CASE 1-2

McDonald's Expands Globally While Adjusting Its Local Recipe

McDonald's Corporation is a fast-food legend whose famous golden arches can be found in 118 different countries. The company is the undisputed leader in the quick-service restaurant (QSR) segment of the hospitality industry, with more than twice the system-wide revenues of Burger King. McDonald's built its reputation by promising and delivering three things to customers: inexpensive food with consistent taste regardless of location; quick service; and a clean, familiar environment.

The company was also a pioneer in the development of convenience-oriented features such as drive-through windows and indoor playgrounds for children. Today, thanks to memorable advertising and intensive promotion efforts, McDonald's is one of the world's most valuable brands. The golden arches are said to be the second most recognized symbol in the world, behind the Olympic rings. In the United States alone, McDonald's typically spends about twice as much on advertising as Burger King and Wendy's.

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

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

Hasan Jamali/AP Wide World Photos.

Asia-Pacific

The Indian market appears to hold huge potential for McDonald's. In fall 1996, the company opened its first restaurants in New Delhi and Bombay. In Delhi, McDonald's competes with Nirula's, a quick-service restaurant chain with several dozen outlets; in addition, there are hundreds of smaller regional chains throughout India. The U.S.-based Subway chain opened its first Indian location in 2001; Pizza Hut, KFC, and Domino's Pizza have also entered the market. The Pizza Hut on Juhu Road in Bombay is housed in a three-story-tall building with large plate glass windows and central air conditioning. On most nights a long line of customers forms outside.

Indian demand for meals from the major food chains is growing at a double-digit rate; annual total sales exceed $1 billion. With those trends in mind, McDonald's identifies strategic locations in areas with heavy pedestrian traffic, such as the shopping street in Bandra in the Bombay suburbs. Other restaurant locations include a site near a college in Vile Parle and another opposite the Andheri train station; in all, McDonald's India operated 208 locations at the end of 2010. Plans call for opening another 40 outlets in 2011. Prices are lower than in other countries; most sandwiches cost about 40 rupees (less than $1). Drinks cost 15 rupees, and a packet of French fries is 25 rupees. A complete meal costs the equivalent of about $2.

Because the Hindu religion prohibits eating beef, McDonald's developed the Chicken Maharaja Mac specifically for India. Despite protests from several Hindu nationalist groups, the first McDonald's attracted huge crowds to its site near the Victoria railway terminal; customers included many tourists from across India and from abroad as well as locals commuting to and from work. In short order, however, Hindu activists renewed their protests, this time accusing the company of using beef tallow in its cooking. Management responded by posting signs reading "No beef or beef products sold here," but the doubts raised by the controversy kept many potential customers away.

Since that time, McDonald's has worked steadily to prove that it is sensitive to Indian tastes and traditions. As is true throughout the world, McDonald's emphasizes that most of the food ingredients it uses—as much as 95 percent—are produced locally. In addition, to accommodate vegetarians, each restaurant has two separate food preparation areas. The "green" kitchen is devoted to vegetarian fare such as the spicy McAloo Tikka potato burger, Pizza McPuff, and Paneer Salsa McWrap. Meat items are prepared on the red side. Even the mayonnaise is made without eggs. Some of the new menu items developed for India are being introduced in Europe and the United States.

China is currently home to the world's largest McDonald's; China is also the fastest-growing market in terms of number of new store openings. The first Chinese location opened in mid-1992 in central

Beijing, a few blocks from Tiananmen Square. Despite having a 20-year lease for the site, McDonald's found itself in the middle of a dispute between the central government and Beijing's city government. City officials decided to build a new $1.2 billion commercial complex in the city center and demanded that McDonald's vacate the site. McDonald's was forced to abandon the location. Despite the turbulent start, McDonald's now has more than 1,000 restaurants in China. Plans call for opening 600 new locations by 2013. The restaurants purchase 95 percent of their supplies, including lettuce, from local sources.

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

Sapna Nayak, food analyst at Raobank India

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

Western Europe

The golden arches are a familiar sight in Europe, particularly in France, Germany, and the United Kingdom. There is even a four-star Golden Arch hotel in Zurich. Overall, Europe contributes about 40 percent of both revenue and operating income, making it a key world region.

France's tradition of culinary excellence makes it a special case in Europe; dining options range from legendary three-star Michelin restaurants to humble neighborhood bistros. From the time McDonald's opened its first French outlet in 1972, policymakers and media commentators have voiced concerns about the impact of fast food on French culture. Even so, with nearly 1,000 outlets, France today represents McDonald's third-largest market in Europe.

However, controversy has kept the company in the public eye. For example, some French citizens objected when McDonald's became the official food of the World Cup finals that were held in France in 1998. In August 1999, a sheep farmer named Jose Bové led a protest against construction of the 851st French McDonald's near the village of Millau. The group used construction tools to dismantle the partially finished structure. Bové told the press that the group had singled out McDonald's because, in his words, it is a symbol of America, "the place where they not only promote globalization and industrially produced food but also unfairly penalize our peasants." In 2002, executives at McDonald's France even ran an ad in *Femme Actuelle* magazine suggesting that children should eat only one meal at McDonald's per week.

McDonald's French franchisees experience some of the same competitive pressures facing the U.S. units; there are also key differences. For example, local bistro operators have enjoyed great success selling fresh-baked baguettes filled with ham and brie, effectively neutralizing McDonald's advantage of fast service and low prices. In response, executives hired an architecture firm to develop new restaurant designs and reimage the French operations.

A total of eight different themes were developed; many of the redesigned stores have hardwood floors and exposed brick walls. Signs are in muted colors rather than the chain's signature red and yellow, and the golden arches are displayed more subtly. Overall, the restaurants don't look like McDonald's elsewhere. The first redesigned store is located on the Champs Elysées on a site previously occupied by a Burger King; called "Music," the restaurant provides diners with the opportunity to listen to music on iPods and watch music videos on TV monitors. In some locations, lime green Danish designer armchairs have replaced plastic seats. As McDonald's locations in France undergo style makeovers, some franchisees report sales increases of 10 to 20 percent. Encouraged by these results, McDonald's has embarked on an ambitious program to refurbish several thousand outlets in various countries.

Central and Eastern Europe

January 31, 2010, marked the 20th anniversary of McDonald's arrival in the Soviet Union. The first Moscow McDonald's was built on Pushkin Square, near a major metro station just a few blocks from the Kremlin. It has 700 indoor seats and another 200 outside. It boasts 800 employees and features a 70-foot counter with 27 cash registers, equivalent to 20 ordinary McDonald's rolled into one. For its 20th birthday celebration, the Pushkin Square location offered customers a "buy one, get one free" hamburger promotion; accordion-wielding musicians provided background music.

Khamzat Khazbulatov was selected to manage the first store; today, he is director of McDonald's operations for all of Russia. At present, there are 235 McDonald's restaurants in Russia, and the company employs more than 25,000 people. To ensure a steady supply of high-quality raw materials, the company built McComplex, a huge $50 million processing facility on the outskirts of Moscow. McDonald's also worked closely with local farmers to boost yields and quality. Now the facility has been turned over to private companies that today provide 80 percent of the ingredients used in Russia. For example, Wimm-Bill-Dann supplies dairy products to McDonald's; in 2002, it became the first Russian company to be listed on the New York Stock Exchange. Overall, 100,000 people are employed by companies in McDonald's supply chain.

Ukraine and Belarus are among the other members of the Commonwealth of Independent States with newly opened restaurants. The first Ukrainian McDonald's opened in Kiev in 1997; by 2007, the chain had expanded to 57 locations in 16 cities. Plans call for up to 100 restaurants, for a total investment of $120 million.

McDonald's has also set its sights on Central Europe, where plans call for hundreds of new restaurants to be opened in Croatia, Slovakia, Romania, and other countries. In 2010, McDonald's Czech Republic restaurants featured a special lineup of New York-themed sandwiches that were promoted with the iconic "I Heart NY" logo. Advertisements promised "Another burger each week"; the offerings included Wall Street Beef ("grilled beef, cheese, crispy bacon, fresh lettuce and onion with BBQ sauce on an oval bun topped with sesame seeds"); Broadway Chicken; SoHo Grande; Manhattan Grilled Chicken; and Brooklyn Classic.

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

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

Refocusing on the U.S. Market

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

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

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

Charlie Bell, a former executive at McDonald's Europe who was promoted to chief operating officer, didn't mince words about the company's advertising. "For one of the world's best brands, we have missed the mark," he said before the summit meeting. In June 2002, the company announced that it had picked the phrase "i'm lovin' it" as its new global marketing theme; the copy was proposed by Heye & Partner, a DDB Worldwide unit located in Germany. Tragically, within a few months, both Cantalupo and Bell died unexpectedly.

Jim Skinner, the company's current chief executive officer, instituted a "Plan to Win" initiative to increase McDonald's momentum. The core idea was to make McDonald's "better, not just bigger." Skinner identified five main drivers of McDonald's: people, products, place, price, and promotion.

Even as McDonald's executives attempted to come to grips with the problems facing their company, various business experts were offering advice of their own. In the mid-1990s, one market analyst said, "McDonald's is similar to Coca-Cola 10 years ago. It's on the verge of becoming an international giant, with the United States as a major market, but overseas as the driving force." Adrian J. Slywotzky, author of *Value Migration*, noted, "McDonald's needs to move the question from 'How can we sell more hamburgers?' to 'What does our brand allow us to consider selling to our customers?'" Mark DiMassimo, chief executive of a New York–based company that specializes in brand advertising, called McDonald's "a large lost organization that is searching for a strategy." In his view, "The company must focus, focus, focus, and stand for one thing."

There is ample evidence that, 10 years after its implementation, the Plan to Win strategy has been a success. *Consumer Reports* lauded the company's efforts to upgrade its coffee program. Consumers have embraced "better-for-you" menu items such as salads and sandwiches. The company is also seeking ways to be more environmentally conscious by using less plastic packaging and recycling more. Denis Hennequin, the executive in charge of European operations, is pleased with the results of his reimaging campaign. He said, "I'm changing the story. We've got to be loyal to our roots, we have to be affordable, we have to be convenient . . . but we have to add new dimensions."

Despite the challenging economic environment, McDonald's total stock return for the 3-year period 2007 through 2009 was the highest among the 30 companies that comprise the Dow Jones Industrial Average. The company's strong financial results have given it the resources to move forward with a remodeling initiative for stores in the United States. The price tag: A whopping $1 billion. The upgrades are partly a response to the positive results from revamped European operations; the makeover also reflects an appreciation for retail design principles used by Apple, Starbucks, and other trendsetters. By 2015, most of McDonald's 14,000 U.S. stores will be updated.

McDonald's executives intend to create a modern, streamlined environment that will encourage customers to stay longer and spend more. Some of the changes are dramatic: Gone are the red roofs and splashes of neon yellow that many associate with iconic spokes-clown Ronald McDonald. The new color palette includes subtle shades of orange, yellow, and green. Also on tap: softer lighting and comfortable, stylish new furniture. As Jim Carras, a senior U.S. executive, noted, "McDonald's has to change with the times. And we have to do so faster than we ever have before."

Discussion Questions

1. Identify the key elements in McDonald's global marketing strategy. In particular, how does McDonald's approach the issue of standardization? Does McDonald's think global and act local? Does it also think local and act global?
2. Do you think government officials in developing countries such as Russia, China, and India welcome McDonald's? Do consumers in these countries welcome McDonald's? Why or why not?
3. The Plan to Win initiative is built around five factors that drive McDonald's business: people, products, place, price, and promotion. As a student of marketing, what can you say about these factors?
4. Is it realistic to expect that McDonald's—or any well-known company—can expand globally without occasionally making mistakes or generating controversy? Why do antiglobalization protesters around the world frequently target McDonald's?

Visit the Web Site

See www.mcdonalds.com
for a directory to country-specific sites.

Sources: Bruce Horovitz, "McDonald's Revamps Stores to Look More Upscale," *USA Today* (May 8, 2011), pp. 1B, 2B; Andrew E. Kramer, "Russia's Evolution, as Seen Through the Golden Arches," *The New York Times* (February 2, 2010), p. B3; Janet Adamy, "As Burgers Boom in Russia, McDonald's Touts Discipline," *The Wall Street Journal* (October 16, 2007), pp. A1, A17; Jenny Wiggins, "Burger, Fries, and a Shake-Up," *Financial Times* (January 27, 2007), p. 7; Steven Gray, "Beyond Burgers: McDonald's Menu Upgrade Boosts Meal Prices and Results," *The Wall Street Journal* (February 18–19, 2006), pp. A1, A7; Jeremy Grant, "Golden Arches Bridge Local Tastes," *Financial Times* (February 9, 2006), p. 10; Saritha Rai, "Tastes of India in U.S. Wrappers," *The New York Times* (April 29, 2003), pp. W1, W7; Bruce Horovitz, "It's Back to Basics for McDonald's," *USA Today* (May 21, 2003), pp. 1B, 2B; Sherri Day, "After Years at Top, McDonald's Strives to Regain Ground," *The New York Times* (March 3, 2003), pp. A1, A19; Sherri Day and Stuart Elliot, "At McDonald's, an Effort to Restore Lost Luster," *The New York Times* (April 8, 2003), pp. B1, B4; Shirley Leung and Suzanne Vranica, "Happy Meals Are No Longer Bringing Smiles at McDonald's," *The Wall Street Journal* (January 31, 2003), p. B1; Shirley Leung and Ron Lieber, "The New Menu Option at McDonald's: Plastic," *The Wall Street Journal* (November 26, 2002), pp. D1, D2; Shirley Leung, "McHaute Cuisine: Armchairs, TVs and Espresso—Is It McDonald's?" *The Wall Street Journal* (August 30, 2002), pp. A1, A6; Bruce Horovitz, "McDonald's Tries a New Recipe to Revive Sales," *USA Today* (July 10, 2001), pp. 1A, 2A; Geoff Winestock and Yaroslav Trofimov, "McDonald's Reassures Italians About Beef," *The Wall Street Journal* (January 16, 2001), pp. A3, A6.

