Management for Professionals

Bodo B. Schlegelmilch

Global Marketing Strategy

An Executive Digest

Management for Professionals

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An Executive Digest

Bodo B. Schlegelmilch
Vienna University of Economics and Business
WU Vienna
Vienna, Austria

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To Irene and Roger

Preface

The Benefits

This book provides an opportunity to look at international marketing challenges from a strategic perspective. If you share the belief that managers cannot afford to think in functional silos and agree that the best companies combine marketing and strategy, this book will appeal to you. If you are also too busy for reading textbooks the size of "War and Peace" to get the latest thinking on international marketing strategy, you will like the conciseness of the book. And finally, if you would like to have a book that points you to further readings on topics you may want to pursue in more depth, you should definitely hit the "order now" button without any further ado.

The Ideal Reader

The ideal reader is like an ideal partner: he or she does not exist in reality. However, here is my wish list. You are an experienced manager or a student in a postgraduate program, such as an MBA or a specialized Master's program. You have an international orientation and are interested in cross-cultural differences and their impact on marketing and strategy. You prefer a big picture approach to nerdy details.

The People Who Did the Real Work

Whole societies are built on the division of labor. I make no secret of the fact that this book uses the same principle. First, there are a number of bright students, who helped me in getting the literature up to date and doing some background work. These include, but in case I forgot someone, are not restricted to, Helmut Artinger, Hanin Al-Zahid, Carina Brenner, Doina Bors, Damir Haramina, Antonia Karamat Calice, Tassilo Benjamin Karunarathna, Martin Kirks, Richard Kolárik, Janina

Kuhagen, Tanja Lang, Julia Lanske, Irina Mihai, Marcos Munoz, Ekaterina Nikitina, Bogdan Liviu Pralea, Tobias Rauscher, Stefanie Reif, Marie-Theres Riegler, Gerald Sonnleitner, Lilla Sarolta Balogh, Leonidas Tsotras, Peter Ummenhofer, and Alexandra Ioana Velescu. Second, there is Ms. Gina Villanueva-Weinzierl, who helped me organize the students. Third, there is Ms. Miya Komori-Glatz, who proofread the entire book. And last but not least, there is Ms. Hanife Özdemir, who formatted the text and supplied me with copious amounts of coffee while I was writing.

The One Who Gets the Credit

I am a professor of international management and marketing at Vienna University of Business and Economics, WU Vienna for short. Here, I established and chair the Institute for International Marketing Management and founded the WU Executive Academy, now one of the leading business schools for professionals in Central and Eastern Europe. Leaving the school after serving more than 10 years as Dean in 2015, the business school is a profitable venture that now serves some 2000 students p.a., has an administrative staff of 50 plus people, and employs some 500 instructors each year. It is EQUIS, AMBA, and AACSB accredited and has alumni from more than 80 countries.

I was brought up and educated in Germany and obtained two doctorates (Ph.D. and D.Litt.) from Manchester Business School (UK) and an honorary Ph.D. from Thammasat University (Thailand). Starting at Deutsche Bank and Procter and Gamble in Germany, I continued my career at the University of Edinburgh and the University of California, Berkeley. Appointments as British Rail Chair of Marketing at the University of Wales (UK) and Professor of International Business at Thunderbird School of Global Management (USA) followed.

Currently, I am serving on the Board of Governors of the Academy of Marketing Science, in the USA, the Board of Trustees of the Association of MBAs in the UK, and the Executive Board of the American Chamber of Commerce in Austria. I am also on the Advisory Board of a number of international Business Schools and have been a visiting professor at a number of international business schools, for example, at the Universities of Minnesota (USA), Keio (Japan), Leeds (UK), Sun Yat-Sen (China), and Cologne (Germany). Other claims to fame include various teaching and research awards as well as Fellowships of the Academy of Marketing Science and the Chartered Institute of Marketing. My research has been published in a wide variety of books and journals, such as the *Strategic Management Journal, Journal of International Business Studies, Journal of the Academy of Marketing Science*, and *Journal of World Business*. I was also the first European Editor-in-Chief of the *Journal of International Marketing*, published by the American Marketing Association.

Appraisals

The Opinion of Significant Others

My wife Irene likes the book! Of course, I admit that she is biased. Other people stated the following:

The charm of this book lies in its interdisciplinary perspective. Bringing together insights from marketing and strategy, it offers a structured approach to the topic for graduate students and a crisp digest for seasoned international managers alike.

Howard Thomas
LKCSB Chair in Strategic Management
Former Dean: Lee Kong Chian School of Business
Singapore Management University
Singapore

Bodo Schlegelmilch has produced a definitive book on global marketing that does an outstanding job clarifying how to bring the best of both local and global marketing efforts into one unifying marketing strategy. The book is a "must read" for any manager interested in understanding how to better market his or her brands in an increasingly global economy.

Russ Winer
William H. Joyce Professor of Marketing
Stern School of Business, New York University
New York
USA

This book is a must read! A successful strategy builds on serving one's customers in good ways—and this is what this book is all about. The global focus is particularly relevant, given the fact that the competition today for leading customers is global—as said, a must read!!
Peter Lorange
Professor and Chairman of the Lorange Institute of Business
former President of IMD
Zurich
Switzerland

This is a perfect book for executive managers and MBA students who would like to grasp the essence of global marketing strategy quickly. Professor Schlegelmilch did a wonderful job bringing his deep knowledge of global marketing strategy into an easy-to-read textbook.
Kazuhiro Asakawa
Mitsubishi Chaired Professor of Global Innovation and International Management
Graduate School of Business Administration
Keio University
Japan

Ambitious Marketeers need to see a broader perspective. This book will give them a crisp and easy-to-read guide for their leap into Global Marketing. Highly recommended for its concise character!
Günter Thumser
CEO
Henkel Central and Eastern Europe
Vienna
Austria

An instructive and insightful guide for busy managers to understand how to compete in the global market today. The book is an excellent reading for both MBA and Executive MBA students.
Xu Xinzhong
Professor and Dean: Lingnan (University) College
Sun Yat-sen University
Guangzhou
China

A thought-provoking and easy to follow book, which can enable time-pressed readers to comprehend or formulate global marketing strategy.
Andrew Main Wilson
Chief Executive
AMBA—The Association of MBAs
London
UK

An impressive combination of advanced academic wisdom and very practical advice for achieving success in global marketing strategy.

Valery Katkalo
Professor and Dean: Sberbank Corporate University
Moscow
Russia

This book presents complex issues in an easily understandable, concise manner. A must read for busy managers who need to understand the essential global marketing strategy concepts but do not have the time to read lengthy textbooks.

Joseph F. Hair, Jr.
Director Emeritus, Louisiana State University Entrepreneurship Institute and Alvin C. Copeland Endowed Chair of Entrepreneurship
Baton Rouge
USA

With so much written about the infinitely complicated world of global marketing, this book does the hard sorting of what's important for you and delivers the essence of what's needed in a clear, digestible, and insightful way.

Vince Mitchell
Sir John E Cohen Professor of Consumer Marketing
Faculty of Management, Cass Business School
City University London
UK

This book is clear and concise and focuses on the most relevant concepts. I highly recommend this text for managers, who need to understand how marketing strategy can be applied in a global context.

Pannapachr Itthiopassagul
Director of the Master of Marketing Program (MIM)
Thammasat Business School
Bangkok
Thailand

Whether you are new to the global marketing scene or a seasoned global manager, Professor Schlegelmilch presents a useful, readable framework for organizing and understanding the key issues and concepts in global marketing strategy planning and execution.

Michael J. Houston
Ecolab-Pearson M. Grieve Chair in International Marketing
Carlson School of Management
University of Minnesota, Minneapolis
USA

This is a very nicely structured and written analysis of core issues relating to the development and implementation of global marketing strategy. Executives at all levels and from all functional areas will greatly benefit from this book which succinctly and powerfully addresses the most crucial decisions impinging upon global marketing success. A "must" read.

Adamantios Diamantopoulos
Chair of International Marketing
University of Vienna
Vienna
Austria

The book is great for executives who want an easy, yet comprehensive, book on global marketing strategy and for students in a global marketing strategy course to use as a guiding framework for doing business in the twenty-first century.

Victoria L. Crittenden
Professor and Chair, Marketing Division
Babson College
Babson Park
USA

Global Marketing Strategy: A Managerial Perspective is a highly insightful, comprehensive, and up-to-date book on a topic critical for all companies involved in international business. It is easily accessible to practicing managers as well as to business students. I highly recommend it.

George S. Yip
Professor of Strategy and Co-Director, Centre on China Innovation
China Europe International Business School
Shanghai
China

Global Marketing Strategy fills a gap in the international marketing literature by offering a concise textbook without sacrificing a broad coverage of issues relevant to managerial decision making in foreign markets from a world-renowned specialist in the area. The book aims at an executive audience that can strongly benefit from its direct, hands-on approach.

Angela da Rocha
Professor and Director of NUPIN - Núcleo de Pesquisas em Negócios Internacionais (Center for International Business Research)
Pontifical Catholic University of Rio de Janeiro
Brazil

The book covers key dimensions of global business in a crisp and vibrant manner. It manifests the experience and academic versatility of the author and makes the book highly recommended reading for every business manager and student.
Mubbsher Munawar Khan
Principal: Hailey College of Banking and Finance
University of the Punjab
Lahore
Pakistan

Bodo Schlegelmilch takes the reader on an insightful and compelling journey through the world of global marketing strategy. This powerful book should be an obligatory read for any brand or product manager aiming at succeeding on a global scale.
Björn Ambos
Professor and Managing Director: Institute of Management
Senior Editor, Journal of World Business
University of St. Gallen
Switzerland

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List of Abbreviations

4Ps	Product, Place, Price, Promotion
AAA	Adaptation, Aggregation, Arbitration
AACSB	Association to Advance Collegiate Schools of Business
AD	Area Division
AGSS	Austria, Germany, Switzerland, Slovenia
AMA	American Marketing Association
AMBA	Association of MBAs
ANX	Automobile Network Exchange
ASEAN	Association of Southeast Asian Nations
BMI	Body-Mass-Index
BMW	Bayerische Motoren Werke
BPO	Business Process Outsourcing
BRIC	Brazil, Russia, India, China
C&P	Contracting and Procurement
CAGE	Cultural, Administrative, Geographic, Economic
CD	Compact Disk
CEE	Central and Eastern Europe
CEEMEA	Central and Eastern Europe, Middle East, Africa
CEO	Chief Executive Officer
CFA	Confirmatory Factor Analysis
CHF	Swiss Franc
CIBER	Center for International Business Education and Research
CIF	Cost, Insurance, Freight
CRM	Customer Relationship Management
CSR	Corporate Social Responsibility
DACH	Germany, Austria, Switzerland
DDP	Delivery Duty Paid
DVD	Digital Versatile Disk
EDI	Electronic Data Interchange
EIU	Economist Intelligence Unit
EMA	European Medicines Agency
EMC	Export Management Company
EMEA	Europe, Middle East, Africa

EQUIS	European Quality Improvement System
ERP	Enterprise Resource Planning
ERPT	Exchange Rate Pass-Through
EU	European Union
EUR	Euro
ETC	Export Trading Company
FTC	Federal Trade Commission
FDA	Food and Drug Administration
FDI	Foreign Direct Investment
FMCG	Fast Moving Consumer Good
FOB	Free on Board
GAAP	Generally Accepted Accounting Principles
GDP	Gross Domestic Product
GRI	Global Reporting Initiative
GNI	Gross National Income
GNP	Gross National Product
HMV	HMV Retail Ltd. (HMV = His Master's Voice)
HQ	Headquarters
HR	Human Resources
HUL	Hindustan Unilever Ltd.
IACC	Anti-Counterfeiting Coalition
IBM	International Business Machines Corporation
ICC	International Chamber of Commerce
IFRS	International Financial Reporting Standards
IMC	Integrated Marketing Communication
IMD	Institute for Management Development
Incoterms	International Commercial Terms
IPLC	International Product Life Cycle
IR	Integration-Responsiveness
IRT	Item-Response Theory
IT	Information Technology
JV	Joint Venture
KFC	Kentucky Fried Chicken
Latam	Latin America
LCR	London Countertrade Roundtable
LTT	Latent Trade Theory
LU	Local Unit
LVMH	Moët Hennessy Louis Vuitton S.A.
MAN	Maschinenfabrik Augsburg-Nürnberg
MBA	Master of Business Administration
MNC	Multinational Corporation
MSU	Michigan State University
MTV	Music Television
NAFTA	North American Free Trade Agreement

OECD	Organization for Economic Co-operation and Development
P&G	Procter and Gamble Company
PC	Personal Computer
PD	Product Division
PESTLE	Political, Economic, Social, Technological, Legal, Environmental
PLC	Product Life Cycle
PR	Public Relations
QR-code	Quick Response Code
R&D	Research and Development
RCM	Relationship Communication Model
RFID	Radio Frequency Identification
RHQ	Regional Headquarters
SLEPTS	Social, Legal, Economic, Political, Technological, Sustainable
SK-II	Secret Key [a P&G skincare product]
SME	Small and Medium-Sized Enterprise
SMS	Short Message Service
STP	Segmentation, Targeting, Positioning
SWAP	Swap Option [exchange of liabilities on outstanding debts]
TNC	Transnational Corporation
TNI	Transnationality Index
TPP	Trans-Pacific Partnership
TTIP	Transatlantic Trade and Investment Partnership
TV	Television
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNFPA	United Nations Fund for Population Activities
UNFCCC	United Nations Framework Convention on Climate Change
UK	United Kingdom
US	United States
USA	United States of America
USP	Unique Selling Position
VMI	Vendor-Managed Inventory
VMS	Vertical Marketing System
VW	Volkswagen AG
WEF	World Economic Forum
WOS	Wholly Owned Subsidiary
WTO	World Trade Organization

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Marketing: A Global Discipline 1

1.1 Mapping Out the Field

Combining the terms *global*, *marketing* and *strategy* in the title of this book, *Global Marketing Strategy*, reflects strong convictions. First, we should not think in functional silos. Second, we believe that "the best companies combine marketing and strategy."[1] Finally, it does not make sense for a corporation to discuss its marketing and strategies without taking a global perspective.

Below, we first take a closer look at the terms in order to clarify these convictions. Next, we look at different corporate paths and rationales for becoming global. This is followed by a short discussion of the contravening forces central to global marketing strategy, namely integration and coordination on the one hand and local responsiveness on the other hand. Subsequently, we consider the implications for corporate structure and control and argue that marketing strategy needs a balancing act.

1.2 Defining the Terms

1.2.1 What Is Marketing

Most CEOs will agree with Peter Drucker's classical observation that "the purpose of business is to create and keep a customer."[2] Based on this understanding, everyone in an organization needs to focus on creating customer value. This may involve the finance department in offering attractive payment options for customers, operations in designing hassle-free customer interaction processes, IT in creating attractive customer interfaces, human resources in selecting employees

[1] Martin (2013).

[2] Drucker (1954).

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with suitable knowledge and skills to serve customers, or a procurement department that is sensitive to the ethical concerns of customers when they source from abroad. Of course, it may also involve a classical marketing department, for example, which might suggest innovative ways of segmenting an international market. However, in a company that takes customer orientation seriously, marketing needs to be ubiquitous throughout the organization and cannot be the sole responsibility of a functional marketing department. Paradoxically, the size of the marketing department may even shrink with a higher market orientation of a company and a dispersion of marketing activities throughout the organization.[3] To sum up: we side with McKenna's seminal article in Harvard Business Review, in which he proclaims "Marketing is Everything."[4]

1.2.2 What Is Strategy

Managers and academics love to talk about strategy. We hear and read about corporate strategy, business strategy, competitive strategy, market strategy, marketing strategy, HR strategy, financial strategy, product strategy, etc. Virtually every business term can be combined with the word strategy with great authority and conviction. So what *is* strategy? Without resorting to complex discussions about corporate visions and missions, a strategy is simply a plan chosen to bring about a desired future. The key word here is *chosen*, since strategy always involves choice: if there is no choice, we need no strategy. At a rudimentary level, the three central questions to generate strategic choices or options are straightforward: Where do we compete? How do we compete? With whom do we need to develop key relationships? While these questions might sound easy, answering them is often painstakingly difficult for organizations. "Where do we compete?" not only refers to the geographical market area, but also to the choice of technology (e.g., different operating systems) or the choice of customers (business-to-consumers or business-to-business). "How do we compete?" not only revolves around the analysis of competitive positioning and the generation of competitive advantage, but also forces marketers to question the vision and mission of their company, including its fundamental ethical values and corporate social responsibility. Last, a company has to forge key relationships if it wants to deliver customer value. It might have to work with competitors (co-opetition) and it will certainly need collaborators (e.g., distributors, agents, joint ventures), suitable managers, employees and, last but not least, the right customers. And to make issues even more complex, each time a company enters a new geographical market, answers that may have been correct in the familiar home environment need to be called into question again. This leads us to the third component of the title, namely the *global* in Global Marketing Strategy.

[3] Greyser (1997).

[4] McKenna (1991).

1.2.3 What Is Global

The words *global* and *globalization* tend to polarize. While some applaud the massive increase in consumer choice or the corporate opportunities inherent in the worldwide division of labor offered through globalization, others complain that globalization undermines local cultures, promotes unsustainable consumption, contributes to unhealthy dietary patterns and unsafe food technologies, and places profits ahead of human rights. Differences also exist in assessing the extent of globalization. In his book, Thomas L. Friedman proclaims that "The World is Flat."[5]

He argues that globalization and information technology have diminished the importance of location and the world has become a unified playing field for companies and individuals competing with each other. In contrast, Richard R. Florida argues that the world is not at all flat but "The World is Spiky."[6] He points to the importance of clusters and emphasizes the emergence of mega-cities that offer significant competitive advantages.

One of the great strategists of our times, Pankaj Ghemawat, created the phrase "semiglobalization."[7] He argues that cultural, administrative, geographic and economic differences, the so-called CAGE framework, are far more enduring than often assumed. This reality of differences means that marketing and strategy need to balance the search for global economies of scale and scope with the need for regional, national and local adaptation. Consequently, global marketing strategy aims to leverage a company's assets, experience and products globally, while adapting to what is truly unique in each of the different geographies. It pursues a global strategy that focuses on obtaining global synergies, but is sufficiently flexible to adapt to different environments, learn from different markets around the globe,[8] and leverage knowledge globally. Before we take a closer look at how companies handle this balancing act between contravening local and global forces, we take a look at why companies go abroad in the first place.

1.3 The Path to Globalization

1.3.1 How Companies Become Global

For most companies, *domestic marketing*, *export marketing* and *international marketing* are the precursors of global marketing. In fact, early internationalization theory, the so-called "Uppsala school," predicted an incremental commitment to

[5] Freedman (2006).

[6] Florida (2005).

[7] Ghemawat (2003a).

[8] Ambos et al. (2006).

internationalization subject to increased knowledge of foreign market operations.[9] Initially, companies typically focus exclusively on the home market. This is followed by *export marketing*, where a given product or service is sold abroad with few necessary adaptations. Next, *international marketing* develops business in other countries but pays little attention to obtaining cross-country coordination and integration. Finally, *global marketing* leverages assets, experience and products globally, while still adapting to what is unique in each region. In practice, this stepwise developmental trajectory is often fuzzy. On the one hand, there are some firms described as "born globals", i.e., mostly small- and medium-sized firms that internationalize rapidly from their inception.[10] On the other hand, there is increasing evidence that many companies reach their optimal scale at a regional rather than a global level, and consequently are better off pursuing separate regional strategies, such as a European, USA or Asian strategy.[11]

1.3.2 Resource Seeking or Market Seeking

However, whether companies predominantly follow a developmental trajectory or are born global, and whether optimal scale is already reached at regional or only at global level does not inform us about the actual reasons to go abroad. Scholars identified a series of motivations behind firms' internationalization decisions.[12] On the one hand, there are traditional motivations such as *resource* and *market seeking*.[13] In the first case, companies invest abroad in search of key supplies like raw materials or low-cost production factors like labor or capital. For example, Royal Dutch Shell and its industry peers went abroad to find new oil reserves whilst Nike or Acer set up production facilities in new locations where labor could be sourced more economically. In the second case, firms cross borders both to enhance sales and to exploit economies of scale and scope.

1.3.3 Knowledge Seeking or Efficiency Seeking

Recent developments in technology have eliminated some of the challenges posed by distance and enabled companies to access resources and customers remotely without requiring a local presence.[14] This change has modified the rationale behind internationalization by reducing the need for traditional resource and market

[9] Johanson and Vahlne (1977, 1990).

[10] Knight and Cavusgil (2004).

[11] Ambos and Schlegelmilch (2010).

[12] Different motivations and modes of market entry are discussed in more detail in Chap. 3.

[13] Makino et al. (2002).

[14] Nachum and Zaheer (2005).

seeking and instead increasing *knowledge* (innovation[15])[16] or *efficiency seeking*.[17] The latter is illustrated by multinationals[18] that have established R&D units in countries with sophisticated customer demand in order to better understand and respond to their needs. For instance, Shiseido only succeeded on the French market after moving their complete product development there and hiring a so-called '*nose*,' an excellent French perfume developer who understands the tastes of local customers.[19] Additionally, studies show that companies from emerging economies, which invest abroad, are mainly motivated by the opportunity to acquire new technologies and skills.[20] Moreover, advocates of geographic clustering argue that some of the cost advantages that arise from locating operations in low-cost countries may turn out to be illusory, since these locations often lack efficient infrastructure, sophisticated suppliers and other benefits.[21]

1.3.4 Learning in Industry Clusters

Having several firms from the same industry in the same place (e.g., in Silicon Valley) fosters dynamic interaction and collective learning,[22] which in turn leads to superior performance.[23] Therefore, it is suggested that the most vibrant *clusters* represent the best home base location for each product line's strategy development, R&D and sophisticated production or service provision. However, the opponents of this view explain that heterogeneity among firms can determine asymmetric contributions and benefits from the agglomeration externality. In particular, firms that have superior technology, human capital or other strategic assets are most vulnerable to have these copied or accessed by competitors. Therefore, it is advisable to consider the relative costs and advantages of clustering or agglomeration economies before deciding on an optimal location.[24]

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[15] Dunning (1993) uses the term "innovation seeking" instead of "knowledge seeking."

[16] Dunning (1993).

[17] Kobrin (1991).

[18] The difference between Transnational Companies, TNCs (a term preferred by the United Nations) and Multinational Companies, MNCs, is mainly semantic. According to the International Labor Organization, a MNC has its operational headquarters based in one country with several operating branches in other countries. UNCTAD, in contrast, defines TNCs as enterprises which own or control production or service facilities outside the country in which they are based. MNCs are supposed to focus more on adapting their product offerings to each individual foreign market they serve, whereas TNCs have a central corporate facility but divulge more decision-making power to individual foreign markets. In this text, such a distinction is not made.

[19] Doz et al. (2001).

[20] Deng (2007).

[21] Porter (1998).

[22] Wesson (2004).

[23] Porter (1998).

[24] Shaver and Flyer (2000).

1.3.5 Challenging Competitors

Another perspective is that of competitive strategic motivation,[25] which states that multinationals invest abroad in response to a competitor's expansionist actions or to challenge another firm's position in its home country. Using funds from its profitable operations to subsidize projects or even losses in the foreign target market is a common approach in this setting, known simply as the "cross-subsidization" of markets. While it is useful to categorize these different motivations for understanding and analysis purposes, it is also important to remember that in reality, not a single factor but a mix usually drives firms' international activities.

1.4 Contravening Forces Facing Global Companies

While strategists and marketers face similar problems, they approach them from different perspectives. Strategists talk about centralization versus decentralization; marketers about standardization versus adaptation. Strategists are concerned about the distribution of responsibilities, power and control in networked multinational companies. For example, which decisions should be made at headquarters, regional headquarters or subsidiaries in domestic markets? Where should value-adding activities be located? Similarly, marketers must consider which elements of the marketing mix they can standardize. For example, which aspects of the infamous 4Ps (product, price, promotion and place) can be standardized and which need to be adapted? Should the market be segmented in the same way in all markets? While the perspectives between strategy and marketing differ, the underlying dilemma is the same. Companies are faced with contradictory forces, namely *the need for global rationalization* versus *the need for local responsiveness*.

1.4.1 Forces for Global Integration and Coordination

During the past few decades, managers have had strong internal and external incentives to integrate and coordinate their operations globally instead of managing them on a local-for-local basis. Since the 1950s, global trade has gone through a steady liberalization process with the average tariffs for manufactured goods falling from 40 % to below 4 %.[26] The WTO has reached more than 150 members and now represents 95 % of the current world trade.[27] This has stimulated many companies to manufacture on a global scale and sell their products in various locations around the globe.

[25] Graham (1998).

[26] Love and Lattimore (2009).

[27] The World Trade Organization (2012).

Producers in industries ranging from automobiles, PCs, aircraft and apparel have taken a decisive step in this direction. The demise of time, geographic and regulatory boundaries, sometimes also referred to as the "death of distance,"[28] has further encouraged firms to globalize their supply chains. The declining costs of freight over the past decades, as well as the inexpensive access to instant communication across the globe facilitated the integration and coordination of global operations, leading to scale economies.

Even traditionally local rather than global businesses have gone in search of scale economies. China's state-owned company Haier, for example, has expanded abroad, and is now the world's number one in overall sales of white goods.[29] At the same time, the increasing cost of R&D and shortening product life cycles require global volumes to amortize investments more quickly. Additionally, the pressure to make businesses more efficient has guided managers towards product rationalization, the standardization of parts design and the specialization of manufacturing operations. For instance, the BMW 3-Series components are produced in as many as nine different countries.[30] Standardization and specialization can lower operating costs, while effective coordination can exploit a company's best product and marketing ideas. The resulting scale efficiencies enable companies to offer customers quality goods at lower prices than those offered by the competition.[31] Acknowledging this, even managers of companies that lacked external pressures to globalize are choosing to transform their organizations to reap the benefits of standardization and specialization.

Lastly, a controversial hypothesis developed by Theodor Levitt[32] proposes that national customer demands and tastes have converged. Starting from this premise, the key to success becomes the companies' ability to produce and sell the same products and services everywhere. In this context, they must learn to operate as if the world were one large market—ignoring superficial regional differences. While considerable convergence in consumer tastes can undoubtedly be observed, there are deeply rooted cultural differences that prevent total convergence. Together with persistent differences in other environmental factors, such as legal forces, the opportunities to sell the same products and services everywhere remain limited.

1.4.2 Forces for Local Responsiveness

As compelling as the forces for global integration and coordination may be, managers should not overlook the drivers for local adaptation and responsiveness.

[28] Cairncross (1997).

[29] Bloomberg (2015).

[30] Cole (2014).

[31] Hout et al. (1982).

[32] Levitt (1983).

It is true that increasingly effective transportation and communication networks have reduced geographic and time distance; but cultural, administrative and economic distance remains and significantly influences the way multinationals conduct their global operations.[33] Cultural distance, reflecting differences in language, religious beliefs, social norms, working and living habits, has a major impact on what companies should or should not do in a particular region. Cultural attributes are strongly related to consumer choices and preferences for specific products and product features, contradicting Levitt's "one global market" theory. Religion, for example, frequently determines food choices and creates a demand for Kosher or Halal certified food.[34] Even large multinational companies often underestimate the impact of culture on business or fail to fully comprehend cultural differences. For example, Danone, the world's largest yoghurt producer, decided to suspend production at its Shanghai plant, a move food analysts in Beijing ascribed to the company's failure to understand local consumers' tastes and to compete with domestic players on pricing.[35] These are also problems for Nestlé, which is also closing one of its three ice-cream factories in China. Similarly, Barclays Bank underestimated the cultural aspect in its Indian business and had to withdraw its $1 billion retail business from the country.[36]

However, there are also successful examples of companies which responded appropriately to the local environment. Tesco, known as Homeplus in South Korea, acknowledged that people spend a significant part of their day commuting and that they do not have much time for traditional shopping in a supermarket. Consequently, it created a virtual store in the subway where commuters, using their smart phones, can order their groceries from of a virtual shelf (life-size pictures of goods with square QR-codes) and get them delivered at home.

Additionally, multinationals have to deal with renewed ethnocentrism among consumers. The perceived high-end status of foreign brands in emerging markets from Eastern Europe to Asia is diminishing.[37] As local brands improve their quality, they gain new and returning national customers. Taken collectively, the scope for a worldwide standardization of the marketing mix is limited. Interestingly, technological advances enable and support adaptation. In this context, a study by McKinsey and Company shows that executives expect increased product and service customization to be among the most important global forces shaping the next few years.[38]

[33] Ghemawat (2001).

[34] Schlegelmilch et al. (2015).

[35] Waldmeir and Lucas (2001).

[36] Lamont and Fontanella-Khan (2001).

[37] Stoebe (2013).

[38] Dye and Stephenson (2010).

1.5 Implications for Global Corporate Structure and Control

1.5.1 The Integration-Responsiveness (IR) Framework

In view of contravening forces pushing companies towards integration on the one hand and towards local responsiveness on the other, should companies attempt to achieve economies of scale and scope through standardization or should they adapt to local governments, markets and cultures wherever they can? Apart from the important fact that companies often do not have a choice but to adapt to local requirements if they want to do business in a particular market, contingency theory suggests that there is no best way to organize and manage a corporation, or to make decisions that will result in optimal outcomes for all businesses. Instead, organizational choices are dependent on the firm's external and internal background and must be grounded in this context.[39] The Environment-Strategy-Structure paradigm is also congruent with this theory, and suggests that superior performance comes from a good fit between corporate strategy and environmental demands[40] and between organizational strategy and structure.[41]

Building on this thinking, several academics have developed models and frameworks to support managers in establishing the right environment-strategy-structure fit. Among the best known is the Integration-Responsiveness (IR) framework developed by Prahalad and Doz[42] and extended by Bartlett and Ghoshal.[43] The IR framework shows that the tension between global integration and local responsiveness leads to three basic international business strategies out of which a company can select the one which best fits its context (Fig. 1.1).

The framework is based on managerial perceptions of a company's external forces. It suggests that managers who perceive that their industry or business is pressured to globalize will maximize the central coordination and integration of activities across national boundaries.

In contrast, if the pressures they perceive are mostly local, the strategies will largely be tailored for each local market. Finally, when environmental perceptions indicate a need to respond simultaneously to both global integration and local responsiveness pressures, management will adopt a '*multifocal*' business strategy, emphasizing the coordination of operations while maintaining a high level of responsiveness to each local context.[44]

The IR framework can be used not only at the company level, but also at an aggregate level of industries, or even at a functional or task level within a single business. For instance, the Contracting and Procurement (C&P) function at Shell is

[39] Lawrence and Lorsch (1967).

[40] Porter (1980).

[41] Miles and Snow (1978).

[42] Prahalad and Doz (1987).

[43] Ghoshal and Bartlett (1989).

[44] Roth and Morrison (1990).

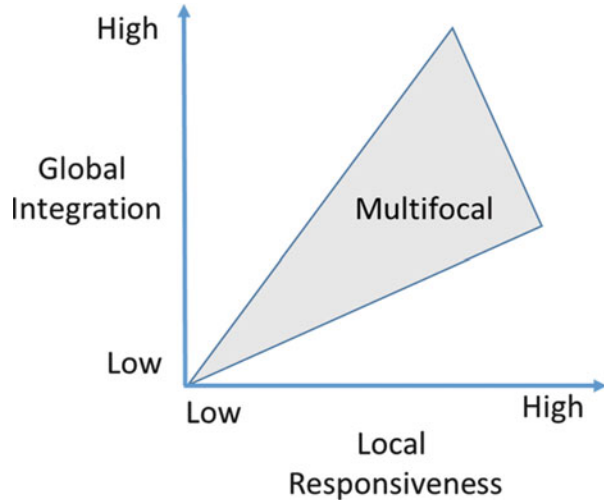

Fig. 1.1 Balancing global versus local responsiveness

shaped by both globalization and localization pressures. By aggregating the global demand for certain equipment or services, the company increases its buying power. On the other hand, countries like Nigeria or Qatar impose rigorous requirements for oil and gas companies to use local labor and locally produced resources. Therefore, at task level, the sourcing is multifocal.

As companies require different organizational horses to manage superior performance in different environmental courses,[45] Bartlett and Ghoshal took the Integration-Responsiveness framework a step further and suggested organizational structures for the various strategies that emerge from the intersection of the forces for globalization and localization.[46] Specifically, they defined *global, multinational, international* and *transnational* organizations (Fig. 1.2).

The new element added to the original IR framework is the transnational organization. This acknowledges the need for worldwide learning and recommends that companies, which rely on the transfer of knowledge across subsidiaries, should opt for an international structure that leverages learning by adapting the parent company's expertise to foreign markets. Thus, the transnational company seeks to be globally competitive by displaying multinational flexibility and worldwide learning capability at the same time.

1.5.2 The Adaptation–Aggregation–Arbitrage Model

Another set of strategies for answering the conflicting forces for integration and responsiveness was proposed by Ghemawat.[47] In a framework called the 'AAA

[45] Ghoshal and Nohria (1993).

[46] Ghoshal and Bartlett (1989).

[47] Ghemawat (2007).

Fig. 1.2 Organizational formats: extended integration—responsiveness framework. *Source*: Ghoshal, S., & Bartlett, C. (1989). *Managing across Borders: The Transnational Solution*. Boston: Harvard Business School Press

Triangle', he describes three strategies: adaptation, aggregation and arbitrage. Adaptation seeks to boost revenues and market share by maximizing a firm's local relevance. In contrast, aggregation attempts to deliver economies of scale by creating regional or sometimes global operations, which involve standardizing the offerings and grouping together the development and production processes. Finally, arbitrage aims to exploit national or regional differences, often by locating separate parts of the supply chain in different places.

Ghemawat strongly encourages managers to pay closer attention to the arbitrage strategy. He underlines the substantial benefits, which arise from exploiting national differences rather than adjusting to or trying to overcome them.[48] Some examples include advantages arising from tax, costs or knowledge differentials. Ghemawat also puts forward a tool, which managers can use to identify the right strategies for their companies. Unlike the IR responsiveness framework, which indicates the preferred organizational approach based on the external globalization or localization forces, the AAA model suggests measuring the internal pressures that a company faces, specifically advertising, R&D and labor.[49] The higher the Advertising-to-Sales ratio, the more important adaptation is likely to be for the company. By contrast, a high R&D-to-Sales ratio advocates an aggregation strategy. Finally, if the Labor-to-Sales ratio is high, the company should consider an arbitrage strategy (Fig. 1.3).

[48] Ghemawat (2003b).

[49] Ghemawat (2007).

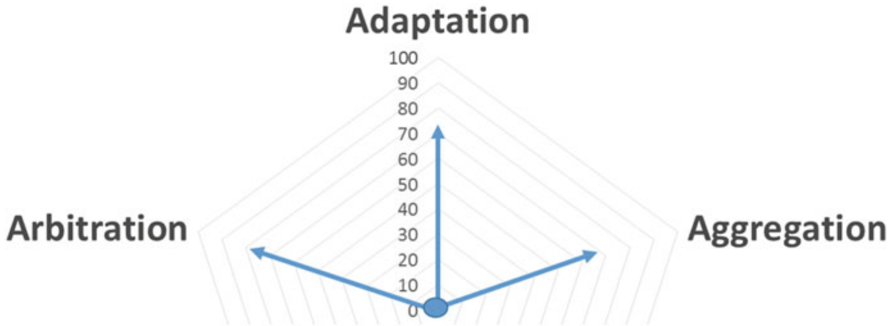

Fig. 1.3 Measuring company pressures for adaptation, aggregation and arbitration

1.5.3 The Role of Regions in Corporate Global Strategies

In the IR framework, the debate between adaptation and integration takes place on a global scale. However, Bjorn Ambos[50] and I have cautioned against the dichotomization of the local versus global debate and advocate to pay more attention to a middle ground approach, namely *regional* strategies. There are four main arguments that support regional strategies. First, by employing modern production techniques, companies can achieve scale and scope optimization at a regional level without requiring the detailed global coordination of all processes. Second, national idiosyncrasies and the 'liability of foreignness' increase when crossing regional boundaries, for example from Europe to Asia. Third, the regional strategies and organizational structures can reduce the organizational complexities managers need to deal with when attempting to achieve global integration. Fourth, for cognitive and emotional reasons, managers are likely to conduct business in a more efficient and effective way in their own regions.

In this context, it is interesting to note that few firms actually pursue a global strategy.[51] Defining "global firms" as those with a minimum of 20 % of their sales in each of the triad markets (North America, Europe and Asia), Rugman analyzed the world's largest 500 companies. He concluded that of the 380 firms from which he was able to obtain data, only 9 firms qualify as *truly global* (for example IBM, Canon, Coca-Cola, Flextronics, LVMH), 25 are *bi-regional* and the vast majority of the 320 firms are *home regional*. While Rugman's definition has been criticized for various reasons,[52] his analysis clearly indicates that firms apparently still have great trouble in being successful in more than one of the world's major regions. This argument is pursued in more detail in Chap. 9 where alternative organizational designs for global markets are presented.

[50] Ambos and Schlegelmilch (2010).

[51] Rugman (2005).

[52] Osegowitsch and Sammartino (2008).

