A subset of source effects is referred to as **country of origin effects**, or the extent to which the place of manufacturing influences product evaluations. Research suggests that the consumer may use country of origin as a cue when evaluating a product, particularly if he or she lacks more detailed knowledge of the product. For example, one study found that Japanese consumers tended to rate Japanese products more favorably than U.S. products across multiple dimensions, even when independent analysis showed that they were actually inferior.[31] When a negative country of origin effect exists, an international business may have to work hard to counteract this effect by, for example, using promotional messages that stress the positive performance attributes of its product.

country of origin effects
A subset of source effects, the extent to which the place of manufacturing influences product evaluations.

Source effects and country of origin effects are not always negative. French wine, Italian clothes, and German luxury cars benefit from nearly universal positive source effects. In such cases, it may pay a firm to emphasize its foreign origins.

noise
The number of other messages competing for a potential consumer's attention.

push strategy
A marketing strategy emphasizing personal selling rather than mass media advertising.

pull strategy
A marketing strategy emphasizing mass media advertising as opposed to personal selling.

Noise Levels

Noise tends to reduce the probability of effective communication. Noise refers to the number of other messages competing for a potential consumer's attention, and this too varies across countries. In highly developed countries such as the United States, noise is extremely high. Fewer firms vie for the attention of prospective customers in developing countries; thus, the noise level is lower.

PUSH VERSUS PULL STRATEGIES

The main decision with regard to communications strategy is the choice between a push strategy and a pull strategy. A **push strategy** emphasizes personal selling rather than mass media advertising in the promotional mix. Although effective as a promotional tool, personal selling requires intensive use of a sales force and is relatively costly. A **pull strategy** depends more on mass media advertising to communicate the marketing message to potential consumers.

Although some firms employ only a pull strategy and others only a push strategy, still other firms combine direct selling with mass advertising to maximize communication effectiveness. Factors that determine the relative attractiveness of push and pull strategies include product type relative to consumer sophistication, channel length, and media availability.

Product Type and Consumer Sophistication

Firms in consumer goods industries that are trying to sell to a large segment of the market generally favor a pull strategy. Mass communication has cost advantages for such firms; thus, they rarely use direct selling. Exceptions can be found in poorer nations with low literacy levels, where direct selling may be the only way to reach consumers. Firms that sell industrial products or other complex products favor a push strategy. Direct selling allows the firm to educate potential consumers about the features of the product. This may not be necessary in advanced nations where a complex product has been in use for some time, where the product's attributes are well understood, where consumers are sophisticated, and where high-quality channels exist that can provide point-of-sale assistance. However, customer education may be important when consumers have less sophistication toward the product, which can be the case in developing nations or in advanced nations when a new complex product is being introduced, or where high-quality channels are absent or scarce.

Channel Length

The longer the distribution channel, the more intermediaries there are that must be persuaded to carry the product for it to reach the consumer. This can lead to inertia in the channel, which can make entry difficult. Using direct selling to push a product through many layers of a distribution channel can be expensive. In such circumstances, a firm may try to pull its product through the channels by using mass advertising to create consumer demand; once demand is created, intermediaries will feel obliged to carry the product.

In Japan, products often pass through two, three, or even four wholesalers before they reach the final retail outlet. This can make it difficult for foreign firms to break into the Japanese market. Not only must the foreign firm persuade a Japanese retailer to carry its product, but it may also have to persuade every intermediary in the chain to carry the product. Mass advertising may be one way to break down channel resistance in such circumstances. However, in countries such as India, which has a very long distribution channel to serve its massive rural population, mass advertising may not work because of low literacy levels, in which case the firm may need to fall back on direct selling or rely on the goodwill of distributors.

Media Availability

A pull strategy relies on access to advertising media. Around the world, especially the relatively developed world that includes some 80 countries, a large number of media are available, including print media (newspapers and magazines), broadcasting media (television and radio), and various forms using the Internet (e.g., social media). These media options have facilitated extremely focused advertising (e.g., MTV for teens and young adults, Lifetime for women, ESPN for sports enthusiasts, and Google targeted adverting). However, in some developing nations, the situation is more restrictive because mass media of all types are typically more limited. Consequently, a firm's ability to use a pull strategy is limited in some countries by media availability. In such circumstances, a push strategy is more attractive. For example, Unilever uses a push strategy to sell consumer products in rural India, where few mass media are available.

Media availability is limited by law in some cases. Few countries allow advertisements for tobacco and alcohol products on television and radio, though they are usually permitted in print media. When the leading Japanese whiskey distiller, Suntory, entered the U.S. market, it had to do so without television, its preferred medium. The firm spends about $50 million annually on television advertising in Japan. Similarly, while advertising pharmaceutical products directly to consumers is allowed in the United States, it is prohibited in many other advanced nations. In such cases, pharmaceutical firms must rely heavily on advertising and direct-sales efforts focused explicitly at doctors to get their products prescribed.

The Push-Pull Mix The optimal mix between push and pull strategies depends on product type and consumer sophistication, channel length, and media sophistication. Push strategies tend to be emphasized

- For industrial products or complex new products.
- When distribution channels are short.
- When few print or social media are available.