CASE 4-2
Disney Learns to "Act Local" on the Global Stage

The Walt Disney Company, home to Mickey Mouse, Donald Duck, and other iconic characters, has a stellar reputation in many parts of the world for its family-friendly entertainment offerings. The company's parks and resorts division operates theme parks in five global locations, including a recent $1.8 billion park in Hong Kong. Disney's fabled studio entertainment unit has an illustrious history in both animation and live-action features. *The Lion King*, released in 1994, is the highest grossing animated film of all time. More recently, Disney has enjoyed massive hits with live-action features. These include *Pirates of the Caribbean* and its sequels as well as classic American fare such as the TV show *High School Musical*.

However, despite high worldwide awareness levels of the Disney brand, as of 2006 only 25 percent of the company's revenues came from outside the United States. Historically, the Disney team has created products at its headquarters in Burbank, California, and then exported them to the rest of the world. Now, as the company targets China, India, South Korea, and other emerging markets, it is departing from its "one size fits all" approach. One factor driving the strategy change: the first-year visitor count in Hong Kong fell short of the target figure of 5.6 million people. This prompted company executives to step up efforts to educate the Chinese about Mickey Mouse, Donald Duck, and other Disney characters. As Bill Ernest, managing director, told the *Financial Times*, "If you haven't grown up with the brand, the stories, or the theme, you are not quite sure what you are walking into."

In Hong Kong, Disney officials were slow to recognize that Chinese vacationers who live on the mainland often book package tours. Tour operators choose restaurants, shopping opportunities, and other destinations that generate the highest fees and commissions. At first, Hong Kong Disneyland didn't offer a tour package that included dinners. A new "dining with Disney" program was quickly rolled out. To round out the promotion, individual tour operators were offered a 50 percent individual discount as an incentive to visit Disneyland personally so they would have first-hand experience at the park.

> *"Disney has learned that they can't impose the American will—or Disney's version of it—on another continent. They've bent over backward to make Hong Kong Disneyland blend in with the surroundings."*[47]
>
> **Dennis McAlpine, media and entertainment research specialist**

> *"We have been U.S.-centric forever. We realize that if we're going to be a global network, then we need to solicit material from around the world."*[48]
>
> **Gary Marsh, Disney Channel Worldwide, commenting on Disney's new programming divisions in the UK and Japan**

Disney also went to great lengths to capitalize on an astrological coincidence: According to the traditional Chinese calendar, 2008 was the year of the rat. In Hong Kong, Mickey and Minnie Mouse wore special red costumes as Disney proclaimed 2008 to be the "Year of the Mouse." Because the Chinese government tightly controls television and motion picture standards, Disney emphasized affordable consumer products such as plush toys and Disney-themed clothing to generate awareness and interest in the Disney brand.

In 2009, amidst the global economic downturn and ongoing challenges at Hong Kong Disneyland, Disney's Parks and Resorts division announced plans for a new $3.6 billion park in Shanghai. The proposed park will be owned jointly by Disney and the Shanghai municipal government. Consisting of a theme park, hotel, and shops, the development would create 50,000 much-needed jobs. Shanghai Disneyland is an important element in Disney's strategy for penetrating the local market. However, the proposal does not address Disney's need for increased media exposure; company officials believe that a Chinese Disney TV channel is essential to build awareness of the Disney brand and interest in the new theme park.

Disney's other divisions are also pursuing a more localized approach in key emerging markets. As Jason Reed, general manager for Walt Disney Studios International Productions, noted, "We've been very successful with our big global productions, such as *Pirates of the Caribbean* and *National Treasure*. But we think there's a natural way to supplement these films in areas like China, Russia, and India—areas that have built-in film traditions."

For example, in India Disney is abandoning its go-it-alone policy and partnering with local companies such as Yash Raj Films. One new Hindi-language show, *Dhoom Machaao Dhoom*, concerns a girl's quest for identity after living in the United States; another show, *Vicky and Vetal*, concerns a boy's friendship with a 300-year-old ghost. The new approach is clearly paying off. In 2008, Disney released *Roadside Romeo*, its first animated feature developed specifically for India. The film was box-office gold, with the best opening weekend of any Disney feature in India.

Disney is hoping to appeal to India's family-oriented middle-class consumers; core themes include "believe in yourself, express yourself, and celebrate your family." Because the number of cable television subscribers is increasingly rapidly, Disney launched the Disney Channel and Toon Disney. In addition, the company acquired Hugama, a children's channel. Disney is also making Indian versions of its hit movie *High School Musical*. One challenge in India is the number of languages and dialects. *Roadside Romeo* was released in Hindi, Tamil, and Teluga. Future projects may be produced specifically for southern India where movie preferences are markedly different than in the north.

Disney is "going native" in other emerging markets as well. 2009's *Book of Masters* was the company's first live-action film for the Russian market. A Russian version of *High School Musical* is also in the works. Next up: the Middle East. As Disney's Jason Reed says, "There's a really strong affinity between the strong family values in the region and the Disney brand. We want to go out and try to make a film that will play to families from North Africa to the Gulf States."

Discussion Questions

1. Why is it necessary for Disney to build brand awareness in China and other emerging markets?
2. Do you agree with Disney's decision to pursue a localization approach in emerging markets?
3. Why is *High School Musical* so successful in global markets?

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[47] Michael Schuman, "Disney's Great Leap into China," *Time* (July 18, 2005), p. 34.
[48] Matthew Garrahan, "Disney Ventures into Famous Five Territory," *Financial Times* (December 4, 2006), p. 15.

CASE 5-2
Gambling Goes Global on the Internet

Mankind has engaged in gambling for many centuries. Archeologists have unearthed six-sided dice dating from around 3000 B.C. Ancient Egyptians played a game resembling backgammon. On the Indian subcontinent more than 3,500 years ago, there were public and private gambling houses, dice games, and betting on fights between animals. Farther east, Asian cultures also have a rich and long tradition of gambling. As cultural artifacts, playing cards had their primitive origins in Asia.

When Europeans arrived in North America, they found that the native peoples had been gambling in a variety of ways for centuries. Of course, the European settlers and colonists were no strangers to gambling themselves. They brought with them a penchant for gambling in various forms, including card-playing, dice games, and lotteries. Even the Puritan settlers played cards.

Much of America's Revolutionary War was funded from lottery proceeds. Likewise, several of the young nation's new universities, including Columbia, Yale, and Princeton, were founded with substantial financial assistance from lotteries. America's connection to gambling has continued throughout its Civil War, two World Wars, and the emergence of Nevada as the icon of "Las Vegas-style" gambling.

Today, gambling has gone global. This is not surprising, given gambling's prevalence through time around the world. The Internet Age is creating new opportunities for gamblers as well as challenges for those wanting to limit the spread of gambling and access to it. It is no longer necessary to be physically present in a casino or horse track to place bets on blackjack, sporting events, and horse racing. "Virtual" casinos now offer gamblers a wide range of online gaming opportunities.

In the 1990s, online casinos proliferated as Internet entrepreneurs sought to satisfy the worldwide demand for online gaming. Rodolphe Durand, a strategy professor and author of *The Pirate Organization*, has noted that, in Europe, these organizations originally operated in the "pirate space" as offshore activities. It was illegal in the countries where people were gambling. It was only later that rules, regulations, and laws were framed to allow a legitimate industry to flourish in Great Britain, France, and other European countries. Today, these companies are based outside the United States because of questions about the legality of such activity under state and federal law. Some, including Gibraltar-based Party Digital Entertainment Plc and 888 Holdings Plc, are publicly traded corporations.

Despite its long history of gambling, the United States has also engaged in strict regulation of the industry. The surge in Internet gaming triggered efforts to ban such activity and to prosecute the principals of the so-called offshore online casinos. This regulatory action has angered governments in various countries, especially smaller countries where the online casinos are based. One country, Antigua and Barbuda (Antigua), filed a claim with the WTO in 2004 arguing that U.S. laws and policies pertaining to online gambling violate the terms of a fair trade agreement known as the General Agreement on Trade in Services (GATS).

Antigua claimed that the United States discriminated against foreign suppliers of "recreational services," including Internet gaming. The claim was based on the following argument: Even as it maintains a number of federal laws that prohibit offshore Internet gaming, the United States exempts off-track betting on horse races over the Internet from these same federal laws. According to the suit, this situation benefits domestic interests at the expense of offshore casinos.

In 2005, a WTO compliance panel ruled that the United States had, in fact, discriminated between foreign and domestic suppliers of gambling services. But the panel gave the United States an opportunity to show that the prevention of offshore betting was necessary as a means of protecting "public order and public morals." In March 2007, the WTO ruled that the continuing exemption for online betting on horseracing in the United States unfairly discriminated against foreign casinos. The United States can restrict online gambling only so long as its laws are equally applied to American operators as well as foreign operators, the ruling stated.

The WTO ruling allows Antigua to seek trade sanctions against the United States. While Antigua may not have the economic muscle to bring about meaningful trade sanctions against the United States, it is possible that other countries affected by the United States ban, including Great Britain, may also petition the WTO for relief.

In 2006, U.S. authorities arrested David Caruthers, the British-born chief executive of Costa Rica–based BetonSports. Agents intercepted Caruthers while he was in the Dallas/Fort Worth airport en route from London to Costa Rica. In a 26-page indictment, the U.S. Department of Justice charged Caruthers and others with multiple counts of racketeering, conspiracy, and fraud. Caruthers was convicted and sentenced to 33 months in prison.

The U.S. government has adopted a variety of measures to make Internet gambling in the United States illegal, or at least make access to it more difficult. For example, in the fall of 2006, U.S. President George W. Bush signed into law the SAFE Port Act, which included the Unlawful Internet Gambling Enforcement Act (UIGEA). This measure prohibits U.S. banks, credit card companies, and other financial intermediaries from sending or receiving money to offshore casinos. Thus, the law makes it difficult for gamblers to fund their offshore accounts.

In summer 2010, U.S. Congressman Barney Frank sponsored a bill that would legalize online poker. As Frank noted, "Some adults will spend their money foolishly, but it is not the purpose of the federal government to prevent them legally from doing it." The bill included provisions for taxing winnings from online poker; according to some estimates, this could yield some $40 billion in much-needed tax revenues over a 10-year period. Another rationale for removing the ban: supporters of online poker are emphatic that poker is a game that involves skill; thus, it is not gambling.

The bill passed the House Financial Services Committee, but then, with midterm elections looming, lost momentum. Despite the prospect of generating much-needed revenue by taxing online poker, there is little interest in the issue on Capitol Hill. John Pappas is executive director of Poker Players Alliance (PPA), a lobbying group that is an advocate for legalization. "This won't be a priority of the Republican congress, and it wasn't a priority of the Democratic congress either," he said.

Adding to the complexity of online poker's legal status is the fact that, in 49 of the 50 American states, online poker is not illegal. Specifically, federal law allows states to legalize and regulate online poker games as long as the players and the virtual casinos are physically situated inside state borders. Washington is the exception; in 2006, the state legislature passed a law that makes it a felony to for the state's residents to play online poker.

Against this backdrop of legislative maneuvering, gray areas, and legal red tape, some online sites abandoned the U.S. market. Others,

Exhibit 5-13 Jonathan Duhamel, winner of the "World Series of Poker" Main Event Championship. The 23-year-old Duhamel won more than $8 million in prize money.
Source: ROBYN BECK/AFP/Getty Images/Newscom.

such as Full Tilt Poker and PokerStars, stayed. Ultimately, an estimated 1.8 million professional and amateur poker players in the United States were playing online each year. On a typical night, as many as 100,000 people logged on to Full Tilt Poker. Another 200,000 players were typically active on PokerStars.

In addition, large numbers of poker fans were tuning in to TV shows such as ESPN's *World Series of Poker* and *Poker After Dark* on NBC. Significant advertising dollars for these shows came from online poker companies. In addition, the online operators paid production costs for some of the programs; in the broadcast industry, such arrangements are known as "time buys."