1.6 Global Marketing Strategy as a Balancing Act

Having introduced the drivers of global integration and responsiveness and reviewed some of the resulting strategic options, we now analyze how local responsiveness and global—or regional—synergies can best be achieved. In this context, the impact of international product diversification on the company's performance represents a key debate. On the one hand, some empirical studies of American and British firms showed that low levels of product diversification yielded no performance improvement, but that moderate diversification was beneficial. However, excess product diversification was found to harm performance.[53] In other words, careful standardization is the preferred approach.

Another study[54] identified a negative relationship between performance and multinational diversification when the level of product diversification is low, and a positive one for firms with a highly diversified product range. For moderately diversified firms an inverted U-shaped relationship between the degree of multinational diversification and financial performance was recorded. Kraft Foods, for example, is cognizant of these relationships. When it comes to standardizing its offering in different countries, Kraft carefully balances famous global brands like Milka or Toblerone with local ones like Freia in Norway or Poiana in Romania.

Ghoshal[55] approaches the issue of balance from a different angle but derives at a similar conclusion. He starts from the premise that a multinational company has three primary objectives: achieving operational efficiency, managing risks, and developing internal learning capabilities to be able to innovate and adapt to changes. He argues that an optimal achievement of these different and at times conflicting goals can yield a competitive advantage for multinationals. As the forces for global integration, local responsiveness and worldwide learning become all-compelling, companies in most industries cannot focus any longer on one strategy only. Instead, they need to achieve global economies of scale, be sensitive to national environments, and leverage the parent company's competencies simultaneously.[56]

Gurcharan Das, former chairman and managing director of P&G India, synthesizes these new organizational imperatives:

> Think global and act local' is only half a truth. International managers must also think local and then apply their local insights on a global scale. Globalization does not mean imposing homogeneous solutions in a pluralistic world.
>
> It means having a global vision and strategy, but it also means cultivating roots and individual identities. It means nourishing local insights, but it also means reemploying communicable ideas in new geographies around the world.[57]

[53] Tallman and Li (1996).

[54] Hitt et al. (1997).

[55] Ghoshal (1987).

[56] Bartlett and Sumantra (2002).

[57] Das (1993).

These organizational imperatives are accompanied by several critical challenges. Ghoshal and Nohria[58] also point to the high costs associated with administering complexity and Ghemawat[59] focuses on the "limited managerial bandwidth" which is not conducive for achieving multiple strategic objectives. He warns that following multiple strategic objectives may collide with employees' mindset that a company should only have one culture. Further proof of the difficulties of managing multiple strategic objectives is offered in a study conducted by McKinsey and Company,[60] which found that high-performing global companies consistently score lower than more locally-focused ones on several critical dimensions of organizational health, such as direction setting, coordination and control, innovation, and external orientation. The executives interviewed cited the struggle to balance local adaption against global scale, scope, and coordination as the reason for these worrying results.

1.6.1 Determining the Degree of Global Marketing Integration

A multinational company's efficiency and ability to learn depends on how well it manages to integrate activities that are geographically dispersed.[61] Global integration entails coordination and control across borders.[62]

Given that neither full marketing standardization nor full local control[63] are appropriate for the current business landscape, global marketing managers need to determine, which marketing plans and programs can be extended worldwide and which must be adapted to various local environments. In doing so, they need to consider four dimensions: the company's overall strategy, the product, the marketing mix, as well as the countries where the firm operates.[64]

First, a global marketing program needs to be aligned with and contribute to the implementation of the company's broader global strategy. A study conducted on US manufacturing multinationals indicates that alignment of a company's product strategy to its external environment leads to foreign sales growth.[65]

Second, global marketing decisions are tightly linked to the company's portfolio of products and services. A product portfolio, which is culture-bound, will be more difficult to market globally than one that is less culturally sensitive.[66] However, if the products benefit from high scale efficiencies, they can be sold at very

[58] Ghoshal and Nohria (1993).

[59] Ghemawat (2007).

[60] Dewhurst et al. (2011).

[61] Carpano and Chrisman (1995).

[62] Cray (1984).

[63] Quelch and Hoff (1986).

[64] Keegan and Schlegelmilch (2001).

[65] Carpano and Chrisman (1995).

[66] Quelch and Hoff (1986).

competitive prices, which diminishes the resistance of consumers to less culturally sensitive products. The resistance to global products is also lower in the case of young people whose cultural norms are not ingrained or people who travel frequently around the world.[67]

Third, the balance between standardization and adaptation should be considered separately for each element of the marketing mix. A study conducted on American, European and Japanese multinationals[68] showed that branding and packaging are standardized more often than promotion activities. Additionally, strategic activities like product positioning are more easily standardized than execution-sensitive ones like sales promotion.

Last but not least, the decision to balance global integration and local responsiveness will impact each national subsidiary differently and headquarters must take this diversity into account. For example, small markets with limited resources and expertise are more likely to accept a standard marketing program than larger and more autonomous ones.[69]

1.6.2 Instruments Used to Facilitate Global Marketing Integration

Quelch and Hoff[70] looked at organizational instruments used to achieve marketing integration and identify five approaches headquarters can choose to achieve the desired level of marketing coordination and control. Based on the extent to which headquarters find it necessary to intervene in marketing strategic planning and decision making, these range from informing and persuading to coordinating, approving and directing.

The effectiveness of such measures will depend on the organizational and cultural contexts of the headquarters and the national subsidiary. For example, Laroche et al.[71] found the level of control positively influenced by organizational and environmental similarities between the headquarters and its national units. *Organizational similarities* refer to consistent branding and product image and to similar stages of the product life cycle. *Environmental similarities* indicate a comparable cultural, legal, political and economic context, as well as a similar competitive landscape in the home versus the foreign markets. Top management's knowledge of the foreign culture and the business organization of the different subsidiaries were also found to facilitate control. In contrast, the level of control was found to be negatively influenced by the subsidiaries' skills and abilities to design their own marketing strategy.

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[67] Quelch and Hoff (1986).

[68] Yip (1997).

[69] Quelch and Hoff (1986).

[70] Quelch and Hoff (1986).

[71] Laroche et al. (2001).

1.6.3 Arguments for Empowering Local Marketing

Excessive global marketing integration has several drawbacks, the most common being insufficient research, over-standardization and rigid implementation.[72] First, the assumption that one market's experience is entirely transferable to others often leads to shortcuts in the research, resulting in costly implications or even the failure of programs. Second, over-standardization weakens the company's ability to respond to evolving market conditions, diminishes subsidiaries' financial accountability and, by making the country manager's job less strategic, jeopardizes the retention of key talent.[73] Third, if headquarters ignore local units' reservations about implementing a standardized marketing program, it risks destroying their commitment and ultimately the program's outcomes.[74]

To avoid these pitfalls and succeed in balancing marketing standardization and responsiveness, top executives should create opportunities and systems for marketing managers with country responsibilities not only to generate and debate new ideas, but also to actively contribute to the creation of global marketing strategies. To this end, it helps if marketing budgets not only have a global component controlled by the headquarters, but also a local one which permits marketing managers in the countries to stay competitive in their local markets.[75]

Another important dimension pointing towards empowering marketing units at local subsidiary level concerns their creative potential. Headquarters need to find ways to tap into knowledge held in their internationally dispersed subsidiaries and enable them to take an active role in driving the global innovation agenda.[76] Thus, headquarters need to accept that their traditional role as the primary source of knowledge and competencies is changing towards them becoming a knowledge-integrating institution.

1.7 Summary

Businesses compete in increasingly challenging and complex environments. On the one hand, the liberalization of trade, the advances in technology, communications and infrastructure, as well as the increasing convergence of consumer tastes are driving companies to integrate their operations across borders and to pursue economies of scale. On the other hand, there are still very entrenched cultural, administrative, political, and economic differences between countries and regions; localized consumer tastes, and national protectionism, requiring managers to take a more customized approach to conducting their businesses across borders.

[72] Kashani (1989).

[73] Quelch and Hoff (1986).

[74] Kashani (1989).

[75] Quelch and Hoff (1986).

[76] Ambos et al. (2006).

The tension between factors driving global integration and those driving local responsiveness imply that companies need to find the right balance between global integration and local responsiveness if they are to achieve competitive advantage. Pursuing traditional global, multinational or international strategies no longer suffices. Instead, executives need to turn towards transnational strategies and develop the required capabilities to manage multiple—and often contravening—strategic objectives.

From a strategic marketing point of view, this creates a number of challenges. Companies need to integrate marketing as a global function, develop an organization equipped to capture knowledge in different parts of the world and leverage it globally. Furthermore, the headquarters of a company needs to be sensitive to the idiosyncrasies in its various markets and support and manage each of its diverse subsidiaries, as well as its integrated network. At the same time, it should not overlook the strategic and managerial value that regional structures may bring to its organization. Based on geographic proximity, market similarities, political, managerial or cost considerations, regions represent a bridge between the interests and perspectives of local subsidiaries and global headquarters. Regions also play a critical role in transferring knowledge across the different country units.

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Assessing Global Marketing Opportunities 2

2.1 The Market Assessment Task

One of the most important strategic questions for any company is where to compete. On a more general level, this leads back to the profound questions Levitt[1] posed more than 50 years ago, namely "What business are we in?" and "What business do we want to be in?" These questions have technological dimensions (e.g., type of technology used and offered), customer dimensions (e.g., type of customers segments addressed) and geographic market dimensions (e.g., countries or regions served). In the context of global marketing strategy, the main focus traditionally lies on the geographic dimension. Thus, a company may ask "Which geographic markets are better for its purposes, Norway or Sweden, India or Brazil?" "What should drive its market entry or market expansion: the current size of the market, the predicted growth rate, the presence or absence of competitors, the infrastructure, the legal system, the political risk, etc.?"

Notwithstanding the obvious complexity of assessing geographical market opportunities, global marketing strategy is made even more difficult as all the other dimensions involved in answering the question "What business are we in?" need to be re-evaluated for each geography. This involves technological questions, such as adapting or tailoring technology to a certain geographical target market (e.g., switching from front-loading to top-loading washing machines) as well as fundamental choices about the type of customers to be served. Deutsche Bank, for example, has a wide network of branches in Germany, since it also serves retail customers; elsewhere in the world, it pursues corporate customers, which do not require a dense network of branches.

Ultimately, market assessment involves a judgment on the transferability of the entire business model a corporation is using. For example, when Procter and Gamble took over Max Factor, it also acquired a local skin-care brand called

[1] Levitt (1960).

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SK-II in its Japanese products portfolio. The product contained pitera, a yeast-based ingredient supposedly developed by a Japanese monk. Despite its unusually high price, the brand had an extremely loyal following in Japan. When P&G considered whether to expand SK-II from its Japanese home market to other countries, it not only had to analyze the demand for skincare products in other geographical markets, but also to assess the transferability of the entire business model required to support the brand. This included an investigation of the distribution systems in other markets, such as the use of beauty counselors. In addition, P&G had to judge whether SK-II was too dependent on the unique skin-care practices of Japanese women and assess the transferability of the brand's mystique, which built on the discovery of pitera by the Japanese monk. A central question also was the likelihood of women in other countries to support high prices. Of course, a major strategic issue was also the fit of the brand in the product portfolios already existing in other countries.[2] Thus, each and every element of the business model needs to be re-assessed when expanding a product or service into a new country market.

When managers discuss marketing research, some will be quick to point to its limitations. A criticism, which is often voiced, is that traditional market research seldom leads to breakthrough innovations.[3] Instead, the curiosity of innovators has been found to be the motivating force.[4] Henry Ford allegedly observed, “If I'd listened to customers, I'd have given them a faster horse.”[5] It is true that marketing research has its limitations and market-driving innovators, like Jeff Bezos from Amazon, who has radically changed the composition of an entire industry, generally do not identify these opportunities through marketing research.[6] Nevertheless, managers should also not go overboard and dismiss marketing research altogether. First, life is not all about radical innovations and breakthroughs; ongoing incremental innovations in products and processes are also important. Second, even companies like Amazon face issues where market research adds value, such as assessing the demand for different types of products in different markets. Last, there are marketing research techniques designed to spur innovativeness and creativity. While they cannot guarantee radical innovation, they are likely to create better opportunities for innovation than simply waiting for the one exceptional guru who may be hiding somewhere in the opaque fabrics of the engineering department.

Below, we first show how mangers can use secondary data to assess different geographic markets. This may be particularly useful for companies which are relatively new to global marketing and want to identify promising export markets. However, well-established companies that already have a global reach will also try to exhaust the possibilities offered by secondary data when expanding or fine-tuning their international operations. Next, we discuss how primary research can be

[2] Bartlett (2004).

[3] Lynn et al. (1996).

[4] Nayak and Ketteringham (1993).

[5] AZQuotes: http://www.azquotes.com/quote/810128. Accessed August 1, 2015.

[6] Kumar (2004).

conducted in different geographical markets and point to the multitude of challenges inherent in conducting primary marketing research in different countries and cultures. Last, we focus on the design of ongoing marketing information within an already established network of international operations. Here, global marketing information systems are viewed as part of an MNC's overall endeavor to create knowledge management systems capable of exploiting locally created knowledge worldwide.[7]

2.2 Assessments Based on Secondary Data

2.2.1 Global Information Needs

For a variety of reasons, be it to review ongoing business operations in a country or to identify a promising first time market entry, management needs information on the business environment in different geographic markets. This may include information on the economic development in different countries, but also on the political, legal and regulatory environment. There are a number of different approaches to analyzing the environment. The acronym SLEPTS, for example, captures the social, legal, economic, political, technological and sustainability dimension.[8] A separate look at sustainability is still unusual. However, considering the various sustainability challenges we are facing around the globe, we welcome the inclusion of this dimension in the analysis of the environment.

Virtually every textbook devoted to international or global marketing,[9] including one I co-authored, has a long section on the international environment. A long-winded regurgitation of this discussion is therefore not necessary. Instead, here is a coarse-grained list of factors global marketing managers may wish to consider when analyzing environmental influences on marketing decisions following the SLEPTS typology:

S: Social and cultural factors like language, religion, aesthetics, values, social organizations, etc.
L: Legal environments of the home and host country, international law including taxation agreements, administrative rules and regulations, etc.
E: Economic characteristics, such as level of economic development, size of the economy, growth, population, income, purchasing power, economic risks, etc.
P: Political factors potentially affecting operations, such as discriminatory restrictions, tariffs and non-tariff barriers, bi-lateral or regional trade agreements, etc.

[7] Schlegelmilch and Chini (2003).

[8] Doole and Lowe (2012).

[9] Examples include: Czinkota and Ronkainen (1996), Hollensen (2011) and Keegan and Schlegelmilch (2001).

T: Technological environment, such as the development of technological infrastructure, the household saturation with technological goods, etc.

S: Sustainability attempts to assess whether environmental, social equity and economic demands are reconciled without compromising the ability of future generations to meet their own needs.

The factors listed above are merely examples without any claim of completeness. In addition, it is debatable whether a given factor should rather be part of one dimension or another (e.g., whether taxes are a legal or political issue). Despite these limitations, global marketing managers will be able to structure their environmental analyses around these topics.

2.2.2 The Global Market Assessment Process

The dimensions identified above represent the backbone of any country assessment and selection. However, the task differs depending on the degree of the current international operation of a corporation. Companies that have international operations in place tend to have routinized market assessment criteria and primarily use them to monitor and fine-tune their operations. In contrast, managers seeking to enter new country markets face a bewildering set of market choices and usually have to resort to secondary data to guide an initial market assessment and selection process.

Before we look at a possible approach to market assessment in detail, a word of caution. Although the use of secondary data for assessing country markets is relatively inexpensive, notably in comparison to primary data collection, and has been greatly aided by the availability of many electronic sources on the Internet, there are important caveats that have to be kept in mind: Data may not come in the required format and the accuracy and equivalence of the data may be problematic. Although the UN Demographic Yearbook, for example, reports a set of tables showing breakdowns between urban and rural population, there is no internationally agreed definition of urban and rural that would be applicable to all countries or even to all countries within a region. And the range is formidable: Japan, defining urban as people living in cities of 50,000 and more while Iceland classifies its population as urban when they live in localities of 200 and more inhabitants.[10] Also, apparently simple comparisons of GNP per capita may be misleading, as the provision of social services in form of medical care or education varies from country to country, and adjustments of national income for purchasing power equivalence often results in significant shifts in relative wealth. A discussion of equivalence issues in international secondary data, as well as hints on where

[10] Demographic Yearbook (2005).

secondary data can best be located, can be found in an excellent text on international marketing research by Craig and Douglas.[11]

Notwithstanding these limitations, given the large number of potential target markets—the UN has nearly 200 members—it is virtually impossible to conduct an analysis without secondary data. However, companies will find it uneconomical to collect a full set of data for all geographical markets and on each and every environmental dimension detailed above. Instead, most companies tend to use a multi-stage approach. At each stage of this filtering process, the number of potential target markets is narrowed down and the selection criteria become increasingly stringent.

A four-stage approach is typical: (1) A quick weeding out of obvious no-go country markets; (2) an assessment of the remaining countries based on secondary data, usually involving a scoring model; (3) an in-depth assessment of the remaining markets, for example drawing up pro-forma income statements for each market; (4) a personal visit of the final 1–3 high potential markets, including meetings with prospective business partners in these markets. We now discuss each of these stages in more detail.

In the first stage, country markets may be filtered out because of on-going military conflicts or other security concerns. Possibly, there are also domestic or international restrictions (e.g., embargos) that prevent business relationships with certain countries. In addition, markets may be filtered out based on a few obvious and readily available criteria, such as low level of economic development, excessive political uncertainty or apparent misfit of products or services (e.g., snowmobiles in the tropics).

In the second stage, managers may select a larger number of readily available assessment criteria to assess the smaller group of markets. This typically involves first estimates of the market capacity (i.e., the maximum size of the country market), market demand, supply side, etc. The market capacity is typically calculated as the product of the total number of existing buyers (e.g., inhabitants, households, or firms) and the maximum quantity purchased. While it provides a first approximation of the market size, it is not a very realistic measure. For example, how realistic is it to assume that every nation in the world consumes 110 L of beer per head? Thus, it is more realistic to work with averages and look at the market potential. For fast moving consumer goods (FMCGs), market potential is calculated as the total number of buyers in a specific market, times the quantity purchased by an average buyer. When a value estimate is required, the result may also be multiplied by the price of an average unit. For some products, such as cars, it is sometimes easier to look at the supply side to estimate the size of the market. For a first crude estimation, the relevant data can be obtained from production and foreign trade statistics (Table 2.1).

Which indexes or figures are used to assess potential country markets depends on the particularly industry and the needs of the company conducting the analysis. In principle, there is hardly any limit to the degree of detail and the number of assessment criteria that can be used.

[11] Craig and Douglas (2005).

Table 2.1 Estimating market supply

Production
− Exports
Domestic sales
+ Imports
= Theoretical market supply
+ Balance of the movement in stocks
= Effective market supply

2.2.3 Use of Scoring Models

Scoring models can provide a means to support this second stage of the market analysis by systematizing the country assessment and selection process. Table 2.2 provides a hypothetical example of such a selection model. On one side, it lists the selection criteria and weighs these criteria according to their importance for the specific business. On the other side, it gives the prospective target markets. Managerial estimates are given on each country's performance on the different selection criteria; in the example from 0 (very bad conditions) to 4 (very favorable conditions). By multiplying estimates and weights and adding them up, a final summated score for each country is obtained. The country with the highest score is identified as the most promising foreign target market.

When looking at the market selection criteria in detail, it becomes clear that some of them are summary measures. In Table 2.2, the market potential may be a single estimate, as discussed earlier in this chapter, or a composite consisting of several variables including market size, market growth, consumption per capita, etc. Each of these variables will again carry a certain weight. In this context, managers may wish to consult indexes such as those provided by the Economist Intelligence Unit (EIU), which regularly publishes various summary indexes, such as a market size or a market growth index,[12] or the MSU-CIBER[13] of Michigan State University, which publishes market potential indexes for emerging markets.

While the design of a scoring model has the advantage to systematize the assessment and selection of geographic markets, it has to be kept in mind that the assessment remains highly subjective. This holds for the selection of criteria used to compare the country markets, the weights assigned to these criteria (and their components, if the criteria are summary measures) and the estimates of the situations in the respective markets. In order to reduce the subjectivity inherent in such scoring models, it may be useful to initially use separate teams of assessors independently and then to discuss any differences in assessment between the teams.

Another potential problem is that scoring models often fail to capture strategic issues like market interdependences. However, through the inclusion of factors like membership of free trade areas, customs unions and monetary union, or the specification of country markets as technological lead markets, potential

[12] Economist Intelligence Unit (EIU). http://www.eiu.com. Accessed March 26, 2013.

[13] GlobalEDGE. http://globaledge.msu.edu. Accessed August 11, 2015.

Table 2.2 Hypothetical scoring model for assessing international markets

	Selection criteria													
	1		2		3		4		5		6			
	Market potential		Tariffs		Non-tariff barriers		Product fit		Competitive intensity		Shipping costs			
	Weights													
	W = 15		W = 5		W = 17		W = 25		W = 22		W = 16		Summated score	Rank
Countries	E	W × E	E	W × E	E	W × E	E	W × E	E	W × E	E	W × E	Max 400 P.	
Denmark	2	30	2	10	1.5	25	3.5	87	0.5	11	3.5	56	219	4
Sweden	3.5	52	4	20	3.5	59	25	62	2	44	3	48	285	2
Norway	2	30	3	15	2	34	3.5	87	1	22	2.5	40	228	3
Finland	4	60	4	20	3.5	59	3	75	4	88	1.5	29	326	1
Portugal	0	0	3	15	1	17	0.5	12	2	44	2	32	120	5
Germany														
Austria														
Spain														
⋮														

W weights of selection criteria

distribution hubs for neighboring countries, etc., it is possible to avoid the potential pitfall of only viewing markets in isolation.

2.2.4 Detailed Assessment of Potential Country Markets

In a third stage, markets that survived the first two rounds of screening need to be assessed in depth. This typically involves more concrete estimates with break-even analyses, contribution margins, cash-flow analyses, investment analyses, risk analyses, sensitivity analyses and pro-forma income statements. While this is the playground of financial wizards, it is important that the expertise of managers from other functional areas, such as manufacturing and marketing, is included in these analyses. The outcomes of such quantitative assessments crucially depend on making the right assumptions. Consequently, a multitude of perspectives usually has a positive influence on the quality of assumptions.

Using decision trees, including estimates of event risks impacting the outcome of the financial analyses, is helpful for guiding the discussion of senior management. Particular emphasis should be placed on questioning assumptions that underlie purely quantitative assessments. Indeed, quantitative and qualitative assessment should always go hand in hand. Cultural, institutional and other environmental differences could challenge the transferability of assumptions that are taken for granted in the home market.

Although the analyses described are all based on secondary data, there is no substitute for following this up with a personal visit to size up a potential market firsthand. As the fourth and final stage of a market selection, a personal market visit should confirm (or contradict) assumptions regarding the market potential and other important factors and should gather additional data necessary to reach the final go/no-go for a market entry decision. There are certain kinds of information that simply cannot be obtained from secondary sources alone. For example, an international marketing manager may have a list of potential distributors. He or she may have corresponded with distributors on the list and formed some tentative idea of whether they meet the company's criteria. It is difficult, however, to negotiate a suitable arrangement with international distributors without actually meeting face to face to allow each side to appraise the capabilities and character of the other party. Another reason for a visit to a potential market is to develop a marketing plan, usually in co-operation with the local agent or distributor.[14]

[14] Keegan and Schlegelmilch (2001).

2.3 Assessments Based on Primary Data

2.3.1 The Complexity of Global Marketing Research

Conducting primary marketing research in international markets poses many additional challenges compared to domestic market research. This already starts with deciding what data to collect. In addition, there may be challenges in the design and methodology phase of international research studies. Thus, while the international research process comprises the same steps as traditional research, it is considerably more complex. Figure 2.1 presents the main steps involved.

2.3.2 From Research Objectives to Recommendations

The research process starts with the specification of the problem that will be investigated.[15] The research question needs to be formulated in order to gain a clear understanding of which information is needed and must be collected, and at what level.[16] For instance, the research can be used to gain a better understanding of brand awareness on a regional basis or to investigate a local pricing strategy of products compared to international pricing. If the research objective is not clearly spelled out, the whole research process may fail.[17]

Subsequently, details of the research procedure have to be determined and decisions have to be made concerning the "operationalization of the constructs (variables), the selection of items, and the response format".[18] The target population and the sampling frame have to be defined to select the right sample. To be able to design the research methodology, researchers need to be aware of the many different data collection possibilities, such as qualitative, quantitative, face-to-face interviews, online focus groups or mail surveys. In research conducted globally, it is critical to pay attention to detail such as instrument translation (and back translation), primary research methods, etc. In some countries, for example, collecting data via electronic surveys is still hampered by a low penetration rate of the Internet. If research is conducted across various countries, it may not be possible to apply the same methods. In such cases, potential method bias may cause a problem.

Next, the data from the fieldwork has to be edited and coded before it can be analyzed and interpreted. This will then be followed by writing a final report for the management along with giving strategic recommendations on how to use the information and how to proceed.[19] The report must answer the research question

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[15] Malhotra et al. (2012).

[16] Craig and Douglas (2005).

[17] Young and Javalgi (2007).

[18] Hester et al. (2005).

[19] Craig and Douglas (2005).

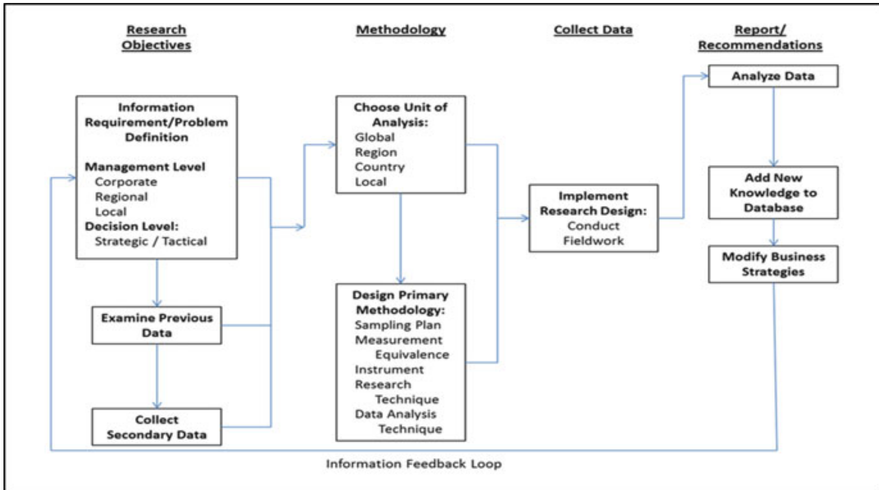

Fig. 2.1 Global marketing research process. *Source*: Young, R.B., & Javalgi, R.G. (2007). International Marketing Research: A Global Project Management Perspective. *Business Horizons*, 50(2), 113

and the problem that was identified previously and include a description of which approach was used.[20]

2.3.3 Data Equivalence in Global Marketing Research

One of the key issues in global marketing research is to ensure that data from different countries have the same meaning, the same level of accuracy and the same reliability. This gives rise to a number of issues. Figure 2.2 illustrates the key aspects of data equivalence.

At the outset of any cross-cultural research, attention needs to be placed on the equivalence of the research topics. This breaks down into three issues: the functional, conceptual and category equivalence.

The standard example for functional equivalence is bicycles. In the USA, for instance, bicycles are mainly used for recreation, while in India and many other countries, they are mainly viewed as a basic mode of transportation. Among others, this implies that the relevant competing product set must be defined differently. In the USA, it will include other recreational products such as tennis rackets or golf equipment, while in India it will include alternative modes of transportation such as public transportation.

[20] Malhotra et al. (2012).

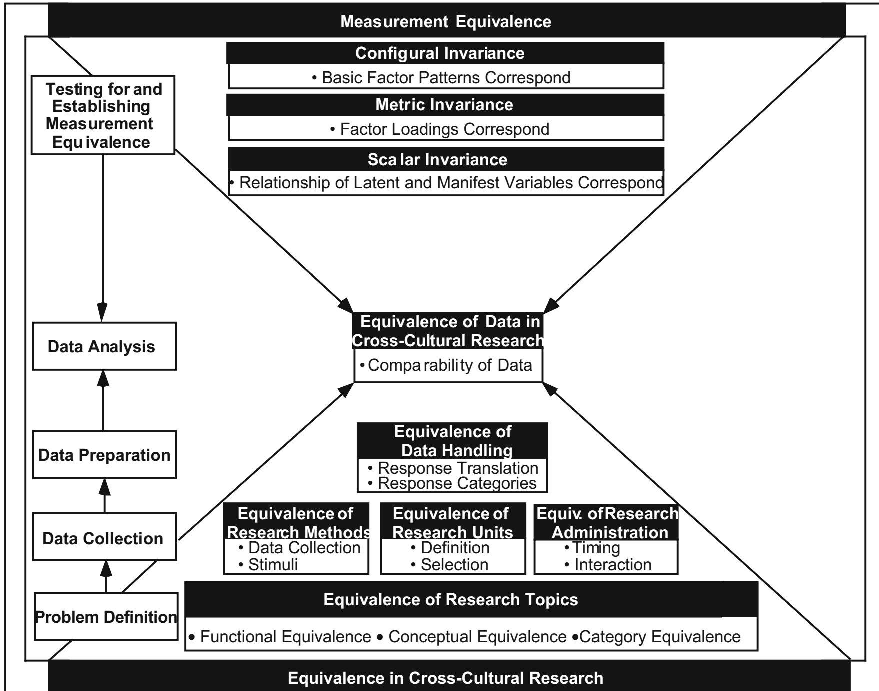

Fig. 2.2 Equivalence in global marketing research. *Source*: Salzberger T., Sinkovics R., & Schlegelmilch B.B. (1999). Data Equivalence in Cross Cultural Research: A Comparison of Classical Test Theory and Latent Trait Theory Based Approaches. *Australasian Marketing Journal*, 7(2), 3

Next, the conceptual equivalence of measures needs to be ensured. This form of equivalence captures whether individuals place the same interpretation on objects, stimuli or behavior and express them in similar ways in different cultures.[21] The definition of product quality, for example, may be different for a European consumer to one in the emerging markets.

The final issue in examining the equivalence of the research topic focuses on category equivalence, i.e., on where objects or other stimuli are placed. For example, product class definitions may differ between countries. What is considered a soft drink, as well as forms of soft drinks such as canned or bottled sodas, mineral waters, fruit juices, iced tea and powdered and liquid fruit concentrates, vary significantly from one culture to another. In addition, the characteristics or attributes perceived by customers as relevant for evaluating a product or product class may also differ from one country to another.[22]

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[21] Sears (1961).

[22] Craig and Douglas (2005).

Once the equivalence of research topics has been examined, the next step is to consider equivalence aspects of data collection. For instance, the reliability of different sampling and survey administration procedures may vary from one country to another. While in most industrialized countries telephone directories are readily available, in developing countries no such sampling frames exist, and different procedures such as block sampling may be needed.

Turning to data collection, language is the most obvious challenge that researchers face in global marketing research. Not only are there differences in figures of speech across countries and different languages, but also with the same language within a country. For example, in Japanese, there is no equivalent term for the word "husband". A cell phone is called 'mobilnik' (mobile phone) in Moscow, 'trubka' (phone receiver) in the North-Western region of Russia and 'sotka' (cell phone) in East Siberia.[23]

Furthermore, the experiences of the respondents concerning the measurement instruments may differ.[24] Differences in literacy rates may have to be considered in the countries under investigation. In India, for example, the literacy rate is only 63 % and in other developing countries like the Central African Republic and the Ivory Coast, only half the population is literate; in Ethiopia less than 35 % of the population can read and write.[25] This makes conducting mail surveys unfeasible and using a face-to-face approach may be the best method for data collection. On the other hand, in several Middle-Eastern countries, women would not agree to being interviewed by a man.[26] Thus, the research process itself needs to be adapted to the idiosyncrasies of the respective markets.

Despite researchers' best efforts to achieve equivalence during the problem definition, data collection and data preparation stages, it remains an empirical issue whether data equivalence is achieved or not. This can be tested with two fundamentally different approaches: first, a multiple group confirmatory factor analysis (CFA);[27] and second, latent trait theory (LTT), also referred to as item-response theory (IRT).[28] The CFA approach attempts to establish whether there is structural identity of the construct measured across cultures, which is necessary and sufficient for conducting mean comparisons. In this context, three increasingly stringent levels of cross-cultural invariance may be distinguished, each allowing different types of comparisons: *configural invariance*, *metric invariance*, and *scalar invariance*.

The much less frequently used LTT approach offers an alternative to the CFA. "The peculiarity of LTT models lies in the fact that both the person parameter and the item location parameter are scaled onto the same dimension. Consequently,

[23] Milekhin (2011).

[24] Schaffer and Riordan (2003).

[25] United Nations Statistics Division (2012).

[26] Javalgi et al. (2005).

[27] Hom and McArdle (1992) and Joreskog and Sorbom (1982).

[28] Hambleton et al. (1991).

persons and items are directly comparable."[29] More specialized literature should be consulted for a detailed description of the various levels of measurement equivalence to be tested through CFA approaches[30] and a discussion of LTT based approaches.[31]

Some researchers are reluctant to engage in such rigorous and relatively sophisticated data equivalence testing. However, even where the outcome is that the data does not support comparability, such results should be highly valued as they have far-reaching consequences for subsequent studies. In any event, at a minimum, any cross-national research needs to consider facets of equivalence which can only be assessed qualitatively, i.e., the equivalence of research topics, data collection and data preparation.[32]

2.3.4 Emic or Etic Approach

In international comparisons, "data should have the same meaning across those countries, because inequivalent or biased information leads to ambiguous or even erroneous conclusions."[33] For example, equivalence is essential when selecting samples and designing and administering surveys. If these methodological issues are ignored, researchers run a high risk of obtaining results and interpreting findings that are inconclusive and misleading.[34] However, the comparability of data from different countries is one of the most challenging issues in global marketing research. "Respondents from different countries are ingrained in distinct cultures, comprising of unique patterns of socio-cultural behaviors, relevant values and psychological attitudes and traits".[35]

To deal with these issues, it must be determined at the outset whether to use an emic or etic perspective when conducting a study.[36] Along with this, it must be established how culture will be defined and treated in general. This provides the basis of the research and helps to define whether unique aspects of a culture will be taken into consideration or not. An emic or an etic approach can be seen as the two ends of a continuum of the methodology of global marketing research.[37]

An emic approach looks at a certain construct or variable (e.g. obesity or trust) from within a particular culture and tries to understand it the way people from within this specific culture understand it. Thus, this approach deliberately takes a

[29] Salzberger et al. (1999).
[30] Steenkamp and Baumgartner (1998).
[31] Salzberger et al. (1999).
[32] Salzberger et al. (1999).
[33] Herk et al. (2005).
[34] Schaffer and Riordan (2003).
[35] Sinkovics et al. (2005).
[36] Schaffer and Riordan (2003).
[37] Sinkovics et al. (2005).

subjective insider viewpoint and emphasizes culturally specific meanings. This end of the continuum is based on the idea that certain behavior and viewpoints are distinctive for a culture and can be best understood in their own terms.

The etic approach attempts an objective, researcher-oriented outsider view and "employs broader comparative analyses involving two or more cultures".[38] This approach comprises a construct of interest that is being studied and compares it explicitly across different cultures using characteristics that are determined in advance. At its core is the idea that universal behavior and viewpoints have to be identified and measured. In business related research, the etic approach is far more common than the emic approach. In fact, in a sample of cross-cultural studies, only 6 % used an emic approach.[39]

The costs of international research can be reduced if constructs are considered to be generalizable across all the cultures under consideration. However, the drawback of this approach is that emics specific to each country are not taken into consideration. For example, what may be considered obese may differ between cultures. Hence, the researcher might compare countries and generalize findings to other locations although in reality, differences may reflect underlying cultural factors. Thus, ignoring the country-specific emics by using a strictly etic approach in cross-cultural research can lead to biased outcomes and decision making.

To strike a reasonable compromise, a combined emic-etic approach has been proposed.[40] This combined emic-etic approach suggests obtaining emic knowledge of each of the cultures being studied in order to reduce cultural bias. These newly gained insights into the individual cultures can then be used to compare them and make "cross-cultural links between the emic aspects of each culture"[41] and will form a sound basis to determine where further etic comparisons are appropriate.

2.4 Global Marketing Information Systems

Rather than collecting data afresh each time an information need arises, companies set up information systems that integrate different types of data, such as financial, manufacturing, sourcing, distribution and, of course, marketing data. The advances made in information technology continue to drive the sophistication of such information systems, and aid increasingly sophisticated company intranets, groupware, or internal Wikis. In turn, this has contributed to a flattening of organizational structures of many MNCs and permitted the outsourcing of business functions and networking between organizations that are internationally dispersed. Easier access to data worldwide also enables companies to assess and serve customer needs in diverse parts of the world.[42]

[38] Sinkovics et al. (2005).

[39] Schaffer and Riordan (2003).

[40] Schaffer and Riordan (2003).

[41] Schaffer and Riordan (2003).

[42] Craig and Douglas (2005).