Pull strategies tend to be emphasized

- For consumer goods.
- When distribution channels are long.
- When sufficient print and social media are available to carry the marketing message.

GLOBAL ADVERTISING

In recent years, largely inspired by the work of visionaries such as Theodore Levitt, there has been much discussion about the pros and cons of standardizing advertising worldwide.[32] One of the most successful standardized campaigns in history was Philip Morris's promotion of Marlboro cigarettes. When the brand was repositioned, the idea was to ensure smokers that Marlboro cigarettes would maintain the customary flavor. The campaign theme of "Come to where the flavor is: Come to Marlboro country" was a worldwide success some time ago. Marlboro built on this when it introduced "the Marlboro man," a rugged cowboy smoking his Marlboro while riding his horse through the great outdoors. This ad proved successful in almost every major market around the world, and it helped propel Marlboro to the top of the world market.

For Standardized Advertising The support for global advertising is threefold. First, it has significant economic advantages. Standardized advertising lowers the costs of value creation by spreading the fixed costs of developing the advertisements over many countries. For example, McCann Erickson, claims to have saved Coca-Cola more than $100 million over 20 years by using certain elements of its campaigns globally.

Second, there is the concern that creative talent is scarce, so one large effort to develop a campaign will produce better results than 40 or 50 smaller efforts. A third justification for a standardized approach is that many brand names are global. With the substantial amount of international travel today and the considerable overlap in media across national borders, many international firms want to project a single brand image to avoid confusion caused by local campaigns. This is particularly important in regions such as Western Europe, where travel across borders is almost as common as travel across state lines in the United States.

Against Standardized Advertising There are two main arguments against globally standardized advertising. First, as we have seen repeatedly in this chapter and in Chapter 4, cultural differences among nations are such that a message that works in one nation can fail miserably in another. Cultural diversity makes it extremely difficult to develop a single advertising theme that is effective worldwide. Messages directed at the culture of a given country may be more effective than global messages.

Second, advertising regulations may block implementation of standardized advertising. For example, Kellogg could not use a television commercial it produced in Great Britain to promote its cornflakes in many other European countries. A reference to the iron and vitamin content of its cornflakes was not permissible in the Netherlands, where claims relating to health and medical benefits are outlawed. A child wearing a Kellogg T-shirt had to be edited out of the commercial

before it could be used in France because French law forbids the use of children in product endorsements. The key line "Kellogg's makes their cornflakes the best they have ever been" was disallowed in Germany because of a prohibition against competitive claims.[33]

Dealing with Country Differences

Some firms are experimenting with capturing some benefits of global standardization while recognizing differences in countries' cultural and legal environments. A firm may select some features to include in all its advertising campaigns and localize other features. By doing so, it may be able to save on some costs and build international brand recognition and yet customize its advertisements to different cultures.

Nokia tried to do this. Historically, Nokia had used a different advertising campaign in different markets. In 2004, however, when Nokia was still a Finnish company (and not part of Microsoft), the company launched a global advertising campaign that used the slogan "1001 reasons to have a Nokia imaging phone." Nokia did this to reduce advertising costs, capture some economies of scale, and establish a consistent global brand image. At the same time, Nokia tweaked the advertisements for different cultures. The campaign used actors from the region where the ad ran to reflect the local population, though they said the same lines. Local settings were also modified when showcasing the phones by, for example, using a marketplace when advertising in Italy or a bazaar when advertising in the Middle East.[34]

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Pricing Strategy

LO 16-5

Explain why and how a firm's pricing strategy might vary among countries.

International pricing strategy is an important component of the overall international marketing mix.[35] This section looks at three aspects of international pricing strategy. First, we examine the case for pursuing price discrimination, charging different prices for the same product in different countries. Second, we look at what might be called strategic pricing. Third, we review regulatory factors, such as government-mandated price controls and antidumping regulations that limit a firm's ability to charge the prices it would prefer in a country.