The advertisers typically operated two types of Web sites. Commercials for "tutorial" or "educational" poker sites with the Internet suffix ".net" urged viewers to log on and "play for free." In addition, players who appeared on the shows were paid to wear hats, shirts, and other apparel displaying logos for the ".net" sites. By contrast, "dot.com" poker sites were not mentioned in the commercials. For example, online gaming operator PokerStars spent between $20 million and $30 million annually to advertise on ESPN. The ads were for PokerStars.net, an educational site, however, not PokerStars.com, the actual online gaming site. This tactic allowed the broadcasters to skirt Federal laws that prohibit the promotion of illegal activities such as prostitution.

On April 15, 2011, the U.S. Department of Justice cracked down again. The agency unsealed indictments against the founders of the three largest online poker companies. The indictments alleged the defendants had engaged in bank fraud, money laundering, and other violations of the Unlawful Internet Gambling Enforcement Act. The Department of Justice also seized the internet addresses of, and blocked access to, Full Tilt Poker and other sites.

The effects of what the industry has called "Black Friday" continue to develop. On July 26, 2011, Bodog announced that it was leaving the U.S. market at the end of 2011. Bodog has been a leading Internet poker site, and its exit from the United States indicates that few companies are willing to risk continuing online operations for U.S. residents.

Against this backdrop, there is the continuing effort in states to legalize intra-state Internet gambling. The New Jersey legislature approved a bill that would have made it the first state to allow intra-state Internet gambling, but Governor Chris Christie vetoed it. Iowa and Nevada are among the states contemplating the legalization of Internet gambling for their residents. In Iowa, for example, an estimated 150,000 residents play online poker. Legalized play through the state's 17 regulated casinos would generate an estimated $30 million to $35 million in annual tax revenues. U.S. Digital Gaming is a California company whose management has expressed an interest in operating Iowa's online poker network. As Kirk Uhler, the company's vice president of government affairs, noted, "What is driving this is the recognition that you have an existing activity that's already taking place in an unregulated environment, and the revenue is all flowing overseas."

Discussion Questions

1. Do you think that the Unlawful Internet Gambling Enforcement Act unfairly discriminates against offshore gaming companies?
2. How likely is it that legislative efforts to prevent people who want to gamble from gambling will be successful?
3. At a time when the U.S. government is desperate to generate revenues, would it make sense for policymakers to license, regulate, and tax Internet gambling? Do the results of the 2008 election and the current economic crisis create the conditions for tapping this new revenue source? Or, should concerns about the erosion of social values dominate the discussion of Internet gambling?

Sources: This case was prepared by Keith Miller, Ellis and Nelle Levitt Distinguished Professor of Law, Drake University Law School. *Additional sources:* Anthony N. Cabot and Keith C. Miller, *The Law of Gambling and Regulated Gaming* (Durham, NC: Carolina Academic Press Case Law Series, 2011); Sam Schechner and Alexandra Berzon, "Inside the TV Poker Machine," *The Wall Street Journal* (July 26, 2011), p. B1; Alexandra Berzon, "Online Poker Players Face Big Life Changes," *The Wall Street Journal* (April 18, 2011), p. B1; Ross Tieman, "Rock and Roll and Research," *Financial Times* (March 7, 2011), p. 11; Jennifer Jacobs, "Proposal Would Regulate, Legalize Online Poker," *The Des Moines Register* (February 25, 2011), p. 1; Michael Kaplan, "Gambling in the Gray," *Cigar Aficionado* (February 2011), pp. 112–114; Sewell Chan, "Congress Rethinks Its Ban on Internet Gambling," *The New York Times* (July 29, 2010), p. A1; Roger Blitz, "PartyGaming Eyes Place at the U.S. Online Table," *Financial Times* (April 8, 2009), p. 20; Blitz, "A Better Hand," *Financial Times* (February 4, 2009), p. 7; Blitz, "The Unlucky Gambler," *Financial Times* (July 23/23, 2006), p. 7; Blitz and Tom Braithwaite, "Online Operators Weigh Up the Odds," *Financial Times* (July 19, 2006), p. 21; Scott Miller and Christina Binkley, "Trade Body Rules Against U.S. Ban on Web Gambling," *The Wall Street Journal* (March 25, 2004), p. A2.

CASE 16-2
IKEA

The first few years of the twenty-first century were difficult for IKEA, the $31 billion global furniture powerhouse based in Sweden. The euro's strength dampened financial results, as did an economic downturn in Central Europe. The company faces increasing competition from hypermarkets, "do-it-yourself" retailers such as Walmart, and supermarkets that are expanding into home furnishings. Looking to the future, CEO Anders Dahlvig is stressing three areas for improvement: product assortment, customer service, and product availability.

With stores in 38 countries, the company's success reflects founder Ingvar Kamprad's "social ambition" of selling a wide range of stylish, functional home furnishings at prices so low that the majority of people can afford to buy them. The store exteriors are painted bright blue and yellow: Sweden's national colors. Shoppers view furniture on the main floor in scores of realistic settings arranged throughout the cavernous showrooms.

At IKEA, shopping is a self-service activity; after browsing and writing down the names of desired items, shoppers can pick up their furniture on the lower level. There they find "flat packs" containing the furniture in kit form; one of the cornerstones of IKEA's strategy is having customers take their purchases home in their own vehicles and assemble the furniture themselves. The lower level of a typical IKEA store also contains a restaurant, a grocery store called the Swede Shop, a supervised play area for children, and a baby care room.

IKEA's unconventional approach to the furniture business has enabled it to rack up impressive growth in an industry in which overall sales have been flat. Sourcing furniture from a network of more than 1,600 suppliers in 55 countries helps the company maintain its low-cost, high-quality position. During the 1990s, IKEA expanded into Central and Eastern Europe. Because consumers in those regions have relatively low purchasing power, the stores offer a smaller selection of goods; some furniture is designed specifically for the cramped living styles typical in former Soviet bloc countries.

Throughout Europe, IKEA benefits from the perception that Sweden is the source of high-quality products and efficient service. Currently, Germany and the United Kingdom are IKEA's top two markets. The United Kingdom represents the fastest-growing market in Europe. Although Britons initially viewed the company's less-is-more approach as cold and "too Scandinavian," they were eventually won over. IKEA currently has 18 stores in the United Kingdom and plans call for opening more in the next decade. As Allan Young, creative director of London's St. Luke's advertising agency, noted, "IKEA is anticonventional. It does what it shouldn't do. That's the overall theme for all IKEA ads: liberation from tradition."

In 2005, IKEA opened two stores near Tokyo; more stores are on the way as the company expands in Asia. IKEA's first attempt to develop the Japanese market in the mid-1970s resulted in failure. Why? As Tommy Kullberg, former chief executive of IKEA Japan, explained, "In 1974, the Japanese market from a retail point of view was closed. Also, from the Japanese point of view, I do not think they were ready for IKEA, with our way of doing things, with flat packages and asking the consumers to put things together and so on." However, demographic and economic trends are much different today. After years of recession, consumers are seeking alternatives to paying high prices for quality goods. Also, IKEA's core customer segment—post–baby boomers in their 30s—grew nearly 10 percent between 2000 and 2010. In Japan, IKEA will offer home delivery and an assembly service option.

IKEA has built a network of more than 2,000 suppliers in 50 countries. This business model has helped IKEA achieve and maintain a low-cost position in the global furniture industry.
Source: Mark Antman/The Image Works.

Industry observers predict that North America will eventually rise to the number one position in terms of IKEA's worldwide sales. The company opened its first U.S. store in Philadelphia in 1985; as of 2010, IKEA operated stores in 48 stores in North America. Plans call for opening at least several more U.S. stores each year through 2015. Goran Carstedt, former president of IKEA North America, described his target market by noting, "Our customers understand our philosophy, which calls for each of us to do a little in order to save a lot. They value our low prices. And almost all of them say they will come back again." As one industry observer noted, "IKEA is on the way to becoming the Walmart Stores of the home-furnishing industry. If you're in this business, you'd better take a look."

Discussion Questions

1. Review the characteristics of global and transnational companies in Chapter 1. Based on your reading of the case, would IKEA be described as a global firm or a transnational firm?
2. At the end of Chapter 11, it was noted that managers of IKEA stores have a great deal of discretion when it comes to setting prices. In terms of the ethnocentric/polycentric/regiocentric/geocentric (EPRG) framework, which management orientation is in evidence at IKEA?
3. What does it mean to say that, in terms of Porter's generic strategies, IKEA pursues a strategy of "cost focus?"

Sources: Mei Fong, "IKEA Hits Home in China," *The Wall Street Journal* (March 3, 2006), pp. B1, B4; Richard Tomkins, "How IKEA Has Managed to Treat Us Mean and Keep Us Keen," *Financial Times* (January 14/January 15, 2006), p. 7; Kerry Capell, "IKEA: How the Swedish Retailer Became a Global Cult Brand," *BusinessWeek* (November 14, 2005), pp. 96–106; Theresa Howard, "IKEA Builds on Furnishings Success," *USA Today* (December 29, 2004), p. 3B; Mariko Sanchanta, "IKEA's Second Try at Japan's Flat-Pack Fans," *Financial Times* (March 4, 2004), p. 11; Paula M. Miller, "IKEA with Chinese Characteristics," *The China Business Review* (July–August, 2004), pp. 36–38; Christopher Brown-Humes, "An Empire Built on a Flat Pack," *Financial Times* (November 24, 2003), p. 8.

CASE 6-1 CONTINUED (REFER TO PAGE 160)

Market Research Transforms Coach: The Assignment

Each year, Coach spends about $5 million on research. The company conducts personal interviews with more than 10,000 consumers. It supplements this research with a variety of other techniques, including focus groups, e-mails, and online surveys. Questions range from Coach's brand image to the strap length on its bags; Coach gathers data about fashion collections already in stores as well as items that are in the planning stages. As Peter Emmerson, president of global business development at Coach, explains, when the company entered Japan research provided managers with an understanding of the need for a window in the bag that could hold a train pass. Likewise, bags designed for the Japanese market had to be scaled down in size. The typical Japanese consumer "likes smaller, cute things, and the American tends to like bigger sizes with lots of compartments," Emmerson says.

The value of Coach's research effort was underscored when Coach executives discovered that the company's cosmetics cases were enjoying surprisingly strong sales. It turned out that women were putting the smaller cases inside the larger Coach bag so they could find cell phones and other important items without rummaging. Management understood that the unexpected success of the cosmetics case represented an opportunity to innovate; as David Duplantis, vice president of retail merchandising, put it, "We recognized an opportunity to accessorize the accessory." The design team created a 4-inch by 6-inch zippered bag with a wrist strap and a clip. Called a "wristlet," the new bag is a bracelet-wallet hybrid for the wrist.

In 2003, Coach opened a small boutique inside the Harvey Nichols department store in London's fashionable Knightsbridge area. Emmerson hopes that, after gaining a foothold in Great Britain, the Coach brand will gain popularity as tourists from France, Germany, and Italy return home with their bags. Says Emmerson, "The UK will give us some sense as to what the opportunity size in Europe might be."

CEO Frankfort is also increasing Coach's presence in China. In an effort to exert more control, Frankfort acquired Imaginex Group, which was Coach's third-party distributor there. Coach currently has 30 stores in China; Frankfort's plan calls for 50 new locations. According to company research, Coach has a 3 percent market share and 4 percent brand awareness in China. By contrast, Louis Vuitton's market share is more than 30 percent. Coach's primary target in China consists of university-educated professional women in the emerging middle class whose annual earnings are increasing substantially. These women are also buying plasma TVs and laptop computers. "One day," Frankfort predicts, "China will be a bigger market than Japan for Coach. If we are able to replicate what we did in Japan, the business will double in the next 4 or 5 years."

Meanwhile, Frankfort's management team faced the difficult decision of how to adapt to the global recession. Jerry Stritzke, Coach's chief financial officer, argued that Coach had become too expensive. A decision was made to realign the product assortment so that 50 percent of Coach's bags are priced below $300. In making his case, Stritzke convinced Frankfort that the company would generate sufficient unit volume increases to offset the dollars lost from lower price points.

The team settled on an approach: They would develop a new line that would generate "youthful energy" for the brand. Although some industry observers might argue that it is misguided to offer recession-stressed consumers something "fun," Krakoff believes otherwise. "People are not buying safe. It's a mistake to think so. People want to be inspired. That's what fashion is about; that's what shopping is about," he said.

Krakoff's staff set to work developing a new line of fabric and leather bags that are thinner, softer, and lighter than the company's usual offerings. To keep costs down, Coach worked closely with leather processors and other supply-chain members. In the spring of 2009, the six-bag collection, dubbed Poppy, was previewed for small groups of women in Coach's Manhattan showroom. Encouraged by the positive response, the team test marketed the new line in several Coach stores and department stores. In the test, two bags priced at $198—the Groovy and the Glam—exceeded management's expectations.