"Within MNCs, the traditional role of headquarters as the prime source of knowledge and competencies is changing. Increasingly, headquarters act as a receiver of knowledge from their internationally dispersed subsidiaries."[43] In addition to company internal data, external data both from primary and secondary sources is captured routinely. Secondary data typically provides information on the macro-environments of countries or regions, such as general economic development, growth, political risk but also industry and product specific data. Primary data can, for example, originate from specific research projects, such as usage and attitude studies carried out in different countries. Experiences of product launches or promotional activities may also be captured to disseminate best practice to operations in different countries.

Global marketing information systems need to integrate these different types of information across different geographies. The aim is to provide timely and relevant information that can be used for four key purposes[44]:

- Monitoring environmental trends in different parts of the world which may have implications for current or future operations
- Assessing the appropriateness of resource allocations across different countries, products, etc. in the light of changing market trends
- Monitoring and benchmarking performance in different countries and product markets to identify problems as well as opportunities for future growth
- Transferring experience, ideas and know-how between different markets to identify and disseminate best practice worldwide

2.4.1 Challenges in Designing Global Marketing Information Systems

Marketing information systems are part of a company's knowledge management system. To this end, they contribute substantially to the competitiveness of corporations. Not only is the relevance of knowledge as an important corporate resource well recognized,[45] scholars even depict MNCs as knowledge-integrating institutions.[46] In fact, the very existence of an MNC lies in its ability to internalize externalities by putting together resources and activities at a more efficient rate than markets do.[47] The argument that firms create value through combining dispersed knowledge fits this perspective well.[48] Thus, the importance of designing information systems on a global scale can hardly be overemphasized.

[43] Ambos et al. (2006).

[44] Craig and Douglas (2005).

[45] Conner and Prahalad (1996), Davenport (1998) and Grant (1996).

[46] Kogut and Zander (1993).

[47] Buckley and Casson (1976).

[48] Ambos et al. (2006).

Designing efficient and effective knowledge management systems in general and marketing information systems in particular, is tremendously challenging. This applies even more to designing systems that integrate information across different countries. More often than not, a key issue is that there is simply too much information available from different geographies. Thus, systems need to be designed to avoid information overload and to ensure that the managers at different levels and in different functions are getting relevant and timely information. Thus, the information made available needs to be tailored to the specific requirements of the managers. For example, information required for making major strategic decisions, such as market entry decisions, and information-steering tactical decisions, such as adjusting prices in existing distribution channels, usually have different recipients.

Another issue is, once again, data compatibility and equivalence. Different countries typically have different data collection procedures, accounting practices, and currencies, etc. Even seemingly simple measures, such as the number of units sold, may be misleading. Cars, for example, frequently require modifications to conform to specific national regulations or standards and thus entail different costs. To this end, adding units sold in different countries is like adding apples and oranges. Trying to circumvent such issues by using monetary units can also cause problems. Price differences may reflect differences in taxation, be influenced by transfer price practices and are subject to exchange rate fluctuations.[49]

Given the differences in data formats between countries, an information system needs to define a reporting format, which ensures that data can be compared across countries. This burdens local operating units with conforming to uniform international formats when entering data. If the data collected are primarily used for control purposes, little feedback is given by headquarters and little use is made of the information at local level, this may cause considerable resistance at local level. Particularly in highly decentralized operations, there may be limited incentives to exchange information with other organizational units. This, of course, runs counter to the need to develop and coordinate strategies across country markets.[50]

A final issue to be mentioned is the maintenance of the system. This not only refers to obtaining and entering data on a regular basis, but also to purging old information. The consequences of faulty data can be severe for a business, as "75 % of organizations have identified costs stemming from dirty data."[51] For managers who have to shape global information systems, it might also be worth noting that more information inflow does not necessarily lead to more benefits. Headquarters managers should ensure that the information collected receives adequate organizational attention.[52] The ease of reporting and accessing data are therefore important hallmarks of a good marketing information system. A simple but effective structure has been suggested by Craig and Douglas (Table 2.3).

[49] Craig and Douglas (2005).

[50] Ghoshal (1997).

[51] Marsh (2005).

[52] Ambos et al. (2006).

Table 2.3 Possible structure for market research information

	City	Intra-country	Country	Region	World
Macro-economic data					
Product market data					
Company specific data					

Source: Craig, S.C. & Douglas, S.P. (2000). *International Marketing Research*. (2nd edition). Chichester: Wiley, 354

2.4.2 New Tools for Global Data Collection

New technologies, which are driving internationalization, present the designers of marketing information systems with new possible approaches and tools. These can be used to overcome some of the challenges and obstacles described above. Many companies increasingly take advantage of the vast amount of data routinely gathered through call centers, loyalty card programs, social network archives or e-business and include them in their marketing information systems. Using these possibilities allows companies to reduce the time they spend on collecting data across different countries and geographic distances. New instruments to obtain primary data also give rise to interesting new possibilities to undertake "greater cross-national enquiry than has been the case to date and to enhance such studies, both in terms of data collection methods and comparative analysis."[53]

Social media, for example, has changed the approach to data collection. Interviews to gather consumer opinions can partly be replaced by routinely monitoring how people interact with each other and what opinions they state on social media, blogs, etc. This implies that one gets "a new set of qualitative and quantitative information that tends to be very insightful regarding how people think about a specific subject and how they react to any kind of marketing initiative."[54]

Supporters of research based on social media put forward that it has a great impact on understanding consumer behavior and offers powerful benefits. "It is people-led, not researcher-led and thus more authentic; the volume of online chatter dwarfs what's available through traditional research;" [it is like] "listening to online conversations that are naturally occurring—without guidance, facilitation, interruption or stimulation."[55]

This user-generated content is the essence of the true potential the internet presents. The insight team of the Coca-Cola Company realized this potential to get a quick snapshot of the consumers' attitudes and remarked that it is possible to

[53] Loane et al. (2006).

[54] Murphy (2010).

[55] Siama (2011).

generate a report that normally takes weeks and high expenditure within a few minutes.[56] User-generated content provides the researchers with a deep insight into the motivation behind consumers' behavior and their attitudes. It provides an insight into their daily behavior and practices, for example, their brand relationships.

Social media also makes it possible to create new kinds of online research communities. Respondents interact not only with the researcher, but also among themselves and where possible, even the clients can become involved.[57] EasyJet, for instance, created an online community, only for invited participants, for its entire business across different countries. Every week, new questions and topics are introduced and results are presented the following week. Its main aim is to gain qualitative insights, but it is also used to conduct polls and quick surveys to back up data.

An interesting application of electronic media has been reported by Hosoe.[58] Participants document their purchase behavior as it is happening by taking pictures and sending messages about their current experience. This records the consumption behavior of respondents as 'data in progress', as images and texts are recorded and transferred via the internet directly to a database. Researchers can then analyze this data in real-time, posing questions if necessary. Capturing data instantaneously as it occurs provides researchers with a new picture of consumption phenomena. This advantage, of course, is enhanced in a global environment in which even more diverse purchase and consumption situations are encountered and the underlying motivations and lifestyles of people might vary significantly. Having access not only to textual data but also pictures taken by respondents in their daily routine can show differences in cultures even more clearly. This allows for an analysis and presentation of results that is more thorough, providing the relevant input for more sophisticated decision-making.

The ability to take pictures and video combined with the possibility to access the internet makes mobile phones a unique data collection tool for international marketing research. Especially at a global level, this makes conducting research considerably simpler and more convenient for the respondents as well as the researchers. By being able to gain specific insights into the lives of participants across countries without being restricted in time and location represents a substantial advance in facilitating international marketing research.

To what extent new data-gathering tools and approaches will be embedded in routine global marketing information systems remains to be seen. However, it is already evident that such new tools will greatly enhance the ability to collect data across countries, increase the quality of the data, and make data available in real-time. Ultimately, the use of data routinely generated through call centers, loyalty card programs, social network archives or e-business activities and the scope for

[56] Siama (2011).

[57] Cooke and Buckley (2008).

[58] Hosoe (2005).

incorporating data gathered in real-time via mobile phones is only limited by our imagination.

2.5 Summary

This chapter looks at the assessment of global marketing opportunities. The term assessment is interpreted widely, in that it may concern the selection of a first export market for an international novice or the transfer of global marketing information within the knowledge management network of an established MNC. Initially, the wide variety of secondary data useful for assessing different country markets is reviewed and difficulties in comparing secondary data across countries are highlighted. As most corporations neither have the need nor the resources to gather and evaluate data from every country of the globe, a stepwise procedure for assessing and selecting potentially interesting country markets is suggested. The core element of this four-step procedure is a flexible scoring model that can be adapted to the specific requirements of a corporation and offers a means to systematize a country assessment and selection process.

Next, the discussion focuses on the collection of primary data. Different steps involved in the global marketing research process are introduced, ranging from problem definition to reporting the results. As one of the key issues in global marketing research is to ensure that data from different countries have the same meaning, the same level of accuracy and the same reliability, emphasis is placed on different aspects of equivalence in global marketing research. Ultimately, it has to be recognized that not every construct can be meaningfully compared across cultures, which leads to the debate of emic versus etic perspectives in global marketing research.

The final part of the chapter looks at the design of global marketing information systems for corporations with an established network of international operations. Such marketing information systems form part of an overall knowledge management approach of MNCs. The importance of such systems cannot be overemphasized, as they drive an MNC's ability to exploit locally-created knowledge worldwide and hence increase the competitiveness of a corporation. There appears to be no single best way of gathering and transferring marketing knowledge. Indeed, overloading managers with information is a potential problem. Consequently, the information provided must be tailored to the needs of the managers receiving this information and their capabilities to manage knowledge. The chapter closes with a brief look at new tools for global data collection.

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Entering Global Markets

3

3.1 The Why the When and the How

Why companies globalize, when they globalize, and how they enter different national markets very much depends on their strategic objectives. Thus, if a company's only objective is to follow its key customer, many of the issues raised in our previous discussion on market assessment will not apply: the customer determines which market to enter. Alternatively, if a company's objective is to get access to raw materials in order to reduce its dependence on suppliers, it engages in so-called backward integration within its value chain and the choice of market will be driven by the location of the raw materials and/or the availability of the extraction companies it can acquire.

Below, we start by recalling the motivation for entering foreign markets already discussed in Chap. 1 and look at the timing of a market entry. Next, we discuss specific foreign market entry modes. Here we distinguish between non-equity modes, such as different means of exporting and contractual agreements, as well as equity modes, such as joint ventures and wholly owned subsidiaries.

3.2 Ex Ante Considerations

3.2.1 Motivation and Timing of Foreign Market Entry

A discussion of market entry modes cannot take place in a strategic vacuum but needs to be cognizant of a company's strategic objectives. The literature distinguishes between different market-entry objectives, such as resource seeking, market seeking, efficiency seeking and knowledge or innovation seeking.[1] Innovation seeking is closely related to the term *agglomeration*. This refers to the

[1] Dunning (1993).

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Bodo B. Schlegelmilch, *Global Marketing Strategy*, Management for Professionals,
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clustering of activities in certain locations and the resulting knowledge spillover between similar firms.[2]

Intertwined with the objectives for entering foreign markets is the question of timing the market entry. In this context, managers are often referring to the merits of the so-called *first mover advantages*, that is, advantages a firm accrues because it enters a market early.[3] Such advantages may, for example, be related to innovations in proprietary technology, preempting scarce assets, such as potential distribution partners in a country, or creating switching costs for customers. However, not all is bright for first movers. The potential advantages may be offset by latecomers, who are able to take advantage of investments made by first movers, for example, if the first movers have to spend a lot in order to educate a market about the merits of a new technology. Latecomers can take advantage of such marketing investments and concentrate on emphasizing the differential advantages of their particular product. Late movers can also wait until market uncertainties, such as which industry standard will dominate, have been resolved. After the market has settled, they can focus their resources much more effectively. First movers also lose flexibility in that they may be locked into a given set of fixed assets or are hesitant to replace existing products with newer ones. Consequently, late movers may leapfrog early movers.[4] Unfortunately, research on the relative advantages and disadvantages of early versus late movers is still inconclusive.[5] First movers have more opportunity to exploit advantages but do not have a birthright to success.[6]

3.2.2 Balancing Risk and Control

One of the key considerations in selecting suitable foreign market entry methods is the balance between risk and control. Generally speaking, there is least risk when production takes place in the home market and the products are exported. Most risky are wholly owned foreign subsidiaries. The risk involved in a foreign market entry mode and the control of activities in foreign markets, such as the type of marketing support a product receives, are closely linked: more risk means more control; less risk means less control. An important aspect in selecting between different market entry modes is also the learning opportunities offered. For example, when all exporting is outsourced to an export management company that deals with customs requirements, handles all documentation, export finance issues and deals with the customers in foreign markets, a company will have virtually no opportunities to learn how to market its products in a foreign environment. Figure 3.1 depicts the most common market entry modes, divided into equity and non-equity modes.

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[2] Kalnins and Chung (2004) and Tallmann et al. (2004).

[3] Lieberman and Montgomery (1988).

[4] Peng (2006).

[5] Mascarenhas (1992), Isobe et al. (2000) and Fuentelsaz et al. (2002).

[6] Peng (2006) and Gaba et al. (2002).

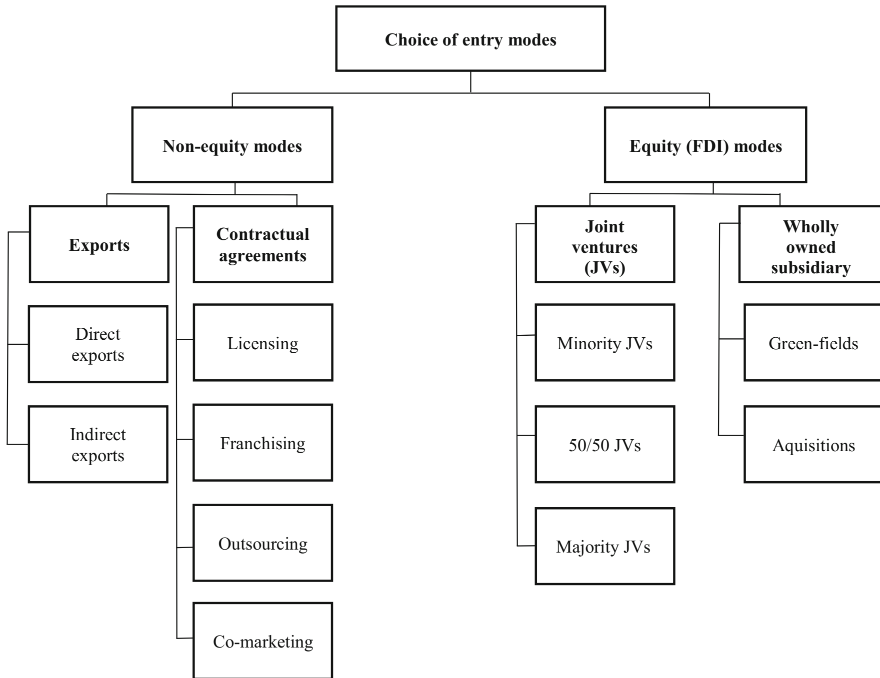

Fig. 3.1 Common market entry methods

3.3 Foreign Market Entry: Non-equity Modes

3.3.1 Exporting

For many companies new to international business, exporting is the market entry method of choice. Such companies are typically manufacturing at home and serve foreign markets with their products. Compared to other forms of market entry modes, exporting offers considerably more flexibility due to its small resource commitment and limited risks.[7] If an export market development in a particular region does not turn out to be quite what was expected, exporting companies can relatively easily retreat from the market.

However, in many cases corporations combine exporting with other entry modes, such as joint ventures or wholly owned subsidiaries. Toyota, for instance, established a variety of manufacturing plants in important locations in Asia,

[7] Stonehouse et al. (2004).

Europe, and North America. From there it exports the products to neighboring countries.[8] Similarly, exporting can also be combined with an offshore sales office. Webspy, an Australian software company, not only exports its software, but has also established sales subsidiaries in London and Seattle to service its two most important regional markets, Europe and North America.[9]

Within exporting, there are two alternatives to address foreign markets: indirect and direct exporting.

3.3.1.1 Indirect Exporting

Under indirect exporting, a manufacturer outsources all activities related to foreign markets to a specialized company located in its home country. Although the company knows that its products are exported, the business transaction remains a domestic transaction. Domestic partners handling foreign businesses for corporations are referred to as export trading companies (ETCs), export management companies (EMCs), export merchants, export brokers, combination export managers, manufacturer's export representatives or commission agents, and export distributors. Many of these terms and labels are used inconsistently. Consequently, a manufacturer should carefully check the services performed by a particular independent export organization.

A typical export service provider acts as the export department for several companies that either lack export experience or treat export as a marginal activity. Among the services provided are marketing research, channel selection, arranging financing and shipping, and documentation. According to a survey of US based EMCs, the most important activities for export success are gathering marketing information, communicating with markets, setting prices, and ensuring parts availability.[10]

3.3.1.2 Direct Exporting

In contrast to indirect exporting, direct exporting requires a more extensive commitment of resources, but in turn provides the manufacturer with better control and market presence. As to the latter, the exporter needs to decide the extent of participation in distribution activities. There are two main options: direct market representation and independent market representation.[11]

3.3.1.3 Direct Market Representation

Although the mode of market entry is referred to as direct representation, companies are usually not selling directly to the consumer but to wholesalers or retailers. The two major advantages of direct representation in a market are control and communications. Decisions concerning program development, resource

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[8] Cavusgil et al. (2008).

[9] Webspy. http://webspy.com. Accessed June 1, 2015.

[10] Howard (1994).

[11] Keegan and Schlegelmilch (2001).

allocation, or price changes can be implemented more easily compared to indirect exporting. Moreover, when a product is new in a market, special efforts are often needed to achieve sales. Through direct representation, the company is in a much better position to steer such efforts. A major advantage of direct market representation is also the opportunity to learn and acquire knowledge from the target market. This improves the quality of decision making and thus increases the chances for long term success.

3.3.1.4 Independent Market Representation

However, companies often do not have a sufficiently large sales volume to justify the cost of direct representation. Where sales volumes are small, possibly because of the size of the country market, independent agents or distributors are effective market entry vehicles.

Agents are independent companies, or individuals, who act on behalf of the exporter. They typically represent different non-competing companies and obtain orders on a commission basis. Thus, agents do not take ownership of the goods they handle. In contrast, distributors do take ownership. They typically buy products from the exporting company and sell these products in the market. Since they take on the market risk, both in terms of unsold products as well as profits, they demand higher margins than an agent's commission. Moreover, distributors frequently demand exclusive rights for a specific sales territory. This can sometimes come into conflict with competition laws restricting the possibility of setting up exclusive distribution arrangements.

Given a company's high degree of dependence on distributors and agents, it is evident that great care has to be taken in selecting a suitable distributor or agent, and in drafting an appropriate agreement. Care should also be given to a possible resolution of a contract. For example, if the plan is to replace agents with the company's own sales outlets after they have successfully developed a national market, a company should bear in mind that such agents may develop the right to claim damages. Possible topics to be addressed in agent or distributor agreements are listed in Table 3.1.

Piggyback exporting, also called *piggyback marketing* or *mother hen sales force*, is yet another form of independent market representation. Under this arrangement, a manufacturer obtains distribution of products through another company's distribution channel. The active distribution partner benefits through a better capacity utilization of the distribution system, and the manufacturer benefits in that the cost of such an arrangement are much lower than that of a direct market representation. Successful piggyback marketing requires complementary product lines targeted at the same customer segments. A case in point is the Kauai Kookie Kompany, whose owners observed Japanese tourists stocking up on cookies before returning home from Hawaii. Now the cookies are sold in a piggyback arrangement with travel agencies in Japan. The cookies can be purchased from a catalogue after travelers have returned home, thus reducing the amount of baggage.[12]

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[12] Kaikati and Jack (1993).

Table 3.1 Possible items in an agent/distributor agreement

• Duration/termination	• Information to be supplied by the agent/ distributor (e.g., on customers, competitors, government regulations, prices, other lines carried)
• Territory (exclusive/non-exclusive)	• Inventory maintenance
• Special reservations by seller to sell directly or at reduced commission to certain categories of buyers	• Clarification of warranties
• Products/services covered	• Right to audit
• Tax liability	• Arbitration system to be used
• Payment/discount terms	• Penalty clauses
• Right to fix/change prices or other terms	• Minimum level of performance
• Sales support given by both parties	
• Responsibilities for customs clearance	

3.3.1.5 Exporting of Services

Exporting services has a number of unique characteristics. For instance, Indian companies capture an increasing portion of business process outsourcing (BPO),[13] which includes services such as finance and accounting, human resources, and design and engineering.[14] The rise in demand for services exports is particularly strong for "soft services," which refers to the provision of information and knowledge-based solutions. It is often proposed that internationalization with these services can only be achieved with considerable resource commitment, such as a wholly owned subsidiary or an equity joint venture. However, other, more cost-effective entry possibilities can be employed. Many firms do engage in the export of services without possessing a local delivery system, which is referred to as *embodied object export*. Embodied object means that "soft services" can often be stored or embodied in some physical form, like reports, construction plans, or DVDs, which can be sent to the foreign customer.[15]

Another cost-effective form looks more closely at the value chain of a company. The company's staff who are abroad on a short-term basis perform the functions that must be delivered locally at the client's place. This strategy, which is called *embodied people export*, is used in services such as market research, product design, or management consultancy. This approach provides a particularly useful, resource-conserving alternative, which accounts for the "tacit" nature of the information.[16] One strategy, for instance, is for a firm to send its employees abroad to

[13] Javalgi et al. (2004).

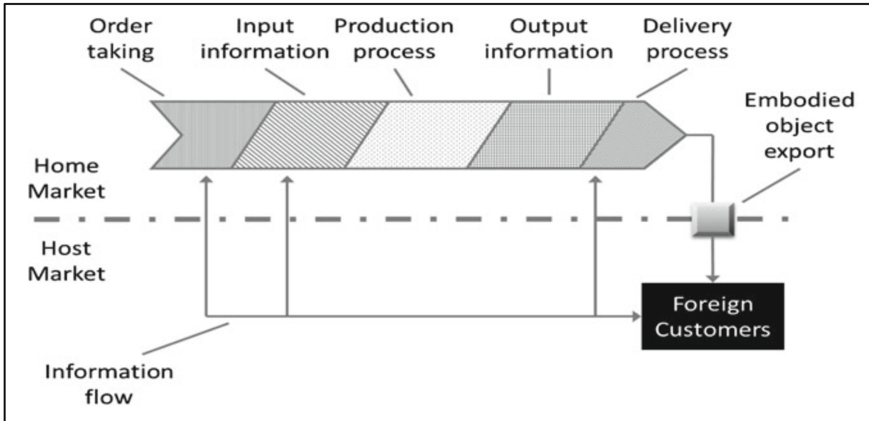
[14] The Economist (2005).

[15] Ball et al. (2008).

[16] Ball et al. (2008).

conduct the business directly at the customers' office—a move employed by Ernst & Young to export account services.[17] Figure 3.2 contrasts the concept of embodied object export and embodied people export.

Embodied Object Export



Embodied People Export

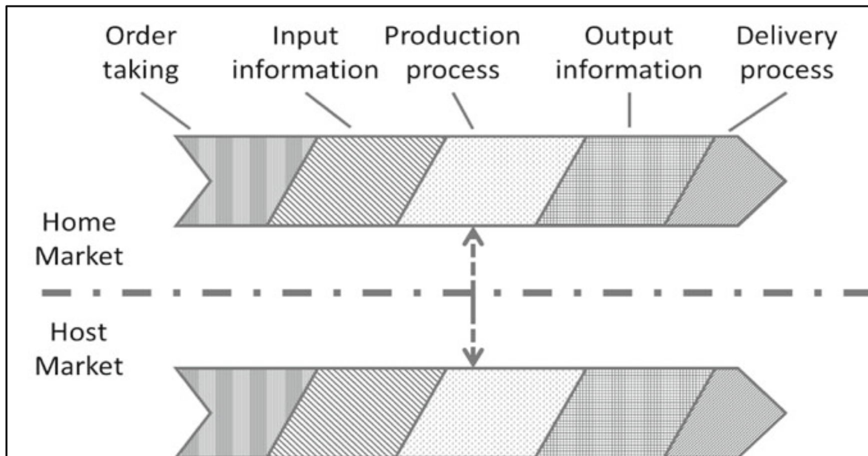


Fig. 3.2 Embodied object export versus embodied people export. *Source*: Ball, D.A., Lindsay, V. J., & Rose, E.L. (2008). Rethinking the Paradigm of Service Internationalization: Less Resource-intensive Market Entry Modes for Information-intensive Soft Services. *Management International Review*, 48(4), 413–431

[17] Cavusgil et al. (2008).

3.3.2 Contractual Agreements

The contractual agreements described below, i.e. licensing, franchising, outsourcing and co-marketing are not *international* market entry methods per se, as all of them can take place in the domestic market environment. However, these types of agreements are frequently used to enter international markets. The prime motive of licensing, franchising and co-marketing is market seeking, whereas the prime motive of outsourcing is efficiency seeking.

3.3.2.1 Licensing

Licensing involves a producer renting out intellectual property to a third party. Normally the licensor—the party granting the license—is compensated by the licensee—the party obtaining the license—through a lump sum and royalties, which are both specified in the license agreement. Different forms of licensing agreement can be distinguished:

First, know-how agreements where permission is given to use a specific technological or management knowledge about how to design, manufacture, or deliver a product. Intel, for example, licensed the right to a new process for making computer chips to a chip manufacturer in Germany.[18] Second, trademark and copyright licensing, which refers to agreements that permit the holder to use its propriety name, characters, or logos. For example, Disney made approximately EUR 17 billion in 2005 by granting other firms the right to use their logo.[19] Also in the fashion industry, where strong brand names are critical, companies license their brand in order to enter new markets and enhance brand awareness.

Food and beverage licensing also represents a very lucrative business. Cadbury Schweppes, for example, licenses several of its brands. Among these brands are Snapple, Dr. Pepper, and Halls. The main goal of licensing for Cadbury Schweppes is to increase the brand awareness of the umbrella brand.[20] Another example is the licensing agreement between Coca-Cola and Danone, which includes the distribution of the product Evian. This has generated a win-win situation for both companies. Coca-Cola gained a much stronger position to compete with its archrival, Pepsi, in the bottled water competition, while Danone has increased sales and brand awareness by having a strong partner in the US market.[21]

The main advantages of licensing as a foreign market entry mode include the ability to enter a market with little capital outlay, to circumvent trade barriers and government restrictions and tap into local knowledge and expertise. The downside of licensing is the limited contact with customers, little control over the product and the image developed in the market, as well as the danger of having one's intellectual property infringed upon by the licensee. In fact, by infringing on a company's

[18] Cavusgil et al. (2008).

[19] Wilensky (2006).

[20] Molaro (2006).

[21] Bruss (2002).

intellectual assets, a previous partner can develop into a serious competitor in the foreign market.[22] LG Electronics Inc.'s Zenith unit made patent-infringement claims against Sony Corp., which was the licensee for a signal processing technology. Zenith claimed that after the license expired, Sony was not willing to prolong it, but continued to use the technology, thereby infringing on the patent.[23] Intellectual property infringement is not necessarily restricted to technology-intensive products. Many simpler products can also be affected. Mattel, the US-based toy manufacturing company, for example, licensed the right to distribute the Barbie doll to the Brazilian toymaker Estrela. As soon as the agreement expired, the Brazilian firm developed its own doll, called Susi, which it then sold on the Brazilian market. Later, Susi was also launched in Argentina, Chile, Paraguay, and Uruguay and experienced vast successes in these markets.[24]

3.3.2.2 Franchising

Franchising refers to agreements between two parties where the franchisor grants the franchisee the right to run a business bearing the former's name.[25] The most popular form of franchising is *business format franchising*, under which a franchisor's total business concept, encompassing its production, brand, technical and managerial know-how, marketing, patents, trademarks, etc. are provided to the franchisee. Benetton exemplifies successful internationalization through franchising. It exerts rigorous standards on their approximately 7000 franchises. Their influence on single outlets not only includes compulsory requirements regarding collection and store management, but also regulation on regional marketing. Through its international franchising, Benetton leverages the advantage of its strong brand awareness due to its aggressive print advertisement and insures low market entry costs.

Other examples of business format franchising include 7-Eleven, the world's largest operator and franchisor of convenience stores. Many of the 28,000 stores worldwide are outside of the USA. For example, the company has over 10,800 stores in Japan. McDonald's, KFC, Pizza Hut, Subway, Starbucks Coffee and Häagen-Dazs are further examples of leading companies pursuing international market entry via franchising.[26]

Many companies use so-called *master franchising agreements*. Here, the franchisee does not only operate outlets on its own, but also seeks out other franchises in the host market. For example, Cendant, the world's largest franchiser of real estate brokerages, uses this method to franchise Century 21 Real Estate in China and France. The company now has over 15,000 independent real estate offices worldwide.[27]

[22] Cavusgil et al. (2008).

[23] Decker (2011).

[24] Cavusgil et al. (2008).

[25] Stonehouse et al. (2004).

[26] Spulber (2007).

[27] Spulber (2007).

While reduced investment costs are key advantages for franchisors, the franchisee can become part of a recognized network with the minimal capital needed for the franchise. This ability to buy into recognized networks makes franchises particularly attractive for emerging markets. However, franchising is not without risk. Maintaining a consistent standard among its franchisees presents the company with a considerable challenge.

3.3.2.3 Outsourcing

Outsourcing refers to an arrangement between a company and its independent supplier to manufacture components or to provide services according to well-defined specifications. Closely connected to outsourcing is the term *off-shoring*. While outsourcing always refers to a relationship between independent corporations—but not necessarily to a situation where both corporations are located in different countries—off-shoring always refers to a cross-border arrangement, though not necessarily between independent corporations. When certain organizational tasks are carried out abroad by an organizational unit of the same company, this is referred to as *captive off-shoring*.

Outsourcing activities go beyond physical manufacturing and encompass services as well. Here, we come back to the already mentioned *business process outsourcing* (*BPO*). BPO includes services such as finance and accounting, human resources, and design and engineering.[28] In this context, it is interesting to note that researchers have long argued the centrality and importance of customer relationship management (CRM) to firm success. Yet despite the central importance of CRM to corporate success in general, and marketing strategy in particular, CRM represents one of the most popular outsourcing areas.[29]

In the realm of manufacturing, one of the key issues is technology sourcing, i.e., whether to make something in-house or purchase it from other companies (*make-or-buy decision*). An integrated decision-making matrix, allowing executives to decide upon acquiring technology externally or developing it internally, can be a useful means of orientation for managers. The model makes a distinction between the technology's importance and the difficulty in developing it. An additional dimension is the age of the technology and the firm's experience. Taking these dimensions into consideration, the decision-making model helps to decide whether or not the technology should be outsourced (Fig. 3.3).[30]

Among the drawbacks of outsourcing are the limited control over production or service quality, the lack of direct ownership, and the inability to secure intellectual property.[31] The advantages are that corporations can concentrate on their core competences, which may be product design, marketing, etc. The limits to outsourcing are interesting in this context. What is the core competence of a firm

[28] The Economist (2005).

[29] Graf et al. (2013).

[30] Tallman (2008).

[31] Cavusgil et al. (2008).

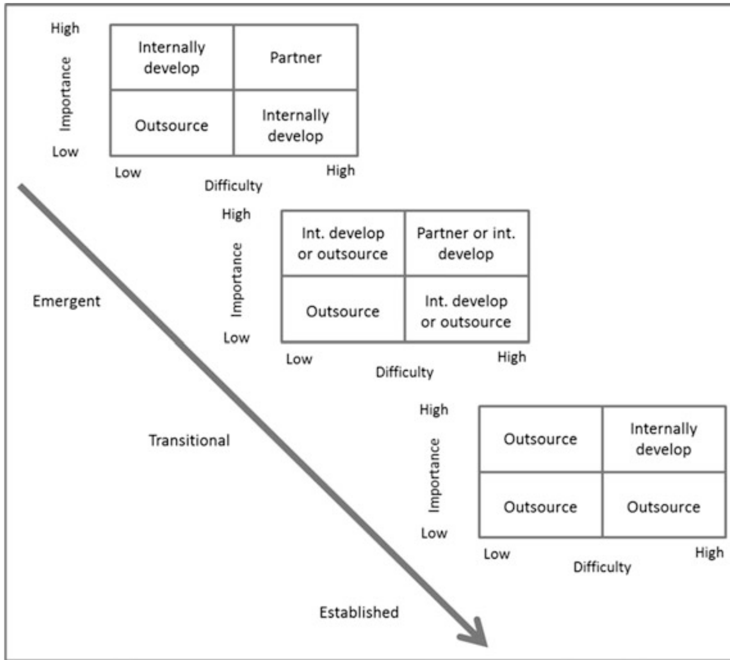


Fig. 3.3 Technology outsourcing: The make-or-buy dilemma. *Source*: Allred B.B., & Swan K.S. (2008). Is 'Do What You Do Best and Outsource the Rest' an Appropriate Technology Sourcing Strategy? In S. Tallman (Ed.), *A New Generation in International Strategic Management*, Chapter 3, Cheltenham, UK and Northampton, MA: Edward Elgar Publishing, 40–62

that outsources its manufacturing, marketing and logistics? There are some arguments suggesting that even this question is rapidly becoming irrelevant. Today, "most products and services are designed, developed and delivered by an integrated—often global—network of collaborators."[32] Thomas Friedman, the famous author and columnist, remarked that CEOs rarely talk about outsourcing: "Their world is now so integrated that there is no 'out' or 'in' anymore."[33]

3.3.2.4 Co-marketing

An increasing number of companies agree to market their products and services jointly. Often, such co-marketing involves more than just two firms. For example, airline alliances such as One World and Star Alliance jointly promote their products through code sharing, coordination of flight schedules, frequent flyer programs, sharing of airport lounges, etc. Fast food restaurant such as McDonalds often forge agreements with toy makers or film studios which allows them to use popular toys or movie characters to promote their product. The same holds for a series of

[32] IBM Center for Applied Insights (2012).

[33] Friedman (2012).

promotional in-packs, on-packs or by-packs used by FMCGs. Co-marketing can improve customer appeal and provide access to new market segments. However, it increases coordination costs and permits only limited control. Still, as a means to penetrate international markets, co-marketing often offers an efficient and effective market entry method.

3.4 Foreign Market Entry: Equity Modes

3.4.1 Joint Ventures

3.4.1.1 Reigning in the Elusive Term

Joint ventures can take many shapes and forms. In an international context, the term refers to a contractual agreement between two or more business partners from separate countries that pool resources, share risks and divide rewards to increase their competitive advantage. In legal terms, joint ventures are ill defined. They can be formed for a specific project only, for example a large building project, and are then typically referred to as *consortia*. *Non-equity joint ventures* are based on contractual agreements, i.e., do not include the investment of any capital. Again, there are many different reasons why companies may want to engage in non-equity joint ventures, such as joint product development, joint marketing or service agreements. In fact, going back to Fig. 3.1, all the market entry alternatives discusses under the heading "contractual agreements" are also non-equity joint ventures.

However, right now we are discussing equity joint ventures. These are formed by establishing a new jointly owned company or by purchasing equity in an existing company. Depending on the agreed proportion of capital investment, joint ventures as referred to as *minority joint ventures, 50/50 joint ventures*, or *majority joint ventures*. In addition to drawing up a joint venture agreement, the companies involved typically also enter into accompanying contractual agreements, such as distribution agreements or licensing agreements.

3.4.1.2 Advantages of Joint Ventures

Where laws of host countries prohibit foreign control of corporations (either in general or in certain industries), joint ventures with local partners may be the only way to enter a country. But even in countries where there are no such legal constraints, joint ventures offer a much faster and less costly market entry alternative than establishing a wholly owned new enterprise (i.e. setting up a green field operation). The aspect of knowledge-sharing is particularly important in joint ventures. The local partner often has established relationships with important suppliers and access to distribution channels. Obviously, familiarity with local culture, business practices, laws, regulations and language is also a benefit the local partner brings to the table. These aspects may be particularly important for small and medium-sized companies that possess specialized technical know-how but do not have the resources to develop a new country market on their own.

Moreover, joint ventures offer particularly attractive opportunities for market entry in volatile emerging markets. However, while the conventional wisdom is that a joint venture is the only way to go in these markets, not all agree with this "wisdom." In China, for example, the situation is changing rapidly, and many companies now opt for a wholly owned enterprise: "The reasons are fundamental: investors achieve greater flexibility and control with a wholly owned subsidiary, and the government is becoming more concerned about what a company brings to the country in terms of jobs, technology, and know-how than it is about how its deals are structured."[34]

3.4.1.3 Disadvantages of Joint Ventures

Notwithstanding the numerous advantages of joint ventures, many result in a frustrating experience and ultimately in failure. In fact, approximately 50 % of all joint ventures fail.[35] Among the host of reasons for difficulties are unanticipated market developments, disputes over the use of intellectual property or regulatory uncertainties.[36] By definition, profits are shared and disputes may arise about the fairness of the original agreement or about the proportion that should be reinvested in the joint venture versus the proportion of the profits that should be dispersed. Different strategic priorities and management philosophies of the partners as well as a lack of flexibility to accommodate changes in the business environment also increase the risk of joint ventures.