PRICE DISCRIMINATION

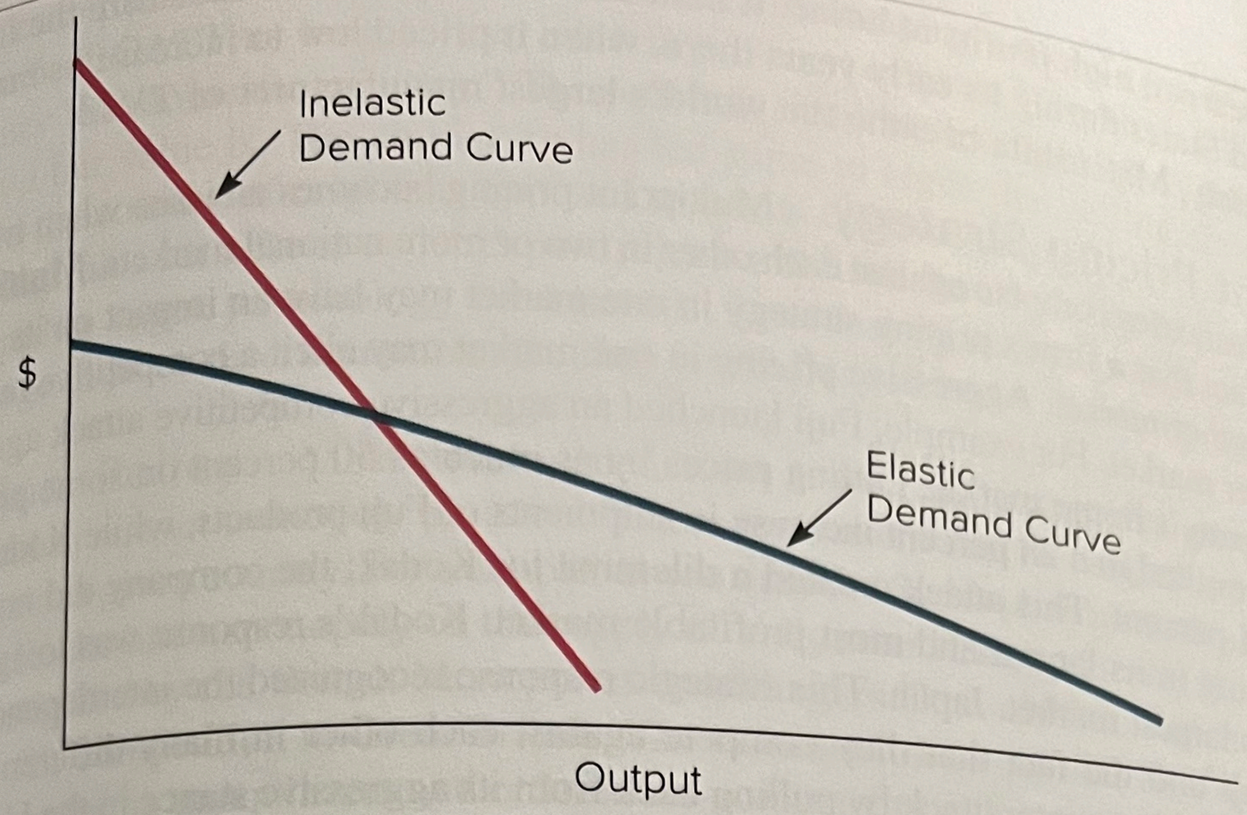
Price discrimination exists whenever consumers in different countries are charged different prices for the same product or for slightly different variations of the product.[36] Price discrimination involves charging whatever the market will bear; in a competitive market, prices may have to be lower than in a market where the firm has a monopoly. Price discrimination can help a company maximize its profits. It makes economic sense to charge different prices in different countries.

Two conditions are necessary for profitable price discrimination. First, the firm must be able to keep its national markets separate. If it cannot do this, individuals or businesses may undercut its attempt at price discrimination by engaging in arbitrage. Arbitrage occurs when an individual or business capitalizes on a price differential for a firm's product between two countries by purchasing the product in the country where prices are lower and reselling it in the country where prices are higher. For example, many automobile firms have long practiced price discrimination in Europe. A Ford Escort once cost $2,000 more in Germany than it did in Belgium. This policy broke down when car dealers bought Escorts in Belgium and drove them to Germany, where they sold them at a profit for slightly less than Ford was selling Escorts in Germany. To protect the market share of its German auto dealers, Ford had to bring its German prices into line with those being charged in Belgium. Ford could not keep these markets separate, unlike in Britain where the need for right-hand-drive cars keeps the market separate from the rest of Europe.

Is iPhone the Next BlackBerry?

BlackBerry now accounts for less than half a percentage point of smartphone sales in the United States, down from its dominating position as the market leader just a few years ago. The rise of Apple and Samsung in the mobile phone market has made BlackBerry nearly irrelevant today. At the same time, Apple is in a fierce battle against Android and Windows-based phones. Apple's smartphone market share has steadily declined in the global marketplace. Apple has also traditionally maintained higher prices for the iPhone by leveraging its brand value and gaining maximum profits during the process. Analysts believe that Apple could gain by showing some price flexibility on the iPhone, especially for weaker economies. Another initiative that Apple could take is to come up with a cheaper iPhone with lower specifications than the current iPhones. Where will Apple's iPhone be by the year 2030? Will it still be a strong force in the mobile phone market, or will it be the next BlackBerry?

Sources: S. Rodriguez, "BlackBerry Accounts for Less Than 0.5% of Smartphone Sales," *Los Angeles Times*, January 31, 2014, http://articles.latimes.com/2014/jan/31/business/la-fi-tn-blackberry-smartphone-sales-fourth-quarter-20140131; J. Pepitone, "New BlackBerry CEO Optimistic Despite Loss," *CNNMoney*, December 30, 2013; and L. Whitney, "iPhone Market Share Shrinks as Android, Windows Phone Grow," *CNET*, January 6, 2014.



16.3 FIGURE
Elastic and inelastic demand curves.
Source: C. W. L. Hill and G. T. M. Hult, Global Business Today (New York: McGraw-Hill Education, 2018).