As the June 26 retail launch date approached, visitors to Coach's Web site could click on a Poppy link. Those who did were taken to a page that invited them to register for "first dibs" on the most popular styles and Poppy prizes that included a $1,000 shopping spree. They also were instructed to "Grab your friends and get on the guest list" for a Poppy Party in Short Hills, New Jersey, Chicago, or San Francisco. The marketing team also harnessed the power of social media to build buzz: The company's Facebook pages included a "Highlights from the New Poppy Collection" photo album, Poppy Party RSVP links, and comments from shoppers who were bubbling over with enthusiasm for the new line. Coach's registered Facebook fans—209,000 and counting—also had the opportunity to buy Poppy bags in an exclusive online "presale" event.

Discussion Questions

1. Coach's brand positioning can be described as "accessible luxury." What do you think this term means?
2. In light of the current global economic downturn, will Lew Frankfort's strategy for expanding in China need to be revised?
3. Assess Lew Frankfort's decision to give the go-ahead to the Poppy line.
4. How is Coach using the Internet as a marketing tool for the Poppy launch?

Sources: Susan Berfield, "Coach's New Bag," *BusinessWeek* (June 29, 2009), pp. 41–43; Vanessa O'Connell, "Coach Targets China—and Queens," *The Wall Street Journal* (May 29, 2008), pp. B1, B2; Deborah L. Vence, "Product Enhancement," *Marketing News* (May 1, 2005), p. 19; Ginny Parker, "A Yen for Coach," *The Wall Street Journal* (March 11, 2005), pp. B1, B4; Ellen Byron, "Case by Case: How Coach Won a Rich Purse by Inventing New Uses for Bags," *The Wall Street Journal* (November 17, 2004), pp. A1, A13; Lauren Foster, "How Coach Pulled into Luxury's Fast Lane," *Financial Times* (June 30, 2004), p. 8; Vanessa Friedman, "Handbag Invasion," *Financial Times* (August 2/3, 2003), p. W9.

CASE 7-2
Cosmetics Giants Segment the Global Cosmetics Market

The world's best-known cosmetics companies are setting their sights on a lucrative new market segment: the emerging middle classes in countries such as Brazil, Russia, India, and China. For example, the Chinese spent $10.3 billion on cosmetics and toiletries in 2005; that figure has doubled in the last few years. Not surprisingly, marketers at L'Oréal, Procter & Gamble, Shiseido, and Estée Lauder Companies are moving quickly. William Lauder, president and CEO of Estée Lauder, calls China a "$100 billion opportunity."

Noting that there is no "one-size-fits-all" ideal of beauty, cosmetics marketers pride themselves on sensitivity to local cultural preferences. As Jean-Paul Agon, chief executive of L'Oréal, explains, "We have different customers. Each customer is free to have her own aspirations. Our intention is just to respond as well as possible to each customer aspiration. Some want to be gorgeous, some want to be natural, and we just have to offer them the best quality and the best product to satisfy their wishes and their dreams." For example, many Asian women use whitening creams to lighten and brighten their complexions; in China, white skin is associated with wealth. L'Oréal responded by creating White Perfect; Shiseido offers Aupres White.

"You can't just import cosmetics here. Companies have to understand what beauty means to Chinese women and what they look for, and product offerings and communication have to be adjusted accordingly. It's a lot harder than selling shampoo or skin care."

Daisy Ching, regional group account director for Procter & Gamble, Grey Global Group

Market research is critical to understanding women's preferences in different parts of the world. According to Eric Bone, head of L'Oréal's Tokyo Research Center, "Japanese women prefer to use a compact foundation rather than a liquid. Humidity here is much higher and the emphasis is on long-lasting coverage." Armed with this knowledge, L'Oréal devotes more development time to compacts rather than liquids. The researchers have also learned that the typical Japanese woman cleanses her face twice a day.

L'Oréal is expanding distribution in China. After successful market tests at Walmart and Carrefour stores, L'Oréal Paris, Maybelline, Garnier, and other brands are now available in retail stores as well as Chinese supermarkets. Recently L'Oréal China launched a new advertising campaign for the Mininurse Professional UV cosmetics line targeting women 18 to 25 years of age. The ads communicate the brand's core benefits: UV protection, daytime skin-whitening action, and nighttime hydrating action.
Source: AP Images.

In China, L'Oréal and its competitors have an opportunity to educate women about cosmetics, which were banned prior to 1982. Each year, L'Oréal observes and films 6,000 Chinese women applying and removing makeup. Alice Laurent, L'Oréal's skincare development manager in Shanghai, says, "In China, the number of products used in the morning and the evening is 2.2." At its Shanghai Innovation Centre, L'Oréal is also studying how to incorporate traditional Chinese medicine into new product lines.

L'Oréal and Procter & Gamble offer a wide range of products in China, including both mass-market and premium brands. By contrast, Estée Lauder's focus is on expensive prestige brands such as Estée Lauder, Clinique, and MAC that are sold through upmarket department stores. One research analyst cautions that Estée Lauder's targeting and positioning may be too narrow for China. According to Access Asia, Estée Lauder "is in danger of becoming too exclusively placed at the top end of the market and it may have to reposition itself more in the mass market to compete for a larger part of the Chinese market."

Estée Lauder's Carol Shen disagrees with that assessment. She views her company's brands as aspirational. "Chinese consumers are price sensitive but at the same time are willing to invest in products that are relatively expensive versus their income levels because they are so confident about the future," she says. CEO William Lauder echoes those thoughts. As he explains, "The Estée Lauder brand in China is exploding right now because it represents aspirational luxury but at a price that's much more affordable than Louis Vuitton."

In India, L'Oréal has recently shifted from a low-price, mass-market strategy to a premium price, upscale strategy. Competitor Hindustan Lever rings up nearly $1 billion in annual sales by targeting the hundreds of millions of people who must live on the equivalent of $2 per day. This means body lotion priced at $0.70 and $0.90 bottles of perfume. Upon first entering India in 1991, L'Oréal used a similar strategy. However, its low-priced Garnier Ultra Doux shampoo failed to catch on with consumers. Offering no particular advantage relative to local brands, it was, in the words of Alain Evrard, L'Oréal's managing director for Africa, Orient, and the Pacific, "an absolute flop." Some shopkeepers were stuck with unsold inventories.

In the mid-1990s, Evrard was determined to gain a better understanding of the Indian market. He noted several different trends. The number of working women was increasing dramatically, and consumer attitudes were shifting. Thanks to cable television, CNN and MTV were finding large viewing audiences. To learn more about women's preferences, Evrard spoke with advertising executives and fashion magazine editors as well as L'Oréal's local employees. In doing so, Evrard arrived at a keen insight: Women in their 20s concerned about gray hair were not satisfied with existing do-it-yourself hair color products. Evrard responded by launching L'Oréal Excellence Crème in India. An innovative but expensive product popular in Europe, Excellence Crème was priced at $9 and positioned as a luxury purchase. To gain support among shopkeepers, a local L'Oréal staffer named Dinesh Dayal mounted an education campaign and went door-to-door to promote the product at local shops. Today, Excellence Crème is widely available in India. In 2004, after more than a decade of losses, L'Oréal's Indian operations became profitable.

Brazil is another important market for the global cosmetics giants. On a per-capita basis, Brazilian women spend more on beauty products than their counterparts elsewhere. Overall, Brazil is the third-largest global cosmetics market, after the United States and Japan. Natura Cosméticos, a Brazilian company, and Avon are market-share leaders here; traditionally, Brazilians buy their cosmetics from sales representatives who work door-to-door. This creates a challenge for L'Oréal and other companies that distribute their products through department stores, drug stores, and pharmacies.

Although L'Oréal has operated in Brazil for decades, the focus has been on hair-care products. Worldwide, makeup and skin care represent about 50 percent of L'Oréal's sales; by contrast, in Brazil these categories represent only about 15 percent of sales. To build its presence in makeup and skin care, L'Oréal has hired personal beauty advisors to offer shoppers in-store consultations about Maybelline and other brands. As L'Oréal CEO Jean-Paul Agon notes, "Our big bet here is to create a makeup business in retail from scratch. The more the market develops, the less important direct sales will be."

Meanwhile, Shinzo Maeda, president and CEO of Shiseido, does not intend to stay on the sidelines as Western cosmetics marketers penetrate deeper into emerging markets. Shiseido is Japan's second-largest cosmetics company; however, domestic sales are expected to grow only about 2 percent annually. Maeda notes, "The need to globalize our organization has come at an accelerated pace." Throughout the region, consumers associate the Shiseido brand with a company that understands skin issues specific to Asian women. The company also has a reputation for advanced research and development in key areas such as anti-aging products. In China, Shiseido uses a selling strategy that has been extremely effective in Japan. Highly trained beauty counselors offer advice on color coordination, moisture levels, and related topics. As one beauty counselor said, "It's a real delight to see my customers become happy."

Discussion Questions

1. How do women's preferences for cosmetics and beauty care vary from country to country?
2. Assess Estée Lauder's strategy for China. Does it make sense to focus on premium brands, or should the company launch a mass-market brand?
3. What is the best positioning strategy for Shiseido as the company expands in Asia? High touch? High tech? Both?
4. Do you think L'Oréal will succeed in changing the buying habits of Brazilian women?

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CASE 9-1 CONTINUED (REFER TO PAGE 254)

Starbucks' Global Expansion: The Assignment

Starbucks has also been successful in other European countries, including the United Kingdom and Ireland. This success comes despite competition from local rivals such as Ireland's Insomnia Coffee Company and Bewley's and the fact that per capita consumption of roasted coffee in the two countries is the lowest in Europe.

In January 2004, Starbucks opened its first outlets in Paris. CEO Howard Schultz acknowledged that the decision to target France was a gutsy move; after all, café culture has long been an entrenched part of the city's heritage and identity. The French prefer dark espresso, and the conventional wisdom is that Americans don't know what good coffee is. As one Frenchman put it, "American coffee, it's only water. We call it *jus des chaussette*—'sock juice.'"

Not surprisingly, Greater China—including the mainland, Hong Kong, and Taiwan—represents another strategic growth market for Starbucks. Starting with one café in Beijing at the China World Trade Center that opened in 1999, Starbucks operates more than Chinese 220 outlets. Another 525 units are licensed locations in prominent retail stores. Starbucks has faced several different types of challenges in this part of the world. First of all, government regulations forced the company to partner with local firms. After the regulations were eased, Starbucks stepped up its rate of expansion, focusing on metropolises such as Beijing and Shanghai.

Another challenge comes from the traditional Chinese teahouse. Indeed, one rival, Real Brewed Tea, aims to be "the Starbucks of tea." A related challenge is the perceptions and preferences of the Chinese, who do not care for coffee. Those who had tasted coffee were only familiar with the instant variety. Faced with one of global marketing's most fundamental questions—adapt offerings for local appeal or attempt to change local tastes—Starbucks hopes to educate the Chinese about coffee.

Chinese consumers exhibit different behavior patterns than in Starbucks' other locations. In China, most orders are consumed in the cafés; in the United States, by contrast, most patrons order drinks for carryout. (In the United States, Starbucks is opening hundreds of new outlets with drive-through service.) Also, store traffic in China is heaviest in the afternoon. This behavior is consistent with Starbucks' research findings, which suggest that the number one reason the Chinese go to cafés is to have a place to gather.

Meanwhile, as a result of the global economic downturn, cash-strapped consumers were cutting back on nonessential purchases. The notion of a "$4 latte" seemed out of step with the times, and some perceived Starbucks' premium brand image as a liability. Even before the economy nosedived, Schultz had circulated a memo to senior executives titled "The Commoditization of the Starbucks Experience." In the memo, Schultz warned that over-aggressive market expansion was compromising the company's brand experience.

In part, the memo was a response to unofficial Web sites and blogs, such as starbucksgossip.com, where customer and employee complaints and company information were circulated. To better connect with its customers, Starbucks created a social media Web site known as My Starbucks Idea (MSI; http://mystarbucksidea.force.com). Within months of MSI's launch in 2008, nearly 75,000 ideas had been submitted. Forrester Research recognized Starbucks' social media initiative with a Grandswell award in the "Embracing" category. Starbucks also stepped up efforts to communicate with the general public using traditional media. Working with the BBDO advertising agency, Starbucks launched a corporate branding campaign that was timed to coincide with a major revamping of its food offerings. Full-page print ads in *The New York Times* and *USA Today* were keyed to the tagline "It's Not Just Coffee. It's Starbucks."

Sensing a window of opportunity, McDonald's executives proceeded with plans to roll out McCafé, a new branded coffee concept featuring cappuccino and other coffee drinks at prices significantly lower than Starbucks'. At a Starbucks in Paris, for example, a cappuccino is €4.00 ($6.00); a comparable drink at McCafé is €2.00 or €2.50. McCafés feature sophisticated brewing equipment and special coffee blends.

Starbucks currently has about 1,000 outlets in Europe; that total includes company-operated stores in the United Kingdom, France, and Germany as well as licensed locations in the United Kingdom, Spain, Greece, and Switzerland. Starbucks is even considering targeting Italy, a notion that some observers dismiss as unwise. After all, Italy's coffeehouse tradition dates back more than 400 years, and today more than 110,000 coffee bars are scattered the length and breadth of the peninsula. Sniffed a spokesman for one of Starbucks' European competitors, "The Italian café is a culture that the Americans have repackaged. They concentrate more on their image than the coffee."