Another substantial risk is that the local joint venture partner mutates to a competitor. For example, in 2006 when Danone, the French food giant, formed a joint venture with the Chinese firm Wahaha, this was considered to be a success. A year later, it turned out to be a painful flop for Danone, when the French company discovered that Wahaha was trading similar products through a parallel business.[37] The conflict was solved in October 2009 when "Danone agreed to sell its stake to Wahaha at a 21 % discount to the book value."[38] Given the potential problems inherent in joint ventures, a main disadvantage is the cost and effort associated with control and co-ordination.

3.4.1.4 Success Factors in Managing Joint Ventures

The joint venture management task breaks down into three distinct phases: (a) the *formation* phase, including a company's decision to enter into a joint venture and the selection of a suitable partner; (b) the *design* phase, wherein the appropriate governance structure is set up; and (c) the *post-formation* phase, during which a company manages the joint venture on an ongoing basis to realize value.[39] Figure 3.4

[34] Keegan and Schlegelmilch (2001).

[35] Stewart and Maughn (2011).

[36] Das and Bing-Sheng (1999, 2001).

[37] The Economist (2007).

[38] Gupta and Wang (2010).

[39] Kale and Singh (2009).

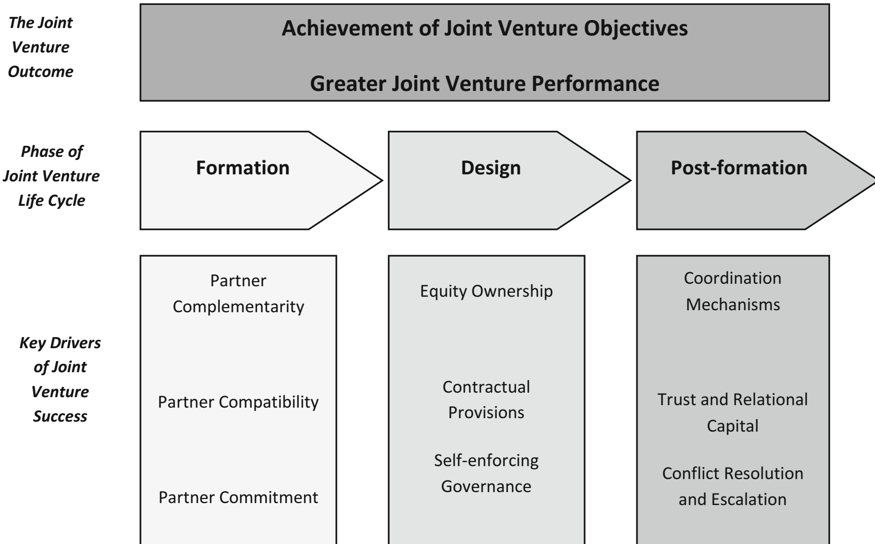


Fig. 3.4 Joint venture life cycle phases. *Source*: Adapted from Kale, P., & Harbir S. (2009). "Managing Strategic Alliances: What Do We Know Now, and Where Do We Go From Here? *Academy of Management Perspectives,* 23(3), 46

provides an overview of the three phases and the main factors that influence its performance in each phase.

Formation Phase: A review of more than 40 studies shows that there are three factors that positively influence joint venture performance: partner complementarity, partner compatibility and partner commitment.[40] Partner complementarity represents the extent to which a partner contributes with resources or capabilities that the other lacks. However, complementarity alone does not ensure the success of the alliance. The partner firms should be compatible and committed to the relationship. Partners are compatible when their working styles and cultures fit together. Commitment refers to the willingness to make resource contributions and short-term sacrifices to realize long-term benefits. Although all three partner attributes influence the success of the joint venture, some of them may be more pivotal under different conditions. For instance, complementarity is more critical when it is difficult to specify the expected outcomes. On the other hand, when the process for achieving specific benefits is unclear, partners must be committed to the joint venture and be willing to dedicate costly resources.

Design Phase: Finding a partner that possesses all three attributes considerably facilitates the process, but a right partner alone still does not guarantee the venture's

[40] Kale and Singh (2009).

success. In order to achieve good performance, companies should build appropriate governance processes and structures during the design phase of the joint venture life cycle. In business practices, one of the most frequent causes of underperforming joint ventures is an inappropriate governance model. According to a study by Accenture, "at many companies—small, medium and large alike—the problem isn't taking an incorrect approach to governance; rather, it's not thinking much about governance at all".[41]

In addition to focusing on the equity shares of the joint venture partners, contractual provisions are part of an effective governance model. Contracts establish the rights and obligations of both the joint venture partners, limit the information disclosures, and punish inappropriate behavior by ascribing penalties. Additionally, partners should foster self-enforcing governance based on trust, goodwill and reputation.

Post-formation Phase: During the post-formation phase, there are three key aspects that should be given special attention: coordination mechanisms, trust and relational capital, and conflict resolution.

Joint venture partners are interdependent and it is critical that they coordinate their actions. There are three classic ways of managing coordination: programming, which means developing clear guidelines where roles and responsibilities are assigned; hierarchy, which involves the creation of roles with authority and decision-making ability; and feedback, which includes regular information exchange both internally and between partners.

Accenture stresses the importance of personal relationships and trust.[42] Trust can be built by demonstrating that a company trusts its partner or by showing its own trustworthiness. "Relational capital" refers to the interpersonal trust built between two individuals that work regularly with each other and understand each other's working style and culture. A recent study focusing on international research and development alliances also showed that the ability to manage conflicts is positively linked to resource deployment stability. The latter, in turn, is positively linked to performance satisfaction and schedule adherence.[43]

3.4.2 Strategic Alliances

Building strategic alliances, including equity joint ventures, non-equity joint ventures and various contractual agreements (Fig. 3.1), has become a ubiquitous phenomenon in the current business environment. The vast majority of companies engage in more than one alliance. Most large firms have built up more than 30 alliances and many of them even more than 100.[44] Consequently, it has been

[41] Palmer (2006).

[42] Roussel (2001).

[43] Robson et al. (2012).

[44] Bamford and Ernst (2002).

argued that traditional company practices, which focus on the level of individual alliance, are no longer sufficient. Companies have to move from a mindset of "What alliance should be formed in order to improve our operational efficiency?" to one that tries to answer the question "What group of companies should we form alliances with, and how can we most effectively work with them to be competitive?"[45]

There are a number of rationales why a company may decide to engage in multiple simultaneous alliances.[46] First, they represent a means of managing risk and uncertainty. Second, multiple partnerships leverage knowledge-sharing, as they constitute a substantial experience base. Third, the access to a broader range of resources from different partners enhances a firm's resource stock and capacity to earn relational rents. Moreover, a history of joint collaboration increases the probability of further alliance creation between the partners.

However, when discussing the management of such alliance portfolios, it has to be kept in mind that not all alliances have the same importance to the business. Typically, only a few alliances with major strategic partnerships are crucial to success, a small number is relevant at an operating level and the vast majority are just tactical deals.[47] In the light of the above, managing an alliance portfolio effectively has gained considerable importance.

3.4.3 Wholly Owned Subsidiaries

A wholly owned subsidiary, i.e., one with 100 % ownership, represents the most extensive form of market entry in global markets. It may be achieved by establishing an entirely new start up, a so-called green-field investment, or by making an acquisition. While a wholly owned subsidiary requires the greatest commitment of resources, both in terms of management time and financial capital, it offers the fullest means of participating in a market.

Often, wholly owned subsidiaries are not the first step into a foreign market. Companies may move from licensing or joint venture strategies to ownership in order to achieve faster expansion in a market, greater control, or higher profits. In this context, one has to be careful with terminology. The term foreign direct investment (FDI) needs to be distinguished from wholly owned subsidiary. While a foreign direct investment presumes that the investor has control or significant influence over the investment, which also applies to a wholly owned subsidiary, foreign direct investment is usually defined as an equity capital stake of 10 % or more.[48] Thus, even a minority share in a joint venture could be foreign direct

[45] Parise and Casher (2003).

[46] Wassmer (2010).

[47] Bamford and Ernst (2002).

[48] In some countries, an equity stake other than that of 10 % is still used (see http://unctad.org/en/Pages/DIAE/Transnational-corporations-(TNC).aspx). Accessed April 7, 2013.

investment. If the threshold of 10 % ownership is not reached, investments are viewed as *portfolio investments*. Finally, confusion sometimes arises when looking at foreign direct investment statistics. A clear distinction has to be made between stock and flow perspectives. The foreign direct investment stock perspective looks at the cumulated investments, i.e., the value of the share capital, reserves and retained profits attributable to the parent enterprise; the flow statistics examine the investments that have been made in a particular year.[49]

Many of the advantages previously discussed under joint ventures also apply to a wholly owned subsidiary, including access to markets, avoidance of tariffs or quota barriers, and knowledge transfer. However, there are also a number of unique advantages of wholly owned subsidiaries, such as no profit-sharing with a partner company, better operational control and, closely connected, the speedier implementation of strategies, as well as better protection of intellectual property. Among the downsides are no risk-sharing and, at least in terms of a green field operation, less access to local knowledge. The latter, of course, does not hold for acquisitions.

Finally, is should be stressed that the different market entry modes discussed in this chapter are not necessarily self-contained alternatives. More often than not, the different forms represent a continuum of alternative strategies for global market entry and expansion. As corporations increase their international presence, the overall design of a company's global strategy may call for combinations of exporting, importing, licensing, joint ventures, and ownership among different operating units.

3.5 Summary

Following the identification of foreign target markets for a first international market entry or a further market expansion, a company has to decide on a suitable market entry method. What is suitable depends on a large number of factors, the most important being the strategic objectives of the company, that is, whether foreign market entry is primarily motivated by resource seeking, market seeking, efficiency seeking or innovation (knowledge) seeking.

Other considerations influencing the mode of entry are the potential importance of a first mover advantage, and the need to balance risk and control. Of course, all of these factors are closely connected to the capital and knowledge resources a company has at its disposal. Where a company does not possess sufficient resources or does not want to commit extensive resources abroad, it will select a non-equity mode of market entry. For many companies exporting goods produced at home is the first step towards internationalizing their business. However, many companies are also drawn to international business through supply side considerations. For example, they may find that it is less costly to outsource parts of their value chain to business partners located abroad.

[49] UNCTAD (2012).

If a company wants to have a strong market presence abroad or needs to monitor activities in foreign markets more closely, joint ventures or wholly owned subsidiaries are entry methods of choice. While the market entry alternatives have been discussed separately, experienced multinationals tend to combine exporting, importing, licensing, joint ventures, and wholly owned subsidiaries in their network of international operations.

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4 Segmenting Targeting and Positioning in Global Markets

4.1 STP: The Holy Trinity of Marketing

Segmentation, targeting and positioning (STP) defines a central battleground in any marketing strategy. Mistakes in these competitive disciplines are likely to be costly and may result in failure; getting it right is a critical prerequisite for corporate success.

Market segmentation aims to divide the market into smaller units—whether country groups, individual countries, industries or individual consumer groups—which are likely to respond similarly to product[1] offers or marketing activities. Correct segmentation has been repeatedly identified as an important element of international marketing strategy and a critical factor for success in global markets.[2]

Targeting builds on the results of segmentation in that the company evaluates the attractiveness of each of the segments and chooses to target one or several of them. If only one segment is targeted, companies are said to use a concentrated strategy; companies that simultaneously target several market segments, each with a unique marketing mix, use a differentiated strategy.

Positioning, the final element of STP, attempts to create a clear, distinctive, and desirable place relative to competing products in the minds of the target consumers.[3] A product should differentiate itself from competing products in order to create superior customer value; ideally, a product should have a unique selling proposition (USP) that clearly differentiates it from competing offers and makes it attractive to the target customers.

Below, we start by discussing the most important segmentation, targeting and positioning methods. More specifically, we distinguish between different

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[1] Although we talk only about *products* to increase the readability of the text, the following discussion equally applies to services. See also discussion in Chap. 5.

[2] Cooper and Kleinschmidt (1985), Leonidou and Katsikeas (2010) and Leonidou et al. (2002).

[3] Kotler and Armstrong (2007).

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possibilities of segmenting a market and then look at the selection of target markets. Finally, the main emphasis of this chapter is put on how managers can position their products and services in the global market.

4.2 Global Market Segmentation

Back in the 1980s, Professor Theodore Levitt used the phrase "pluralization of consumption" and noted that the same segments are likely to show up in multiple national markets.[4] For example, ethnic or regional foods such as sushi, Greek salad, or hamburgers might be in demand anywhere in the world. Today, Levitt's prediction has only *partly* become reality. There are opportunities for marketers to pursue some segments on a global scale. However, the predicted global uniformity finds its limits in language differences, national laws and a large variety of cultural factors. Companies with a wide global reach still encounter a large number of regional and national preferences that limit the scope for truly global segments.

In general, effective segmentation requires the market segments to possess six attributes: segments should be measurable, accessible, substantial, differentiable, actionable and stable.[5] In practice, fulfilling all six attributes is often difficult. Segmentation characteristics, such as personality traits, are rather costly to measure. Accessibility is often difficult and requires self-targeting by consumers. Knowing whether a segment is substantial, i.e., sizable enough to be pursued profitably, ex ante is often a question of managerial judgment. And how different one segment is from another in terms of its possible responses to different marketing strategies, how actionable it is, and how stable, are often empirical questions difficult to gauge in advance.

There are a huge number of possible segmentation approaches that are used in both a domestic and a global marketing context.[6] The most important ones are *geographic*, *demographic*, *psychographic*, *behavioral* and *benefit* segmentation.

4.2.1 Geographic Segmentation

Geographic segmentation divides the world into geographic subsets, such as countries or regions. The simplicity of this approach is also its strength: most statistics a company needs are compiled on a country-by-country basis and the geographic segments tend to be located close to each other and can, for example, be visited on the same trip or called during the same time window. However, geographic segmentation also has major limitations. Differences within a given country

[4] Levitt (1983).

[5] Kotler and Armstrong (2007) and Meffert et al. (2008).

[6] Beane and Ennis (1987), Piercy and Morgan (1993), Plank (1985), Sausen et al. (2005), Steenkamp and Ter Hofstede (2002), Tynan and Drayton (1987) and Walters (1997).

can be remarkably high. For example, there are considerable differences in economic development between the coastal regions of China and central and western China, while Russia stretches over nine time zones, and Switzerland and Canada's populations speak a range of different languages. Large income inequalities within countries like Brazil further illustrate the limited usefulness of geographic segmentation.

4.2.2 Demographic Segmentation

Demographic segmentation is widely used and based on readily available and measurable consumer characteristics such as age, gender, family size, family life cycle, income, occupation, education, religion, race or nationality. In business-to-business marketing, conceptually equivalent measures are company age, size, and profitability, as well as the type of industry or the technology used.

A particularly important characteristic in demographic segmentation is income. In fact, there are hardly any broad-based consumer goods, services or industrial product manufacturers that do not consider national income as an indicator of market potential and use it as a segmentation variable. A common approach consists of using the World Bank's country classification based on gross national income (GNI) per capita. At present, the World Bank defines the following ranges:[7]

- Low income countries with a GNI per capita of less than $1045
- Lower middle income countries with a GNI per capita between $1045 and $4125
- Upper middle income countries with a GNI per capita between $4126 and $12,736
- High income with a GNI per capita of $12,737 or more

In terms of their usefulness in global market segmentation, demographic variables are a mixed bag. On the one hand, there are a number of demographic trends that transcend national boundaries and suggest the emergence of global segments.[8] Such trends include fewer married couples, fewer children or the changing roles of women. On the other hand, single demographic variables are often only meaningful in conjunction with other data. Take income per capita as an example. At the time of writing, one of the highest average income-per-capita levels is reported for Norway (GNI of $103,050); ignoring city-states like Monaco and Lichtenstein, which surpass Norway by far.[9] However, Norway has fewer than five million inhabitants and is, as a target market, arguably less attractive than the USA, which has a lower GNI of about $55,200 but a population of more than 300 million.

[7] The World Bank (2015).

[8] Domzal and Unger (1987).

[9] The World Bank (2015).

Moreover, demographic variables are often of limited use where behavioral aspects are concerned[10] and can mask potentially interesting segments. Despite the country's relatively low average income per capita, China is the largest world market for luxury cars, such as Bentley, Porsche or Lamborghini.[11] On the other side of the income spectrum, India, with a substantially lower average GNI per capita than China, may represent an interesting country segment for single-use pouch shampoos that sell for one Rupee (about 0.01 €).[12] Thus, segmentation decisions based on average income per capita should be treated with great care.

An alternative demographic categorization is age, such as the global teenage market. Teens, by virtue of their interest in fashion, novelty, entertainment, and image-oriented products, exhibit consumption behavior that is relatively consistent across national borders. To this end, a teenager in Moscow has arguably more in common with teenagers in New York, Bangkok or Tokyo than with a 'babushka' living in Novosibirsk.

However, targeting young people as a global segment also needs to be handled with care. Music Television (MTV), owned by the global media group Viacom, illustrates this point. Primarily directed towards young people with a potentially universal music taste, MTV now consists of about 50 stations around the globe. Each station adapts its programming to the specific country audience it serves, as even a universal music taste is apparently elusive.

Finally, another segment crossing country boundaries is the so-called elite. These are affluent consumers who are well travelled and have the money to spend on prestigious and exclusive image products, such as luxury cars, expensive whiskies or premium financial services.

4.2.3 Psychographic Segmentation

Psychographic segmentation uses attitudes, interests, opinions, values and lifestyle to explain differences between consumers' behavior and is often more appropriate than demographic segmentation alone.[13] A study conducted in the sportswear industry, for example, illustrates the use of psychographics in identifying stable cross-market segments in this industry. Based on consumers from Austria, China, South Korea and the United States, the study collected data on consumer lifestyle preferences, demographics, evaluative attributes and purchase patterns. The researchers initially identified eight lifestyle factors, such as fashion/appearance concern, adventure orientation or brand concern, and followed this up with an analysis that indicated four psychographic segments that cut across cultural boundaries, namely *Fashion Leaders*, *Conspicuous Fashion Consumers,*

[10] Diamantopoulos et al. (2003).

[11] China Daily (2012).

[12] Gardner (2000).

[13] Beane and Ennis (1987).

Sensational Seekers, and *Sociable Followers*.[14] These results demonstrate the existence of global psychographic segments across the world fashion market.

A study focusing on the attitudes of US women toward food provides an example of how psychographic and behavioral segmentation (see below) can be combined.[15] First, focus group interviews and personal interviews were carried out with women preparing food in their homes or ordering at restaurants. Next, anthropometric data (i.e., weight, height, body mass index, waist circumference, and fat mass measurement) was collected, together with dietary intake records and a large attitude questionnaire on health and nutrition orientation, role of cooking, etc. The large number of attitude statements was subsequently reduced to a smaller number of variables, and cluster analysis finally pointed toward five distinct groups of women. For each cluster, Table 4.1 shows the proportion of women included together with some associated characteristics.

The results of the study showed that women's body-mass-index (BMI) correlates with the attitude segment they belong to, and that women's attitudes toward food and eating determine if they are overweight in midlife.

Turning to a rather different application, Porsche also identified five distinct psychographic categories: *Top Guns,* driven, ambitious types who care about power and control and expect to be noticed; *Elitists*, who consider a car, even an expensive

Table 4.1 Psychographic segmentation of US midlife women

Name of cluster	Percent of women (%)	Characteristics
Concerned about nutrition	15	• Are very knowledgeable about nutrition • Place importance on a healthy diet • Keep a close watch on calorie and fat intake • Show a preference for healthy, organic, natural foods • Practice restraint in eating
Creative cooks	35	• Feel responsible for providing food to their families • Cook balanced, healthy foods and seek appreciation • Perceive/regard cooking as a chore • Like diversity in their diets and are creative
Busy cooking avoiders	12	• View food and eating as unnecessary distractions • Lead busy lives • Find cooking for others stressful
Guilt-ridden dieters	22	• Are constantly trying to lose weight • Feel guilt when overeating • Tend to avoid cooking • Tend to be slightly budget minded
Impulsive eaters	16	• See eating as a priority, a passion, a means to relax and escape boredom • Find managing their weight difficult, often feel guilty about their eating habits

[14] Ko et al. (2012).

[15] Sudo et al. (2009).

one, to be a mode of transport, not an extension of one's personality; *Proud Patrons,* who view ownership as an end in itself; *Bon Vivants,* who are cosmopolitan jet setters and thrill seekers; and *Fantasists*, who use their car as a form of escape but feel guilty about owning one.[16]

Colorful labels often characterize consumer segments based on psychographics. An example is a Euro-style study that developed and placed consumers along two dimensions: *values versus valuables* and *movement versus settlement*. Among the resulting segments are, among others, ultra-repressive puritans and hedonistic dandies.[17] Other approaches offer psychographic segmentation of such diverse consumer groups as Indian youth,[18] females in China,[19] or alcoholics in the USA.[20]

Many well-known cross-national segmentation approaches are offered by international advertising agencies, such as Young and Rubicam's "Cross Cultural Consumer Characterization." Young and Rubicam's approach divides people into seven groups: The *explorer* is driven by a need for discovery, challenges and new frontiers; the *aspirer*, is materialistic and driven by others' perception of them rather than their own values; the *succeeder* is characterized by self-confidence and strong goal orientation; the *reformer* values independent judgment, is socially aware and strives to be tolerant; the *mainstream* is engaged in daily routine and seeks security; the *struggler* lives for today and makes few plans for tomorrow; and finally, the *resigned*, predominantly older with constant values, is driven by a need for safety.[21]

While there are literally hundreds of different psychographic segmentation approaches, many of these approaches are proprietary and do not provide much background on the underlying methodology employed to derive the various consumer groups. Where this is the case, a fair degree of caution is called for. Ultimately, the usefulness of psychographic segments depends on their ability to reflect differences in behavioral dimensions. Thus, to go back to an earlier example, a key question would be whether *Fashion Leaders* worldwide really buy more or different sports apparel than, say, *Sociable Followers,* or whether the former react differently to marketing stimuli than the latter.

4.2.4 Behavioral Segmentation

It is possible to classify segmentation into *identifier* and *response* approaches. An identifier approach categorizes consumers a priori and hopes that the resulting segments respond differently to marketing mix variables. Geographic, demographic

[16] Taylor (1995).

[17] Mazanec (1993).

[18] Narang (2010).

[19] Tam and Tai (1998).

[20] Judd et al. (1988).

[21] Young and Rubicam's 4Cs (2015).

and psychographic segments represent such identifier approaches. A response approach, in contrast, looks at the actual behavior of customers and segments the market post hoc. Behavioral segmentation, discussed here, and benefit segmentation, discussed below, are such response-based approaches.

Behavioral segmentation focuses on whether people buy and use a product, as well as how often and how much they use it. Typical segments describe frequency or volume of use; brand switching or brand loyalty; purchasing approaches or channel usage.

Rogers' well-known *Diffusion of Innovation Model* represents a behavioral segmentation approach.[22] This model categorizes consumers based on their willingness and readiness to accept innovations. Specifically, it distinguishes between *innovators*, *early adopters, early majority, late majority* and *laggards* (Fig. 4.1). By the time the laggards adopt the innovation, the market is approaching saturation.

Marketing managers can use the diffusion of innovation model when designing a campaign that aims at influencing people to adopt a new technology. They would first target the innovators and the early adopters. These, in turn, would influence the other segments by being positive examples. In global marketing, behavioral segmentation is particularly useful, as it is independent of geographic or cultural differences that may exist between consumers.

4.2.5 Benefit Segmentation

Global benefit segmentation focuses on the benefit or value consumers try to achieve. For example, buyers of Volvo cars see safety as top priority. White goods manufacturers also attempt to address particular benefits of consumers independent of their location around the globe. For example, the kitchen appliances

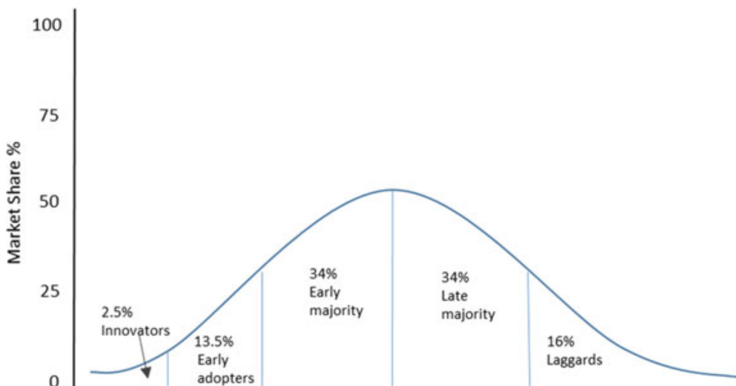

Fig. 4.1 Rogers' diffusion of innovation model

[22] Rogers (2003).

manufacturer Bauknecht traditionally emphasizes status and safety, whereas Whirlpool addresses styling and functionality, and Ignis focuses on value for money.

The motorcycle manufacturer Harley Davidson also segments its market based on benefits sought. Managers buying a Harley Davidson see this as a means to escape from their target-oriented conformism during the work-week. They want to unleash their neglected individuality and rebellious spirit at the weekend by taking a ride on their Harley. For this reason, this target group is sometimes called "Rolex Riders". To cater for the managers' benefits, Harley Davidson offers accessories such as temporary tattoos and riveted leather jackets. Marketers' understanding of the benefits consumers seek can achieve excellent results regardless of geography.[23]

4.3 Selecting Global Target Segments

While segmenting is the process of identifying groups of consumers with similar wants and needs, targeting refers to evaluating and comparing the identified groups and then selecting one or more of them with the highest potential. A review of the literature on global market segmentation and targeting[24] reveals that companies take three distinct strategic approaches.[25] These approaches are now outlined.

4.3.1 Targeting Approaches

Some companies adopt a *countries-as-segments strategy*, whereby either each country becomes a separate segment or several export countries are put together into groups. How to assess such country segments and ultimately target one or more countries has been described in Chap. 2 (Assessing Global Market Opportunities). While an advantage of this strategy is the readily available secondary data at the country level, the resulting country segments may not be homogeneous with respect to customer needs and preferences.[26]

Alternatively, companies can adopt a *segments-within-countries* strategy, targeting different customer groups in different country markets. Segmentation and targeting takes place *within* countries, but no attempt is made to coordinate segmentation *across* countries. This can lead to a proliferation of segmentation schemes and result in increased complexity and cost, particularly when a large number of countries is served.

[23] Keegan and Schlegelmilch (2001).

[24] Hassan and Craft (2011, 2005), Hassan et al. (2003), Hassan and Samli (1994), Kale and Sudharshan (1987), Steenkamp and Ter Hofstede (2002) and Walters (1997).

[25] Diamantopoulos et al. (2014).

[26] Hassan and Craft (2011), Helsen et al. (1993), Hofstede et al. (1999).

Lastly, companies may identify global segments as target markets, i.e., they identify similar customer groups *across* countries. It is evident from the above discussion of different segmentation approaches that identifying, let alone serving, "true" global segments can be time-consuming and costly, and requires considerable effort on the part of a corporation.[27] However, targeting global market segments has advantages. For example, while a particular segment within a single-country market might be too small, even a narrow segment may be served profitably if the segment exists in several countries.[28]

It is important to note that the three global segmentation and targeting strategies are not mutually exclusive. Companies serving a large number of international markets may, for example, treat some small countries as separate segments, develop tailor-made segmentation schemes for some major markets, and simultaneously pursue certain global segments across their country portfolio. Thus, different segmentation strategies may co-exist within the same company.[29]

4.3.2 Assessing Target Segments

Independent of the approach a company takes in its segmentation and targeting efforts, the main criteria for assessing global target markets are largely the same as in any given domestic market. Particularly important are the current size of the segment, its growth potential, the strength of the competition within the segment, the compatibility with the company's overall objectives and the feasibility of successfully reaching a designated target.[30]

An interesting way to target the most promising customers is proposed by the consulting firm Bain.[31] The consultants advise companies to target customers who are most attracted to their offerings and who are likely to recommend a product or a brand to their friends or colleagues. This "Design Target" is considered the core target segment of customers that the company can serve better than its competitors. The target segment is said to be so satisfied with the company's offerings that they become loyal and spread the word to other potential customers. Although the design target segment may not be large enough in itself for the company to target profitably, its word-of-mouth potential and loyalty make it worthwhile to identify and keep satisfied.

Companies can identify the design target by simply asking current customers how likely they are to recommend the company's offerings. Depending on their answers, customers fall into one of the three following categories: promoters, who are a company's most loyal customers and avidly talk up its offerings; passives,

[27] Craft (2004).

[28] Porter (1986).

[29] Diamantopoulos et al. (2014).

[30] Keegan and Schlegelmilch (2001).

[31] Markey et al. (2007).

who are neither beneficial nor detrimental to the growth of a company's customer base; and detractors, who are dissatisfied customers and also express their dissatisfaction to other potential customers. Introducing profitability as an additional criterion, Bain proposes the grid shown in Fig. 4.2.

According to Bain, a company's promoters will spur its growth, while detractors will deter it. By subtracting the percentage of detractors from the percentage of promoters, one obtains what Bain has coined as the Net Promoter Score, which correlates highly with a company's growth prospects and future profitability.[32]

4.3.3 Selecting Target Segments

When selecting one or more target segments, companies have to settle somewhere between *mass marketing* and targeting a *segment of one*. As customers have distinct needs and wants, each individual customer can be viewed as a separate market segment. This has been the norm for craftsmen who produce unique items of clothing or furniture as well as for many producers of specialized machinery that are designed and built to the specifications of individual customers. However, the notion of a segment of one has attracted fresh interest in the context of mass customization.

Advances in IT and manufacturing technologies have made it possible to personalize the way individual customers are addressed, to capture each individual

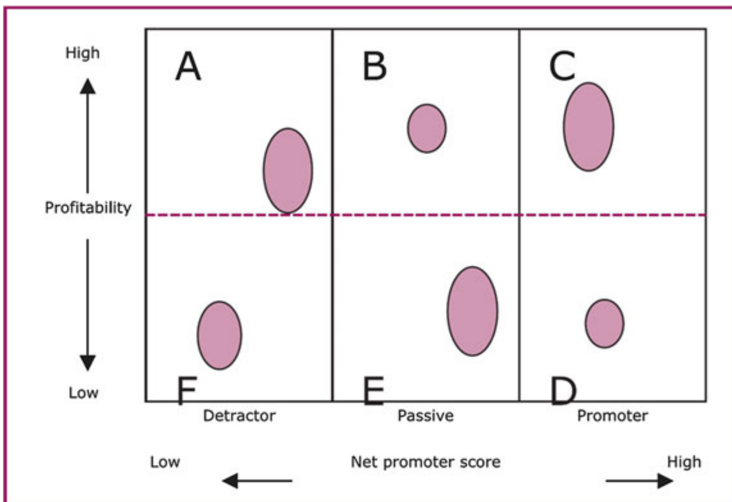

Fig. 4.2 Targeting the most loyal customers. *Source*: Markey, R., Ott, J., & du Toit, G. (2007). *Winning New Customers using Loyalty-based Segmentation*. Strategy & Leadership, 35(3), 34

[32] Markey et al. (2007).

customer's unique requirements, and to configure distinct products for each individual customer. A popular example of a company that pioneered this approach is Dell, who was one of the first producers to configure each PC to the unique requirements of each and every customer. Since then, the internet has become awash with companies that offer customized products ranging from bikes, and safety belts to chocolates, fat-loss programs or even baby pacifiers (i.e., dummies—for British babies). Firms that allow their customers to play an important part in the creation of products according to their own personal taste achieve a higher preference fit and increase the perceived economic value of the product for their customers.[33]

Mass marketing, also known as *undifferentiated marketing*, represents the other end of the spectrum. Here, a company targets the entire market, disregarding differences among market segments and concentrating on their commonalities. While this makes segmentation superfluous, there are situations where undifferentiated marketing with a standardized product lowers the cost to such an extent that the offer becomes attractive to a large number of customers.

Most companies opt for a level of segmentation that lies somewhere between mass marketing and the segment of one. Indeed, for most large MNCs, *differentiated marketing* is the norm. The Volkswagen Group, for example, has a portfolio of diverse brands to serve rather different target segments. Besides VW, this includes such diverse brands as Bentley, Lamborghini, Porsche, Audi, SEAT and Skoda and others. The target segments served with these brands cut across country boundaries but are also able to take advantage of historically rooted country-specific preferences, such as SEAT in Spain and Skoda in the Czech Republic.

Other approaches are known as *niche* or *concentrated marketing*, where a company attempts to capture a large proportion of one or a few smaller market segments of niches. Companies pursuing such strategies usually obtain a high degree of market knowledge through this concentrated strategy. Closely connected to niche marketing is the term *micromarketing*, where companies tailor their marketing programs to narrowly defined segments. A major disadvantage of any kind of niche strategy, concentration strategy or micromarketing strategy is the company's high dependence on the selected niche.

A common problem faced by companies pursuing differentiated or niche strategies in different countries is the varying sizes and importance of segments. For example, a segment that is large and growing in one market may be small and stagnant in another. Worse still, a segment which is important in one country may simply not exist in another. This is depicted in Fig. 4.3, where the circles represent segments and the rectangles the positioning of competing products. A marketer who positions a brand in the "casual" but "distinctive" space in country A is likely to encounter problems with this positioning is country B, as this segment simply does not exist in this market.

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[33] Franke et al. (2010).

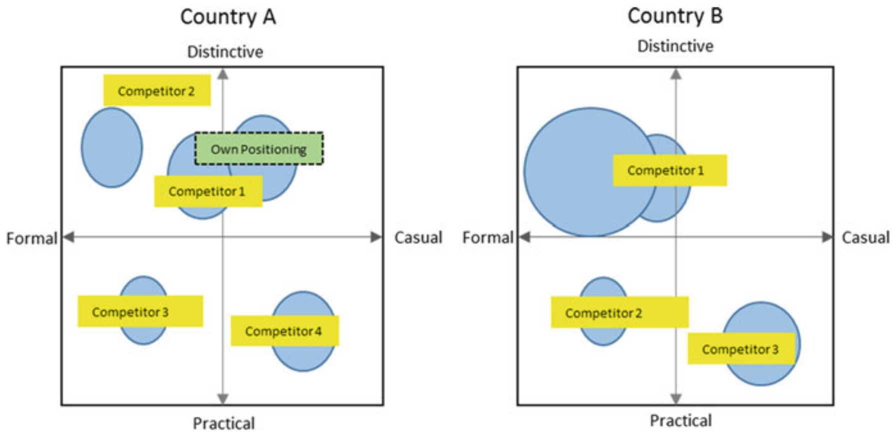

Fig. 4.3 Segment—target interaction

4.4 Positioning

Positioning is the location of a product in the consumer's mind as a name and an idea. According to the conceptual logic applied in this text, positioning follows segmentation and targeting.[34] In reality, however, segmentation, targeting and positioning decisions are closely interlinked, as the positioning of a product, for example as market innovation, may drive the segmentation and targeting decisions of a company. Positioning is one of the most powerful tools of marketing; but since it is what happens in the mind of the consumer, the marketer cannot fully control it. Still there are three key elements of positioning that need to be taken into account: *establishing a frame*, *clarifying areas of parity* and *differentiation*.[35]

4.4.1 Establishing a Frame

Establishing a frame means signaling to the consumer what can be achieved with the brand. In an international market environment, this is sometimes less than obvious. Take Red Bull, for example. In Europe, it is marketed as a fashionable energy drink, targeted to young consumers and sold in cans. In Thailand, however, where energy drinks have a long tradition and are often consumed by long distance lorry drivers or taxi drivers to keep awake, the product is primarily offered in glass bottles, which resemble old-fashioned cough medicine bottles. The rationale for this is that many other energy drinks look similar, and if Red Bull were not offered in such bottles, many consumers would not recognize it as an energy drink. Thus, the "medicine" bottle establishes the frame that signals what the brand stands for (Fig. 4.4).

[34] Trout and Ries (1979).

[35] Kevin et al. (2002).

Fig. 4.4 Red bull—establishing a frame. *Source*: Can; Red Bull GmbH

4.4.2 Clarifying Areas of Parity

Next, marketers need to clarify the areas of parity. This signals why the brand is a credible player. When Nivea, traditionally known for its hand cream, introduced a deodorant, it was not enough to emphasize that it was a "gentle" deodorant but, in order to establish parity, it had to point out that it was "protective" as well. The latter established parity against other brands of deodorants. In a global market environment, subtle differences in what it takes to be a credible player are often important and have to be considered. For its dishwashing tablets Somat, for example, Henkel emphasizes the primary benefit, "cleaning performance," in markets where the penetration of dishwashers is still comparatively low (e.g., in CEE markets), but focuses on the communication of a secondary benefit, namely "makes your glasses shine," in more developed markets (e.g., Western Europe) to position itself as a credible player. This can be seen in Fig. 4.5, where the communication emphasis is highlighted in yellow.

4.4.3 Differentiation

Finally, and arguably most importantly, the company has to differentiate its products from competing offers. Some marketers use the term USP (unique selling proposition) to underline how central this effort is. Although there are a large number of possibilities to differentiate a product from competing offers, such as

Fig. 4.5 Positioning by primary versus secondary benefits

Secondary Benefit	Shine	Shine
Primary Benefit	Cleaning	Cleaning
Markets	CEE Markets	Western Europe

positioning by the benefits offered, by usage occasions, by cultural characteristics, etc., three approaches are used most frequently: *differentiation via brand performance*, *differentiation via brand imagery*, and *differentiation via consumer insights*.