The second necessary condition for profitable price discrimination is different price elasticities of demand in different countries. The **price elasticity of demand** is a measure of the responsiveness of demand for a product to change in price. Demand is said to be **elastic** when a small change in price produces a large change in demand; it is said to be **inelastic** when a large change in price produces only a small change in demand. Figure 16.3 illustrates elastic and inelastic demand curves. Generally, a firm can charge a higher price in a country where demand is inelastic.

price elasticity of demand
A measure of how responsive demand for a product is to changes in price.

elastic
A small change in price produces a large change in demand.

inelastic
When a large change in price produces only a small change in demand.

The elasticity of demand for a product in a given country is determined by a number of factors, of which income level and competitive conditions are the two most important. Price elasticity tends to be greater in countries with low income levels. Consumers with limited incomes tend to be very price conscious; they have less to spend, so they look much more closely at price. Thus, price elasticity for products such as personal computers is greater in countries such as India, where a PC is still a luxury item, than in the United States, where it is now considered a necessity. The same is true of the software that resides on those PCs; thus, to sell more software in India, Microsoft has had to introduce low-priced versions of its products into that market, such as Windows Starter Edition.

In general, the more competitors there are, the greater consumers' bargaining power will be and the more likely consumers will be to buy from the firm that charges the lowest price. Thus, many competitors cause high elasticity of demand. In such circumstances, if a firm raises its prices above those of its competitors, consumers will switch to the competitors' products. The opposite is true when a firm faces few competitors. When competitors are limited, consumers' bargaining power is weaker, and price is less important as a competitive weapon. Thus, a firm may charge a higher price for its product in a country where competition is limited than in one where competition is intense.

STRATEGIC PRICING

The concept of **strategic pricing** has three aspects, which we refer to as predatory pricing, multipoint pricing, and experience curve pricing. Both predatory pricing and experience curve pricing may violate antidumping regulations. After we review predatory and experience curve pricing, we will look at antidumping rules and other regulatory policies.

strategic pricing
The concept containing the three aspects: predatory pricing, multipoint pricing, and experience curve pricing.

Predatory Pricing

Predatory pricing is the use of price as a competitive weapon to drive weaker competitors out of a national market. Once the competitors have left the market, the firm can raise prices and enjoy high profits. For such a pricing strategy to work, the firm must normally have a profitable position in another national market, which it can use to subsidize aggressive pricing in the market it is trying to monopolize. Historically, many Japanese firms were accused of pursuing such a policy. The argument ran like this: Because the Japanese market was protected from foreign competition by high informal trade barriers, Japanese firms could charge high prices and earn high profits at home. They then used these profits to subsidize aggressive pricing overseas, with the goal of driving competitors out of those markets. Once this had occurred, so it is claimed, the Japanese firms then raised prices. Matsushita was accused of using this strategy to enter the U.S. TV market. As one of the major TV producers in Japan,

predatory pricing
Reducing prices below fair market value as a competitive weapon to drive weaker competitors out of the market ("fair" being cost plus some reasonable profit margin).

Matsushita earned high profits at home. It then used these profits to subsidize the losses it made in the United States during its early years there, when it priced low to increase its market penetration. Ultimately, Matsushita became the world's largest manufacturer of TVs.[37]

multipoint pricing
Occurs when a pricing strategy in one market may have an impact on a rival's pricing strategy in another market.

Multipoint Pricing Strategy

Multipoint pricing becomes an issue when two or more international businesses compete against each other in two or more national markets. **Multipoint pricing** refers to the fact that a firm's pricing strategy in one market may have an impact on its rivals' pricing strategy in another market. Aggressive pricing in one market may elicit a competitive response from a rival in another market. For example, Fuji launched an aggressive competitive attack against Kodak in the U.S. company's home market, cutting prices by as much as 50 percent on some products.[38] This price cutting resulted in a 28 percent increase in shipments of Fuji products, while Kodak's shipments dropped by 11 percent. This attack created a dilemma for Kodak: the company did not want to start price discounting in its largest and most profitable market. Kodak's response was to aggressively cut prices in Fuji's largest market, Japan. This strategic response recognized the interdependence between Kodak and Fuji and the fact that they compete against each other in many different nations. Fuji responded to Kodak's counterattack by pulling back from its aggressive stance in the United States.

The Kodak story illustrates an important aspect of multipoint pricing: Aggressive pricing in one market may elicit a response from rivals in another market. The firm needs to consider how its global rivals will respond to changes in its pricing strategy before making those changes. A second aspect of multipoint pricing arises when two or more global companies focus on particular national markets and launch vigorous price wars in those markets in an attempt to gain market dominance. In Brazil's market for disposable diapers, two U.S. companies, Kimberly-Clark and Procter & Gamble, entered a price war as each struggled to establish dominance in the market.[39] As a result, over three years, the cost of disposable diapers fell from $1 per diaper to 33 cents per diaper, while several other competitors, including indigenous Brazilian firms, were driven out of the market. Kimberly-Clark and Procter & Gamble are engaged in a global struggle for market share and dominance, and Brazil is one of their battlegrounds. Both companies can afford to engage in this behavior, even though it reduces their profits in Brazil, because they have profitable operations elsewhere in the world that can subsidize these losses.