Discussion Questions

1. In the United States, about two-thirds of Starbucks outlets are company owned; the remaining one-third are operated by licensees. Outside the United States, the proportions are reversed: about two-thirds are run by licensees or partnerships in which Starbucks has equity stakes. What is the explanation for the two different market expansion strategies?
2. In response to the economic downturn, Starbucks recently launched a new line of instant coffee called VIA Ready Brew. The company also developed a breakfast value meal that costs less than $4. Do you agree with these decisions?
3. Should Starbucks enter the Italian coffeehouse market? Why or why not?
4. In the long run, which company is more likely to win the global "coffee wars," Starbucks or McDonald's?

Sources: Jennifer Askin, "Starbucks Set to Rock Italy's Café Culture," www.abcnews.go.com (accessed March 1, 2011); Bruce Horovitz, "Starbucks Hits 40 Feeling Perky," *USA Today* (March 7, 2011), pp. 1B, 3B; Andrew Ward, "Why Schultz Has Caused a Stir at Starbucks," *Financial Times* (February 26, 2007), p. 21; Janet Adamy, "Different Brew: Eyeing a Billion Tea Drinkers, Starbucks Pours It on in China," *The Wall Street Journal* (November 29, 2006), pp. A1, A12; Gerhard Hegmann and Birgit Dengel, "Starbucks Looks to Step Up Openings in Germany," *Financial Times* (September 5, 2006), p. 23; Steven Gray, "'Fill 'Er Up—With Latte,'" *The Wall Street Journal* (January 6, 2006), pp. A9, A10; John Murray Brown and Jenny Wiggins, "Coffee Empire Expands Reach by Pressing Its Luck in Ireland," *Financial Times* (December 15, 2005), p. 21; Gray and Ethan Smith, "New Grind: At Starbucks, a Blend of Coffee and Music Creates a Potent Mix," *The Wall Street Journal* (July 19, 2005), pp. A1, A11; Noelle Knox, "Paris Starbucks Hopes to Prove U.S. Coffee Isn't 'Sock Juice,'" *USA Today* (January 16, 2004), p. 3B.

CASE 10-1 CONTINUED (REFER TO PAGE 284)

Suzlon Energy: The Assignment

Product problems initially made headlines in 2008 after a turbine blade manufactured by Suzlon and financed by John Deere Wind Energy cracked and broke off a tower in Illinois. Although this was the sole reported incident of a blade actually falling, the incident raised concerns about the quality of Suzlon's products. The company attempted to address the quality problem. It announced a program to strengthen or replace 1,251 blades—almost the entire number it had sold in the United States—after cracks were found on more than 60 blades on turbines run by Deere and Edison International's Edison Mission Energy.

Despite Suzlon's efforts to address the quality issue, problems continued. Edison claimed that blades were splitting and announced plans to delay its wind-generation development. Edison refused to make further purchases and announced it would consider switching to one of Suzlon's competitors. In response, Suzlon spokesperson Vivek Kher claimed the cracks were not due to faulty blades. Instead, he blamed the Midwest's unexpectedly violent changes in wind direction. However, these problems are not limited to the U.S. market. Suzlon's products in India appear to have similar flaws. One of Suzlon's largest Indian customers claimed that Suzlon's products "are not fit to handle the wind."

While battling product reliability and durability problems, other product development issues arose. The turbines manufactured by Suzlon failed to create as much energy as originally promised due to differences in the U.S. electrical grid and the power grid in India. To address the problem, Suzlon quickly converted turbines to work in the United States. In addition, some turbines installed in Minnesota broke down during the winter due to the region's extremely cold winter temperatures. Electric heaters were installed to keep the control panels from freezing; however, the placement of the heaters created electrical problems for the turbines.

The fact that doubts have been raised about the reliability and durability of Suzlon's products suggests that the company's research and technology-update programs have not kept pace with customer needs. One member of Suzlon's management team acknowledged as much; Ashish Dhawan, an independent director on Suzlon's board stated: "It's not that their technology is bad [. . .] but they've been a laggard."

In an interview in April 2008, Tulsi Tanti, Suzlon's chairman and managing director, was asked about the concerns with the economy and the product. He responded with confidence, saying, "There are no companies growing the way we are growing. Within 4 years we will feed product technology to the whole world." He was confident that Suzlon would double its annual production capacity by 2010, insisting that the cracked-blade problem did not stem from any fundamental design flaw.

However, some question whether Tanti's optimism was well founded. Take, for example, Suzlon's problems with a Chinese wind-energy project. Suzlon successfully bid on a proposal from Germany's REpower Systems, a company in which it holds a 74 percent stake. The contract called for Suzlon to supply an initial shipment of 75 blades for installation in China's Shandong Province. There was a possibility of a second order for an additional 75 blades. However, REpower rejected Suzlon's prototype and sourced the blades from other suppliers. It ended up costing REpower an extra €6 million ($8.4 million) to ship the substitute blades from Europe. Sumant Sinha, Suzlon's chief operating officer, insisted the canceled order was due to delivery delays, not quality issues. "New blades for any new customer take time," he said. "Our products are good and reliable."

Meanwhile, Suzlon faces a cash crunch. Prior to the economic downturn, the company took on a great deal of debt. Management borrowed heavily to expand factories in the United States, China and India. In addition, Suzlon spent $1.7 billion to purchase its majority stake in REpower in 2007. It has already spent more than $100 million to perform repairs on cracked blades. Although sales jumped 70 percent, to $2.7 billion, in 2008, its backlog of orders for export is down. Lower growth rates in the wake of the economic crisis have forced Suzlon to search for additional sources of financing. In 2010, it began laying off workers at its plant in Minnesota.

Other problems loom. Policymakers in many parts of the world realize the importance of reducing dependence on imported oil and cutting greenhouse gas emissions. According to the International Energy Agency, wind currently accounts for only about 1 percent of the world's electricity. However, the collapse in prices for oil and natural gas and the global economic downturn mean that it is difficult for Suzlon's customers to obtain financing for wind-energy generation projects. So, what does the future hold for Suzlon? Will a company that once prided itself on rapid innovation and design changes be able to stay ahead of competitors? Or, will it fall victim to unfavorable publicity and changing times?

Discussion Questions

1. Assess the global market opportunity for sustainable energy sources such as wind turbines.
2. Do you think Suzlon can address the quality control issue before the company's brand image is damaged?
3. What impact do you think the global economic downturn and credit crunch will have on a company like Suzlon?

This case was prepared by Research Assistant Kelli Herzberg under the supervision of Professor Mark Green.

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CASE 10-2

The Smart Car

In the summer of 2006, DaimlerChrysler announced that the company's Smart car would be offered for sale in the United States the following year. Launched in Europe in 1998, the diminutive Smart had never turned a profit for its parent company. When Dieter Zetsche became DaimlerChrysler's CEO at the beginning of 2006, the Smart car issue was one of his top priorities.

At the time of the announcement, the Smart saga had been 15 years in the making. In 1991, Nicolas Hayek, chairman of Swatch, announced plans to develop a battery-powered "Swatch car" in conjunction with Volkswagen. At the time, Hayek said his goal was to build "an ecologically inoffensive, high-quality city car for two people" that would sell for about $6,400. The Swatchmobile concept was based on Hayek's conviction that consumers become emotionally attached to cars just as they do to watches. Like the Swatch, the Swatchmobile (officially named "Smart") was designed to be affordable, durable, and stylish.

Early on, Hayek noted that safety would be another key selling point, declaring, "This car will have the crash security of a Mercedes." Composite exterior panels mounted on a cage-like body frame would allow owners to change colors by switching panels. Further, Hayek envisioned a car that emitted almost no pollutants, thanks to its electric engine. The car would also offer gasoline-powered operation, using a highly efficient, miniaturized engine capable of achieving speeds of 80 miles per hour. Hayek predicted that worldwide sales would reach one million units, with the United States accounting for about half the market.

In 1993, the alliance with Volkswagen was dissolved. In the spring of 1994, Hayek announced that he had lined up a new joint venture partner. The Mercedes-Benz unit of Daimler-Benz AG would invest 750 million Deutsche marks in a new factory in Hambach-Saargemuend, France. In November 1998, after several months of production delays and repeated cost overruns, Hayek sold Swatch's remaining 19 percent stake in the venture, officially known as Micro Compact Car GmBH (MCC), to Mercedes. A spokesman indicated that Mercedes' refusal to pursue the hybrid gasoline/battery engine was the reason Swatch withdrew from the project.

Thanks to the success of the Smart car in Europe, several new models have been added to the Smart family. These include the convertible Smart Roadster and the Smart for four (a four-door model). An SUV—the Smart for more—was introduced in 2006. The original model will be rechristened the Smart City Coupe. As one observer noted, "Buying a Smart is less like buying a small car and more like buying an iMac, a Blackberry PDA, or a box of take-out sushi." *Source:* Chitose Suzuki/AP Images.

The decision by Mercedes executives to take full control of the venture was consistent with its strategy for leveraging its engineering skills and broadening the company's appeal beyond the luxury segment of the automobile market. As Mercedes chairman Helmut Werner said, "With the new car, Mercedes wants to combine ecology, emotion, and intellect." Approximately 80 percent of the Smart's parts are components and modules engineered by and sourced from outside suppliers and subcontractors known as "system partners." The decision to locate the assembly plant in France disappointed German labor unions, but Mercedes executives expected to save 500 marks per car. The reason: French workers are on the job 275 days per year, while German workers average only 242 days; also, overall labor costs are 40 percent lower in France than in Germany.

MCC claims that at Smart Ville, as the factory is known, only 7.5 hours are required to complete a vehicle—25 percent less time than required by the world's best automakers. The first 3 hours of the process are performed by systems partners. A Canadian company, Magna International, starts by welding the structural components, which are then painted by Eisenmann, a German company. Both operations are performed outside the central assembly hall; a conveyer then transports the body into the main hall. There, VDO, another German company, installs the instrument panel. At this point, modules and parts manufactured by Krupp-Hoesch, Bosch, Dynamit Nobel, and Ymos are delivered for assembly by MCC employees. To encourage integration of MCC employees and system partners and to underscore the need for quality, both groups share a common dining room overlooking the main assembly hall.

The Smart City Coupe officially went on sale in Europe in October 1998. In an effort to create a distinct brand identity, a separate dealer network was established for Smart. In retrospect, this decision turned out to be an expensive one. Sales got off to a slow start amid concerns about the vehicle's stability. That problem was solved with a sophisticated electronic package that monitors wheel slippage. Late-night TV comedians gave the odd-looking car no respect and referred to it as "a motorized ski boot" and "a backpack on wheels." The sales picture was brightest in the United Kingdom; the brisk sales pace in Britain was especially noteworthy because MCC was only building left-hand drive models (the United Kingdom is the only country in Europe in which right-hand drive cars are the norm). Industry observers noted that Brits' affection for the Austin Mini, a tiny vehicle that first appeared in the 1960s, appeared to have been extended to the Smart.

Despite this success, MCC reduced its annual sales target from 130,000 to 100,000. Robert Eaton, joint chairman of DaimlerChrysler, went on record as being skeptical of the vehicle's future. In an interview with *Automotive News*, he said, "It's possible we'll conclude that it's a good idea but one whose time simply hasn't come."

In 2000, amid growing interest in the brand, the Smart exceeded its revised sales target. Wolf-Garten GmbH & Company, a German gardening equipment company, initiated a program to convert the Smart to a lawn mower suitable for use on golf courses. Both convertible and diesel-engine editions were added to the product line.

In 2001, executives at DaimlerChrysler initiated a program to research the U.S. market to determine prospects for the Smart. The announcement came as Americans were facing steep increases in gasoline prices. Between 2001 and 2006, several other small cars in the $10,000 to $14,000 range were introduced in the U.S. market, including the Chevrolet Aveo (manufactured by Daewoo), the Toyota Yaris, and the Honda Fit. In addition, Toyota had successfully launched the Scion, and BMW's new Mini was also proving to be hugely popular with U.S. drivers.

"The Smart brand is capable of sustainable profitability, and it will be profitable in 2007 and beyond. We are working on a cost basis that is almost 50 percent lower than it used to be. The production time at the Hambach plant in France and the assembly time for the new car are 20 percent shorter than with its predecessor."

Ulrich Walker, chairman and CEO, Daimler Northeast Asia, president and CEO, Smart

One challenge in bringing the Smart across the Atlantic would be the euro's strength relative to the dollar. To further complicate matters, the DaimlerChrysler merger ended with the sale of Chrysler to a private equity group. Going forward, Smart would be under the ownership of Daimler AG. Moreover, distribution and promotion would be critical to a successful U.S. launch.

Auto racing legend Roger Penske, chief executive of Penske Automotive Group, decided to gamble on the Smart. He snapped up the rights to serve as the sole U.S. distributor for the tiny car. Penske had assembled the second-largest auto retailing group in the United States by selling luxury cars and imports. The network included more than 300 franchised dealers in the United States and Europe. Penske's team set the goal of selling 16,000 Smart cars in the first year; as gasoline prices rose to $4 per gallon, the minicar's appeal seemed obvious. The company sold 24,622 cars in 2008.