4.4.3.1 Brand Performance

An example of *positioning via brand performance* would be Duracell batteries' use of marching bunnies, who keep on working while all other non-Duracell powered toys are already dead. Volkswagen used similar positioning claims in the past. Performance positioning works particularly well, when products have a proven benefit, technologies or designs are protected by patents, and consumers are aware of the importance of the differences that are being emphasized, such as having the highest resolution or the largest screen. Such a position is largely independent of cultural differences and lends itself well to globally standardized campaigns.

4.4.3.2 Brand Imagery

Positioning via brand imagery, on the other hand, is notoriously difficult in an international context. The basic idea is to link imagery to the brand that suggests the brand has certain attributes. A shampoo, for example, could show herbs and flowers in its advertising to imply that it has natural ingredients *without* making this claim explicit. How carefully global marketers have to handle imagery is illustrated by a Nike television commercial that shows the USA basketball star LeBron James in a video game-style setting defeating a kung fu master, two women in traditional Chinese attire and a pair of dragons, considered a sacred symbol in traditional Chinese culture. The commercial was banned in China since it "violates regulations that mandate that all advertisements in China should uphold national dignity and interest and respect national culture."[36] How—and whether—to depict women in advertising is also a thorny issue in some cultures. Ikea, for example, was criticized for airbrushing women out of its catalogue to make it more palatable for Saudi Arabia (please see more detailed discussion in Chapter 10, Global Marketing Ethics and CSR).[37]

4.4.3.3 Consumer Insights

Positioning via consumer insights can be achieved by "educating" the consumer about the advantages of the brand. Again, subtle differences between country markets need to be taken into account. Henkel, for example, produced different

[36] China Daily (2004).

[37] The Guardian (2012).

TV commercials for its fabric softener Silan, which was marketed in different CEE countries. In one commercial used in the Czech Republic, a spokesperson points to the pleasant fragrance of the product; in a similar commercial produced for Bulgaria, the same spokesman attempts to educate the same women about the economic advantages of a concentrated liquid softener. Henkel explained that in the Czech Republic, the advantages of a concentrate were already well understood by consumers, whereas in Bulgaria, concentrates were less frequent and consumers were more concerned with the economic value of the brand.

4.4.3.4 High-Tech Versus High-Touch

In global marketing, one of the key issues is whether products can be positioned in the same way across different country markets. In addition to issues arising from differences in the attractiveness of target segments in various markets (e.g., variations in size, growth rates, achievable margins, competitive intensity), which have been discussed above, the product categories will also determine whether a standardized global positioning is likely to work. More specifically, it has been suggested that global positioning is most effective for product categories that approach either end of a 'high-touch/high-tech' continuum.[38] At both ends of the continuum, customers depict high levels of involvement and a shared 'language.'

Special-interest products, demonstrable products or consumer electronics, such as tablet computers or mobile phones, tend to lend themselves to high-tech positioning. Such products are usually purchased on the basis of concrete features. Consumers around the globe share a common 'language' consisting of technical terms, such as processor speed or memory for PCs. The same holds for leisure- or recreation-oriented special-interest products, where consumers again share a common language and symbols associated with products that transcend cultural barriers. At the same time, imagery may also play an important role for these and other high-tech products.

In contrast, high-touch products require less emphasis on specialized information and more emphasis on image. Typical high-touch products are those related to globally understood settings, for example, a cup of coffee consumed while talking to a friend, 'global village products' of a strong cosmopolitan nature, such as fragrances, designer fashions, mineral water or pizza, and products with a universal theme like materialism, heroism and romance. Consumers of high-touch products share a set of symbols relating to these themes.[39]

Finally, products can be positioned in more than one way along the high-tech or high-touch poles. For example, the elegant design of Bang and Olufsen consumer electronics ensures that their products are perceived as both high-tech and high-touch.

[38] Domzal and Unger (1987).

[39] Keegan and Schlegelmilch (2001).

4.4.3.5 Country-of-Origin

In global marketing, *country-of-origin* in the form of a 'made-in' label is frequently used to differentiate a product from the competition. In fact, research on *country-of-origin* and related works on the interplay between *country-of-design*, *country-of-manufacturing* and *country-of-brand* ranks among the most widely analyzed topics in international marketing journals.[40] Some countries have a positive image in certain product categories, such as German engineering, Greek yogurt or Dutch cheese, and companies often try to use these positive country associations to lend additional support to their products' image. Audi, for example, used the German slogan "Vorsprung durch Technik", which loosely translates into 'leadership through technology,' in non-German commercials in order to rekindle positive country association with engineering competencies. However, country associations may also be negative, and the made-in attribute of a product can lower purchase intentions.[41]

The role country-of-origin labels play in consumer decision making is quite complex. Studies have demonstrated that consumers often do not know the (correct) country-of-origin of many well-known brands.[42] Other complications arise when country-of-brand and country-of-origin do not align. For example, products by the well-known US brand Nike are likely to be made in China, Thailand, Indonesia, Malaysia, Vietnam or other countries. Do consumers perceive these products as US products, based on the strength of the brand, or as products from China, Thailand, etc., based on the actual place of manufacturing? Products that combine components produced in more than one country, the decline of origin labelling in WTO rules, or the use of 'made in Europe' instead of made in a specific European country further tend to blur the meaning of country-of-origin for consumers. As a result, some researchers have called the relevance of country-of-origin into question while others have argued that consumers hardly use made-in labels to make choices between product alternatives.[43]

Still, some companies are apparently not too unhappy about potential consumer confusion regarding the country-of-origin. Häagen-Dazs ice cream, for example, was founded in 1961 by Polish immigrants in the US and is now owned by General Mills and partly marketed by Nestlé. The founder of the original company created the brand name to sound Scandinavian. In fact, during the initial years, the company even used the outline of a map of Denmark to strengthen this association. The fact that Scandinavia is renowned for high quality food products has certainly been beneficial for the positioning of the product as a high-end luxury ice-cream.

Despite the controversies surrounding the role of country-of-origin labels, a comprehensive empirical study recently reiterated the continuing usefulness of

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[40] Agarwal and Sikri (1996), Balbanis and Diamantopoulos (2004), Han (1989), Häubl (1996), Hsieh et al. (2004), Knight and Calantone (2000) and Laroche et al. (2005).

[41] Johansson et al. (1994).

[42] Balbanis and Diamantopoulos (2008) and Samiee et al. (2005).

[43] Liefeld (2004), Samiee (2010) and Usunier (2006).

the country-of-origin labels in predicting consumer decision making.[44] This analyzed consumer perceptions of countries in general, product categories within these countries, and specific brands originating from these countries to study the influence of these consumer perceptions on purchase intentions while controlling for differences in brand familiarity. Our findings clarified the role of the country-of-origin and reconciled some of the contradictory discussions and results reported in the literature. Specifically, the results show that both country perception and product category perceptions do not *directly* impact consumers' intentions to buy the focal brand, but strongly influence purchase intentions through their impact on brand image. Thus, our results vindicate the importance of country-of-origin influences and suggest that they should not be discounted prematurely.

4.5 Summary

Segmentation, targeting and positioning are central in any marketing strategy. Global market segmentation aims to divide the market into smaller units, such as regions (e.g., groups of countries), individual countries, industries or individual consumer groups. These identified market segments should respond similarly to product offers or marketing activities. Targeting involves the evaluation of the attractiveness of each of the segments and the selection of one or several of them for further marketing activities. Finally, positioning aims at creating a clear, distinctive, and desirable place for the products in the minds of the target consumers.

There are opportunities for marketers to pursue some segments on a global scale. However, the predicted global uniformity finds its limits in language differences, national laws and a large variety of cultural factors. A huge number of possible segmentation approaches exists that can be used both in a domestic and global marketing context. The most important ones are geographic, demographic, psychographic, behavioral and benefit segmentation.

In terms of targeting, companies can take three distinct strategic approaches, namely a *countries-as-segments* strategy, whereby either each country becomes a separate segment or several countries are put together into groups: a *segments-within-countries* strategy, targeting different customer groups in different country markets; or a *global-segments* strategy, where companies identify similar customer groups across countries. The latter offers the largest potential for achieving economies of scale and scope but identifying, let alone serving, "true" global segments can be time-consuming and costly, and requires considerable effort on the part of a corporation. Regardless of the approach a company takes in its segmentation and targeting efforts, the main criteria for assessing global target markets are largely the same, namely the current size of the segment, its growth potential, the strength of the competition within the segment, the compatibility with

[44] Diamantopoulos et al. (2011).

the company's overall objectives and the feasibility of successfully reaching a designated target.

Having selected one or more segments, the marketer needs to position the product in the consumer's mind as a name and an idea. While conceptually, positioning succeeds segmentation and targeting, in reality, segmentation, targeting and positioning decisions are closely interlinked. There are three key elements of positioning: establishing a frame, clarifying areas of parity and differentiation. There are many approaches to differentiate a product versus competition, such as by performance, imagery and consumer insights. Not all of these approaches work equally well in cross-cultural settings. However, in product categories that approach either end of a 'high-touch/high-tech' continuum, consumers often rely on a common language of metrics, images and symbols that transcend cultural barriers. This makes a standardized global positioning more feasible. The chapter ends with a brief discussion of country-of-origin effects. While we acknowledge that made-in labels are often problematic, misunderstood, or ignored by consumers, recent research has demonstrated that the country-of-origin of a product remains an important element in consumer decision making that has not yet reached its due-date.

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5 Creating Global Product and Service Offerings

5.1 Consumers Buy Solutions

There is a well-rehearsed marketing mantra: *consumers buy solutions not products*. Numerous aphorisms illustrate this point: "People don't want to buy a quarter-inch drill. They want a quarter-inch hole" is attributed to Theodore Levitt[1]; "In the factory we make cosmetics; in the store we sell hope" is said to stem from Charles Revson,[2] the man who built the Revlon empire.

In this chapter, we fully support the idea of conceptualizing products as vehicles that help consumers to achieve solutions. Below, we start by disentangling a product into different dimensions, each of which may offer distinct benefits to consumers. Next, we distinguish different types of products, ranging from consumer products to business products and from tangible products to services. An understanding of the product scopes then provides the basis for the standardization—adaptation debate, which is in the center of global marketing strategy. Subsequently, we focus on different types of innovation, which may have rather different implications for the innovating company and the market as a whole. The chapter closes with a look at the international product life cycle, which is used to explain foreign investment patterns as well as to describe revenue and profit patterns of products.

5.2 Turning Products into Solutions

In order to turn products into solutions, it is important to understand the different types and dimensions of products. This is particularly relevant in global marketing, where the types and dimensions of products drive the scope for standardization. In general, marketers use the term "product" not only for physical products, but also

[1] Christensen et al. (2005).

[2] MacInnis and de Mello (2005).

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for services, places, persons, organizations, information or ideas. Of course these elements can also be bundled, for example, a flight attendant serving a Starbuck's coffee on board an airline. Sometimes, the term "product" is used even more widely to refer to the entire market offering, including price, brand, image, etc. To achieve conceptual clarity, in this text the various elements of the marketing mix are discussed separately. However, the use of the term "product" to refer to the *overall offer* is a welcome reminder that the various elements of the marketing mix need to be viewed holistically and send a coordinated message to the customers.

5.2.1 Product Dimensions

Defining a product may seem a simple task at first glance, but a closer look reveals that it is more complex than one may anticipate. A commonly used framework places the *core customer value* at the center of each product. It is the essential problem-solving benefit that a consumer is looking for. The next level describes the *actual product* and includes attributes such as brand name, quality, design, packaging, and other features. Finally, the *augmented product* creates additional customer value through supplementary services, such as delivery and credit, after-sales support, and warranties. Thus, the benefits products provide reach well beyond the tangible level and include psychological and symbolic elements that, in sum, aim to satisfy consumer needs and provide the all-important solutions for the customer.[3]

In a global marketing context, a company may provide the same core product all over the world, but adapt its brand name, design and offer different levels of support service. Accordingly, the symbolic and psychological attributes of the product may vary.

5.2.2 Product Types

Turning to different product classifications, a basic distinction can be made between *consumer products* and *business products*. Consumer products can further be classified by purchase behavior. *Convenience items* are purchased frequently and with minimal effort, are usually inexpensive and include products such as milk, soft drinks, or gasoline. *Shopping products*, on the other hand, are commonly purchased after the comparison of available offers. A number of factors such as product features, design, quality, and price play a role in the consumer's purchase process. Classic examples include cars, cell phones and the like. *Specialty goods* are purchased regardless of price and location and include products such as a Tiffany diamond ring or a Louis Vuitton handbag. *Unsought items*, on the contrary, are

[3] Keegan and Schlegelmilch (2001).

goods which are marketed, but for which the consumer may not see the immediate purchase need. An example thereof is a pre-paid funeral.[4]

In addition, life span is a commonly used product-based classification and draws a line between *durable* and *non-durable goods*. While originally developed for domestic marketing, these and similar product classifications find equal application in an international context and may be helpful in the process of creating global market offers.

It is also important to distinguish between physical products and services, although this is a continuum rather than a dichotomy (Fig. 5.1).

The illustration makes clear that both products and services may contribute to an offering. In other words, besides pure services, there are those embedded in goods, and vice versa, there are products attached to services.[5] Services have characteristics that make them different from physical products: they are intangible, heterogeneous, inseparable and perishable. While those attributes pose challenges per se, the challenges are often compounded in a multinational context. For example, services cannot be displayed up front, nor stored or transported. The fact that services are rendered at the point of sale also makes it more difficult to achieve economies of scale and increases the need to establish a local presence.[6] That said, some services, particularly those which are information based such as banking, legal advisory, and consulting, offer opportunities for standardization in different markets.[7]

Having outlined the main dimensions and types of products, we now discuss one of the central debates in global marketing strategy, namely the adaptation versus standardization debate.

Fig. 5.1 Product-service continuum

[4] Kurtz et al. (2010).

[5] Patterson and Cici (1995).

[6] Javalgi and Martin (2007).

[7] Lovelock and Yip (1996).

5.3 The Standardization–Adaptation Debate

In a global marketing context, marketing managers typically struggle with balancing standardization versus adaptation. Five basic alternatives exist: (1) a product initially developed for a domestic market is sold internationally without modifications; (2) a domestic product is sold internationally with some adaptation; (3) a global standardized product is created for transnational segments across different national markets; (4) a global product is created to target transnational segments across different national markets, with some adaptations to meet local country differences; (5) a new product is created for a foreign market.[8]

Unsurprisingly, the standardization–adaptation debate is one of the most widely discussed subjects in international marketing journals.[9] Among the first to pick up the debate was Robert D. Buzzell.[10] In his seminal article from 1968, he sheds light on the benefits of standardization, yet acknowledges limitations arising from differences between markets. In 1983, Theodore Levitt takes a more defined standpoint. His widely cited article, "The globalization of markets", not only popularized the term *globalization*, but also seems to serve as a common justification for standardization strategies. He argues that consumers' needs and desires are increasingly homogenized and claims that consumers, regardless of origin, request goods at low prices and high quality, even at the cost of individual preferences. Accordingly, Levitt suggests that companies should see the world as one single market, best served through standardized offers.[11]

In the 1980s, Coca-Cola seemed to have followed Levitt's suggested approach. Under chief executive Roberto Goizueta, Coca-Cola pursued an aggressive strategy of centralization and standardization. It reduced its portfolio to focus on a number of megabrands and standardized its offers to reap maximal economies of scale. However, the strategy did not pay off. Coke's market value dropped by roughly 100 billion US dollars, more than 40 % from its peak.[12] The inevitable consequence was to decentralize operations again, contrary to what Levitt had suggested. The Coca-Cola example is frequently used as counterargument to Levitt and illustrates the difficulties in achieving economies of scale. Many scholars also attack Levitt's underlying assumptions by pointing to significant differences in consumer tastes; others point out that consumers are unwilling to trade off product features for lower prices.[13]

However, the judgment is still out whether Levitt's paper was visionary or utopian. Levitt defended his standpoint in 2006, indicating that despite the existence of counterexamples he still supports his main arguments.[14] In 2005, author

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[8] Alon and Jaffe (2013).

[9] Leonidou et al. (2010).

[10] Buzzell (1968).

[11] Levitt (1983).

[12] Ghemawat (2007a).

[13] Hise and Choi (2011).

[14] Levitt (2006).

and New York Times columnist Thomas L. Friedman published his view on the issue under the title "The World is Flat", picking up Levitt's early thoughts and bringing them back into the spotlight. Although Friedman does not go as far as to say that all products should be standardized, he stresses that the environments firms are operating in are becoming increasingly homogeneous.[15] Thus, he follows one of Levitt's underlying assumptions, namely the convergence of consumer needs around the world. In fact, the title of Friedman's bestseller strongly resembles one of the subheadings in Levitt's article, namely "The Earth is Flat". Pankaj Ghemawat, who had also criticized Levitt previously, contradicted Friedman with an article called "Why the World Isn't Flat", which provides several arguments to the contrary.[16]

Taken as a whole, the standardization–adaptation debate frequently resembles a Ping-Pong game. Standardization is often depicted as the ideal approach, but has been shown to be unfeasible in many cases. Moreover, the discussion lacks sufficient ground to allow multinationals to infer concrete strategic directions. A review of pertinent research found that "a careful analysis of the relevant literature results in the conclusion that we really do not know much about it."[17] A similar study characterized existing research as extensive, yet often fragmented, repetitive or contradictory.[18] Samples and methodology are often too weak or too specific to be of practical value. Thus, neither standardization nor adaptation alone, but rather the balance between both appears crucial. Conceptually, this balance is reached where the additional costs incurred through adaptation intersect the manufacturing and marketing costs driven down by economies of scale (Fig. 5.2). In reality, companies

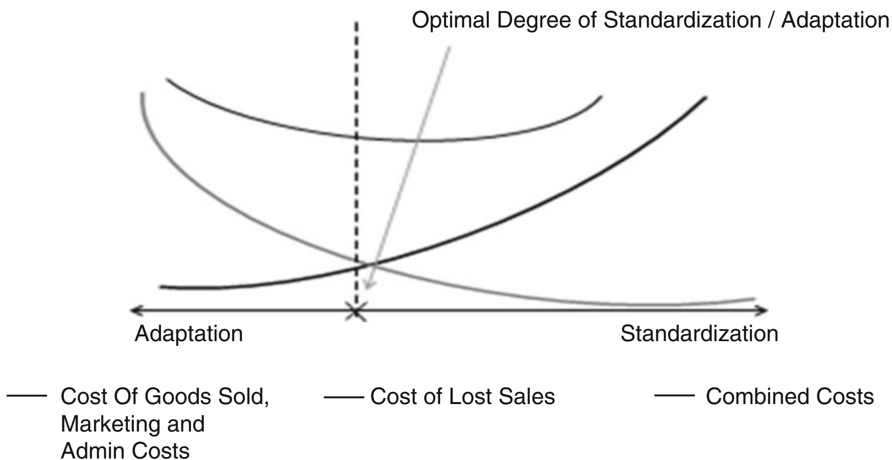

Fig. 5.2 Optimizing standardization and adaptation

[15] Friedman (2007).

[16] Ghemawat (2007b).

[17] Hise and Choi (2011).

[18] Theodosiou and Leonidou (2003).

find it incredibly difficult to determine the 'right' balance. Below, the advantages and disadvantages of standardization versus adaptation are elaborated in more detail.

5.3.1 Standardization

In the first half of the twentieth century, firms commonly tailored their offers to the respective market. In the late 1960s, Buzzell, followed by Levitt in the 1980s, prompted many companies to embrace standardization. Converging consumer needs, driven by globalization, was given as the rationale for doing so.[19] Rolling out standardized products in several markets spreads fixed costs over a larger number of units and creates scale economies. Levitt argues that the "global competitor will seek constantly to standardize his offering everywhere. He will digress from this standardization only after exhausting all possibilities to retain it and he will push for reinstatement of standardization whenever digression and divergence have occurred."[20] Thus, cost reductions are seen as the major benefit of standardization.[21]

However, standardization not only reduces production costs. It also facilitates planning and control, hence reducing the complexity of managing global product portfolios. For example, supermarkets feature various products with multi-language labels, allowing MNCs to produce centrally and then move products to different international locations upon demand.

Another important issue is time. Developing a version of a product that is tailored to local preferences may require weeks or months, if not years. And time may be a key factor, in particular if competitors are faster to launch their version. Especially in industries with short development cycles such as fashion, the time to market is a critical success factor if companies do not want to risk being left behind by faster competitors. In addition, a standardized product often generates quicker returns, given its lower initial investment and reduced time-to-market.

Standardization also adds to a uniform image around the globe. With the emergence of multinational customers, this aspect gains more and more significance.[22] Consumers are increasingly mobile, and so an American traveler expects her Caramel Frappuccino to be available at any Starbucks around the world. In the same way, a Spanish customer at McDonald's in Bangkok expects his Big Mac to taste the same as back home in Spain. This drives MNCs to create a consistent image regardless of location. Finally, a powerful argument in favor of

[19] Buzzell (1968).

[20] Levitt (1983).

[21] Hise and Choi (2011).

[22] Buzzell (1968).

standardization is that good ideas are rare and should be exploited at maximum scale.[23]

While standardization may certainly bring about considerable cost savings, it can also fail to satisfy consumers, result in lower sales and thus be extremely costly. In addition to consumer needs and wants, there are also a number other factors that limit the scope for standardization. The following section discusses some of these factors and scrutinizes the key arguments in support of adaptation.

5.3.2 Adaptation

Adaptation may be obligatory rather than a choice. Legal requirements or factors such as different voltage levels regularly force companies to modify their products. Hence, the main debate rests within *voluntary* adaptation.

A standardized product may simply not match the local requirements and thus come at the expense of lower sales. Tommy Hilfiger, for instance, developed an independent marketing strategy when it entered Europe. A design center in Amsterdam attempts to capture the taste of the European consumers and designs the clothes accordingly. As a consequence, products in North America and Europe are not identical. Thus, while companies may be tempted to standardize products, they risk not meeting consumer preferences. In the case of France and Quebec, for example, both countries share French as a common language, but a study on cosmetics for men revealed that French and Quebecois men have fundamentally different purchase motivation. That, in turn, is likely to require the use of different claims on the packaging.[24]

Obviously, adaptation increases initial costs. However, adaptation costs may be offset by increased revenues. While proponents of standardization regularly use economies of scale and scope as a reason to reject adaptation, it should also be noted that optimal scale and scope are often reached at regional rather than global level.[25] In the car industry, for example, factory automation has lowered scale economies, enabling companies to serve regional and even local markets efficiently.[26] Marketing costs, transportation costs and administrative costs may also increase rapidly when operations cross regional (i.e., here continental) boundaries.[27] A final argument in favor of optimizing scale and scope at regional level lies in the so called “stickiness of knowledge”, which indicates that the transfer of ideas, experience and knowledge becomes increasingly difficult between regions.[28]

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[23] Douglas and Craig (1986) and Buzzell (1968).

[24] Souiden and Diagne (2009).

[25] Ambos and Schlegelmilch (2010).

[26] Douglas and Wind (1987).

[27] Nachum and Zaheer (2005).

[28] Szulanski (1996) and von Hippel (1994).

If a firm chooses to be locally responsive, decision-making is likely to move from headquarters to the respective subsidiary, giving local product managers more freedom and responsibility. This usually contributes positively to motivation in that product managers are more engaged and committed if they have a say in the product design process rather than just executing what has been decided centrally.[29]

5.3.3 Contingency Perspective

Looking at the marketing mix as a whole, the product tends to be the most standardized element of the mix while price is the most adapted one.[30] But even products are mostly neither fully standardized nor fully adapted: Coca-Cola adjusts for sweetness, Apple modifies its products for different voltage levels, and McDonald's enriches its menu with local offers. The degree of standardization and adaptation also depends on the product type. Industrial products are the most standardized. Otis Elevator Company, for instance, provides relatively standardized solutions and at most tailors to the respective specifications of the architects they collaborate with.[31] Within consumer products, durable products permit more standardization than non-durables.[32] Thus, products such as personal computers, refrigerators and the like require significantly less adaptation than food and beverages, which are overall more susceptible to local preferences. A commercial jet, in contrast, is likely to be standardized. Products used by internationally mobile consumers, such as Samsonite or Rimowa suitcases, equally offer room for standardization, given their high level of international exposure.[33] In contrast, few multinational companies develop completely localized products. At a minimum, the product consists of standardized components. Consequently, several scholars favor a contingency perspective, in essence claiming that firms neither fully standardize nor adapt, but apply a combination of both.[34]

Modularity and programmability help in this process. *Modularity* involves breaking down a product into separable constituents, allowing standardization of some and adaptation of others. Any tailoring is achieved through the composition of constituents inherent in the product.[35] Ronan Keating, for instance, celebrated a success with the cover version of the duet "We've got tonight". While he sang the song with an artist called Lulu in the United Kingdom, he recorded the very same duet with a local German artist, Jeanette Biedermann, for the German-speaking countries, in which Lulu was rather unknown. The video clips consisted of modules

[29] These issues are discussed in more depth in Chap. 9.

[30] Vrontis (2003) and Hise and Choi (2011).

[31] Otis Elevator Company (n.d.).

[32] Lehrer and Behnam (2009) and Boddewyn et al. (1986).

[33] Usunier and Lee (2006).

[34] Vrontis (2003).

[35] Lehrer and Behnam (2009).

in which Ronan Keating and his duet partners never appeared together, making them easily adjustable for the two markets.[36] A modular architecture thus permits to incorporate the benefits of standardization while still taking into account local particularities. Additionally, it considerably reduces the complexity of managing the product design. Instead of unique products, the portfolio consists of a more easily controllable number of components. Modularization is also a prerequisite for successful mass customization, achieving flexibility in product design whilst keeping unit costs down.[37] Consequently, cars, trucks and aircraft are often designed in modules.

An additional approach embracing the contingency perspective is called *programmability*. The concept involves a standardized product with adjustable features that the customer may individualize after their purchase.[38] Consider Android, a common operating system for smart phones. While the software as such is standardized, it comes pre-set with a number of adjustable features. Users may use their favorite picture as "wallpaper" or switch to their desired language.[39] The software of TomTom, a manufacturer of navigation systems, equally features more than 40 pre-installed spoken languages, among which customers are able to choose.[40] Given its nature, this concept frequently finds use in software or websites.

Among the multitude of factors that influence the balance between standardization and adaptation are two that nearly always play an important role, namely the product use conditions and the expected product benefits.

5.3.3.1 Product Use Conditions

Product use around the world differs greatly. Among the more obscure examples are the French fondness for administering all sorts of medicines via suppositories rather than orally; the Indian families that prefer top-loading versus front-loading washing machines since they also use them for stirring curd or making buttermilk; and the use of Vicks Vapor Rub, a cough and cold non-prescription medicine, as a mosquito repellent.[41] Others include a preference among a sizeable segment of Japanese consumers to wash their laundry in cold tap water, which caused a problem for Procter and Gamble as they initially failed to adapt their washing powders originally designed to work with hot water to these preferences.[42] It is obvious that such differences often—but not always—lead to product adaptation.

[36] Lulu and Ronan Keating—We've Got Tonight. YouTube. https://www.youtube.com/watch?v=EpgCBfZWr80; Jeanette and Ronan Keating—We've got tonight. YouTube. http://www.youtube.com/watch?v=_mm8cpVJMC8. Both Accessed August 12, 2015.

[37] Shamsuzzoha (2011).

[38] Lehrer and Behnam (2009).

[39] Honeycomb: Welcome to Android 3.0! (n.d.).

[40] Pick your Go (n.d.).

[41] Alon and Jaffe (2013).

[42] Bartlett (2004).

5.3.3.2 Expected Product Benefits

Differences in expected product benefits also drive product adaption and may even lead to specific new product developments for a particular country market. Beiersdorf for example, a German skin and beauty-care company, expanded the sales of its leading brand Nivea in India by adding the first ever male-dedicated skin whitening product to its portfolio. Beiersdorf was encouraged by consumer statistics that show higher usage rates for face care products among Asian men than their European counterparts. And while consumers buy self-tanning products in the US and Europe, Asian men and women prefer a fair skin unblemished by the sun.[43]

5.4 Global Innovation and Product Development

One of the key tasks for any global marketing manager is to encourage the development of innovation in different parts of the organization around the world and to ensure that the innovation is rapidly diffused throughout the organization regardless of where it originally occurred.[44] This underlines two important facts. First, innovations are not the privilege of the headquarters but are often geographically dispersed. In fact, subsidiaries may be better positioned than headquarters to tap into global knowledge centers or lead markets, such as Silicon Valley in California for IT, Germany for car-manufacturing or Japan for cosmetics. Second, a company should be willing and able to learn from its subsidiaries.[45] It is important to overcome the typical "not-invented-here" syndrome if a multinational company wants to take advantage of its geographical scope in developing innovation.

While most people think about new products when discussing innovation, the term encompasses a much broader set of dimensions. First, a distinction can be made between product- and processes- innovations. Another typical distinction refers to business model innovation (e.g., hub-and-spoke airline routes), operational innovation (e.g., business process reengineering), and services innovation (e.g., commercial pet sitting). Some of these innovation types are incremental and involve only marginal improvements or changes (e.g., a changed size of canned soft drinks); others are radical and entail huge modifications (e.g., the ballpoint pen). A complementary divide exists between radical and disruptive innovation, such that the former is an add-on to existing market segments (e.g., online banking services), while the latter destroys an existing market space by creating new segments (e.g., the personal computer basically eliminated conventional typewriters). To make matters even more complicated, authors have also introduced terms such as radical and semi-radical innovation.[46] Take, for example, Apple's

[43] Pittman (2005).

[44] Ambos and Schlegelmilch (2008) and Ambos and Schlegelmilch (2007).

[45] Ambos et al. (2006).

[46] Cooper and Kleinschmidt (1986), Christensen and Overdorf (2000) and Garcia and Calantone (2002).

iTunes Music Store. This represents a radical change in the organization's business model (i.e., online music distribution), but it relies on traditional technological devices, such as ordinary PCs, which were adapted to develop the portable iPod. But MP3 players already existed and had been successfully introduced by competitors, so the introduction of the iPod was based on existing insights and represented an incremental innovation. However, the overall bundle of the business model and product innovation can be characterized as semi-radical. This terminological jungle in innovation literature could easily be extended with many other examples. This situation makes it difficult to formulate clear innovation strategies by choosing specific innovation types.

5.4.1 The Innovation Cube

To adopt a more holistic perspective, Christiane Prange and I developed an innovation cube (Fig. 5.3) with change impact, strategic impact, and market impact as defining dimensions.[47] This conceptualization allows managers to think holistically in terms of all possible dimensions in which their organization can innovate.

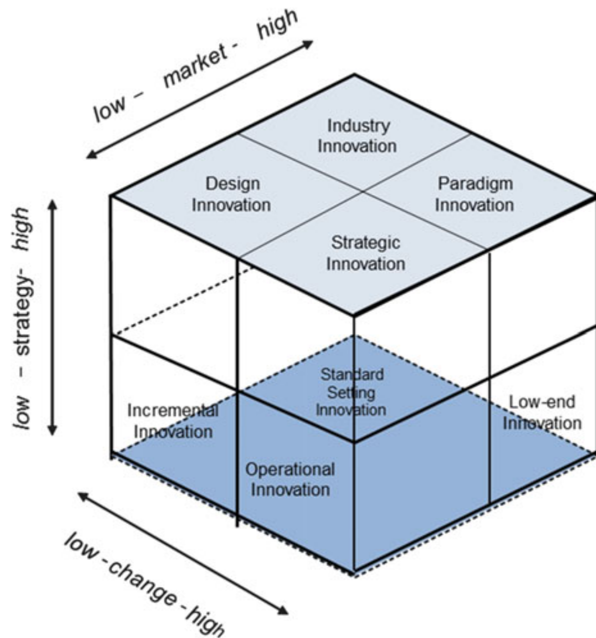

Fig. 5.3 The Prange Schlegelmilch innovation cube. *Source*: Prange, C., & Schlegelmilch, B.B. (2015). Managing Innovation Dilemmas—The Cube Solution. Working Paper, WU Vienna

[47] Prange and Schlegelmilch (2015).

Looking at the three dimensions of the cube, *change impact* refers to a company's departure from the status quo in developing innovations. A company often needs to reconfigure its internal procedures, resources, and capabilities to develop innovations. Thus, when new capabilities are required, they may arise through what organizational change literature calls "transitional" or "transformational" change. Transitional changes tend to involve minor modifications, such as when Vodafone added multimedia service offerings to its initial portfolio. In contrast, when a firm changes from a product to a service focus, such as IBM, changes can induce more substantial transformations in the firm. Transformational changes must overcome cognitive limitations and stir up deeply embedded customer or market-related competencies, which often constrain companies' moves into new markets.[48]

While the nature of change provides information about the company's internal adaptation processes, it does not reveal much about the complexity of strategic decision-making. To this end, the *strategy impact* dimension differentiates between innovation that is tied to specific functional levels, such as manufacturing, human resources or finance, and innovations that affect different levels of the company, such as decisions at business unit or corporate level. Decisions at the corporate level are typically systemic and involve the actual (and sometimes even future) positioning of the firm, such that they are generally of more fundamental strategic concern.

The third dimension, *market impact*, refers to the market-sustaining versus market-disrupting impact of innovations. Many disruptive innovations are not based on sophisticated technologies. They emerge instead as novel combinations of existing, off-the-shelf components, applied cleverly to a small, fledgling market niche before being scaled up to attract the mass market. Sometimes disruptive innovation leads to the emergence of a new industry or industry segments, such as the netbook market. Consumers were initially interested in less sophisticated technology and lower prices; netbooks challenged the established players by offering miniaturization, ease of use, and new pricing structures.

5.4.2 Designing Global Innovation Strategies

Innovation rarely happens spontaneously. Multinational companies need to design strategies that encourage innovation, direct their R&D activities and ensure the rapid dispersion of innovation throughout their organization. One of the key decisions involves whether formal R&D facilities should be set up internally—and if so where and how many—or whether innovations should be developed elsewhere, for example through contract research.

[48] Danneels (2002).

Many companies, notably in the pharmaceutical industry, opt to outsource a considerable part of the development of new compounds to specialized contract research companies. In addition, companies may acquire firms, often small innovative ventures, in order to gain access to new technologies. Licensing technologies or participating in joint research ventures with other companies are also means to acquire innovation.

In terms of the where question, i.e., the geographical location of innovative activities, research focusing on the division of responsibilities between national subsidiaries, regional headquarters and global headquarters shows that nearly 40 % of R&D happens at subsidiary and regional headquarters level.[49] This reflects, among others, that subsidiaries and regional headquarters have a better grasp of local tastes and may have better access to globally dispersed technologies. Global companies also manage to use a wider range of skills and abilities when they tap into local knowledge.

5.4.3 The New Product Development Process

Having made the point that, from a marketing perspective, innovation encompasses more than just product innovation, new products are still of central strategic importance. Companies need new products for a large variety of reasons, such as to maintain technological leadership, to enter new markets, to pre-empt competition, to defend market share or to capitalize on their distribution strengths.[50] Regardless of where (geographically) and how (internally vs. externally) the new product development process takes place, it usually involves the following steps: (1) idea generation; (2) initial screening; (3) business analysis; (4) development; (5) market testing; and (6) commercialization.

5.4.3.1 Idea Generation

A report from Pricewaterhouse Coopers indicated that almost half of new developments originate from customers, suppliers, or market intelligence, while 29 % come from employees, 11 % from specialists, 5 % from competitors and merely 9 % from research and development.[51] In the light of these figures, it becomes obvious that firms cannot solely rely on their internal research and development centers, but need to reach out to other stakeholders in order to source ideas. Today, new technology serves as a useful mediator in this idea sourcing process. In fact, there has been a shift from company-centric value creation to more customer involvement. In the traditional view, company and customer were assigned two distinct roles, namely those of the producer and consumer. In the new view, consumers voluntarily engage in the production process, and the firm and

[49] Ambos and Schlegelmilch (2010).

[50] Wong (1993).

[51] Kuo-Ming Chu and Chan (2009).

the customer thus co-create value. In that sense, companies should no longer design products alone, but benefit from the new role consumers are assuming.[52]

McKinsey Quarterly reports that especially in the high-tech industry, the involvement of customers in the idea-creation process is common, while in other industries, such as financial services and manufacturing, the customer focus is directed to screening ideas and testing concepts.[53]

Companies can also source ideas from users with special expertise, so-called lead users. A lead user may be a Formula One driver for a car manufacturer, a hacker for a software firm, or a fashion reporter for a clothing designer. Lead users differ from normal users in the sense of being ahead of market trends. They could be companies, organizations, or individuals. Research has shown that many breakthrough innovations have been developed by lead users rather than internal stakeholders.

5.4.3.2 Initial Screening

Once a firm has a number of ideas to select from, it needs to separate ideas which have potential from those that are incapable of meeting the company's objectives. In other words, in the screening process, the firm needs to eliminate poor ideas or ideas that are incompatible with the company. To accomplish this task, many firms have a dedicated new-product committee. In some cases, companies such as Starbucks also invite customers to give their opinions on new product ideas on their corporate websites.[54]

5.4.3.3 Business Analysis

After an idea has been screened, it needs to be tested for compatibility with the market. This involves sales, cost and profit projections, as well as setting criteria for potential success or failure of the new product in different markets. The business analysis should also focus on potential risks, such as changes in the business and competitive environment that may negatively affect the introduction of the new product.