Pricing decisions around the world need to be centrally monitored. It is tempting to delegate full responsibility for pricing decisions to the managers of various national subsidiaries, thereby reaping the benefits of decentralization. However, because pricing strategy in one part of the world can elicit a competitive response in another, central management needs to at least monitor and approve pricing decisions in a given national market, and local managers need to recognize that their actions can affect competitive conditions in other countries.

Experience Curve Pricing

We first encountered the experience curve in Chapter 12. As a firm builds its accumulated production volume over time, unit costs fall due to experience effects. Learning effects and economies of scale underlie the experience curve. Price comes into the picture because aggressive pricing (along with aggressive promotion and advertising) can build accumulated sales volume rapidly and thus move production down the experience curve. Firms farther down the experience curve have a cost advantage vis-à-vis those farther up the curve.

experience curve pricing
Aggressive pricing designed to increase volume and help the firm realize experience curve economies.

Many firms pursuing an **experience curve pricing** strategy on an international scale will price low worldwide in attempting to build global sales volume as rapidly as possible, even if this means taking large losses initially. Such a firm believes that in several years, when it has moved down the experience curve, it will be making substantial profits and have a cost advantage over its less aggressive competitors.

REGULATORY INFLUENCES ON PRICES

The ability to engage in either price discrimination or strategic pricing may be limited by national or international regulations. Most important, a firm's freedom to set its own prices is constrained by antidumping regulations and competition policy.

Antidumping Regulations

Both predatory pricing and experience curve pricing can run afoul of antidumping regulations. Dumping occurs whenever a firm sells a product for a price that is less than the cost of producing it. Most regulations, however, define dumping more

vaguely. For example, a country is allowed to bring antidumping actions against an importer under Article 6 of GATT as long as two criteria are met: sales at "less than fair value" and "material injury to a domestic industry." The problem with this terminology is that it does not indicate what a fair value is. The ambiguity has led some to argue that selling abroad at prices below those in the country of origin, as opposed to below cost, is dumping.

Antidumping rules set a floor under export prices and limit firms' ability to pursue strategic pricing. The rather vague terminology used in most antidumping actions suggests that a firm's ability to engage in price discrimination also may be challenged under antidumping legislation.

Competition Policy Most developed nations have regulations designed to promote competition and to restrict monopoly practices. These regulations can be used to limit the prices a firm can charge in a given country. For example, at one time the Swiss pharmaceutical manufacturer Hoffmann–La Roche had a monopoly on the supply of Valium and Librium tranquilizers. The company was investigated by the British Monopolies and Mergers Commission, which is responsible for promoting fair competition in Great Britain. The commission found that Hoffmann–La Roche was overcharging for its tranquilizers and ordered the company to reduce its prices 50 to 60 percent and repay excess profit of $30 million. Hoffmann–La Roche maintained unsuccessfully that it was merely engaging in price discrimination. Similar actions were later brought against Hoffmann–La Roche by the German cartel office and by the Dutch and Danish governments.[40]

Configuring the Marketing Mix

A firm might vary aspects of its marketing mix from country to country to take into account local differences in culture, economic conditions, competitive conditions, product and technical standards, distribution systems, government regulations, and the like. Such differences may require variation in product attributes, distribution strategy, communication strategy, and pricing strategy.

The cumulative effect of these factors made it rare that a firm would adopt the same marketing mix worldwide just a few years ago, and it holds true in many cases still. But we are also seeing a new generation of customers—younger customers—worldwide who appear more and more willing to engage in a "global" way in what they want, need, and use in their daily lives.

The movie industry and the financial services industry are often thought of as industries in which global standardization of the marketing mix is the norm. A financial services company such as American Express sells the same basic charge card service worldwide, utilizes the same basic fee structure for that product, and adopts the same basic global advertising message ("Don't leave home without it"). That said, Amex also runs into differences in national regulations, which means that it still has to vary aspects of its communication strategy from country to country.

Similarly, while McDonald's is often thought of as the quintessential example of a firm that sells the same basic standardized product worldwide, in reality, it varies one important aspect of its marketing mix—its menu—from country to country. McDonald's also varies its distribution strategy. In Canada and the United States, most McDonald's are located in areas that are easily accessible by car, whereas in more densely populated and less automobile-reliant societies of the world, such as Japan and Great Britain, location decisions are driven by the accessibility of a restaurant to pedestrian traffic. Because countries typically still differ along one or more of the dimensions discussed earlier, some customization of the marketing mix is normal.

Basically, there are significant opportunities for standardization along one or more elements of the marketing mix.[41] Firms may find that it is possible and desirable to standardize their global advertising message or core product attributes to realize substantial cost economies. They may find it desirable to customize their distribution and pricing strategy to take advantage of local differences. In reality, the "customization versus standardization" debate is not an all-or-nothing issue; it frequently makes sense to standardize some aspects of the marketing mix and customize others, depending on conditions in various national marketplaces.

Table 16.1 illustrates issues that should be evaluated to assess how standardized or customized the marketing mix needs to be for various international market segments. Keep in mind that a truly "globalized" product—a product that is 100 percent standardized across worldwide markets—is generally an illusion, but companies can come close by leveraging certain marketing mix attributes and customizing others.