In 2010, as gasoline prices moderated, car buyers began gravitating back towards large vehicles. Smart's sales fell from 14,595 cars in 2009 to 5,927 in 2010. Early in 2011, Penske Automotive Group announced that it was terminating its distribution agreement for the Smart and returning distribution to Mercedes-Benz USA. A company spokesperson attributed the move to a change in organizational structure for the Smart brand in Germany.

Meanwhile, Smart USA and the Strawberry Frog advertising agency launched a social media initiative to leverage the exploding popularity of Facebook and Twitter. The brand's Twitter handle is @smartcarusa; followers are reminded that "Smart is against dumb, mindless consumption." Sample tactics include "The Great Dumb Trade-In" and retweets of owner comments about their vehicles. Smart USA's "Against Dumb" page on Facebook has more than 42,000 "likes." The company has also mobilized street teams and produced viral videos.

Scott Goodson, the founder of Strawberry Frog, sums up the brand this way: "The Smart car is about living a flexible, agile life. Less is more." Asked how she would measure the success of the "Against Dumb" movement, Kim McGill, Smart's vice president of marketing and advertising, said:

> If it makes people just think about it, that will be a success. . . . We need to get people thinking of buying not for that one time, but buying for what we need most of the time. If we can get more people talking in that direction, it will be nothing but positive for this brand.

To learn more about the Smart, visit www.smartusa.com.

Discussion Questions

1. What is Smart's competitive advantage? Brand promise? Positioning?
2. Assess the U.S. market potential for the Smart. Do you think the car will be a success? Why or why not?
3. How does the Smart compare to the Honda Element, Toyota Scion, or Kia Soul? Are these models targeting the same consumers as the Smart? In view of the Japanese carmakers' success with these brands, do you think the Smart's U.S. launch is too late?
4. As noted in the case, Penske Automotive Group is no longer the distributor for Smart USA. How will this affect Smart's fortunes in the United States?
5. Evaluate Smart USA's social media strategy. What additional channels or tactics would you recommend?

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CASE 11-2
LVMH and Luxury Goods Marketing

LVMH Moët Hennessy-Louis Vuitton SA is the world's largest marketer of luxury products and brands. Chairman Bernard Arnault has assembled a diverse empire of more than 60 brands, sales of which totaled $28 billion (€20.3 billion) in 2010 (see Figure 1). Arnault, whom some refer to as "the pope of high fashion," recently summed up the luxury business as follows: "We are here to sell dreams. When you see a couture show on TV around the world, you dream. When you enter a Dior boutique and buy your lipstick, you buy something affordable, but it has the dream in it."

Decades ago, the companies that today comprise LVMH were family-run enterprises focused more on prestige than on profit. Fendi, Pucci, and others sold mainly to a niche market comprised of very rich clientele. However, as markets began to globalize, the small luxury players struggled to compete. When Arnault set about acquiring smaller luxury brands, he had three goals in mind. First, he hoped that the portfolio approach would reduce the risk exposure to fashion cycles. According to this logic, if demand for watches or jewelry declined, clothing or accessory sales would offset any losses. Second, he intended to cut costs by eliminating redundancies in sourcing and manufacturing. Third, he hoped that LVMH's stable of brands would translate into a stronger bargaining position when managers negotiated leases for retail space or bought advertising.

Sales of luggage and leather fashion goods, including the 158-year-old Louis Vuitton brand, account for 35 percent of revenues (see Figure 1). The company's specialty group includes Duty Free Shoppers (DFS) and Sephora. DFS operates stores in international airports around the world; Sephora, which LVMH acquired in 1997, is Europe's second-largest chain of perfume and cosmetics stores. Driven by such well-known brands as Christian Dior, Givenchy, and Kenzo, perfumes and cosmetics generate nearly 20 percent of LVMH's revenues. LVMH's wine and spirits unit includes such prestigious Champagne brands as Dom Perignon, Moët & Chandon, and Veuve Clicquot.

Despite the high expenses associated with operating elegant stores and purchasing advertising space in upscale magazines, the premium retail prices that luxury goods command translate into handsome profits. The Louis Vuitton brand alone accounts for about 60 percent of LVMH's operating profit. Unscrupulous operators have taken note of the high

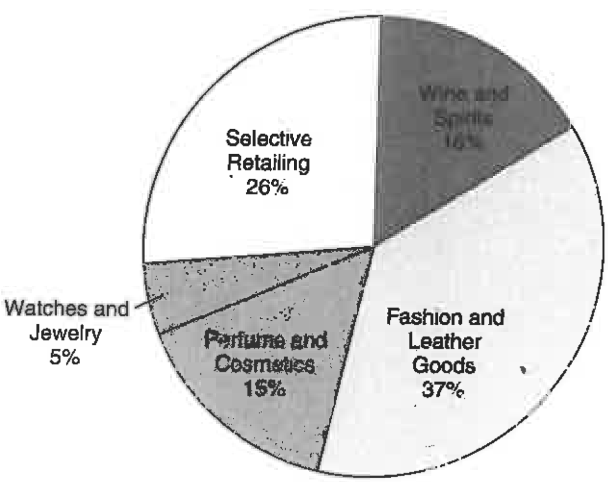

FIGURE 1
LVMH Operating Units by 2010 Net Sales

Source: Landov Media.

margins associated with Vuitton handbags, gun cases, and luggage displaying the distinctive beige-on-brown latticework LV monogram. Louis Vuitton SA spends $10 million annually battling counterfeiters in Turkey, Thailand, China, Morocco, South Korea, and Italy. Some of the money is spent on lobbyists who represent the company's interests in meetings with foreign government officials. Yves Carcelle, chairman of Louis Vuitton SA, recently explained, "Almost every month, we get a government somewhere in the world to destroy canvas, or finished products."

Another problem is a flourishing gray market. Givenchy and Christian Dior's Dune fragrance are just two of the luxury perfume brands that are sometimes diverted from authorized channels for sale at mass-market retail outlets. LVMH and other luxury goods marketers recently found a new way to combat gray market imports into the United States. In March 1995, the U.S. Supreme Court let stand an appeals court ruling prohibiting a discount drugstore chain from selling Givenchy perfume without permission. Parfums Givenchy USA had claimed that its distinctive packaging should be protected under U.S. copyright law. The ruling means that Costco, Walmart, and other discounters cannot sell some imported fragrances without authorization.

Opportunities and Challenges in Asia

Asia—particularly Japan—is a key region for LVMH and its competitors. The financial turmoil of the late 1990s and the subsequent currency devaluations and weakening of the yen translated into lower demand for luxury goods. Because price perceptions are a critical component of luxury goods' appeal, LMVH executives made a number of adjustments in response to changing business conditions. For example, Patrick Choel, president of the perfume and cosmetics division, raised wholesale prices in individual Asian markets. The goal was to discourage discount retailers from stocking up on designer products and then selling them to down-market consumers. Also, expenditures on perfume and cosmetics advertising were reduced to maintain profitability in the face of a possible sales decline.

Louis Vuitton chairman Yves Carcelle also made adjustments. He canceled plans for a new store in Indonesia, and group managers raised prices to counteract the effect of currency devaluations. Because the DFS chain depends on Japanese tourists in Asia and Hawaii for 75 percent of sales, Louis Vuitton managers also work with tour operators to predict the flow of Japanese tourists. When tourism is at a peak, price increases from 10 to 22 percent help maximize profits on merchandise sales.

Arnault was confident that the Asian crisis would not severely affect his company's performance in the long term. As Arnault explained in the spring of 1998, "One has to distinguish between Japan, where most of our business is, and the rest of Asia. Japan is in a growth slump, but it isn't going to have the same difficulties as Korea or Indonesia. And our business in Japan is doing very well." Because the Louis Vuitton unit controls its own distribution, management has even been able to take advantage of the crisis by renegotiating store leases in key Asian cities. In some instances, the company has secured longer lease terms plus reductions in rates by as much as one-third. Arnault's optimism was well founded; with interest rates at record lows and a gloomy outlook for the stock market, Japanese consumers had few other spending options. In 2001, executives actually raised prices at Louis Vuitton's Japanese stores.

"One friend of mine has 10 Louis Vuitton bags. In Japan, it's a status symbol. It's very important to have European luxury goods."

A 39-year-old flight attendant based in Tokyo

Strategic Decisions at LVMH

Over the past decade, Arnault has leveraged his multibrand strategy by broadening the company's consumer base. In the late 1990s, Arnault sensed that cosmetics-buying habits were changing in key markets. He opened Sephora stores in New York, Chicago, and San Francisco in conjunction with a new Web site, Sephora.com. Today, there are more than 270 Sephora stores in the United States and Canada; the chain also has a presence in more than a dozen other countries, including China and Russia. Customers who visit Sephora USA stores are encouraged to wander freely and sample products on an open floor without waiting for sales clerks to assist them.

In 2001, Arnault paid more than $600 million for Donna Karan International Inc. and its trademarks. Arnault had tried without success to acquire Giorgio Armani; Donna Karan is LVMH's first American designer label. As Arnault noted, "What appealed to us is the fact that it is one of the best-known brand names in the world."

In January 2008, executives at Louis Vuitton announced a new corporate branding campaign using a 90-second ad that would appear on cable and satellite television and in cinemas. This was something new in the luxury goods sector; generally, advertising budgets are limited and television is viewed as too expensive. In addition, some in the industry believe that TV's status as a mass-marketing medium can undercut a luxury brand's aura of exclusivity. However, Louis Vuitton executives hoped audiences would connect with the brand's travel heritage. To achieve that, the company's ad agency proposed buying time on news channels that business travelers watch such as CNN. As Louis Vuitton marketing chief Pietro Beccari noted, "It is supposed to touch our clientele and viewers in ways that perhaps other media will not touch. This is a way to say Louis Vuitton is different. It is something éphémère, but also something that stays."

Arnault has also turned his attention to emerging markets. Louis Vuitton entered India in 2002 with a boutique at a luxury hotel; now, Fendi, Tag Heuer, and Dior are open for business as well. LVMH has a lock on prime locations at Emporio, an upscale shopping mall that opened recently in New Delhi. Because LVMH has a group presence in the mall, it can negotiate favorable lease rates for retail space. Arnault's expansion coincided with the September 2007 launch of Vogue India. Once again, thanks to LVMH's diverse brand portfolio, the company is able to buy large blocks of advertising space from Condé Nast India at discounted prices.

The global economic crisis that gained traction in 2008 affected many retail sectors, and the luxury goods business was no exception. Overall purchases of luxury goods fell in the key U.S. market; sales slowed in Russia and other emerging markets as well. Although total sales in the luxury segment were expected to reach a record €175 billion ($218 billion) in 2008, industry observers expected that they would drop significantly in 2009. For European-based luxury companies, there was some good news: the dollar was strengthening against the euro. As the 2008 holiday shopping season approached, many luxury goods makers reduced prices in the United States. At Chanel, the cuts ranged from 7 to 10 percent; as John Galantic, president of Chanel's U.S. unit, noted, "The dollar's recent strength has allowed us to pass on greater value to our customers." Louis Vuitton was a notable exception; in fact, during 2008, the company raised prices twice, resulting in an average increase of 10 percent. The price increases did not dampen sales; in fact, sales continued to increase.

Visit the Web site

www.lvmh.com

A complete PowerPoint presentation of the current year's financial results is available on the LVMH Web site.

www.sephora.com

Discussion Questions

1. Bernard Arnault has built LVMH into a luxury goods empire by making numerous acquisitions. What strategy is evident here?
2. What are the possible risks of Louis Vuitton's first-ever television advertising campaign?
3. In March 2008, the euro/dollar exchange rate was €1 = $1.50. By November, the dollar had strengthened to €1 = $1.25. Assume that a European luxury goods marketer cuts the price of an $8,000 tweed suit by 10 percent to maintain holiday sales in December. How will revenues be affected when dollar prices are converted to euros?
4. Louis Vuitton executives raised prices in 2008, and sales continued to increase. What does this say about the demand curve of the typical Louis Vuitton customer?
5. Compare and contrast LVMH's pricing strategy with that of Coach (Chapter 6).

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CASE 12-2

Carrefour Expands Abroad

Hypermarkets are giant stores as big as four or more football fields. Part supermarket and part department store, they feature a wide array of product categories—groceries, toys, furniture, fast food, and financial services—all beneath one roof. Hypermarkets have flourished in Europe for more than three decades. France's Carrefour SA opened the first hypermarket in 1963; with help from the French government, zoning laws ensured that competing stores would be kept from the vicinity.

By 1973, the hypermarket concept had been introduced in Spain; today, Carrefour is the world's most global retailer with 15,000 stores in dozens of countries. Most of the European stores were well established before competing retailing concepts such as shopping malls and discount stores made the Atlantic crossing from America. Now the hypermarket concept is being transplanted around the globe. Carrefour has established a strong presence in Asia; in December 2000, it became the first foreign retailer to open a hypermarket in Japan.