5.4.3.4 Development

At this stage, a physical version of the product concept is developed. When the prototypes are ready, they need to be tested. In a global context, this involves more than making sure that the product performs well from a technological, ecological or safety point of view. Companies also need to ensure colors, shapes, numbers, etc. that are associated with the new product do not have any unwanted associations in different parts of the world.

[52] Prahalad and Ramaswamy (2004).

[53] Bughin et al. (2007).

[54] My Starbucks Idea (n.d.).

5.4.3.5 Market Testing

Instead of directly rolling out a product in every market, companies frequently choose to test a new product in a selected market. Coca-Cola first tested Coca-Cola BlāK in France; BMW first tested its concept stores in Australia; KFC piloted its breakfast menu in Singapore.[55] Testing global products in certain markets is thus nothing unusual. Sometimes, countries also serve as a proxy for greater regions. Thailand is often a test market for Asia, while Brazil is regularly used as a proxy for Latin America.[56]

Several advantages can be derived from test-markets. Given that the selected market is a reliable proxy, the test is likely to deliver fairly accurate projections of the market share, sales volume, and penetration of the new product. In countries with available household scanning panels, firms can additionally get insights into likely trial, repeat purchase, and usage rates.

At the same time, testing can be misleading. The market chosen may not reliably predict the results of the final rollout. There are also a number of ventures that used little formal research: Vanguard, Southwest Airlines, McDonald's, and Nike in their early days, apparently solely relied on entrepreneurial hunches rather than sophisticated research, as did the founders of Google and Starbucks.[57] In addition, testing is time-consuming and costly. Firms should consider the opportunity costs associated with the potential lost sales the company incurs during the test market period. A test also alerts competition and gives them time to obstruct or pre-empt a product launch. Still, research points out that almost two out of three new products fail after their launch, drawing attention to the importance of thorough market testing.[58] The need for testing is further underpinned by a recent statistic revealing that more than 80 % of the best performing innovators regularly tested and validated consumer preferences during the product development process. Among the bottom performers, only 43 % did so.[59]

5.4.3.6 Commercialization

If a product has business potential, it moves from the testing to commercialization phase. Global product managers may choose from a number of strategies on how to bring the innovation to the market. Two common approaches differ in terms of timing and are often referred to as *sprinklers* and *waterfalls*.

In the sprinkler approach, the product is introduced in all relevant countries at the same time. If truly successful, this approach exploits the widest possible scale. In case of competitive threats, it also aims for maximal market share, optimally pre-empting competition. The waterfall approach, in contrast, implies launching the product successively in different countries. A company may, for instance, initially

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[55] Kotabe and Helsen (2011).

[56] Czinkota and Ronkainen (2004).

[57] Hartley and Claycomb (2014).

[58] Morner (1977).

[59] Gordon et al. (2011).

introduce the innovation to its home market and then expand step-by-step to other markets. This strategy involves lower initial investment, as inventory, sales force, and advertising is merely aligned to a limited scale. Accordingly, the risk is lower and revenues from one market can ideally be re-invested in another one, resulting in lower pressure on cash flows.

5.5 International Product Life Cycle

5.5.1 Explaining Foreign Investment Patterns

The vision of a step-by-step introduction of a product in different overseas markets is also inherent in the international product life cycle (IPLC). This concept was developed in the 1960s by Vernon[60] to explain internationally shifting foreign direct investment patterns. Using a product originally produced in the US as an example, he theorized a four phase cycle:

(1) A product is developed and produced in the US. At the beginning, nearly all sales are generated from this high income domestic market and the product is exported only gradually.
(2) When the export volume is sufficiently high and the technology is maturing, (competitive) companies in the export markets begin manufacturing. This leads to a substitution of US exports through products manufactured abroad.
(3) Lower labor and transport costs increase the competitiveness of foreign producers on the world market and these become able to beat US competition in certain markets. US companies selectively withdraw from certain markets and begin investing in overseas production facilities.
(4) Last, foreign companies have become so competitive that they start exporting to the US and compete effectively against US-made products.

Although the IPLC has been able to explain the evolution of multinational competition in certain industries, notably the car industry, it has lost much of its relevance today. Competition is global right from the inception of a new product and even small new ventures are often global as soon as they are established. Knight and Cavusgil coined the phrase "born global" to describe such companies.[61] Moreover, labor cost differentials have become less relevant in explaining foreign direct investment patterns as, for example, evidenced by the fact that capital-intensive industries have moved to low-labor cost countries. Last, the international product life cycle does not reflect today's realities of globally dispersed value chains, where multinationals benefit from R&D facilities around the world,

[60] Vernon (1966).

[61] Knight and Cavusgil (2004).

organize their production and assembly in a network that spans facilities in multiple countries, and market their products globally.

5.5.2 Explaining Revenue and Profit Patterns of Products

The described *international* product life cycle (IPLC) suggested by Vernon was primarily used to explain shifts in foreign direct investments between countries. This has to be clearly distinguished from the product life cycle (PLC) which suggests that the revenues and profits of products follow a distinct pattern of introduction, growth, maturity and decline. During the introduction stage, sales increase only slowly and companies may suffer a loss. Next, the growth stage is characterized by strong increases in sales and often accompanied by adding product variants to stimulate demand. During the maturity phase, sales slow down and often barely keep up with GDP or population growth. The maturity phase is also characterized by increasing competition and associated price pressures. In the decline phase, structural shifts in demand occur; the product is gradually replaced by others offering more innovative technologies or more relevant benefits; sales and profit decrease.

While the PLC that traces the development of sales and profits during the lifetime of a product has not been specifically developed with international applications in mind, it has long been recognized as a concept that is extremely useful in drawing up international strategies. As early as the 1970s, Hofer argued that "the most fundamental variable in determining an appropriate business strategy is the stage of the product life cycle."[62] Similarly, Biggadike identified the product life cycle as one of five major contributions marketing made to strategic management.[63] Finally, the famous portfolio approach of the Boston Consulting Group is implicitly based on the product life cycle concept.

When the PLC concept is applied in an international context, it is often also referred to as international product life cycle although, as pointed out before, it is fundamentally different from Vernon's IPLC. However, using the PLC as an analytical tool across different country markets can reveal important differences. First, the product diffusion pattern, that is, the shape of the PLC curves, may differ in terms of their starting points as well as the lengths and gradients of the various phases. While it should be acknowledged that the rapid globalization observed in the last few decades has also led to some decrease in the differences between countries with regards to PLCs, it is remarkable how persistent cross-country differences are. In an analysis of more than 130 new products in 16 European countries, Gerard Tellis and his colleagues showed that sales developments of new products are characterized by distinct differences in the shape of their PLCs.[64]

[62] Hofer and Schendel (1978).

[63] Biggadike (1981).

[64] Tellis et al. (2003) and Stremersch and Tellis (2004).

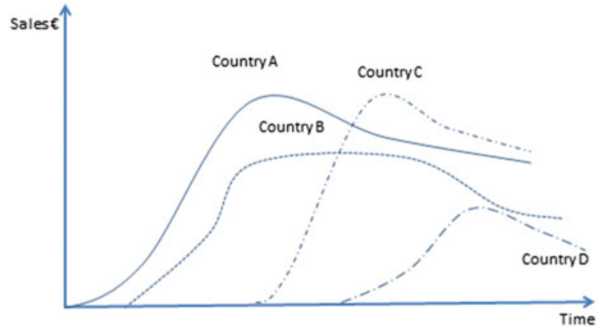

Fig. 5.4 PLC in different countries

Given that this is the case within a relatively homogeneous European market, it becomes clear that PLC differences in culturally and economically more diverse markets, such as India and the US or Germany and Nigeria, are much more accentuated. Figure 5.4 provides an illustration of possible PLC differences for a given product across different country markets.

5.6 Summary

Consumers buy solutions not products! To manage products as solution providers, marketers distinguish between the *core customer value*, that is the problem-solving benefit, the *actual product* including brand name, quality, design, packaging, and the *augmented product* that creates additional customer value through supplementary services. In a global marketing context, a company may provide the same core product all over the world, but adapt its brand name, design and offer different levels of support service. Product classifications such as *consumer products* and *business products*, *durable* and *non-durable products,* and *physical products* and *services* may also be helpful in creating global market offers.

Following the description of the main dimensions and types of products, our focus shifts to one of the central debates in global marketing strategy, namely the adaptation versus standardization debate. Following the debate back to seminal contributions by Buzzell, Levitt, Friedman and Ghemawat, it becomes clear that neither standardization nor adaptation alone, but the right balance between both, is called for. In fact, adaptation may be a must rather than a choice. Hence, much of the standardization–adaptation debate centers on *voluntary* adaptation, and several scholars favor a contingency perspective; in essence claiming that firms can neither fully standardize nor adapt, but need to apply a combination of both.

Next, the discussion shifts to global innovation and product development. A key task for any global marketing manager is to encourage the development of innovation in different parts of the organization around the world and to ensure that the innovation is rapidly diffused throughout the corporation regardless of where it originally occurred. While most people think about new products when discussing innovation, the term encompasses a much broader set of dimensions

with different impacts on the firm and the market. To capture the impact of different innovation types on corporate change, strategy and market impact, the Prange Schlegelmilch Innovation Cube is introduced. Subsequently, we discuss alternative global innovation strategies, such as the location of internal R&D facilities and the scope for acquiring innovation externally. The section on innovation and product development ends with a detailed look at the new product development process, encompassing idea generation, initial screening, business analysis, development, market testing, and commercialization.

The chapter finishes with a look at the international product life cycle. A distinction is made between Vernon's conceptualization of the IPLC that focuses on explaining internationally shifting foreign direct investment patterns, and the international application of the product life cycle that traces the revenue and profit development of a given product in different countries around the world. We argue that the former conceptualization has lost much of its relevance in today's intensely global business environment, but that the latter remains a useful strategic tool for global marketing managers.

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6 Extracting Value from Global Operations

6.1 Global Pricing: Challenges and Opportunities

There is no bigger leverage for revenues and profits than pricing.[1] Unfortunately, setting prices is also one of the most difficult decisions in global marketing. Price too high, and customers will not buy; too low and the company will fail to extract sufficient value from its global operations. Given the importance of pricing, it is not surprising that a McKinsey study identified pricing as the predominant worry among CEOs.[2] At the same time, pricing is still widely based on gut feeling and intuition, although many companies now have the data resources necessary to take a more scientific approach.[3]

Companies operating globally are under enormous pressure to price all their products correctly all the time—and the best price today is no longer the best price tomorrow. Competitive pricing is increasingly important in determining a company's success. More price sensitive, informed and empowered customers, paired with advances in scientific pricing management, are likely to further increase the importance of pricing in the future.[4]

There are a vast number of considerations that influence global pricing. Below, key environmental influences are discussed first, followed by a look at some global pricing strategies and practices. Next, we turn to the vexing issue of standardization and differentiation in the context of global pricing and the closely related question of where price decisions should be made, centrally or locally. This is followed by a look at company internal pricing. When multinational companies are conceptualized as differentiated networks of inter-organizational relations, it becomes clear that a considerable volume of trade takes place within such networks

[1] Phillips (2005).

[2] McKinsey (2004).

[3] Boyd (2007).

[4] Rothenberger and Siems (2008).

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and has to be valued by setting transfer prices. The chapter closes with a discussion of some market disturbances that are particularly bothersome in global pricing, namely *dumping*, *grey markets and parallel imports* as well as *cartels*.

6.2 Environmental Influences on Global Pricing

6.2.1 Competition and Demand

Companies are very sensitive to the pricing actions of their competition, in particular where competitors' pricing impacts their market share.[5] Consequently, the pricing activities of a company elicit more competitive responses than any other type of marketing activity. In fact, it is argued that companies, and above all retailers, have a tendency to overreact to competitive pricing actions and should rather rely on product advantages than engage in price wars.[6]

But not only price changes are an issue. Determining the price for a new product is an equally challenging task, since the price sensitivity and substitute products need to be clearly understood and evaluated beforehand. The key economic concept here is the *price elasticity of demand*, which is measured by dividing the percentage change in demand by the percentage change in price (Fig. 6.1).

When the price elasticity exceeds 1, the demand is said to be elastic; below 1 is defined as inelastic. Markets with inelastic demand are usually monopolies or near-monopolies, where customers have either no choice about the quantity of the product they use or switching costs are high. While this concept is useful in principle, in practice it has its limitations. For a start, the elasticity of demand is not known before a product is introduced into a market and the demand situation is typically uncertain.[7] Moreover, firms hardly ever know the exact shape of the

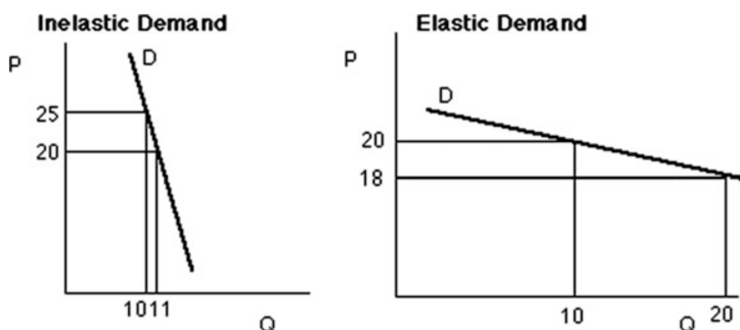

Fig. 6.1 Price elasticity of demand

[5] Kusum et al. (2001).

[6] Shankar and Bolton (2004).

[7] Forman and Hunt (2005).

demand curve for a given product and, even if they could estimate it, they need to realize that the elasticity of demand is different at different points on the demand curve, is likely to change over time, and also likely to differ between global market segments.

Possible predatory pricing by competitors is another factor that raises the insecurity in estimating demand. Predatory pricing is defined as a very aggressive type of pricing that sets prices below cost.[8] Often predatory pricing aims to prevent new rivals from entering the market or to force a competitor to leave the market. The idea is that the predator recovers the losses incurred by predatory prices once the competitor is gone or at least considerably weakened.[9] Predatory pricing is a very prominent theme in antitrust trials, since there is often no agreement of what is considered to be "below cost."[10]

6.2.2 Foreign Exchange Rates

When exporters quote prices in their own domestic currency, the risks associated with changing exchange rates are shifted to their customers. However, customers usually prefer prices in their own currency. In addition, there may be other reasons for quoting prices in foreign currency, such as the possibility to gain additional profits through good currency management or to gain access to financing from abroad. Consequently, dealing only with domestic currency is usually not an option, and foreign exchange rates tend to have a crucial influence on the price setting in global markets.[11]

Thus, an important issue to consider is how to react to exchange rate changes in foreign markets. Two basic concepts are contrasted in the exchange rate literature:

- Exchange rate pass through—response of import prices to exchange rates
- Pricing to market—international price discrimination induced by exchange rate changes[12]

The exchange rate pass-through (ERPT) is defined as the extent to which the final import prices reflect exchange rate changes. The extent of ERPT differs significantly between products. The exchange rate is almost completely passed through for many commodities, such as oil or raw materials, whereas it is only partly or not passed through at all for more differentiated goods. ERPT can be influenced by many external factors, such as the persistence of inflation or entrance

[8] Wazzan and Frech (2009).

[9] Emch and Leonard (2010).

[10] Wazzan and Frech (2009).

[11] Bodnar et al. (2002).

[12] Pareja (2001).

in a monetary union; however, most of the time, an organization's pricing and corporate strategy will define the extent of ERPT.[13]

Strategic pricing decisions will always have an influence on the ERPT. For example, in a situation where a dollar appreciation lowers a product's cost in dollars, a foreign exporter to the USA will decide whether to pass through the exchange rate differentials not only based on its cost but also on its competitors. Since the exporter might not want to deviate too far from its competitors, it might react to the dollar appreciation simply by increasing the mark-up.[14] The natural consequence of this is price discrimination across the different geographic target markets.[15]

Research suggests that companies with substantial market power in competitive world markets, also referred to as *price makers*, are more likely to pass through exchange rate changes with unfavorable consequences for the customer than companies with less market power, who are also referred to as *price takers*.[16] The extent to which organizations pass through exchange rates is further defined by the size of the market share as well as by the desire to secure the market. Exchange rate changes expected to be only of short duration are usually not directly passed through to the customers—especially not if prices would need to be increased—since stable short-term prices are considered essential to maintain customer trust and market share.[17] Table 6.1 provides some practical guidelines for how companies can react to varying currency conditions.

Companies do not only differ based on their approach to ERPT and pricing-to-market, but also concerning their exposure to foreign exchange risk. Three types of risks can be distinguished[18]:

Transaction risk: When the foreign currency depreciates between the original price quote and the payment.

Competitive risk: Firms may suffer disadvantages when they produce in a country that is characterized by an appreciating currency but compete with corporations that produce in a country where the currency is depreciating.

Market portfolio risk: Companies with a narrow market portfolio will be exposed more strongly to exchange rate risks than companies with a wider, diversified market portfolio.

Given the different types of exchange rate risks, diverse financial and operational hedging methods have been developed to secure a company's performance on a global scale.[19] In terms of *financial* hedging, companies may use various

[13] Ramón (2010).

[14] Gust et al. (2010).

[15] Pareja (2001).

[16] Bowe and Saltvedt (2004).

[17] Bowe and Saltvedt (2004).

[18] Sarathy et al. (2006).

[19] Bodnar et al. (2002).

Table 6.1 Global pricing in weak and strong currency conditions

When the domestic currency is weak	When the domestic currency is strong
• Stress price benefits	• Engage in non-price competition by improving quality, delivery and after-sale service
• Expand product line and add more costly features	• Improve productivity and engage in rapid cost reduction
• Shift sourcing/manufacturing to domestic market	• Shift sourcing and manufacturing overseas
• Exploit export opportunities in all markets	• Give priority to exports to countries with relatively strong currencies
• Use a full-costing approach, but employ marginal-cost pricing to penetrate new or competitive markets	• Trim profit margins and use marginal-cost pricing
• Speed repatriation of foreign-earned income and collections	• Keep the foreign-earned income in host country; slow down collections
• Minimise expenditures in local or host-country currency	• Maximise expenditures in local or host-country currency
• Buy needed services (advertising, insurance, transportation, etc.) in the domestic market	• Buy needed services abroad and pay for the in local currencies
• Bill foreign customers in their own currency	• Bill foreign customers in the domestic currency

Source: Cavusgil, T.S. (1996). Pricing for Global Markets. *Columbia Journal of World Business*, 31(44), 69

financial instruments, such as SWAPS, foreign exchange credits, futures or options.[20]

Operational hedging, in contrast to financial hedging, often requires large investments. However, in return operational hedging is more likely to be an efficient long-term risk exposure solution.[21] Popular forms of operational hedging are:

Geographical diversification: By ensuring that production cost and sales are denominated in the same currency companies can hedge their risk (e.g. production facility in the foreign market or shift in sourcing arrangements).[22]

Risk-sharing agreements: When a valued trade relationship exists between two parties, they can set up risk-sharing agreements so that the effects of a possible exchange rate change are commonly absorbed.[23]

[20] Clark and Judge (2009).

[21] Boyabality and Toktay (2004).

[22] Carter et al. (2003).

[23] Boyabality and Toktay (2004).

Operational and logistical flexibility: Especially risk-neutral or risk-averse pricing managers are likely to establish very flexible commitments in foreign markets so that they can take the final decision of allocating capacity and investment from the domestic to the foreign market as late as possible and based on the accurate demand and exchange rate situation.[24]

6.2.3 National Regulations

Global pricing decisions also depend heavily on the legislation in the respective overseas markets. In fact, it is rather common that government action limits the freedom of management to set prices. Government interventions may come in various shapes and forms, such as a restriction on price increases to combat inflation, high import taxes to protect local industry from foreign competition, or high taxes on certain goods (for example cars with high fuel consumption) to encourage more ecologically sound alternatives.

Sometimes such government actions can be a real threat to the profitability of operations in the affected markets. For example, in some countries, multinational companies are increasingly concerned about price controls introduced by the government to combat inflation. New legislation empowers the government to impose price controls in situations where “abnormal” pricing is observed. “Abnormal” pricing is a very vague definition and puts international companies in an insecure position. Accordingly, MNCs might also be forced to disclose information about their pricing structure and cost components for all kinds of goods like books, steel, chemical fertilizers or milk powder.[25]

In addition to direct price controls and taxation, governments suffering foreign exchange shortages may also require companies to deposit cash in non-interest-bearing accounts for a specified period of time if they wish to import products. Such requirements create an incentive to minimize the prices of the imported products or to substitute imports with domestically produced goods. Foreign subsidiaries may also be affected by restrictions governing the transfer of profits out of a country. Furthermore, government subsidies for certain domestic industries can render imported products uncompetitive. Agricultural subsidies combined with import quotas, for example, largely prevent the import of sugar cane into the EU from the most competitive sugar-producing countries such as Brazil, Thailand or Australia.[26]

Finally, pricing may also be affected by the competition policy of a country, which regulates the competitive situation by restraining “anti-competitive” acts like the abuse of a dominant position.[27] While competition law is usually organized on a

[24] Ding and Kouvelis (2007).

[25] Deloitte (2014).

[26] SugarCane.org (2015).

[27] Hoekman and Mavroidis (2002).

national level, the European Union also has legislation on anti-competitive actions like cartels (see below), horizontal and vertical price agreements as well as country aid and subsidies.

6.2.4 Inflation

Inflation has historically been a critical and aggravating factor in global pricing. Handling inflation issues is challenging because there are no real-time data available. A time lag exists between the publication of the consumer price index and the actual rate of inflation. In addition, there are geographical discrepancies in inflation even within national boundaries. Both circumstances make it difficult to predict the influence of inflation on pricing.

The pass-through of inflation within the supply chain to consumer prices can depend on a variety of issues, such as:

- The nature of the production process of the respective product
- The willingness of channel members to exploit the consumer's lack of knowledge on inflation-based price changes[28]
- The competitiveness in the supply channel[29]
- The product range sold; single-product firms are more likely to pass on inflation[30]

Studies on inflation pass-through have also shown that in low-inflation areas, the pass-through is lower since companies assume a certain amount of stability in their own costs as well as the competition's pricing. This creates a stable pricing environment in general. Highly competitive markets and increased pricing transparency also lead to a shift of power from corporations to customers; in turn, this generally results in a lower pass-through of inflation to retail prices.[31]

6.2.5 Shorter Product Life Cycles

For companies marketing technology-based products, shortening product life cycles resulting from ongoing innovations in competitive world markets should also be considered in their global pricing. The need for a quicker payback time calls for more sophisticated pricing strategies.[32]

[28] Richards and Pofahl (2009).

[29] Kim and Cotterill (2008).

[30] Hamilton (2009).

[31] Taylor (2000).

[32] Stöttinger (2001).

The South-Korean electronics giant LG, for example, is facing increased pressure through shortening product life cycles. Consequently, the company is planning to reduce its product portfolio in order to increase its profitability. With the aim of extracting more value from its global operations and by persisting in the fast-changing electronics environment, investments will be made in the areas of energy, healthcare and highly profitable commercial air-conditioning. Entering new businesses and abandoning traditional LG businesses with low profitability are LG's answer to shorter product life cycles and innovation pressure.[33]

6.3 Global Pricing Strategies and Practices

Global pricing is more complex than setting prices in a domestic environment. The added complexity is primarily introduced through the differing environmental factors discussed above and the need to take interactions between different country markets into account, e.g., to reduce the risk of parallel imports. However, the basic methods of arriving at a price are unchanged. Below, we briefly discuss *cost-plus pricing*, *parity pricing*, as well as *market penetration* and *market-skimming pricing*.

6.3.1 Cost-Plus Pricing

Cost-plus pricing is the most commonly used international pricing strategy, particularly when firms are just beginning to globalize. This also reflects the fact that many pricing managers adopt a rather risk-averse attitude when it comes to global price setting. Cost-plus pricing also has the advantage of being relatively transparent.

However, rigid cost-plus pricing may lead to pricing that is out of line with the market prices in the overseas target market. In particular, additional transport costs and added or higher distributor margins often lead to price escalations. In contrast, prices may also be too low for the market conditions in the overseas market.

Another drawback of rigid cost-plus pricing is that many companies fail to incorporate the value of knowledge when defining a price based on the cost of a product. A company does not only sell the product as such but also know-how, R&D, branding and technical expertise, which all add to the value to the product. Consequently, not the physical manifestation but the overall value of a product should be considered. To this end, cost-plus can be used to determine a price floor. However, in order to determine a price ceiling, the value the product provides to the customer might be more suitable and so called value-based pricing is usually more appropriate.

[33] Jung-a (2008).

6.3.2 Parity Pricing

In country markets where companies have limited industry control and a rather smaller market share, they often apply parity pricing. Thus, companies set prices in a range that seems acceptable for most customers. Parity pricing is often driven by the concern that stronger competitors would gain an even stronger standing with the customers if prices were increased.[34]

In global marketing, parity pricing is most often applied by companies that perceive their pricing possibilities as rather inflexible compared to their more powerful competitors, who price based on their cost, value, demand forecast etc.[35] Parity pricing enforces the perception of customers that there are no crucial differences between products. Thus, companies choosing a differential price strategy focus their marketing efforts on distinguishing from parity-priced products. In contrast, low price suppliers concentrate on encouraging parity perceptions as a viable choice in comparison to parity-priced products.[36] Consequently, it might be argued that pricing at parity limits the differentiation of a product significantly and can decrease the purchasing probability for a product.[37]

6.3.3 Market Penetration Pricing Versus Market Skimming

The aim of penetration pricing is to increase or expand market share quickly, often in order to prevent new competitors from entering the market.[38] Frequently, only variable costs and international marketing costs are recovered, while overheads are only partly added. Thus, penetration pricing uses price as a competitive weapon. To this end, it may mean that products are sold at a loss for a certain length of time. This puts manufacturers in danger of being accused of dumping (see below) and, consequently, in danger of legal sanctions.

Companies applying a market penetration strategy have high potential in markets where the perceived brand parity is high. To this end, low price strategies are mostly applied for so-called commodity products—products that are seen as interchangeable.

Market skimming works in the opposite direction to penetration pricing. While penetration pricing introduces products in an overseas market with low prices, which are then successively increased, market skimming introduces products at a relatively high price, which is then gradually lowered over time. Thus, market

[34] Forman and Hunt (2005).

[35] Chernev (2006).

[36] Iyer and Muncy (2005).

[37] Chernev and Kivetz (2005).

[38] Kehagias and Skourtis (2009).

skimming attempts to reach market segments willing to pay a premium price in order to have first access to a product. Market skimming is often used in the introductory phase of the product life cycle, when production capacity and competition are still limited. To this end, it can maximize profit on restricted volume and match the demand to the limited supply. Market skimming also reinforces customers' perceptions of high product value.[39]

6.3.4 Countertrade

Countertrade deals represent a less conventional form of trading arrangement where payments, either partially or in full, are made in the form of goods and services. Countertrade arrangements are most often used when companies are dealing with less developed markets where customers may have limited access to hard currencies. Governments may also see countertrade deals as a means to foster the creation of new jobs in their countries. For example, Boeing sold aircraft to the British Ministry of Defence on the basis that the equivalent purchase price would be spent on British goods.[40] The term countertrade is an umbrella term that encompasses a wide variety of different transactions. The London Countertrade Roundtable (LCR), established in 1988 as a "focal point for all those involved in countertrade, offset and related activities", points out that the terms for these different transactions are often used interchangeably, which causes confusion. Notwithstanding this limitation, the LCR lists the following as the most common forms of countertrade and the terms most often applied[41]:

Offset: This is traditionally used by governments around the world when they make major purchases of military goods. There are two distinct types: (1) direct offset, where the supplier agrees to incorporate components or sub-assemblies from the importing country; (2) indirect offset, where the purchaser requires suppliers to enter into long-term co-operation and investments, but these are unconnected to the supply contract.

Counter-purchase: A foreign supplier promises to buys goods and services from the purchasing country as a condition of securing the order.

Tolling: Manufacturers in regions such as the former Soviet Union may sometimes be unable to service customers because they lack the foreign exchange to buy raw materials. In a tolling deal, a supplier provides the raw material and hires capacity from the factory of the buyer to turn it into finished goods. These are then bought by a final customer, who pays the supplier in cash. Throughout this

[39] Keegan and Schlegelmilch (2001).

[40] Doole and Lowe (2012).

[41] The London Countertrade Roundtable (2011).

procedure, the supplier retains ownership of the material as it is processed by the factory.

Barter: In a barter deal, the principal export is paid for with goods (or services) from the importing market. A single contract covers both flows and in the simpler cases, no cash is involved. In practice, however, the supply of the principal export is often released only when the sale of the bartered goods has generated sufficient cash.

Buyback: Here, suppliers of capital plant or equipment agree to be paid by the future output of the investment concerned. For example, exporters of equipment for a chemical plant may be repaid with part of the resulting output from the factory. Buyback arrangements tend to be much longer term and for larger amounts than counter-purchase or barter deals.

Switch Trading: Imbalances in long-term bilateral trading agreements sometimes lead to the accumulation of trade surpluses. For example, at one time Brazil had a large surplus with Poland. These surpluses can sometimes be tapped by third countries so that, for example, UK exports to Brazil could be financed from the sale of Polish goods to the UK or elsewhere. Such transactions are known as 'switch' or 'swap' deals because they typically involve exchanging the documentation (and destination) of goods while in transit.

6.3.5 Incoterms

The International Commercial Terms, usually referred to as Incoterms, are an important aspect of global pricing practice. The Incoterms are published by the International Chamber of Commerce (ICC) in Paris and regulate the transfer of tasks, costs, and risks from the seller to the buyer.[42] To this end, Incoterms are regularly incorporated in international sales contracts. Sellers tend to favor price quotes that reduce their risks and responsibilities as much as possible (for example FOB: free on board), whereas buyers prefer terms where the seller carries as many of the costs and responsibilities as possible (for example CIF: cost, insurance, freight). However, pricing which is more market-oriented tends to be based on Incoterms where the seller carries most of the costs and liabilities during transport. The ICC publishes two groups of Incoterms—those that specifically apply to sea or inland waterway transport, such as the already mentioned FOB, CIF and others, and those that can be applied to any mode of transport, such as DDP, which stands for delivery duty paid.

[42] Ramberg (2011).

6.4 Location of Pricing Responsibility

6.4.1 Standardization Versus Differentiation

Akin to other elements of the marketing mix, the degree of standardization and differentiation of global prices is discussed widely in the pricing literature.[43] Price differentiation has been identified as a profitable pricing strategy throughout most of the marketing literature, since studies have shown that companies can increase their profits up to 34 % by segmenting their customers and charging them different prices.[44] Consequently, most researchers suggest differentiating prices whenever possible.

Costs provide another argument in favor of price differentiation. Companies applying price differentiation often distribute via more channels and have different marketing strategies in their target markets. This requires resources to develop and engage in differentiation strategy and usually makes it impossible to set one standardized price all over the globe.[45]

However, there are also arguments in favor of price standardization strategies. Strong brands are supposed to have a consistent image around the world. Consequently, they are more likely to have standardized prices in different countries.[46] Taken collectively, price standardization and differentiation can be viewed as the extremes along a continuum of many individual international pricing strategies a company can pursue. The pricing literature identifies a number of drivers favoring a differentiated or standardized pricing strategy.[47] However, there is no definite answer to whether a company should adopt a standardized or differentiated pricing strategy, since the individual business challenges of particular companies may differ greatly.[48]

6.4.2 Decentralization Versus Centralization

The decision to standardize or differentiate pricing in different country markets largely pre-determines whether prices are set by the corporate headquarters, regional headquarters, national subsidiaries or even individual outlets or sales people. However, research suggests that international pricing is increasingly conducted centrally under the supervision of top-level management, since pricing is perceived to have a crucial influence on the financial and overall success of a

[43] Theodosiou and Katsikeas (2001).

[44] Khan and Jain (2005).

[45] Anderson and Simester (2001).

[46] Iyer and Seetharaman (2003).

[47] Sousa and Bradley (2008), Wolk and Ebling (2004), Lages and Montgomery (2004) and Anderson and Simester (2001).

[48] Lages and Montgomery (2004).

company. In addition, central pricing ensures price stability and control over pricing processes.[49]

6.5 Setting Company Internal Prices

6.5.1 Transfer Pricing Principles

Transfer pricing refers to the pricing of intra-company transactions. Multinational companies have identified transfer pricing as a very important tax issue, since it has a major influence on the distribution of income and losses between the different subsidiaries of a company.[50] For example, multinationals may be tempted to manipulate intra-company losses and gains so that higher transfer prices are set when exporting from subsidiaries located in low-income-tax countries to subsidiaries in high-income-tax countries. This would reduce the overall tax burden for the corporation. Table 6.2 illustrates the basic principles of transfer price manipulations.

Table 6.2 Transfer price manipulation

	€	Transfer price manipulation	€
High tax country X			
Ex-factory costs of subsidiary in country X	1000		1000
Transfer price ("arm's length") to subsidiary in market Z	1200	Artificially low transfer price	1050
Profit	200		50
Local tax (50 %)	100		25
Net profit	100		25
Low tax country Z			
Buys from X	1200		1050
Duty (10 %)	120		105
Cost warehouse	1080		945
Sells at (marketable price)	1600		1600
Profit	520		655
Tax (10 %)	52		65.5
Net profit	468		589.5
Corporate net profit			
(Country X and country Z)	568		614.5
Government tax/duty	272		195.5

[49] Stöttinger (2001).

[50] Shor and Chen (2009).

6.5.2 Transfer Pricing Methods

Tax authorities are well aware of the fact that companies can benefit from shifting profits from high-tax countries to low-tax countries in order to minimize tax payments and maximize shareholder value. Hence, international companies have to take into consideration the legislation of numerous countries and make sure their tax payments are consistent with all of these. The International Financial Reporting Standards (IFRS) and the US Generally Accepted Accounting Principles (GAAP) also set limits to transfer price manipulation designed to reduce corporate tax burdens.

However, transfer pricing is not only interesting from the perspective of minimizing corporate tax. Multinationals may charge lower transfer prices in order to ensure that subsidiaries are price competitive in their local markets. Alternatively, multinational companies may use their transfer pricing to reduce their financial insecurity and risk when the local currency loses value.[51] Given the multiple objectives that may be pursued, it is particularly challenging for multinational companies to ensure consistency in their transfer pricing from a legal, tax, accounting and economic point of view.

One of the most important issues for most companies is whether their internal prices comply with the arm's length principal required by tax authorities. The arm's length principal suggests that transfer prices must be set as if the particular subsidiaries are independent parties conducting trade under normal commercial conditions.[52] Many companies resolve that issue by defining the market price of goods as their transfer price. However, in practice this is sometimes difficult, since there are no comparable markets outside the company for all kinds of inter-company transactions. This is often the case when intellectual property or knowledge created within a company is transferred.[53]

Commonly used transfer pricing methods are the *cost-plus method*, the *resale price method*, the *comparable uncontrolled method* and the *transactional net margin method*.[54]

6.5.2.1 Cost-Plus Method

According to the cost-plus method, an arm's length price is defined as the cost of the product in question plus an appropriate mark-up. However, in many countries, there are no clear regulations on the calculation of mark-ups. The comparability of the cost situation of different companies is also complex, as it has to take into account how similar the functions performed really are, the risks that are carried by different companies, and the terms of the contract. Hence, the cost-plus method is mainly

[51] Lin (2010).

[52] Adams and Drtina (2010).

[53] Bartelsman (2003).

[54] Karyadi and Marseille (2010).

used by pure manufacturing, assembly or production companies, since their cost structure is relatively transparent and comparable.[55]

6.5.2.2 Comparable Uncontrolled Price Method

Companies applying the comparable uncontrolled price method define a price, which would be considered appropriate for a similar transaction between completely unrelated buyers and sellers. Those prices can be set according to internal comparable prices (e.g., the price the taxpayer would pay to a non-affiliate third party) or according to external comparable prices (e.g., the market value of a comparable transaction between two unrelated business partners).[56]

6.5.2.3 Resale Price Method

The resale price method is used under the condition that goods, which are purchased from a related company, are then resold to a third unrelated party. The appropriate transfer price is defined in a way that the expenses related to the goods in question and the gross profit margin, which would have occurred during a transaction of fully unrelated parties, are deducted from the resale price.[57]

6.5.2.4 Transactional Net Margin Method

This method is based on calculating the net profit margin from the transaction in relation to the occurred cost, sales or assets utilized. This margin is then compared with the net profit margin of an uncontrolled unrelated taxpayer.[58] Chinese regulations usually determine a net profit margin benchmark by selecting 3–5 companies, which do business in the same industry as the taxpayer and are of a comparable size, with comparable levels of technology and profit indicators.[59]

6.6 Market Disturbances

6.6.1 Dumping

According to the WTO, a company is accused of dumping when it sells goods at a price below the normal or fair value and therefore injures the local market. The normal value of a product is usually defined as its home market price or its price in the world market. Hence, a company may still be accused of dumping in a foreign market when prices are set above the company’s cost but are not in accordance with the local market price.[60] Companies pursuing a standardized pricing strategy,

[55] Low and Wong (2007).
[56] Dean et al. (2008).
[57] Nielsen et al. (2003).
[58] Samir et al. (2010).
[59] Low and Wong (2007).
[60] Kipel (2010).

charging the same price in every country, thus also have to be aware that they might be accused of dumping in particular markets.[61]

Dumping is often the subject of controversy. The supporters of anti-dumping laws suggest that dumping can be used particularly effectively by large and dominating firms to drive smaller local companies out of the market.[62] For example, a company can set very low prices in order to penetrate a market while offsetting these with profitable prices in other markets.[63] However, anti-dumping law opponents point out that price discrimination between different national markets is a natural strategy and should not be considered illegal.[64] Dumping also offers the consumer a wider range and lower priced products. Consumer welfare and choice are among the key benefits of a globalized market; hence the elimination of low-priced products through anti-dumping measures is often described as counter-productive.[65] Anti-dumping measures are often viewed as being heavily influenced by protectionist thinking, resulting in higher prices or a limited choice for consumers.[66]

According to the WTO's definition of dumping, products have to be alike for companies to actually be accused of dumping. Hence, even slight product differentiations often justify a differentiated pricing strategy and make it possible for price dumpers to sell at lower prices.[67]

6.6.2 Grey Markets and Parallel Imports

Grey markets occur when branded goods are sold through unauthorized channels without the consent of the trademark owner.[68] In most cases, grey market players are arbitragers and hope to achieve short-term profits at all levels of the supply chain. Hence, it is difficult for multinational companies to identify and put an end to their activities.[69] Grey markets are to be distinguished from black markets, as the goods on black markets are mostly counterfeits, whereas grey market goods are originals sold through unauthorized channels.[70]

Manufacturers naturally rely on their authorized distributors to conduct value-adding services and therefore to increase the service quality of their products.[71]

[61] McGee (2008).