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LO 16-6

Understand how to configure the marketing mix globally.

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16.1 TABLE

Questions to Address to Configure the Marketing Mix

Mix Element	Sample Questions to Address
Product Strategy	
Product core	Do the customers have similar product needs across international market segments?
Product adoption	How is the product bought by customers in the international market segments targeted?
Product management	How are established products versus new products managed for customers in the international market segments?
Product branding	What is the perception of the product brand by customers in the international market segments?
Distribution Strategy	
Distribution channels	Where is the product typically bought by customers in the international market segments?
Wholesale distribution	What is the role of wholesalers for the international market segments targeted?
Retail distribution	What is the availability of different types of retail stores in the international markets for the customer segments targeted?
Communication Strategy	
Advertising	How is product awareness created for a product to reach customers in the international market segments targeted?
Publicity	What role does publicity (e.g., public relations) play among customers in the international market segments targeted?
Mass media	What role do various media (e.g., TV, radio, newspapers, magazines, billboards) have in reaching customers in the international market segments targeted?
Social media	What role do various social media (e.g., Facebook, Twitter, blogs, virtual communities), mainly focused on user-generated content, have in communicating with customers in the international market segments targeted?
Sales promotion	Are rebates, coupons, and other sale offers a widespread activity to motivate customers in the international market segments targeted to buy a company's products?
Pricing Strategy	
Value	Is the price of a product critical to the customer's understanding (or perception) of the value of the product itself among customers in the international market segments?
Demand	Is the demand for the product among customers in the international market segments targeted similar to domestic demands?
Costs	Are the fixed and variable costs of the product the same when targeting customers in the international market segments (e.g., are there variable costs that change significantly when going international)?
Retail price	Are there trade tariffs, nontariff barriers, and/or other regulatory influences on price that will influence the pricing equation used to determine the retail price to customers in the international market segments?

Product Development and R&D

LO 16-7
Describe how globalization is affecting product development.

So far in this chapter, we have discussed several issues related to globalization of markets and brands, characteristics of the marketing mix (product attributes, distribution strategy, communication strategy, and pricing strategy), configuring the marketing mix, and international market research. These issues represent the core of this chapter's discussion of international marketing and R&D. However, firms that successfully develop and market new products can earn enormous returns, and this final section of the chapter addresses the interplay among international marketing, R&D, and manufacturing.

Examples of firms that have been very successful at mastering the interplay among international marketing, R&D, and manufacturing include DuPont, which has produced a steady stream of successful innovations such as cellophane, nylon, Freon, and Teflon (nonstick coating); Sony, whose successes include PlayStation and Blu-ray; Pfizer, the drug company that developed Viagra; 3M, which has applied its core competency in tapes and adhesives to developing a wide range of new products; Intel, which has consistently managed to lead in the development of innovative microprocessors to run personal computers; and Apple, with its string of hits, including the iPod, iPhone, and iPad. These and other success stories warrant a specific focus. We draw on the material up to this point in the chapter and combine it with the global production material in Chapter 15 to illustrate this interplay of marketing, R&D, and manufacturing.

In today's world, competition is as much about technological innovation as anything else. The pace of technological change has accelerated since the Industrial Revolution in the eighteenth century, and it continues to do so today. The result has been a dramatic shortening of product life cycles. Technological innovation is both creative and destructive.[42] An innovation can make established products obsolete overnight. But an innovation can also make a host of new products possible. Witness changes in the electronics industry. For 40 years before the early 1950s, vacuum tubes were a major component in radios and then in record players and early computers. The advent of transistors destroyed the market for vacuum tubes, but at the same time, it created new opportunities connected with transistors. Transistors took up far less space than vacuum tubes, creating a trend toward miniaturization that continues today. The transistor held its position as the major component in the electronics industry for just a decade. Microprocessors were developed in the 1970s, and the market for transistors declined rapidly. The microprocessor created yet another set of new-product opportunities: handheld calculators (which destroyed the market for slide rules), compact disc players (which destroyed the market for analog record players), personal computers (which destroyed the market for typewriters), and smartphones (which are making landline phones and some computer gadgets obsolete).

This "creative destruction" unleashed by technological change makes it critical that a firm stays on the leading edge of technology, lest it lose out to a competitor's innovations. As explained next, this not only creates a need for the firm to invest in R&D, but also requires the firm to establish R&D activities at those locations where expertise is concentrated. As we shall see, leading-edge technology on its own is not enough to guarantee a firm's survival. The firm must also apply that technology to developing products that satisfy consumer needs, and it must design the product so that it can be manufactured in a cost-effective manner. To do that, the firm needs to build close links among R&D, marketing, and manufacturing. This is difficult enough for the domestic firm, but it is even more problematic for the international business competing in an industry where consumer tastes and preferences differ from country to country.[43] With all of this in mind, we move on to examine locating R&D activities and building links among R&D, marketing, and manufacturing.