In the United States, retailing channels are quite diverse. In addition to long-entrenched shopping malls and discount stores, wholesale clubs such as Pace and Sam's offer rock-bottom prices, and Toys 'R' Us, Circuit City, and other "category killers" offer tremendous depth in particular product categories. In February 1988, Carrefour ("Crossroads" in French) opened its first U.S. hypermarket, a gigantic store in Philadelphia with 330,000 square feet of floor space. Carrefour soon built a second American unit, but then shut down both stores in October 1993. The problem? Many shoppers simply found the stores too big and too overwhelming. Also, although the product assortment was very broad, there was little depth in some product categories. For many products, only one brand or one flavor was available.

"In the future, we will have local companies or global companies but not much in between. Globalization will lead those who are not in the first team, or who are national retailers, to make alliances."

Daniel Bernard, former chairman and chief executive, Carrefour

Despite problems in the United States, hypermarkets are thriving elsewhere, for several reasons. First, in countries where shoppers must visit many smaller stores or markets to complete their shopping, the mega-store concept is viewed as a welcome innovation, even though many customers feel loyalty to traditional family-owned stores. Also, hypermarket operators offer free parking in spacious lots, a lure to shoppers in countries where parking spaces are in short supply. A third reason is demographic: As more women enter the workforce, they have less time to shop. While U.S. shoppers can choose from many discount stores and supermarkets, consumers in other countries find that hypermarkets are the only convenient alternative to shopping store-to-store.

Venezuela's first hypermarket, Tiendas Exito, opened in May 2001. A French–Venezuelan–Colombian partnership opened the store despite Venezuela's relatively small population of 24 million people and an economy mired in recession. The partners reasoned that the soaring cost of living would motivate consumers to go bargain hunting.

Carrefour has been fine-tuning its global strategy for years. In November 1999, it acquired French rival Promodès; valued at $13.6 billion, the deal was the world's largest retail acquisition. In their quest to build a global brand, Carrefour executives changed the names of hundreds of Promodès' Pryca and Continent stores in Spain and France to Carrefour. Confused by the changes, some shoppers took their business elsewhere. Meanwhile a competitor, the Netherlands-based supermarket operator Royal Ahold NV, is retaining local store names as it expands around the globe. As the company's chief executive said, "Everything the customer sees, we localize. Everything they don't see, we globalize." Carrefour has pulled out of Japan, Mexico, and South Korea while establishing a presence in markets with stronger potential such as China and Brazil.

"Carrefour has a proud history as the most international retailer, planting its flags in many countries. But I am not proud of putting my banner anywhere, at any price."

José Luis Duran

Meanwhile, in Europe, Carrefour is facing intense competition from Aldi and other so-called "hard discounter" chains that feature private-label brands at lower prices. The French market is critical because it generates 44 percent of sales and 60 percent of profits. Spain, Italy, and Belgium are also key markets. Ironically, as the European retail environment grew more challenging, the real estate value of Carrefour's stores soared. This situation attracted the attention of Colony Capital LLP and other investment groups seeking to unlock the hidden value in Carrefour's assets. It is not uncommon for retailers to sell their properties and then lease them back.

After José Luis Duran became chief executive in 2005, one of his first priorities was "to get France right." Duran sent a message to his French store managers: henceforth, a major part of bonuses would be based on price competitiveness. Following Walmart's strategy, Duran put an end to one-time discounts and implemented across-the-board low prices. Although Carrefour's financial results for 2005 were hurt by a profit decline in France, sales and market share increased.

Having addressed the price issue, Duran set about improving service in an effort to win customers from specialty stores. Stores that were understaffed have added more personnel. Duran also took a more flexible approach to store size and design with new formats such as a "Mini-Hyper" and "Carrefour Express," a scaled-down supermarket.

In January 2009, Duran stepped down. Lars Olofsson, a former Nestlé executive, assumed the CEO job. Conceding that Carrefour had lost its focus on European consumers, Olofsson committed significant resources to repositioning the brand in terms of low prices. In a recent interview, he also acknowledged one of the threats that had faced his predecessor. "In the last 15 years, specialty stores came in, so now we have to find another reason to be in nonfood products," Olofsson said.

The challenges are varied. For example, it is difficult for Carrefour to compete with teen-oriented "fast-fashion" specialty retailers such as Zara and H&M. Moreover, European consumers are cutting back on purchases of durable goods such as electronics and home appliances. Olofsson has responded by updating display counters and shopping areas in Carrefour's stores. As Olofsson noted in recent interviews:

> The hypermarket is no longer king in the country in which it was created. We have got to put back the excitement—the "hyper" into hypermarkets. . . . The hypermarket hasn't changed significantly since Carrefour invented it 47 years ago, but consumers have.

Despite the difficulties in Carrefour's home market, Olofsson remains bullish on the prospects for the hypermarket business model. He is speeding up the pace of global expansion. In China, for example, the retailing market will be worth an estimated $600 billion in 2010. Carrefour has acquired local partners in order to build a supplier network capable of serving more than 100 stores in 23 Chinese cities. One challenge: persuading Chinese consumers to spend more. The typical hypermarket shopper in China spends less than $10. By contrast, Western consumers spend an average of $31 per visit.

Discussion Questions

1. What is the biggest competitive threat facing Carrefour as it expands in global markets?
2. When Lars Olofsson became chief executive of Carrefour, one industry observer described the position as "one of the most difficult assignments in the industry." Why do you think the job is so challenging?
3. Suppose you are a consultant to the chief executive of Carrefour China. What recommendations would you make to encourage Chinese shoppers to spend more money?

Sources: Christina Passariello, "Carrefour Tries a Booster for Tiring Hypermarkets," *The Wall Street Journal* (August 25, 2010), p. B1; Ellen Byron and Passariello, "Carrefour CEO Seeks Growth in Low Prices," *The Wall Street Journal* (October 12, 2009), p. B1; Scheherazade Daneshkhu, "Carrefour Chief Vows to Put France First," *Financial Times* (March 13, 2009), p. 18; Elizabeth Rigby, "Big Chains Stake Out Their Turf in China," *Financial Times* (February 13, 2007), p. 7; Cecilie Rohwedder, "Market Mover: A New Chief Seeks to Make French Retailing Giant Nimbler," *The Wall Street Journal* (November 30, 2006), pp. A1, A14; Adam Jones and Rigby, "Carrefour Gets Competitive," *Financial Times* (March 10, 2006), p. 6; Robert Guy Matthews, "Problems in Carrefour's Home Market Sank CEO," *The Wall Street Journal* (February 4, 2005), pp. A1, A10; Sarah Ellison, "Carrefour and Ahold Find Shoppers Like to Think Local," *The Wall Street Journal* (August 31, 2001), p. A5; Marc Lifsher, "Will Venezuelans Shun Mom and Pop for the Hypermarket?" *The Wall Street Journal* (June 28, 2001), p. A13; Peggy Hollinger, "Carrefour's Revolutionary," *Financial Times* (December 4, 1998), p. 14; Laurie Underwood, "Consumers at a Crossroad," *Free China Review* (February 2, 1995), pp. 66–67; Laurie M. Grossman, "Hypermarkets: A Sure-Fire Hit Bombs," *The Wall Street Journal* (June 25, 1992), p. B1.

CASE 13-1 CONTINUED (REFER TO PAGE 382)

The BP Oil Spill: The Assignment

BP was not the only global company with a PR problem in 2010. Japanese automaker Toyota found itself under fire for quality issues, and Wall Street investment firm Goldman Sachs was fined more than $500 million for securities fraud. As PR specialist Howard Rubenstein noted, "These were real reputational implosions. In all three cases, the companies found themselves under attack over the very traits that were central to their strong global brands and corporate identities."

BP chief executive Tony Hayward became a lightning rod for America's anger and frustration about the spill. At times, Hayward appeared in public in pinstriped suits; his attire was in stark contrast to the overalls worn by shrimp-boat operators and others whose livelihoods were threatened by the spill. Some of Hayward's public statements appeared insensitive. For example, *The Guardian*, a British newspaper, quoted him as saying, "The Gulf of Mexico is a very big ocean. The amount of oil and the volume of dispersant we are putting into it is tiny in relation to the total water volume." Critics also pilloried Hayward for two other statements he made during a television interview. "There's no one who wants this thing over more than I do," he said. "I want my life back."

Some industry observers wondered whether the rhetoric directed against BP was motivated in part by the perception that the company is British. Global companies must ensure that they have successfully positioned themselves as diverse entities with representation from the various markets in which they have operations. As brand consultant Wally Olins noted, the BP disaster "shows you need people at, or near, the top of the business who can speak the language and use the style of the countries in which they operate." In this regard, many observers agreed that both BP and Hayward himself came up short.

Crisis management practitioners are in wide agreement that in times of crisis it is imperative for company spokespersons to tell the truth and to take responsibility. Failure to do so can result in lost credibility. Rubenstein is especially critical of BP in this regard. The company's early assessment of the spill was that very little oil was leaking into the Gulf; these reports were contradicted by estimates from specialists outside BP. Also, BP tried to pin blame for the blowout on contactors. Rubenstein said, "It was one of the worst PR approaches I've seen in my 56 years of business. They tried to be opaque. They had every excuse in the book. Right away they should have accepted responsibility and recognized what a disaster they faced. They basically thought they could spin their way out of catastrophe. It doesn't work that way."

Another point of view is that some corporate crises are so monumental that traditional PR approaches will simply not suffice. Eric Dezenhall is a communications strategist who holds this view. According to Dezenhall, BP's attempts to win over the American public were bound to be futile as long as the oil was leaking. Dezenhall says, "Two things that are very hard to survive are hypocrisy and ridicule. It's the height of arrogance to assume that in the middle of a crisis the public yearns for chestnuts of wisdom from people they want to kill. The goal is not to get people not to hate them. It's to get people to hate them less."

Hoping to regain some credibility in Washington, BP assembled a team of consultants and lobbyists to help it prepare for congressional testimony and respond to government inquiries. The team included James Lee Witt, former director of the Federal Emergency Management Agency (FEMA). BP also tapped Hilary Rosen, a partner in the Brunswick Group public relations firm, for assistance. Some observers were dismayed that people with political connections would agree to be on BP's payroll. Robert Weissman, president of the Public Citizen Action Network, asked, "Do these people go to bed at night and think, 'I hope I get to wake up in the morning and represent a corporate criminal?'" In response to such criticism, Donna Brazile, a Democratic strategist, noted, "This is an enormous challenge and it doesn't matter who they hire to contain the spill, clean up the mess and compensate those who have lost so much."

Although the crippled well was finally shut down in August 2010, BP faces the prospect of criminal and civil suits that will likely keep the company in court for many years. For example, the U.S. government could prosecute BP for violating the Clean Water Act or the Refuse Act. Also, because the spill coincided with spawning and nesting season for the Gulf's wildlife, the Migratory Bird Treaty Act could also be the basis for legal action. Thousands of private lawsuits are also pending. BP has established a $20 billion compensation fund; BP's lawyers hope that individuals whose livelihoods were harmed by the spill will apply to the fund rather than go to court. Finally, there is the prospect of shareholder suits from investors who have seen the value of their BP holdings plummet in the wake of the crisis.

Discussion Questions

1. Some industry observers think that BP should not have spent money on print and TV ads to reassure the American public. Do you agree or disagree? Explain.
2. On October 1, 2010, an American, Bob Dudley, replaced Tony Hayward as chief executive of BP. Does this change surprise you?
3. How might the advice from BP's lawyers differ from the advice BP receives from PR professionals?
4. What factor(s) will affect whether BP's corporate reputation can be repaired?

Sources: Peter S. Goodman, "In Case of Emergency: What Not to Do," *The New York Times* (August 22, 2010), p. C1; Michael Peel, "Eagles and Vultures," *Financial Times* (July 2, 2010), p. 5; Mimi Hall, "BP Enlists Washington Elite to Help Image," *USA Today* (July 1, 2010); Morgen Witzel and Ravi Mattu, "The Perils of a Tarnished Brand," *Financial Times* (June 23, 2010); Stefan Stern, "Can Too Strong a National Identity Harm the Business?" *Financial Times* (June 16, 2010), p. 10; Ed Crooks, "BP's Disaster Manager," *Financial Times* (May 1–2, 2010), p. 7.

CASE 13-2
Scotch Whisky in China: A Taste of the Good Life

Scotch whisky is a textbook example of a global product. Wealthy consumers with discerning palates do not hesitate to pay premium prices for top global brands such as Chivas Regal and Johnnie Walker. Moreover, Scotch drinkers everywhere associate the amber spirit with aspirational goals such as success and achievement. In the late 1990s, Diageo, the owner of the Johnnie Walker brand, launched a global advertising campaign featuring the tagline "Keep walking." The theme, which was developed by Britain's Bartle Bogle Hegarty (BBH) advertising agency, was keyed to the brand's logo: a red-coated, top-hatted gentleman in mid-stride. However, as BBH staffers working on the Johnnie Walker account understand, the things that constitute "achievement" can vary from culture to culture.