[62] Rai (2006).

[63] Ashiya (2004).

[64] Rai (2006).

[65] Brennan et al. (2007).

[66] McGee (2008).

[67] Ashiya (2004).

[68] Huang et al. (2008).

[69] Antia et al. (2001).

[70] Mendelsohn and Stanton (2010).

[71] Antia et al. (2001).

Hence, unauthorized resellers endanger the channel quality of manufacturers and may cause severe customer dissatisfaction, for which the manufacturer is held responsible. Other negative consequences of grey markets include price instability, confused customers who might mistake the products for counterfeits, loss of channel control, a decrease in customer service quality, tensions in distributor relationships and, most importantly, customers losing trust in the brand.[72]

However, grey markets not only bring disadvantages for manufacturers. Indeed, grey markets usually increase the sales volume of manufacturers (at least in the short term); they increase competition between distributors; and they generate an additional channel for price-conscious customers who may enable manufacturers to tap into unreached markets.[73] Consequently, it is important for companies to evaluate when and how to intervene in grey market activities. In situations where manufacturers do not make a genuine effort to control grey market activities, authorized retailers often start neglecting presale service, customer education and other important value-adding factors in order to compete with grey markets. Hence, grey markets can tear apart channel relationships, which have been set up through heavy investments of time and money.[74]

Furthermore, falling trade barriers, information availability and logistical advancements foster the occurrence of grey markets and limit the company's ability to implement an efficient price differentiation policy. It is true that a fundamental part of global pricing is the company's opportunity to price its products according to what the relevant national markets can bear. Nevertheless, companies like LVMH, Christian Dior or Tag Heuer have decided to price their products the same worldwide and have given up on the profit-making opportunity of charging different prices in order to counteract the problems created by grey and parallel markets with regard to price instability.

Parallel imports supply products to the grey markets. For example, where products are priced lower in the home market than the foreign market, grey marketers in the foreign market will parallel import directly from the home market rather than source from within their own market. When prices are lower in an export market, re-importation can occur. Similarly, when prices differ between two or more overseas markets, products are sold from one country to the other through unauthorized channels. This is often referred to as lateral importing.

Since parallel traders are often authorized wholesalers themselves or at least buy the goods from those, it is often the wholesale price that determines the profitability of a parallel trade. Hence, improving vertical price efficiency is desirable for manufacturers in order to prevent parallel trading. However, the most crucial factor encouraging parallel trading is differentiated prices in different countries, which

[72] Huang et al. (2008).

[73] Lee et al. (2000).

[74] Mendelsohn and Stanton (2010).

enables parallel traders to purchase merchandise in a low-price country and resell it in a high-price market.[75]

Parallel importing is controversial in some aspects, since many developing countries show a very tolerant standing towards parallel imports. Indeed, even the US is considering easing its parallel import legislation on particular goods such as pharmaceuticals.[76] Nevertheless, a multinational company can take a variety of measures in order to handle undesired market disturbances like parallel imports and grey markets. A common approach is to set up very strict contracts with intermediaries that foresee severe punishments for any kind of undesired and illicit exports. Some companies also resort to buying up the undesired, underpriced merchandise in grey markets. However, this can only be considered as a short-term solution. A more desirable solution is to set up so-called price corridors. These restrict price differences between high (country A) and low (country B) price markets so that transport and logistics costs are slightly higher than the price difference, and hence arbitrage gains are not possible (see Fig. 6.2). One problem with this is that it requires co-operation between different national markets, since the prices would have to adjust simultaneously, which is difficult to put into practice.[77]

6.6.3 Cartels

A cartel can be described as the co-operation of two or more companies in order to illegally fix or control the price for certain merchandise. Such price-fixing

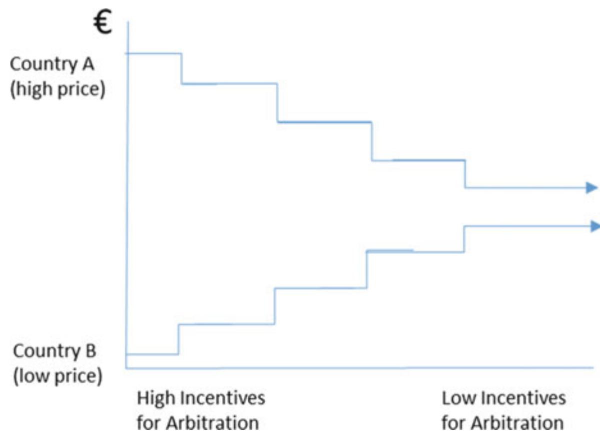

Fig. 6.2 Reducing the international price corridor

[75] Palangkaraya and Yong (2009).

[76] Maskus (2001).

[77] Pepels (2006).

agreements can involve companies located in different countries or even different continents.[78]

Nearly every country in the world has introduced laws against price cartels. Anti-cartel legislation serves the purpose of ensuring customer welfare and supports smaller businesses and the dispersion of political and economic power. Convicted cartels have to face severe fines based on the sales generated by the cartelized product. Companies in the US are charged about 20 % of the sales realized during the conspiracy. In addition, various aggravating multipliers like the size of the company or the length of the conspiracy are taken into consideration. The European Union has a similar approach, charging 10 % of sales generated in the cartelized product line.[79]

Global cartels, especially when they are operating across continents, are usually more difficult to identify and convict, since they typically try to generate profits in countries with little legislation against cartels. For example, almost all Asian countries lack a substantial fining system. But as global cartels affect the welfare of a large number of customers, multilateral co-operation via, for example, the WTO is gaining in importance.[80]

6.7 Summary

The chapter opens with the observation that there is no greater leverage for revenues and profits than pricing. However, while setting prices to extract optimal value for the corporation is never easy, determining optimal prices in a global context is hugely complex.

First, there are numerous environmental factors, such as different demand patterns, varying levels of competition, fluctuating exchange rates, changing degrees of regulatory influence, different inflation levels, and divergent product life cycles. Not only do all these factors differ across various national markets; they are also continuously in flux.

Second, there are diverse corporate pricing objectives that are reflected in different pricing strategies, such as market penetration pricing versus market skimming. Furthermore, the adherence to different practices, such as the use of certain Incoterms, varies between industries and companies. We discuss the most important global pricing strategies and practices, including countertrade, a less conventional form of trading where payments are made in forms of goods and services. Global pricing is further complicated by the interactions between national markets.

Third, there is once again the issue of standardization versus differentiation; specifically whether prices should be uniform or adapted to different country

[78] Connor (2005).

[79] Connor (2004).

[80] Connor (2004).

markets or even to different market segments within a country market. Closely connected to this issue is the location of pricing responsibly, i.e. whether the authority to set prices rests with global headquarters, regional headquarters or national subsidiaries.

Fourth, global pricing is made complex by the need to set prices for company-internal transfers of goods and services. As multinational companies are differentiated networks of inter-organizational relations, the trade that takes place within such networks has to be valued by setting appropriate transfer prices. The latter are often politically sensitive, as transfer prices open the possibility of corporate tax avoidance. However, differences in taxes between national jurisdictions are not the only factor driving transfer pricing. Lower transfer prices, for example, may also be charged in order to ensure that subsidiaries are price-competitive in their local markets. Given the multiple objectives that may be pursued, it is rather challenging for multinational companies to ensure consistency in their transfer pricing from a legal, tax, accounting and economic point of view.

Last, we discuss some market disturbances that are particularly bothersome in global pricing, namely dumping, grey markets and parallel imports as well as cartels. A company may be accused of dumping when it is selling goods at a price below the fair market value and therefore causes an injury of the local market. Grey markets occur when branded goods are sold through unauthorized channels without the consent of the trademark owner. These markets are supplied by different forms of parallel imports, which take advantage of price differences between countries. Finally, cartels are co-operations between companies to illegally fix the price for certain merchandise. Such price fixing agreements can involve companies located in different countries or even different continents.

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Global Supply Chains and Distribution Networks

7

7.1 Key Dimensions of Global Supply Chains

Supply chains that stretch over different countries on different continents are one of the defining characteristics of globalization. At its core, global supply chain management comprises logistics, purchasing (sourcing), operations and marketing channels. From a strategic point of view, supply chain management involves, among others, key decisions on where to locate these activities. According to Hult and his coauthors, on average 20 % of a global firm's performance can be attributed to where it locates its value-added activities.[1]

Building relationships along both directions of the supply chain in order to bring goods or services to customers is a vital component of global strategy. Upstream suppliers typically provide raw materials; downstream partners create links to the final consumer and thus have an important boundary spanning function. Marketing strategy traditionally focuses more on the downstream side of the supply chain, i.e. on marketing channels. In the literature, the terms marketing channels, market channels, and distribution channels are largely used interchangeably. But whatever the term used, all the activities of the downstream supply chain ultimately aim to provide *place utility* and *time utility*.[2]

Marketers use these terms to emphasize that the right product or service needs to be in the right place at the right time. More specifically, a product will provide customer value and satisfaction only if it is available to the customer when and where it is needed, and in the appropriate quantity. Very few companies are able to deliver such place and time utility independently; usually they need to rely on intermediaries. Intermediaries as well as proprietary entities involved in distribution aim to ensure an orderly flow of material, personnel, and information throughout the distribution channel. Thus, actors in distribution channels also perform the

[1] Hult et al. (2014).

[2] Staude (1987).

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important role of matching supply and demand through their interactions with suppliers, manufacturers, and end customers.

We start the discussion by briefly illustrating the key benefits global supply chain management can offer. This is followed by a look at the main factors that drive inbound and outbound sourcing and logistics decisions. Next, we focus on the design and management of global marketing channels. The chapter ends by identifying some important trends in international supply chains and distribution channels.

7.2 Benefits and Challenges of Global Supply Chains

Global supply chain management can deliver four main benefits: cost reduction, quality improvements, increased customer satisfaction and competitive leverage.[3] These four benefits can be achieved in each of the four functions of the global supply chain, namely logistics, purchasing, operations and marketing channels. Take cost reductions as an example: they can be achieved in logistics through distribution centres and inventory management systems that serve multiple country markets, in purchasing through sourcing at the lowest total costs worldwide, in operations through locating production or back-office activities in low cost countries and in marketing channels through coordinated multi-market strategies. Ultimately, the benefits obtained from global supply chain management need to be translated into customer value and satisfaction in form of increased delivery speed, more product diversity, higher quality and consistency in goods and services as well as lower purchasing prices.

The globalisation of supply chains is also associated with formidable challenges. It depends on appropriate infrastructure, such as transportation, communication, utilities and technology. In a global environment, it cannot be assumed that the required transportation infrastructure, such as motorways, railways or waterways, exists in each location. Moreover, communication issues may arise in terms of international data transfer or data security. Basic utilities, such as 24-h electricity supply or access to clean water cannot be taken for granted in every country. Finally, the technological infrastructure has to be scrutinized. This could involve questions on electronic data interchange (EDI) capabilities of offshore production sites; the use of an enterprise resource planning (ERP) tool across corporate boundaries; the ability of logistic partners to trace products with radio frequency identification tags (RFID); or the implementation of a vendor-managed inventory (VMI) system.

In addition to such infrastructure requirements, global supply chain management also has to deal with a plethora of legal issues, security concerns, custom formalities, commercial documents, payment streams, insurance aspects and so on. While industry globalization drivers, i.e. markets, costs, government and

[3] Hult et al. (2014).

competitors,[4] inevitably lead to the globalization of supply chains, the challenges involved in managing them effectively and efficiently are not to be underestimated. Next, we take a closer look at inbound and outbound logistics.

7.2.1 Inbound Logistics, Purchasing and Operations

Inbound logistics encompasses receiving goods from suppliers. Traditionally, such goods were primarily raw materials or components that were used as input into manufacturing located in the home country of a company. However, these days the pressure toward achieving better results with fewer resources and at a faster speed has fundamentally changed this pattern. Companies locate their own value chain activities in different countries around the globe, outsourcing a wide variety of activities. Frequently, inbound logistics and operations are embedded in a web of international joint ventures and strategic alliances. In fact, many companies even outsource activities that were previously regarded as their core competencies. Examples are car manufacturers that outsource the assembly of their products,[5] banks that outsource their information systems,[6] and companies that outsource their entire customer relationship management.[7] Sourcing from abroad via contract manufacturing or licensing agreements not only permits companies to concentrate on sales and marketing activities, but also reduces the level of investment into manufacturing and increases the flexibility to switch between different suppliers and manufacturing countries.

International sourcing decisions tend to be rather complex due to the multitude of factors that managers need to take into account. Among the most important factors to be considered are (1) cost differences between countries, (2) transport costs (e.g. delivery time, security, and costs), (3) country infrastructure, (4) political risk, (5) market access barriers, and (6) exchange rate issues.[8]

Cost differences between countries influence the location of value chain activities. Many US and EU based companies, for instance, have shifted labor-intensive production to South East Asia and other low cost regions of the world. Interesting in this context has been the development in China and India. China's comparatively cheap and huge labor pool earned the county a reputation as the 'workbench of the world.' Similarly, many western companies took advantage of the Indian labor market and outsourced many call centers and IT functions to cities like Bangalore and Hyderabad. Today, the situation has changed in that both China and India are moving away from merely serving as low labor cost destinations for products sold in Europe or the United States. The emergence of a broader middle

[4] Yip and Hult (2012).

[5] Takeishi (2001).

[6] Insinga and Werle (2000).

[7] Graf et al. (2013).

[8] Keegan and Schlegelmilch (2001).

class has made the markets attractive in their own right. Indigenous competitors also emerged in both countries (e.g. Haier, Lenovo or Midea in China or Tata, Infosys or Wipro in India) that have the capabilities to challenge the traditional dominance of companies headquartered in the EU or the USA. Consequently, labor intensive low skill activities like sport shoe or textile production are now more likely to be located in Bangladesh, Cambodia or Vietnam than in the coastal region of China or in India. Figure 7.1 illustrates the large difference existing in hourly compensation for production workers in selected countries.

While differences in wages are important, it should not be forgotten that they are only one element of the costs of production and, depending on the product, may be responsible for only a relatively small part of the total costs of a product. Moreover, other factor costs like land, material and capital will sometimes offset the labor cost differentials.

Transport costs are largely driven by distance. However, transportation technologies such as increasing sizes of container ships, advances in intermodal services and EDI—electronic data interchange—have been reducing both transport time and costs. Containers can be transferred between air, ship, rail, and trucks; EDI facilitates the smooth exchange of information on production schedules, forecasts and orders. Some industries have also launched their own extranets, for example the

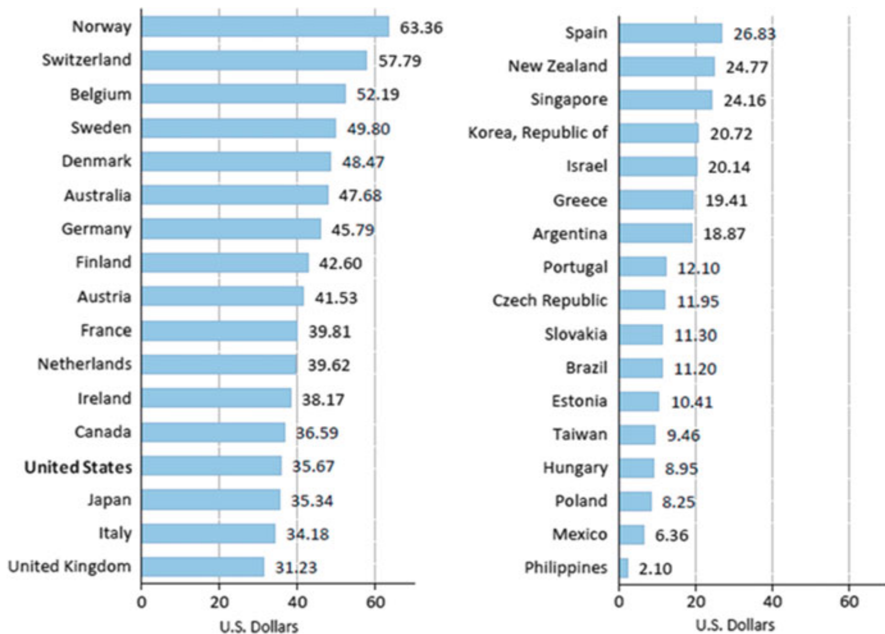

Fig. 7.1 Hourly compensation costs in manufacturing, US dollars 2012. *Source*: U.S. Bureau of Labor Statistics (2013, August). *International Labor Comparisons*. www.bls.gov/fls/ichccaesuppall.xls. Accessed 14 August 2015

Automobile Network Exchange (ANX),[9] to place and process orders and facilitate just-in-time manufacturing.

International transport is nearly always performed by third parties. However, the mode of transport (e.g. airfreight versus ocean shipping) is mainly driven by the type of products transported, and the time requirements of the receiving entity.

Environmental sustainability is an increasing concern in the transport industry. The transport "sector consumes over 50 per cent of global liquid fossil fuels and is projected to grow over 45 % overall from 2008 to 2035."[10] Over 80 % of this growth in transport emissions is predicted to occur in developing countries such as China and India,[11] and most of the emissions will be caused by land transport.[12] Consequently, the transport sector is tasked to move toward greener, low-carbon and more environmentally friendly patterns. In future, corporations clearly need to put more weight on environmental costs when making sourcing decisions.

Country infrastructure provides the necessary framework for manufacturing operations. The infrastructure includes power, roads, communications networks, and the availability of a competent labor pool. In addition, a country needs to provide a secure setting, offer civil order and permit effective governance. When services, components and raw material from other countries are required, a country also has to offer a reliable access to foreign exchange to enable purchases from abroad. Thus, access to cheap labor alone is not enough to be an attractive location for manufacturing operations; a country also has to offer the necessary infrastructure to support the manufacturing facility.

Political risk may deter companies from making investments into sourcing from abroad. Such risks could, for example, relate to terrorism, riots, coups, civil war and the resulting confiscation or destruction of property. In general, any political change that alters the value of an economic action may pose a political risk. Assessing the likelihood and severity of political risk is relatively difficult. This holds in particular for less developed countries.

From a corporate point of view, two types of political risks should be distinguished[13]: Macro-level risk affects all companies in the jurisdiction of the country in a similar way. This may include adverse regulatory changes, currency restrictions instigated by the central bank of the country or endemic corruption. In contrast, micro-level risks are industry, company or project specific. This may include discrimination against certain international companies operating in the country, such as the expropriation of oil companies in Venezuela.

Market access also influences sourcing considerations. When countries limit market access via exports because of local content requirements, balance of payments problems or to encourage knowledge transfer, companies often have no

[9] ANXeBusiness Corp (2015).

[10] UNCTAD Secretariat (2013).

[11] United Nations Environment Programme (2012).

[12] UNCTAD Secretariat (2013).

[13] Alon and Herbert (2009).

choice but to establish local manufacturing if they want access to the market in question. Sometimes companies may also be forced to enter into joint venture agreements with local partners to gain market access. Such requirements are usually politically motivated because governments try to restrict foreign ownership, either in general or in certain industries, or hope to increase the speed of knowledge transfer by making a local partner mandatory. Of course, establishing foreign manufacturing or service facilities in a country in order to serve this market may also have positive sides. A local presence may be viewed more favorably by customers, can reduce delivery time and costs, and improves the quality of market intelligence. In addition, a local joint venture may contribute valuable market knowledge and networks.

Foreign exchange exposure may also shape global sourcing strategies in that companies may opt to pursue global sourcing strategies as a way of limiting exchange-related risks. However, as exchange rates fluctuate, a previously attractive manufacturing location may become less attractive over time. To this end, flexible sourcing strategies that offer alternative country options for supplying markets, such as contract manufacturing or licensing, are called for. As far as possible, prudent companies will include exchange volatility into their planning of logistics and sourcing.

7.2.2 Outbound Logistics and Marketing Channels

Market channels comprise the part of the global supply chain that connects to customers. To this end, market channels include all activities related to sales, service and the development of customer relationships.[14] Of course, an important component of this final part of the supply chain is also the physical movement of products to the customer, i.e. the outbound logistics.

Focusing first on outbound logistics, the processes are initiated by an order from a customer. Apart from the physical movement of goods, transportation and warehousing, this also involves the management of the appropriate information flow, such as sending an acknowledgement of the order to the customer or inventory control. From a marketing perspective, a customer-focused view of the logistic function is called for. Customers are primarily interested in speed (e.g. how much time lies between order and delivery; is the supplier able to meet agreed time schedules), reliability (e.g. does the delivery match the order; zero defect delivery), and convenience (e.g. is it easy to place the order; is it possible to track the order status). In business-to-business relationships, issues like electronic data exchange and the willingness to participate in just-in-time delivery and inventory holding are also important.

While in principle, the requirements placed on outbound logistics are largely identical for domestic and international customers, in practice the complexity

[14] Hult et al. (2014).

increases considerably when goods cross-national boundaries. Increased distances may require other modes of transport and special packaging, international deliveries require different customs, shipping and tax documents, and language differences require translation and may make communication with the customers more difficult. All of this increases distribution costs.

In order to reduce international distribution costs, many companies have consolidated their national distribution networks and formed distribution centers that serve multiple countries. Others are outsourcing their logistics to specialist companies like UPS, FedEx or DHL (now owned by Deutsche Post). In addition to simply offering only physical distribution, specialist logistic companies are increasingly taking over warehousing functions and manage the associated information flows. Efforts to reduce logistic costs by, for example cutting inventories through build to order (BTO) approaches, lead to an integration of the outbound logistics in comprehensive supply chain management solutions that span procurement to final customer delivery. For both customers and corporations, ethical aspects, including working conditions in geographically dispersed factories or on cargo ships, as well as ecological challenges, such as the need to reduce the carbon footprint, are playing an increasingly important role in the design of international supply chains.[15]

7.3 Channel Functions and Organizational Formats

As pointed out at the beginning of the chapter, the terms marketing channels, market channels and distribution channels are largely used interchangeably. However, in the marketing literature, the term distribution is traditionally the most widely used, although it is sometimes criticized for allegedly implying that goods just need to be handed out.

In contrast to logistics, which is primarily concerned with the physical flow of products, designing of the channel structure focuses on the selection and interplay of suitable intermediaries and the marketing tasks they fulfill. This also involves the coordination between company owned distribution channels, for example online stores or a direct sales force, versus independent wholesalers and retailers.

7.3.1 Functions of Channel Members

External channel partners, also referred to as intermediaries, can perform three basic tasks.[16] Table 7.1 describes these three tasks, i.e. transactional, logistical and facilitating, in more detail.

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[15] Please see Chap. 10 for a more detailed discussion of ethical issues.

[16] Mudambi and Aggarwal (2003).

Table 7.1 Channel functions performed by intermediaries

Types of function	Description
Transactional functions	*Contacting and promoting*: contacting potential customers, promoting products, soliciting orders *Negotiating*: determining how many products to buy and sell, type of transportation used, methods of payment, delivery and timing *Risk taking*: assuming ownership utility
Logistical functions	*Physically distributing*: transporting and sorting goods *Storing*: maintaining inventories and protecting goods *Sorting*: breaking down a heterogeneous supply into homogeneous stocks *Accumulating*: combining similar products from different sources *Allocating*: breaking bulk into consumable quantities *Assorting*: combing products and creating offerings for customers
Facilitating functions	*Researching*: gathering and sharing information about customers *Financing*: extending credit lines and other financial services

The benefits that come with the functions performed by channel members also carry some costs; most notably the lack of control a company can incur once its product moves along the supply chain. Many companies that do not have a strong negotiating power are left at the mercy of their intermediaries when it comes to how their products will be positioned and at what price they will finally be sold for.[17] Furthermore, intermediaries might be susceptible to competitor inducement, which might preempt rival products from getting sufficient shelf space.

7.3.2 Number of Channel Levels

The relationship between producers, intermediaries and customers falls into one of the following three categories: direct, indirect or hybrid. Producers that service their customers directly without the use of an intermediary may do this with their own direct sales force or via telemarketing, mail-order, online or catalogue sales. Some companies that would not use direct sales in their highly developed home markets are quite successful with door-to-door distribution strategies in emerging markets, where retail distribution networks are not fully developed yet and low wages or readily available freelancers offer a more attractive cost structure. For example, Hindustan Unilever Ltd. (HUL), India's largest consumer-products company owned by Anglo-Dutch Unilever, develops a network of women—largely from very low-income households—into entrepreneurs, selling baskets of HUL products door to door. Today, 42,000 women earn a living by selling HUL products in more than 100,000 villages in 15 states.[18]

Indirect distribution channels contain one or more intermediaries. Sony for example exclusively depends on retailers for its distribution. Hardly any electronics

[17] Kalafatis (2000).

[18] Hadi and Harsh (2010).

retailer can afford not to carry the Japanese products, since the consumers would expect to see them in the store. To this end, Sony adds value to its intermediaries. Intermediaries enable companies to reach customers that would otherwise be unreachable. Even Dell, the poster child of direct distribution over the internet, has recently reverted to indirect channels, because its potential customers in emerging economies such as China and India do not have internet access to order a PC or laptop.[19]

Many enterprises have also opted to deliver their products to the customer by using both direct and indirect channels. This structure is called a hybrid or multichannel distribution strategy.

7.3.3 Organization of Channels

The biggest development of the past decades has been the increase in vertically or horizontally integrated distribution networks. With the advent of the internet, multichannel systems have also gained support.

7.3.3.1 Vertical Marketing Systems

Since each member of the supply chain aims to maximize its own profit, having one member (e.g. the producer, wholesaler, or retailer) in a position of power automatically reduces conflict and increases channel performance. Vertical marketing systems (VMS) consist of a producer and any number of intermediaries, whereby the channel controller coordinates all activities in order to eliminate inefficiencies. This could, for example, be via centrally organized warehousing, data-processing or other facilities that provide scale efficiencies.[20]

7.3.3.2 Horizontal Marketing Systems

Within a horizontal marketing system, two or more firms at the same supply chain level combine their marketing, production or financial resources in order to pursue opportunities, which one of them alone could otherwise not have achieved. This cooperation does not necessarily need to be permanent and the companies might even stem from different industries.

Take, for example, the partnership between Heinz and Japan's Kagome. Kagome is the biggest producer of vegetable juices and foods made from processed tomatoes in Japan, while Heinz is a top US food maker with a global sales network. Both companies agreed to expand operations and earnings in the global market by combining their management resources. Heinz conducted market research in the US to see whether Kagome vegetable juices would be accepted by US consumers. Meanwhile Kagome sent two corporate officers to Heinz Japan to promote the two companies' cooperation in such fields as sales, production, quality control,

[19] Lawton (2007).

[20] Zentes et al. (2005).

distribution and procurement. As a symbol of the partners' long-term cooperation, they each also acquired a 5 % stake in the other and vowed to help each other expand overseas operations.[21]

7.3.3.3 Multichannel Distribution Systems

Driven by the opportunities offered through the Internet, hybrid or multichannel distribution systems have now become the norm. Hereby the producer controls some distribution channels and intermediaries control others.[22] Music labels, for example, were forced into this system because of rampant Internet piracy. While they still sell some of their CD's in retail outlets like HMV, most of their profits are made online either over their own website or via aggregators like iTunes or Beatport. Similarly, airlines sell their tickets directly through the Internet, but also rely on travel agents. In this industry, some disintermediation occurred where airlines switched exclusively to online reservations and thus cut out the middleman completely.[23] However, generally the trend of the last years has been to extend the number of channels in order to reach as many customers as possible. Multichannel distribution systems carry a potential risk of channel conflict, especially when the intermediaries perceive the producer as a competitor as well as a supplier. Dissatisfied retailers may, for example, view the Internet as (often lower priced) competition.[24]

7.4 Selecting Channel Design

Aligning the overall marketing strategy with a channel design that is best suited to fulfil customer needs is determined by a large number of factors. The most important include the requirements of the final customers and the intended market coverage.

7.4.1 Customer Requirements

Many manufacturers view their intermediaries as "customers" and rarely look beyond that. Yet the primary function of a distribution *channel* is to satisfy end-user needs. Intermediaries are conduits to effect this goal and should be seen as such, and not as an end in itself. Since each channel member adds value for the end-customer, designing distribution channels starts with discovering what, when, where and how the customer wants to access the product or service that is to be offered.[25] Different country markets or customer segments may require different

[21] WN.com (2001).

[22] Wallace et al. (2009).

[23] Hibbard et al. (2001).

[24] Frazier and Kersi (1995).

[25] Anderson et al. (1997).

service levels. This could, for example pertain to product information, customization, quality assurance, assortment, product availability or after sales service.

7.4.2 Market Coverage

In essence, a company needs to decide how intensely it wants to cover a given market. Three main alternatives arise: intensive, exclusive and selective distribution:

Intensive distribution is about placing a product in as many outlets as possible and is most commonly used for goods that are impulse purchases or which consumers are unlikely to look for. Convenience products like bread or milk come to mind. In such cases brand loyalty is likely to be low and consumers are prepared to buy the nearest substitute product instead of going to another distributor.

Exclusive distribution is the opposite of intensive distribution; a producer implements a strategy of restricting the number of intermediaries that are allowed to stock a particular product. This type of distribution strategy is usually employed in situations where customers are willing to travel to obtain a product and where high levels of customer service have to be guaranteed. For example, high prestige fashion apparel producers like Gucci or Chanel adopt this type of market coverage.

Selective distribution lies somewhat between the two aforementioned strategies since some, but not all, available outlets are used. Companies attempt to balance a wider reach with a lower cost than that of intensive distribution. Specialty goods like home appliances or furniture are products usually associated with this strategy.

7.4.3 Channel Options

Once a company decides to use an indirect distribution structure, it must decide which intermediary to use.[26] In particular in emerging markets, distribution systems are often complex and hard to penetrate, consisting of many layers of intermediaries with only limited transparency. In other cases distribution networks are scattered or inefficient, or non-existent altogether.[27] Notwithstanding such limitations, the following are its most common options:

Agents or brokers: These intermediaries bring buyer and seller together by negotiating specific deals, but without taking ownership of the product. They

[26] Drummond and Ensor (2005).

[27] Dimitrova and Rosenbloom (2010).

are often employed temporarily and are paid by commission from the parties hiring them.

Distributors or dealers: These intermediaries distribute the product and offer value through services such as stocking inventory, credit line extensions and after-sales support. They are often seen in B2B markets, but can also be found dealing directly with consumers, such as the automobile distributors.

Franchises: A franchise is a continuing relationship in which a franchisor grants to a franchisee the rights to operate or to sell a product. The franchisor provides the trade name, product, methods of operation and so on. The franchisee, in return, pays the franchisor and has to adhere to a strict set of rules laid out in their contract. These usually cover the design of the product, the marketing, the product assortment and of course the quality of service.[28] The uniformity of different branches of McDonald's or 7-Eleven is unmistakable, but franchises extend much further than just fast-food restaurants and convenience stores. Prominent examples are found in such diverse industries as tourism, education, healthcare, real estate and commercial cleaning.[29]

Wholesalers: These intermediaries take title to the goods they handle and are involved in their physical distribution. They sell primarily to other middlemen or directly to industrial, commercial or institutional customers, like for example Costco Wholesalers in the USA or Makro in Europe. They also render very important services to manufacturers, since they can reach many small customers at a low cost. Wholesalers select items and build assortments needed by their customers. There are two basic versions of wholesalers: Full service wholesalers carry out a broad range of marketing activities such as purchasing, sales, warehousing and transportation of goods. They may also offer additional services such as advice on accounting and inventory control procedures. In contrast, limited service wholesalers strip out non-essential services and as a result are able to offer a cheaper service to their customers. An example of limited service wholesalers are cash-and-carry wholesalers that only sell a limited line of fast-moving goods to small retailers for cash and no delivery. Other limited service wholesalers include producers' co-operatives, owned by farmer-members, who assemble fresh produce to sell in local markets, and mail-order wholesalers, which use catalogues to sell to retail customers in large quantities.[30]

Retailers: Successful large retailers like Wal-Mart, Tesco or Spar link producers and end-customers and perform an invaluable service for both. There are several different types of retail stores, but in general they can be distinguished by the amount of service they offer, their product line and relative price emphasis.[31] Department stores are large retailers that offer a very broad and deep assortment of products and significant customer services. Harrods in London, for example,

[28] Gal-Or (1995).

[29] McIntyre and Huszagh (1995).

[30] Bernard et al. (2010).

[31] Seiders et al. (2000).

sells food, cosmetics, clothes, home furnishings and books among other things. Services there include clothing alterations, shoe repairs, home delivery and installation. Discount retailers are positioned around their price advantage. They offer a broad but shallow assortment of products and very few customer services. Examples are Aldi in Germany and Kmart in Australia. To keep prices down, the retailers negotiate extensively with suppliers to ensure low merchandise costs.[32] Category killer stores are just like discounters but in a very specialized field. They are designed to "kill off" competition and are characterized by a narrow but very deep assortment of products and few to moderate customer services. A successful example includes IKEA in furniture. Supermarkets provide the most classic retail environments. They can be found almost everywhere in the world and operate on a self-service basis with minimum customer service and centralized register and transaction terminals. They are the dominant institution for food retailing, as they offer a wide product assortment in a single location, with great convenience and variety for their customers. Hypermarkets are larger than supermarkets, with a significant increase in the product lines carried and normally in locations with more than 10,000 square meters. Finally, convenience stores such as 7-Eleven offer a rather moderate range of grocery and household items and cater to customers looking for fast shopping in a convenient location with long opening times.

While the retail formats described above exist in virtually all developed markets, they cannot be taken for granted in emerging markets. In China, for example, the retail market is highly fragmented and composed of many small and medium-sized retailers. Cross-provincial retailers are still rare in China, partly because of local market barriers.[33] Furthermore, many of China's distribution networks are highly decentralized, creating fractured and often redundant distribution systems. For example, as many as five tiers may exist at a given level of distribution in Shanghai's complex beverage distribution network, resulting in lower profit margins at every level—producer, wholesaler, distributor, and retailer.[34] India, the second largest population giant among the BRIC countries, presents other retail challenges. Two-thirds of the country's one billion consumers live in rural India, where almost half of the national income is generated. This is a stark contrast to China. Rural India is also hugely complex, not least because of its diverse pace of development. Some markets are big but not as affluent as other markets (Uttar, Bihar Pradesh), while some are affluent but not very large (Himachal Pradesh, Goa). Companies need to take into account the vast number of languages and cultural differences across India's hinterland, while keeping distribution strategies highly flexible and adaptable.[35] Once again, Hindustan Unilever Ltd. (HUL)

[32] Samiee (1995).
[33] Sheng (2010).
[34] Feuling (2010).
[35] Quer et al. (2010).

provides an example. It sells products like its Sunsilk and Clinic shampoos in small, inexpensive sachets to rural low-income Indians. Thanks to those efforts, the company now has one of the most extensive distribution networks in the country, with 6.3 million retail outlets, including one million that it services directly. Rural India currently accounts for nearly half of HUL's revenue.[36]

7.4.4 Channel Synergies

Given that multichannel enterprises have become the norm, the relationship of different channels to each other is an important topic. Thus, when adding a new channel to an existing network, a central question is whether it complements or contradicts the existing distribution strategy. Similarly, companies that are choosing their first and only channel should consider whether the chosen strategy leaves the door open to add an extra channel in the future if needed. These questions are important, because synergies between distribution channels can prove to be a great competitive advantage.

In a well-integrated multi-channel strategy, consumers should view the firm as a single retail entity with complementary distribution alternatives. Companies can accomplish this by having familiar characteristics over all of their channels. For example, a consumer should be able to easily make the transition from looking up a product on the internet or in a catalogue to picking it up in the store. There should be some commonality in the description and appearance of each item regardless of the channel chosen. In-store personnel should be able to verify a web purchase and arrange for a return or exchange of merchandise.[37]

Multi-channel retailers need to focus on the level of product overlap across channels. Obviously, too little product overlap across channels would result in an inconsistent image. However, too much overlap may result in the loss of sales opportunities. An obvious concern is the level of product overlap between the internet and store-based units of a retailer. Enterprises often use the internet as a means of offering highly specialized merchandise that cannot be profitably offered in store units. For example, Wal-Mart uses its website to complement store sales by offering a greater breadth in such merchandise categories as books, furniture, and jewellery. Some companies offer products online that are not featured in their traditional outlets, allowing them to reach the same customer base without increasing the cost of operating their stores. For example, Victoria's Secret's webpage offers clothing and shoes which are not found in their stores. The internet is also used by a number of retailers as a means of selling close-out merchandise.