THE LOCATION OF R&D

Ideas for new products are stimulated by the interactions of scientific research, demand conditions, and competitive conditions. Other things being equal, the rate of new-product development seems to be greater in countries where

- More money is spent on basic and applied research and development.
- Underlying demand is strong.
- Consumers are affluent.
- Competition is intense.[44]

Basic and applied research and development discovers new technologies and then commercializes them. Strong demand and affluent consumers create a potential market for new products. Intense competition among firms stimulates innovation as the firms try to beat their competitors and reap potentially enormous first-mover advantages that result from successful innovation.

For most of the post–World War II period, the country that ranked highest on these criteria was the United States. The United States devoted a greater proportion of its gross domestic product to R&D than any other country did. Its scientific establishment was the largest and most active in the world. U.S. consumers were the most affluent, the market was large, and competition among U.S. firms was brisk. Due to these factors, the United States was the market where most new products were developed and introduced. Accordingly, it was the best location for R&D activities; it was where the action was.

Over the past 25 years, things have been changing quickly. The U.S. monopoly on new-product development has weakened considerably. Although U.S. firms are still at the leading edge of many new technologies, Asian and European firms are also strong players. Companies such as Sony, Sharp, Samsung, Ericsson, Nokia, and Philips have often driven product innovation in their respective industries. In addition, Japan, the European Union, and increasingly parts of China and other developing nations are large, affluent markets, and the wealth gap between them and the United States is closing.

As a result, it is often no longer appropriate to consider the United States as the lead market. In video games, for example, Japan is often the lead market, with companies such as Sony and Nintendo introducing their latest video-game players in Japan some six months before they introduce them in the United States. However, it often is questionable whether any developed nation can be considered the lead market. To succeed in today's high-technology industries, it is often necessary to simultaneously introduce new products in all major industrialized markets. When Intel introduces a new microprocessor, for example, it does not first introduce it in the United States and then roll it out in Europe a year later. It introduces it simultaneously around the world. The same is true of Microsoft with new versions of its Windows operating system or Samsung with a new smartphone.

Because leading-edge research is now carried out in many locations around the world, the argument for centralizing R&D activity in the United States is not as strong as it was three decades ago. (It used to be argued that centralized R&D eliminated duplication.) Much leading-edge research is now occurring in Asia and Europe. Dispersing R&D activities to those locations allows a firm to stay close to the center of leading-edge activity to gather scientific and competitive information and to draw on local scientific resources.[45] This may result in some duplication of R&D activities, but the cost disadvantages of duplication are outweighed by the advantages of dispersion.

For example, to expose themselves to the research and new-product development work being done in Japan, many U.S. firms have set up satellite R&D centers in Japan. U.S. firms that have established R&D facilities in Japan include Corning, Texas Instruments, IBM, Procter & Gamble, Pfizer, DuPont, Monsanto, and Microsoft.[46] The National Science Foundation (NSF) has documented a sharp increase in the proportion of total R&D spending by U.S. firms that is now done abroad.[47] For example, Bristol-Myers Squibb has 12 facilities in five countries. At the same time, to internationalize their own research and gain access to U.S. talent, many European and Asian firms are investing in U.S.-based research facilities, according to the NSF.

INTEGRATING R&D, MARKETING, AND PRODUCTION

Although a firm that is successful at developing new products may earn enormous returns, new-product development has a high failure rate. One study of product development in 16 companies in the chemical, drug, petroleum, and electronics industries suggested that only about 20 percent of R&D projects result in commercially successful products or processes.[48] Another in-depth case study of product development in three companies (one in chemicals and two in drugs) reported that about 60 percent of R&D projects reached technical completion, 30 percent were commercialized, and only 12 percent earned an economic profit that exceeded the company's cost of capital.[49] Along the same lines, another study concluded that one in nine major R&D projects, or about 11 percent, produced commercially successful products.[50] In sum, the evidence suggests that only 10 to 20 percent of major R&D projects give rise to commercially successful products.

The reasons for such high failure rates are various and include development of a technology for which demand is limited, failure to adequately commercialize promising technology, and inability to manufacture a new product cost effectively. Firms can reduce the probability of making such mistakes by insisting on tight cross-functional coordination and integration among three core functions involved in the development of new products: R&D, marketing, and production.[51] Tight cross-functional integration among R&D, production, and marketing can help a company ensure that

1. Product development projects are driven by customer needs.
2. New products are designed for ease of manufacture.
3. Development costs are kept in check.
4. Time to market is minimized.

Close integration between R&D and marketing is required to ensure that product development projects are driven by the needs of customers. A company's customers can be a primary source of new-product ideas. Identification of customer needs, particularly unmet needs, can set the context within which successful product innovation occurs. As the point of contact with customers, the marketing function of a company can provide valuable information in this regard. Integration of R&D and marketing is crucial if a new product is to be properly commercialized. Without integration of R&D and marketing, a company runs the risk of developing products for which there is little or no demand.