In China, for example, the self-satisfaction that goes along with achieving a goal may not be enough; acknowledgment of the achievement by peers is also important. For this reason, BBH created a localized marketing campaign for China. One ad depicts two golfers hitting increasingly extreme shots that include teeing off from the roof of a golf cart and a ball that is hit from underneath a crocodile. The campaign coincided with rapid market growth; after China joined the WTO in 2001, tariffs on spirits imports were cut from 65 percent to 10 percent. According to the Scotch Whisky Association, total Scotch exports to China totaled £80 million in 2009, up from just £1.5 million in 2001. Today, Johnnie Walker has a 34 percent share of China's whisky market.

BBH's Orlando Hooper-Greenhill explains the insights that were incorporated into the campaign. He says, "Johnnie Walker's marketing in China needed to reflect the importance of peer group and family perceptions of an individual's achievements, while also accommodating the fact that whisky is a youthful drink." Hooper-Greenhill also notes that in China whisky is consumed in a wider variety of settings than in the West. In Hooper-Greenhill's words, "Different messages were needed to reflect the different environments in which whisky is consumed, and for more and less urbanized areas."

As noted throughout the text, global products and brands often compete with local ones. In China, Johnnie Walker Scotch competes with Moutai, a sorghum-based liquor that is associated with the southwestern province of Gui Zhou. Moutai is packaged in a fancy box with a distinctive white bottle inside. Alcohol is "the" gift that the Chinese take when visiting friends. Depending on the quality, a single bottle of Maotai can cost anywhere from $25 to more than $1,000.
Source: STR/AFP Newscom.

Market segmentation is an integral part of Diageo's approach to the Chinese market. As Kenneth MacPherson, managing director for Diageo China, notes, "The size of the market and the complex demographic composition leads to totally different consumption habits and patterns in different parts of China." The first segment, *guanxi* men, are status-driven businessmen aged 35 to 45 who spend a great deal of time networking and trying to set up business deals. The second segment is "strong independent women," also in the 35-to-45 age bracket. A third segment is composed of upwardly mobile men and women aged 25 to 35 who want to be seen as cutting-edge. Finally, "the choice generation" consists of those in their twenties who seek out new experiences.

Although Johnnie Walker has achieved great success in China, the sbrand is in second place behind Chivas Regal, which commands a 50 percent market share. For decades, Chivas enjoyed a global reputation as *the* deluxe Scotch whisky. As was the case with Johnnie Walker, the brand's promotional strategy also frequently called for global advertising campaigns. For example, in the early 1990s a print campaign was keyed to the slogan "There will always be a Chivas Regal." The campaign featured a series of universal images and was translated into 15 languages. Managers in each of 34 countries were authorized to choose individual ads from the campaign that they deemed appropriate for their markets.

In 2000, France's Pernod Ricard SA acquired the Chivas Regal brand from Seagram. Between 2000 and 2002, Chivas experienced a 10 percent overall decline in sales volume, while Johnnie Walker posted a 12 percent gain. Prior to the acquisition, Pernod Ricard was best known for Ricard, an anise-flavored beverage known as *pastis*. Some industry observers questioned whether a company that had focused on so-called "second tier" local brands had the marketing skills to reinvigorate a truly global brand such as Chivas. As one analyst put it, "Pernod Ricard was a very big French company that has joined the big time. Now they're taking on the big global brands, which requires different skills. The question is, do they have the skills that it takes?"

Ricard chairman Patrick Ricard is confident that the management team at Pernod Ricard does have the skills required to succeed in the global marketplace against giants such as Diageo. For one thing, the company's decentralized strategy is well matched to an industry sector characterized by local tastes. Unlike Diageo, Ricard passed over British advertising agencies in favor of TBWA Paris. *Impact*, an industry trade magazine, observed that "When you know," the enigmatic slogan developed for Seagram's final Chivas advertising campaign, was "utterly ineffective." As Martin Riley, Ricard's chief marketing officer, explained, "When you get to a lot of countries that are not primarily English-speaking, like those in Asia or South America, they would like you to fill in the dots." A new slogan, "This is the Chivas Life," was designed to appeal to the aspirations of Chivas drinkers throughout the world.

In China, the tagline "This is the Chivas Life" was replaced in 2005 by "This is the Chivas Party Experience." TEQUILA/China, the agency that developed the theme, wanted to target more cosmopolitan, affluent young adults. The agency's research indicated an aspiration for leisure and travel. The agency developed a communication program centered on a series of parties that were staged in Shanghai, Beijing, and other key cities. Each party had a distinct theme; one was dubbed "Chivas 2070 Futuristic Life," while another was called "Chivas Life 70s Psychedelic Disco Fever." Partygoers could sample Chivas cocktails, enjoy fashion makeovers, and listen to cutting-edge music.

By 2008, with the global economy starting its downward spiral, Pernod's research yielded insights into a subtle shift in consumer sentiment. As CMO Riley noted, "People are questioning a certain level of values that have taken the world to where it is right now . . . the individual getting ahead at any price." The research results led to a new campaign in China with the tagline, "Live with Chivalry." The creative taps into Chivas' European heritage and the code of conduct practiced by knights. The themes of brotherhood, freedom, gallantry, honor, and loyalty figure prominently in the ads, which are also being run globally. One execution shows a man in a business suit walking on a crowded city street; the voiceover says, "Millions of people, everyone out for themselves. Can this really be the only way?" The spot then switches to images of men skydiving and mounted on horses. "Here's to honor, and to gallantry, long may it live. Here's to doing the right thing, to giving a damn."

Discussion Questions

1. Why are Diageo, Pernod Ricard, and other marketers of global spirits brands localizing advertising campaigns in emerging markets?
2. How do consumption habits for products such as Scotch whisky vary from country to country?
3. Why are some spirits products and brands strictly local—*pastis* in France, for example, or Moutai—whereas others have global potential?
4. What strategies should Diageo, Pernod-Ricard, and other Western spirits brands pursue in China?

Sources: Andrew Jacobs, "Fake Liquors Flow as Demand Soars for China's Fabled Sorghum Spirit," *The New York Times* (February 14, 2011), p. A4; Mei Fong, "In China, Brands Come with Plots," *The Wall Street Journal* (June 12, 2009), p. B6; Jenny Wiggins, "Brands Tap into Today's Values and Past Campaigns," *Financial Times* (February 25, 2009), p. 12; Andrew Bolger, "Whisky Finds New Lovers in New Markets," *Financial Times* (February 17/18, 2007), p. 9; Meg Carter, "Diageo Splashes Out on China's Whiskey Drinkers," *Financial Times* (November 14, 2006), p. 6; "Chivas Regal," *Media Asia* (October 21, 2005); R. W. Apple Jr., "A Rugged Drink for a Rugged Land," *The New York Times* (July 16, 2003), pp. D1, D7; Adam Jones, "Pernod Mulls Next Wave of Consolidation," *Financial Times* (March 9, 2004), p. 14; Deborah Ball, "Scotch on the Rocks? 'Single Malt' Diversifies," *The Wall Street Journal* (December 30, 2003), pp. B1, B4; Jones, "Global Media Campaign Aims to Stress the Importance of Being Chivas," *Financial Times—Scotch Whisky Special Report* (November 28, 2003), p. 10; Ball, "Pernod Acquisition Has Mixed Well," *The Wall Street Journal* (November 11, 2002), p. B3.

CASE 14-2
Lenovo

In 2005, China's Lenovo Group acquired IBM's personal computer (PC) business for $1.25 billion. The acquisition vaulted China's top computer company into third place among the world's PC marketers, behind Dell and Hewlett-Packard. With annual revenues of $15 billion generated by sales in more than 60 countries, Lenovo now has almost an 8 percent share of the world's PC market. The crown jewel in the acquisition was the popular ThinkPad, a laptop that features an exceptionally well-designed keyboard. President and CEO William J. Amelio was tasked with gradually eliminating the IBM logo as Lenovo built a global brand identity.

Amelio and his marketing team decided to use the Olympics as a vehicle for building awareness about the corporate name and its products. Lenovo paid more than $60 million to become China's first Olympic sponsor; it provided several thousand PCs and servers at various competition venues during the 2006 Winter Olympics in Turin, Italy. The computers were clearly visible during television broadcasts of Olympic events and were used by Visa, Coca-Cola, and other sponsors. Lenovo also sponsored 11 athletes. Lenovo's status as a sponsor entitled it to invite preferred customers to the games to meet company executives, get hands-on time with some of the company's products, and, of course, view the sporting events.

Lenovo was also the computer provider for the 2008 Beijing Summer Olympics. Speaking about the Olympics, CEO Amelio said, "It's a great opportunity. It's a coming-out party to say, 'Here's Lenovo, we're a global brand and we're here to stay.'"

Lenovo is also using other sports to raise its profile. For example, Lenovo has joined forces with the National Basketball Association (NBA) by becoming the "Official PC Partner of the NBA." The opportunity arose when Dell, which had a previous agreement with the NBA, chose not to renew it. Also, Brazilian soccer star Ronaldinho signed a 1-year contract to serve as Lenovo's global brand ambassador.

Some observers have suggested that Lenovo is moving too quickly to distance itself from the IBM brand name. For example, University of Pennsylvania Professor David Reibstein says, "What Lenovo is trying to do is get itself established with credibility in this market, but it feels like a premature transition. Lenovo may be strong in China, but it is a non-name in the West." Deepak Advani, Lenovo's chief marketing officer, responds by noting, "The IBM brand is a double-edged sword for us. It gives customers a sense of comfort and safety and provides some instant credibility. But the longer we hold on to a well-established brand like IBM, the more difficult it becomes for us to be known as Lenovo."

In September 2005, with 150 days to go before the opening ceremonies of the 2006 Olympic Winter Games in Torino, Italy, Lenovo Chairman Yuanqing Yang and Vice President of Marketing Philippe Davy kicked off the company's computing equipment sponsorship in New York City. Lenovo was the official computing equipment partner for the 2006 Olympic Winter Games; it was also the partner for the 2008 Olympic Games in Beijing.
Source: Feature Photo Service/AP Images.

At least one industry analyst applauds the rebranding effort. Simon Yates, an analyst with technology consultancy Forrester Research, says, "The IBM brand says 'third place finisher, high-priced.' Lenovo needs to get rid of the IBM brand quickly because it came with a lot of baggage. It's not appealing to the market they want to grab in the future: small business. The ThinkPad has a reputation for industrial strength and being IT friendly, but as an IBM product it was expensive. Now people can get it at close to Dell prices."

Today, Lenovo's headquarters are in the United States, although most of its employees are in China. While the rebranding effort is ongoing, Amelio faces additional challenges, such as bridging cultural differences among the company's far-flung employees and maintaining profitability despite a worldwide slowdown in PC sales. In a recent interview with the *Financial Times*, a reporter asked Amelio, "How hard has it been to bring together the Chinese and U.S. parts of the company?" Amelio responded as follows:

> I'll give you an example. We had two design teams from the east and west . . . and they were working well together but all of a sudden the meetings stopped dead, they weren't communicating effectively. Finally someone said, "Let's look at this one word that somebody used when it seemed like it stopped the meeting. That one word was, we needed to have a 'common' design element across our two different design languages. Well, when it's translated into Mandarin, 'common' means 'uninteresting' and 'boring.'"

Amelio also embarked on a $100 million restructuring program that resulted in an 11 percent workforce reduction. Substantial investment is also being made in sales and distribution channels. Will the result be market success? As one observer noted, "If you look at HP and Compaq, they took 4 or 5 years to integrate a Texas culture and a California culture. When you try to merge a U.S. company and a Chinese company, it is going to take a lot longer to make it successful."

Discussion Questions

1. In the third quarter of 2008, Lenovo posted a loss of nearly $100 million. Do you think that Olympic sponsorships pay off for companies such as Lenovo?
2. What is the biggest global marketing challenge facing Lenovo today?
3. In 2009, as his 3-year contract came to an end, Bill Amelio resigned as president and CEO of Lenovo. What nationality do you the new chief executive is?

Sources: Loretta Chao, "Lenovo's 'Best Fit' Abroad," *The Wall Street Journal* (December 28, 2010), p. B5; Richard Waters and Chrystia Freeland, "View from the Top," *Financial Times* (August 3, 2007), p. 8; Jane Spencer and Geoffrey A. Fowler, "Lenovo Goes for Its Own Olympic Medal," *The Wall Street Journal* (March 27, 2007), p. B4; Justine Lau and Mure Dickie, "Lenovo Shows How China Is Able to Take on the World," *Financial Times* (November 9, 2006), p. 19; Spencer, "Lenovo Takes a Shot at Building Brand Awareness with NBA Deal," *The Wall Street Journal* (October 24, 2006), p. B4; Evan Ramstad, "Lenovo Still Chewing on Its Byte of IBM," *The Wall Street Journal* (May 11, 2006), p. B4; Glenn Rifkin and Jenna Smith, "Quickly Erasing 'I' and 'B' and 'M,'" *The New York Times* (April 12, 2006), p. C9; Steve Lohr, "Lenovo Evolves with Its IBM PC Unit in Tow," *The New York Times* (August 30, 2005), p. C1.