Integration between R&D and production can help a company design products with manufacturing requirements in mind. Designing for manufacturing can lower costs and increase product quality. Integrating R&D and production can also help lower development costs and speed products to market. If a new product is not designed with manufacturing capabilities in mind, it may prove too difficult to build. Then the product will have to be redesigned, and both overall development costs and the time it takes to bring the product to market may increase significantly. Making design changes during product planning could increase overall development costs by 50 percent and add 25 percent to the time it takes to bring the product to market.[52] Many quantum product innovations require new processes to manufacture them, which makes it all the more important to achieve close integration between R&D and production. Minimizing time to market and development costs may require the simultaneous development of new products and new processes.[53]

CROSS-FUNCTIONAL TEAMS One way to achieve cross-functional integration is to establish cross-functional product development teams composed of representatives from R&D, marketing, and production.[54] Because these functions may be located in different countries, the team will sometimes have a multinational membership. The objective of a team should be to take a product development project from the initial concept development to market introduction. A number of attributes seem to be important for a product development team to function effectively and meet all its development milestones.[55]

First, the team should be led by a "heavyweight" project manager who has high status within the organization and who has the power and authority required to get the financial and human resources the team needs to succeed. The leader should be dedicated primarily, if not entirely, to the project. He or she should be someone who believes in the project (a champion) and who is skilled at integrating the perspectives of different functions and at helping personnel from different functions and countries work together for a common goal. The leader should also be able to act as an advocate of the team to senior management.

Second, the team should be composed of at least one member from each key function. The team members should have a number of attributes, including an ability to contribute functional expertise, high standing within their function, a willingness to share responsibility for team results, and an ability to put functional and national advocacy aside. It is generally preferable if core team members are 100 percent dedicated to the project for its duration. This ensures their focus on the project, not on the ongoing work of their function.

Third, the team members should physically be in one location if possible to create a sense of camaraderie and to facilitate communication. This presents problems if the team members are drawn from facilities in different nations. One solution is to transfer key individuals to one

location for the duration of a product development project. Fourth, the team should have a clear plan and clear goals, particularly with regard to critical development milestones and development budgets. The team should have incentives to attain those goals, such as receiving pay bonuses when major development milestones are hit. Fifth, each team needs to develop its own processes for communication and conflict resolution. For example, one product development team at Quantum Corporation, a California-based manufacturer of hard drives for personal computers, instituted a rule that all major decisions would be made and conflicts resolved at meetings that were held every Monday afternoon. This simple rule helped the team meet its development goals. In this case, it was also common for team members to fly in from Japan, where the product was to be manufactured, to the U.S. development center for the Monday morning meetings.[56]

BUILDING GLOBAL R&D CAPABILITIES

The need to integrate R&D and marketing to adequately commercialize new technologies poses special problems in the international business because commercialization may require different versions of a new product to be produced for various countries.[57] To do this, the firm must build close links between its R&D centers and its various country operations. A similar argument applies to the need to integrate R&D and production, particularly in those international businesses that have dispersed production activities to different locations around the globe in consideration of relative factor costs and the like.

Integrating R&D, marketing, and production in an international business may require R&D centers in North America, Asia, and Europe that are linked by formal and informal integrating mechanisms with marketing operations in each country in their regions and with the various manufacturing facilities. In addition, the international business may have to establish cross-functional teams whose members are dispersed around the globe. This complex endeavor requires the company to utilize formal and informal integrating mechanisms to knit its far-flung operations together so they can produce new products in an effective and timely manner.

While there is no one best model for allocating product development responsibilities to various centers, one solution adopted by many international businesses involves establishing a global network of R&D centers. Within this model, fundamental research is undertaken at basic research centers around the globe. These centers are normally located in regions or cities where valuable scientific knowledge is being created and where there is a pool of skilled research talent (e.g., Silicon Valley in the United States, Cambridge in England, Kobe in Japan, Singapore). These centers are the innovation engines of the firm. Their job is to develop the basic technologies that become new products.

These technologies are picked up by R&D units attached to global product divisions and are used to generate new products to serve the global marketplace. At this level, commercialization of the technology and design for manufacturing are emphasized. If further customization is needed so the product appeals to the tastes and preferences of consumers in individual markets, such redesign work will be done by an R&D group based in a subsidiary in that country or at a regional center that customizes products for several countries in the region.

Hewlett-Packard has seven basic research centers located in Palo Alto, California; Bristol, England; Haifa, Israel; Beijing, China; Singapore; Bangalore, India; and St. Petersburg, Russia.[58] These labs are the seedbed for technologies that ultimately become new products and businesses. They are the company's innovation engines. The Palo Alto center, for example, pioneered HP's thermal ink-jet technology. The products are developed by R&D centers associated with HP's global product divisions. Thus, HP's Consumer Products Group, which has its worldwide headquarters in San Diego, California, designs, develops, and manufactures a range of imaging products using HP-pioneered thermal ink-jet technology. Subsidiaries might then customize the product so that it best matches the needs of important national markets. HP's subsidiary in Singapore, for example, is responsible for the design and production of thermal ink-jet printers for Japan and other Asian markets. This subsidiary takes products originally developed in San Diego and redesigns them for the Asian market. In addition, the Singapore subsidiary has taken the lead from San Diego in the design and development of certain portable thermal ink-jet printers. HP delegated this responsibility to Singapore because this subsidiary has acquired important competencies in the design and production of thermal ink-jet products, so it has become the best place in the world to undertake this activity.

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