[36] Hadi and Harsh (2010).

[37] Rosenbloom (2007).

7.5 Channel Management

When an enterprise has decided on the channel design it wants to follow, it must implement and manage the chosen channel. Channel management consists of selecting, motivating, training and evaluating individual channel members, while simultaneously managing any conflicts that might arise between the intermediaries.

7.5.1 Selecting Channel Members

Manufacturers employ intermediaries because they enhance sales performance by increasing volume or revenue and/or by lowering unit costs. However, the capabilities of different distributors are very heterogeneous and necessitate the development of effective selection processes. Criteria should include consideration of distribution outreach, functionality, appropriateness for products, cultural context, consumer/distributor interaction and past performance.[38] How well intermediaries can perform the functions of sales, storage, delivery, credit provision, product and customer servicing, information gathering, etc. also influences channel selection. So too does the quality of the relationships that middlemen have with the next link in the channel.

It should also be considered whether a potential distributor is involved with directly competitive products. For a large enterprise with a lot of negotiating power towards retailers this might not be a problem, but for small and medium-sized firms, this could have repercussions because of the retailer's priorities. In the end, intermediaries tend to act primarily in the interests of their customers and only secondarily on behalf of their suppliers.

7.5.2 Motivating and Training Channel Members

Once selected, channel members must continuously be motivated and trained in order to perform at their utmost potential. Companies should aim to sell *with* their intermediaries, instead of just through them. This sometimes requires efforts that exceed those being used to motivate one's own employees. The two key factors in motivating and training channel members are building proper relationships and then incentivizing those relationships.

Nevertheless, a good relationship can only develop if there are incentives for the intermediary in place. Rather than providing standard operating procedures to control the behavior of the distributor, a better approach focuses on outcomes: the distributor is compensated when and if sales occurs.[39] This approach provides

[38] Samli (2004).

[39] Cachon and Lariviere (2001).

maximal autonomy for the distributor while placing the responsibility for results squarely on his or her shoulders.[40]

All in all, channel members can be motivated in four main ways: by assuring them of attractive financial rewards, effective two-way communication, sales and management support and a continuous future business relationship.

7.5.3 Evaluating Channel Members

Companies must also continuously evaluate the performance of channel members. This can be done with the help of key performance indicators such as: customer delivery time, sales quotas, inventory levels, treatment of damaged and lost goods, cooperation in promotion and training programs, extra services to customers, and reliability of payments. Intermediaries that are performing well should be rewarded by the manufacturer, while the ones that are not should be assisted, then warned and in the worst case replaced.[41]

7.5.4 Channel Conflict and Grey Markets

No matter how thorough the selection and the constant motivation and evaluation on the side of a manufacturer are, there is almost always a conflict within a channel at one time or the other. The three common reasons for channel conflict are:

Incompatible goals: Each channel member is aiming to maximize its own profits, so the potential for frequent disagreement regarding margins and incentives is naturally given. Conflict could, for example, arise when a producer wishes to increase its market share while, at the same time, the aim of a key middleman is to offer as wide an assortment of products as possible, regardless by which manufacturer.

Unclear rights and responsibilities: There is often an overlap between channel members' responsibilities that are not clearly enough defined in the distribution agreement. A wholesaler, for example, might feel that the producer is doing too little in actively promoting its products to the retailers and the customer in order to create some "pull". At the same time, the producer might feel that the wholesaler should "push" its products more towards the market.

Poor communication: Conflicts are often caused when distribution partners do not stay in touch as much as they should and misconceptions arise. For example, retailers may have a policy of "the customer is always right" and thus offer a very liberal return policy. But the manufacturer might not share this very lax

[40] Pahud de Mortanges and Vossen (1999).

[41] Johnson and Batt (2009).

return policy and think that maybe product instructions were not properly explained to the consumers.

An area of channel conflict, which is frequently of concern in an international context, is *grey markets* (also see Chapter 6). The name characterizes the unauthorized sales of branded products diverted from authorized distribution channels or imported into a country for sale without consent or knowledge of the manufacturer. Grey markets are not generally considered illegal, in contrast to the black market of stolen or counterfeit goods. Grey market goods are produced by the same trademark owners, or by licensed manufacturers, and these goods are labelled with the same brand name. In fact, from a consumer's perspective, the grey market results in increased competition, offers consumers lower-priced alternatives, and sells goods of equal quality as those sold through authorized channels. From a managerial perspective, however, price differences can be so large that they cause considerable disruption within a firm's established distribution channels.[42]

Grey markets are caused by *parallel importers* who arbitrage. They buy products in one country at a relatively low price and then sell them to another country where the authorized distributor's charge higher prices. Research shows that almost 20 % of companies indicated that their export ventures were highly affected by grey markets.[43] The problem is so substantial that multinational companies such as Motorola, 3Com, HP, DuPont and 3M devote full-time managers and staff to dealing with grey market issues. In many situations, grey market sales outstrip authorized sales. Consider Malaysia, where cell phones purchased on the grey market account for 70 % of total cell phone sales. Similarly, in India, sales of grey market personal computers outnumber authorized sales by two to one.[44]

A product's potential for grey market activity is influenced by four circumstances: (1) when exchange rates differ, (2) when grey market products can get a "free ride" on money spent by conventional distributors on advertising, displays, and servicing products, (3) when prices of goods sold in one country (e.g. USA or EU) are higher than those in another country, and (4) when there is a scarcity of the product. A company should pay attention to these issues to monitor the potential for grey market actions and develop strategies to limit them. But how can managers limit grey market activity? Experts suggests a "3S" approach—sensing, speed and severity[45]:

Sensing: Companies need to sense when there is a risk that grey market activities might be occurring and develop preventive mechanisms. Some firms rely on periodic, unannounced audits of their distributors' sales records. Others establish

[42] Prince and Davies (2000).

[43] Myers and Griffith (1999).

[44] Chen (2002).

[45] Kersi et al. (2004).

toll-free telephone lines for "whistle-blowers." Puma, the German sporting goods manufacturer, even inserted tracking fibres in the laces of its shoes.

Speed: A speedy enforcement exerts a deterrent effect on grey market activity in at least two ways. Firstly, a quick response establishes a direct cause-and-effect relationship between participation in the grey market and punitive consequences. Secondly, a quick response means the perpetrator will have much less time to enjoy the payoff from grey market participation.

Severity: Building a capability to apply the right degree of punishment is a critical aspect of an effective deterrence policy. Many firms rely on fines, called "chargebacks," others withhold rewards customarily offered to authorized distributors that are not playing by the rules.

7.6 Future Trends

Global supply chain management and distribution networks are constantly shaped by a multitude of environmental changes. Below, a few technological and societal changes are singled out to illustrate how far reaching the potential impact of such changes can be.

7.6.1 Technological Developments

In the past decades, it has particularly been the internet and all the accompanying technologies that have enabled manufacturers to explore new ways of moving their products along the supply chain. But while company-owned online stores and hybrid distribution channels are neither new nor revolutionary anymore, companies are only now beginning to explore the full potential of the World Wide Web. Take Wal-Mart as an indicator of what we can expect from E-Commerce. The company expanded its global presence by launching new websites in Latin America and China as it vies with international rivals, including Amazon, Carrefour and Tesco, or China's strong competitors like Taobao or Alibaba, for sales in rapidly developing online markets. E-commerce has given Wal-Mart the ability to expand without duplicating infrastructure.[46]

But new technologies do not stop at E-commerce. Radio frequency identification (RFID) uses communication via radio waves to exchange data between a reader and an electronic tag attached to an object for the purpose of identification and tracking. Its proliferation is part of the constant supply chain optimization process that is taking place. Especially the fashion industry has benefited from this technology. The Charles Vögele Group is a major independent European fashion retailer with 851 branches. It has 70 million garments sourced annually from more than 400 suppliers and distributed to 34 consolidation hubs throughout Asia and Europe.

[46] Birchall (2011).

Vögele RFID-enabled its whole supply chain and can now track individual garments along its entire channel. This capability reduces errors in logistics and ensure that its most popular lines are always in stock and on display.[47]

Round the corner are even more revolutionary technologies such as virtual reality that saves consumers trying on garments by giving them a realistic image of how they would look in a new dress or suit, and 3-D printing that can be used to "manufacture" spare parts or other physical products at the premises of the customers. Recently, the much publicized 3-D printing of a functioning gun has convincingly demonstrated the capabilities—and dangers—of this technology.[48] The examples above just show a small portion of the technological changes that have recently become available to further optimize distribution. Manufacturers should therefore always keep abreast about the newest advancements in technology if they want to maintain efficient supply chains.

7.6.2 Sustainability and CSR

Not only technological developments are shaping the future of supply chains but also societal changes. On everyone's agenda recently is corporate social responsibility (CSR) and the sustainability of a firm's supply chain; upstream as well as downstream. With climate change as a global concern, consumers, investors, governments and shareholders alike increasingly want to know how "green" a company's supply chain really is. The term sustainability refers to the simultaneous pursuit of economic prosperity, environmental quality and social equity; this often is referred to as the "triple bottom line." In practical terms, sustainability initiatives seek to reduce the use of energy, water, greenhouse gas emissions and harmful substances in the manufacturing, distribution, and the service of products. But sustainability also includes goals on social responsibilities to employees, customers, suppliers, and community.[49]

Major areas of concern towards which channel members mostly turn their attention are energy and climate, land and soil, air, water and local communities. The energy and climate concerns refer to the amount of greenhouse gas emissions associated with the supply chain. Global factor conditions in labor costs and raw materials have exacerbated the carbon footprint of many firms. Many retailers have also received criticism about their own land use and its relationship to urban sprawl.[50] Urban sprawl refers to the widespread movement of households and private firms from city centers and inner suburbs to very low-density suburbs.[51]

[47] Harrop (2009).

[48] Orsini (2014).

[49] Schlegelmilch and Öberseder (2007) and Pedersen (2009).

[50] Hicks (2007).

[51] Downs (2007).

The use of water in the supply chain has also come under intense scrutiny. In this context, Nestlé, for example, is facing environmental challenges for its use of spring water. Pepsi (Aquafina water) and Coca-Cola (Dasani water), in contrast, have already switched to processing municipal water for sale at the retail level.[52]

Considerations of channel members regarding the local communities of the places they source from are also very prominent on executive agendas as well as in the media. The widely publicized recalls of tainted pet food and lead-laden toys made in China or the suicides of workers at an electronics factory in Shenzhen have driven home the reality that stakeholders, and in particular consumers,[53] increasingly hold corporations accountable for actions of their supply chain partners.[54] Given the increase of social- and environmental problems around the globe, it is likely that sustainability issues will gain further importance in the design and management of global supply chain and distribution networks.

7.7 Summary

Global supply chain management and distribution networks are important in creating customer value. Since very few enterprises are able to supply products to all possible customers independently, the majority need to rely on other parties, such as intermediaries. Hence, a range of collaboration agreements between independent companies characterizes most supply chains and distribution networks. When these companies are dispersed around the globe, managing supply chains effectively and efficiently is a formidable challenge. If managed well, global supply chains and distribution networks can be a powerful source of competitive advantage. On the downside, mistakes in this area can render a company uncompetitive.

We start the discussion by briefly outlining the key dimensions of global supply chains, namely logistics, purchasing, operations and marketing channels, as well as the main benefits that can be derived from global supply chain management, such as cost reduction, quality improvements, increased customer satisfaction and competitive leverage. This is followed by a look at the upstream side, comprising of inbound purchasing, operations and logistics, and the downstream side of the global supply chain, that is outbound logistics and marketing channels. As marketing channels comprise the part of the global supply chain that connects to customers and has a boundary spanning function, in this global marketing strategy text, most of the discussion duly focuses on marketing channels.

Following some general remarks on the function and different organizational formats of distribution channels, the focus shifts to the key drivers of channel design, and subsequently the management of a channel, including the selection, motivation and evaluation of channel members. A pertinent issue in channel

[52] Thottam (2005).

[53] Öberseder et al. (2013).

[54] Lee (2010).

management is the reduction of channel conflict. In an international context, grey markets may cause channel conflict. Above, we outline the conditions that favour grey markets and suggest an approach to combat grey market activities.

The chapter closes with a look at future trends in global supply chain management and distribution networks. In addition to singling out some important technological developments, such as the increasing impact of E-commerce and inventions like radio frequency identification tags or 3-D printing, mounting stakeholder demand for sustainability and CSR is likely to shape the future development of global supply chains.

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Global Branding and Communication 8

8.1 Branding and Communication Strategies

Branding is the lynchpin of any corporate communication. Regardless of whether it addresses a local or a global audience; whether it takes place with customers or a variety of other stakeholders; whether it concerns the company as a whole or a particular product; whether it is one-to-one, as in personal selling, or one-to-many, as in advertising: the brand is always at the center.

The American Marketing Association (AMA) defines a brand as a "name, term, design, symbol, or any other feature that identifies one seller's good or service as distinct from those of other sellers."[1] But what makes brands valuable and how valuable are they? What is a global brand and why are there still so many local brands? What communication mix does a company have at its disposal and which communication channels, e.g., advertising or personal selling, are the most important and work best? Can the communication content and mix be standardized across different countries? Why does culture play such an important role in marketing communication?

Below, we attempt to answer these questions. We first look at some basic aspects of branding, such as the brand value, brand architecture, brand identity, brand image and brand resonance, and we also explore the scope for extending the brand. Next, we focus on the characteristics of global brands, discuss various aspects central to global brands, and highlight some of the challenges faced by companies aiming to globalize their brands. Finally, we widen the perspective to examine the key communication tools available to companies and discuss the challenges of using them globally.

[1] American Marketing Association—Directory (n.d.).

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8.2 Branding Basics

8.2.1 Brand Value

For companies, brands are core strategic assets, while for consumers, brands represent a value they are willing to pay for. But how valuable are brands and what makes them valuable? Neither of these are trivial questions, as can be seen in attempts to estimate the value brands represent for corporations. Every year, different organizations produce rankings of the most valuable global brands. Among the better-known examples are the Interbrand Report,[2] Millward Brown BrandZ Top 100[3] and Branddirectory: Brand-Finance Global 500.[4] Interestingly, these rankings and the value they attach to the brands differ substantially. For instance, in the 2014 global brand rankings, Coca-Cola was ranked third by Interbrand but only twelfth by Millward Brown BrandZ. Moreover, the company's brand equity was given as US $81,563 million and US $33,722 million, respectively. The reasons for these discrepancies lie in the different methodologies used to estimate brand equity. After all, *estimating* brand equities is not an exact science. Notwithstanding the differences in ranking and value, experts agree that strong global brands are worth billions—regardless of the currency used—and are immensely important to companies.

Why do consumers seek out branded products? From a utilitarian point of view, buying a branded product reduces the risk that something could be less functional or of lower quality and thus saves the consumer time that would otherwise be needed to compare the specifications of similar products. Thus, when purchasing branded products, consumers pay extra for consistent quality, trustworthy components or ingredients, and reliable after-sales service. In the case of branded services, consumers can be more confident that the professionals delivering the service will meet the general standards set by the organization itself.[5] On the other hand, a brand not only optimizes the search for products but can also enhance the consumer's personal image and status in society. In addition, a brand may create a feeling of familiarity and affection or may satisfy a consumer's concern about the ethics and corporate social responsibility credentials of the manufacturer or distributor. In short, a brand represents a whole range of utilitarian and emotional benefits and consumers link the brand to a network of associations. However, the fact that the consumer associations and perceptions linked with a brand may vary between cultures represents a considerable challenge for global marketing strategy.

[2] Interbrand—Rankings (2014).

[3] Millward Brown BrandZ Top 100 Global Brands (2014).

[4] Brand Finance (2014).

[5] Anholt (2003).

8.2.2 Brand Architecture

The specific role of the brand in the communication process depends on the *brand architecture* of a corporation. Some companies use their corporate name as brand on all their products and services (e.g., Mitsubishi cars, appliances or the bank), while others link sub-brands to their corporate brand (e.g., Nestlé puts its name on Alete, BeBa, Maggi, Nescafe and KitKat). Then there are manufacturers that use one band name for products that are related to each other. An example of such *umbrella branding* or *family branding* is the German company Beiersdorf that uses its Nivea brand not only for its traditional hand creams but also for deodorants, soaps or body milk. Still other companies do not emphasize their corporate name on their products at all. Procter and Gamble, for instance, uses self-standing product names like Tide, Pampers or Pantene for its individual products.

Similarly, some retailers put their own brands on the products they sell in their stores. These so-called *private labels* or *store brands* reflect the power shift that has taken place in recent decades from manufactures to retailers. Examples include Tesco, which offers a wide range of its own brands under the labels Tesco Finest, Tesco Organic, Tesco Everyday Value, etc. Likewise, Marks and Spencer has developed Blue Harbour into one of Britain's largest brands for men's casual wear and Per Una as a brand for female designer fashion garments.

8.2.3 Brand Identity, Brand Image, Brand Resonance

Marketing strategy is packed with terminology and branding is no exception. There are a number of key terms that need to be understood when branding issues are discussed. Initially, two central terms need to be distinguished: *brand identity* and *brand image*. Brand identity is what a company can control: the brand name, logo, design, symbol, or sound. In other words, brand identity signifies how the company *wants* to be perceived. Its brand image, on the other hand, denotes the way the brand *is* perceived by its audiences. Thus, brand image refers to all the associations, characteristics and attributes which audiences attach to the brand; it is the sum of impressions of the brand that consumers hold in their minds.[6]

Two other terms closely related to brand image are *brand personality* and *brand resonance*. Brand personality assigns human characteristics to a brand, such as being 'friendly', 'down-to-earth' or 'creative'. While all brands develop more or less distinct brand personalities over time, some companies try to shape the process by associating their brand with cartoon characters (e.g., on cereal boxes), mascots (e.g., the Miami Dolphins) or through celebrity endorsements (e.g., George Clooney for Nespresso).

Finally, *brand resonance* refers to the perceived relevance and engagement of the brand in the minds and lives of the consumers or other stakeholders. It reflects

[6] Keller (2007).

the intensity of the psychological bond audiences have with the brand. The latter can be broken down into behavioral loyalty (e.g., repeat purchases), attitudinal attachment (e.g., brand love), a sense of community (e.g., a feeling of affiliation with other people who use the brand) and active engagement (e.g., joining a club centered on the brand or visiting brand-related websites).[7] Five factors, the 5 A's, explain how such loyalty relationships between consumers and brands are established[8]:

Awareness: The more salient a brand, the more consideration it will receive in the purchase decision.
Associations: The positioning of a brand (e.g., functional associations or imagery-related associations).
Attitudes: Cognitive and affective dimensions as well as judgments and feelings.
Attachment: The strength of the psychological relationship between the consumer and the brand (e.g., brand love).
Activity: The behavior towards a brand (e.g., purchase or joining a brand community).

The dimensions are *hierarchical*: brand awareness is a prerequisite for having brand associations, while the latter logically precede attitudes, which may finally lead to attachment and activity. Keller summarizes the relationships in a brand resonance or customer-based brand equity pyramid. Below, this is extended to include the 5 A's (Fig. 8.1).

To manage the equity of brands over time, managers need to observe closely any changes in the building blocks that lead to brand resonance. This may involve

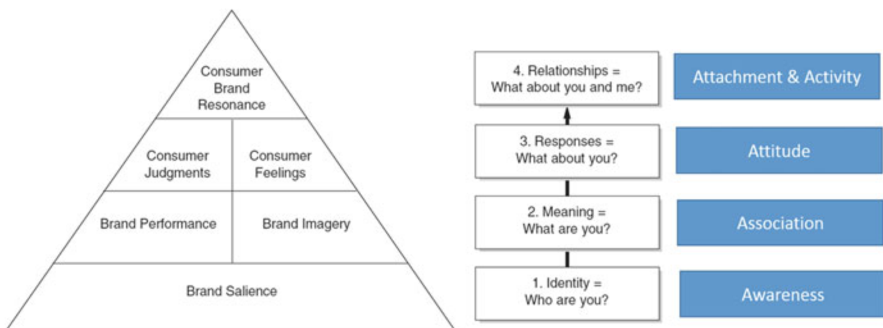

Fig. 8.1 Building brand resonance. *Source*: Based on Keller, K.L. (2001). Building customer-based brand equity: A blueprint for creating strong brands. Marketing Science Institute, Working Paper, Report No. 01-107, 7

[7] Keller (2001).
[8] Keller (2010).

analyzing the brand associations in the consumers' mind, e.g., through developing so-called 'mental maps' for their consumers.

8.2.4 Brand Extension

When individual brands are associated with strong and distinctive benefits or values, companies can leverage the equity associated with an existing brand name to introduce new products or services.[9] In such *brand extensions*, the new brand name includes an existing brand name, as in Coke and Coke Zero. There are several different permutations of brand extensions. The Coke example would be a *line extension*, as the new product, i.e., Coke Zero, belongs to the same product category. This would obviously not be the case when the brand is used in an entirely different product category, for example, Porsche cars, clothing, and sunglasses. A common form of brand extension is an *endorser brand extension*, which uses a well-known parent brand to endorse a sub-brand through the use of "by" or "from." An example would be Courtyard by Marriott. Finally, there are also *brand alliances*, sometimes also referred to as *co-branded extensions*. Typical examples can be found on many credit cards, such as the brand alliance between the frequent-flyer Star Alliance's Miles and More program and MasterCard. Similarly, Schöffel and many other producers of outdoor clothing also co-brand with GoreTex.

Brand extensions leverage the familiarity and core associations of consumers with the parent brand. There is a considerable body of research[10] that has analyzed the acceptance of brand extensions by consumers. The most pertinent factors are: (1) the consumers' trust, liking and experience with the parent brand; (2) the consistency of the brand extension with the brand image of the parent brand; and (3) the prominence and accessibility of information, i.e., whether the information on the parent brand is sufficiently prominent from the marketer's point of view, as well as whether the customers' associations are sufficiently accessible in their memories to influence the judgment of the new brand extension.[11]

In general, consumers need to perceive a close fit between the parent brand and the brand extension for the latter to be successful. However, there are a number of reasons why companies may opt to introduce brand extensions that are *inconsistent* with the parent brand and stretch the brand. This includes cases where a brand needs revitalization;[12] where marketers sell products to consumers who are more innovative, less risk averse and relatively hedonistic;[13] where a company deliberately wants to increase the breadth of a brand in order to improve its options for brand

[9] Loken et al. (2010).

[10] Detailed reviews can be found in: Keller (2002), Czellar (2003) and Völckner and Sattler (2006).

[11] Loken et al. (2010).

[12] Brown (1997).

[13] Klink and Smith (2001).

extensions at a later stage (it is easier to extend a broad brand into a wider range of categories than to extend a narrow brand[14]); and where the brand can exploit a first mover advantage in a new category.[15]

8.3 Global Brands

8.3.1 What Is 'Truly Global'?

Depending on their ideology, marketers and consumers alike frequently lament the ubiquity of global brands or admire their power. However, there is little agreement on what actually constitutes a global brand. Definitions vary from brands that are available across multiple geographies,[16] to brands that are perceived as the same brand by consumers and internal constituents.[17] A more comprehensive definition describes global brands as "those [brands] which are found in many different countries around the word, under the same name for the same product, and typically operating under the same (or similar) positioning strategy."[18]

Based on the latter definition, global brands are not easy to find. Even the classic examples of global brands, such as McDonalds or Coca-Cola, are not fully standardized worldwide in terms of brand name, packaging or advertising. Moreover, in most instances, the product represented by global brands will be adapted to local requirements. Both Coca-Cola and Pepsi-Cola make their colas sweeter in the Middle East, where most consumers prefer more sugary drinks; meanwhile, McDonalds offers Kiwi Burgers in New Zealand, Maharaja Macs in India, Prosperity Burgers in Malaysia, Teriyaki Burgers in Japan, McKroket in the Netherlands, McLaks in Norway and Croque McDo in France.[19] Depending on the country, McDonalds also offers home deliveries (e.g., in Indonesia) or may serve beer (in most of its French, Dutch, German and Austrian restaurants). Not even the design of the restaurants is fully standardized: in Taiwan, like in many other Asian countries, families seek privacy. Consequently, McDonalds added private VIP rooms.[20] In Europe, McDonalds adapted to local demands by changing the fixed plastic seating to more comfortable and flexible furniture.[21] Thus, even brands that are recognized worldwide are hardly ever completely standardized.

In contrast, there are brands that have a global brand identity but the names differ between countries. The classic example is Unilever ice cream. Over the years, the

[14] Meyvis and Janiszewski (2004).

[15] Oakley et al. (2008).

[16] Van Gelder (2003).

[17] Czinkota and Ronkainen (2008).

[18] Schuiling and Kapferer (2004).

[19] de Mooij (2010).

[20] de Mooij (2010).

[21] Wiggins (2007).

company has acquired different European ice cream brands and kept their local names, such as Langnese in Germany, Ola in the Netherlands or Frigo in Spain. Figure 8.2 shows that the use of the same logo makes them recognizable as one brand across countries. In general, companies often decide to keep different brand names in different countries to best leverage the brand equity of the well-known local brand.

8.3.2 Challenges to Globalizing Brands

There are often historical, legal or political factors that limit corporate attempts to standardize their brands globally. For example, Henkel owns and markets the detergent Persil in Germany, Poland and most other European countries, while the rights to market the same product in the UK, Latin America and China have belonged to Unilever since it acquired them in 1931.

Another stumbling block for the globalization of brands is language. Brands usually originate from a particular country and are rarely designed for global audiences from the outset; the few exceptions being technology brands like Google

Fig. 8.2 Unilever ice cream brands in different countries. *Source*: Unilever Deutschland Holding GmbH, 25 September 2015

or Skype. Because of their local origin, different meanings of a brand name sometimes prevent global use of the name. The Miststicks fragrance produced by Santosha[22] and the Morning Mist Fragrance offered by Catalina[23] are likely to meet some resistance in Germany, as the word "Mist" translates into "manure". Other brands that are unlikely to go global are Oral-Me Flouride Touthpaste, Suks orange juice, Aass Beer, Only Puke snacks, Starburst Sucks sweets, Pee Cola, Colon Cleaner Hot Sauce, or Megapussi Crisps (and yes, these brands do exist[24]). Another widely reported example is General Motors' famous attempt to market the Nova car in Latin America, where "No va" means "it doesn't go" in Spanish. Going beyond the actual brand name and looking at unfortunate translations of slogans, the international marketing literature is packed with funny examples: Pepsi translated "Come Alive With the Pepsi Generation" as "Pepsi Brings Your Ancestors Back From the Grave" into Chinese, American Airlines advertised its new first class leather seats in the Mexican market by using a calque Spanish translation of its "Fly In Leather" campaign, which in fact meant "Fly Naked" ("vuela en cuero"), and The US Dairy Association's success with the campaign "Got Milk?" prompted them to expand advertising to Mexico, with their Spanish translation reading "Are You Lactating?"

Some of the most important challenges to globalizing brands are due to cultural differences. Because of their prominence, these are now discussed separately.

8.3.3 Cultural Factors in Global Branding

Consumers use the symbolism embedded in brands to communicate who they are or who they want to be.[25] In turn, consumers draw on associations with certain brands in their evaluations of others.[26] This is where culture comes into play, as culture is the lens through which individuals ascribe meaning to symbols. Research has shown that consumers attribute cultural significance to certain brands.[27] Torelli and his coauthors showed, for example, that Ford, Coke and Nike are *iconic brands*[28] in terms of their symbolism for American culture.[29] Such brands may act as a cultural primer, and consumers who do not value the cultural symbolism of the brand may consequently evaluate the brand less favorably. At the same time,

[22] Santosha.com (n.d.).

[23] Essentials by Catalina (n.d.).

[24] The 30 worst brand names ever (2010).

[25] Torelli et al. (2010).

[26] Muniz and O'Guinn (2001).

[27] Aaker et al. (2001).

[28] Holt (2004).

[29] Torelli et al. (2010).

global brands associated with foreign values can also support the self-identity goals of (some) foreign consumers. For example, Harley Davidson may symbolize the American value of independence, which may be incompatible with the more collectivistic views of most Asians. However, the brand can still be an important niche player by appealing to those Asian consumers that aspire to be more individualistic than most of their peers. Nevertheless, "an established brand with a strong image that is incompatible with values symbolized by a target culture may find it difficult to appeal to broader audiences."[30]

Attitudes to the brand's country-of-origin also shape associations and influence purchase intent.[31] However, there are certain brands that appear to transcend their original roots, primarily because they are very old and consumers have attached their own values to the brand. Examples are Coca-Cola, which has existed since 1886; Nivea, which originated in 1911; and Kikkoman, introduced in 1917. These brands have been used in many countries for generations and are largely separated from any American, German or Japanese country image. As de Mooij puts it, "[it] may well be that part of the success of a global brand is its integration into the local culture."[32]

For the final cultural aspect to be discussed, we return to brand extensions (see Sect. 8.2.4), as culture has a potential impact on the acceptance of brand extensions. Most of the research in this area focuses again on the differences between the independent self-view of Western cultures versus the interdependent self-view of Asian cultures. More specifically, research indicates that US consumers attach more importance to the fit of the brand extension than Asian (Hong Kong) consumers.[33] The explanation offered by the researchers is that collectivistic consumers in Asia are more willing to put their trust in companies and thus accept a low-fit brand extension; in contrast, individualistic US consumers base their judgment on their abilities to assess the fit, and approach a low-fit brand extension with more skepticism. Similar findings have been reported by Ng and Houston.[34] They compare individuals with independent versus interdependent self-construal and conclude that the latter are more focused on context and therefore more inclined to think about the brand in a different context. Taken together with similar results,[35] the research suggests that "brand extensions may be more positively evaluated in Eastern cultures ... and a wider scope for possible extensions seem to be available."[36]

[30] Torelli et al. (2010).

[31] Please also see the discussion on country-of-origin in Chap. 4.

[32] de Mooij (2010).

[33] Han and Schmitt (1997).

[34] Ng and Houston (2006).

[35] Ahluwalia (2008) and Monga and John (2007).

[36] Loken et al. (2010).

8.3.4 Branding and Religious Endorsements

Religion is still a vital component of culture and plays an important role in influencing consumer behavior. For consumers with strong religious beliefs, ingredients complying with religious requirements are essential when considering the purchase of certain products.[37] Consequently, some brands have captured niche markets by overtly communicating adherence to religious requirements via specific labeling.[38] Given the large size of the global market for kosher and halal[39] products and the fact that both markets are expected to grow substantially in the future,[40] strong brands are also becoming increasingly interested in these markets. One approach is to develop separate brands specifically targeting a focal religious community. However, in order to leverage their existing brand franchise, companies frequently tag their products with religious labels. Examples are Ben and Jerry's Ice Cream, which targets the Jewish consumers by labeling its products as kosher. Similarly, Haribo developed both kosher and halal product lines by offering their gummy-bears with gelatin that is pork-free.[41] Unfortunately, the company refused to provide copyright for photos of their products with and without kosher and halal endorsements. Thus, Fig. 8.3 can only depict an illustrated example.

On the positive side, some consumers who do not belong to the focal religion may perceive brands bearing such religious labels as more exotic, clean, pure or high quality.[42] However, some companies also encountered difficulties when they allegedly offered religiously inappropriate food with a religious endorsement[43] or were perceived as standing against cultural and religious ideologies.[44]

There are also indications that adding religious stimuli (i.e., logos or endorsements) may provoke negative reactions among consumers with unfavorable attitudes toward a religion, leading to negative spillover-effects and fewer purchases of the brand.[45] KFC's use of a halal label in France led to protests by non-Muslim consumers[46] and the restaurant chain Quick ran afoul of some

[37] Shafie and Othman (2006).

[38] Izberk-Bilgin (2012a).

[39] According to Merriam-Webster dictionary 2013, the term 'kosher' describes selling or serving food ritually fit according to Jewish law, and 'halal' can be translated as 'permissible' and describes selling or serving food ritually fit according to Islamic law.

[40] Izberk-Bilgin (2012b). http://www.amazon.co.uk/Haribo-Helal-Halal-Bestseller-380g/dp/B006G0FN5K. Accessed November 25, 2015.

[41] Izberk-Bilgin (2012b).

[42] Alserhan (2010).

[43] Rarick et al. (2012).

[44] Izberk-Bilgin (2012b).

[45] Simonin and Ruth (1998), Schlegelmilch and Khan (2010) and Schlegelmilch et al. (2015).

[46] Gruber (2012).

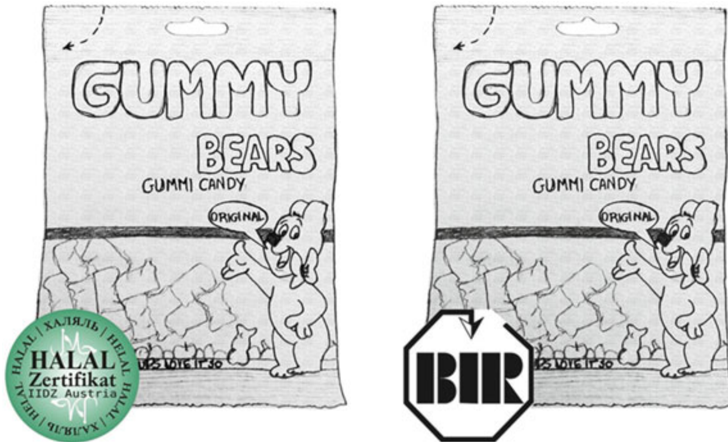

Fig. 8.3 Halal and Kosher certificates used for product endorsements. *Source*: Halal Certificate, Islamic Information and Documentation Center, IIDZ, Linz, Austria; Kosher Certificate, BIR—Badatz Igud Rabbonim; Manchester, England; Illustrations, Aikaterini Makri, Vienna, Austria, 2015, derived on basis of Haribo Goldbären (http://www.amazon.co.uk/Haribo-Helal-Halal-Bestseller-380g/dp/B006G0FN5K. Accessed November 25, 2015)

politicians when it decided to remove all pork products from its menu and serve only halal meals in select markets.[47]

Similarly, a study[48] conducted among more than 600 German-speaking respondents who were neither Muslims nor Jews showed that brands carrying religious labels (i.e., kosher or halal) activate mental impressions of the corresponding religions, and those attitudes are transferred to the product bearing the religious label. Consequently, consumers who have either a positive or negative attitude towards a religion tend to apply their attitude to the brand bearing such a label and judge the product accordingly. Thus, the researchers recommend that managers should first evaluate the general attitude towards a religion in their relevant target groups before adding a religious symbol to their brands. If the attitude is overly negative, it may be advisable to develop a specific sub-brand for the religious market.

Other evidence based on nearly 700 respondents in Austria[49] also points to the potential drawback of endorsing brands with religious symbols. Focusing on halal, the study found that animosity toward the Islamic minority negatively impacted the purchase intent for halal-endorsed products. Regrettably, marketers thus need be aware of the possible negative impact of using endorsements like halal or kosher.

[47] Rarick et al. (2012).

[48] Rauschnabel et al. (2015).

[49] Schlegelmilch et al. (2015).

8.3.5 Local Versus Global Brands

In general, global brands tend to be associated with superior quality and signal prestige, achievement and sophistication; in contrast, local brands indicate a good fit with cultural traditions and pride in respecting the local economy.[50] Particularly among emerging-market consumers, global brands offer greater credibility, reduced risk and are seen to lend prestige and power to those in possession of them.[51]

However, global brands are not universally preferred. De Mooij argues that "[p]eople increasingly prefer brands rooted in their own history, which can be national or regional."[52] This is particularly apparent in the food industry, where domestic brands often dominate over global brands. Euromonitor[53] data show that the global packaged food market is exceptionally fragmented; only two multinational companies hold a global share of more than 3 % (Nestlé and Kraft). Thus, while there is increasing globalization in many product categories, such as home appliances or beauty, it seems that some sectors are driven by consumers' domestic orientation and are more immune to globalization effects.[54] In a study of 12 product categories in the food sector conducted in four large European countries, consumers' awareness levels of local brands was found to be significantly higher, trust in local brands was significantly stronger, and the value and reliability of local brands was perceived to be higher than for international brands. In addition, local brands were perceived to be more "down-to-earth."[55]

A further refinement to the local versus global brand dichotomy has been introduced by differentiating between local-owned global brands and foreign-owned global brands on the one hand, and local-owned non-global brands and foreign-owned non-global brands on the other hand.[56] In considering these more fine-grained distinctions separating the geographic and ownership dimension, it can be shown that brand ownership cues are distinct from geographic cues but have a mixed effect on consumers' attitude and intentions, depending on contextual factors. This is in line with the notion that consumers make "purposive tradeoffs between the cultural and economic consequences of perceived local divergence and promoting global convergence."[57]

[50] Steenkamp et al. (2003), Holt et al. (2004), Johansson and Ronkainen (2005) and Özsomer (2012).

[51] Alden et al. (1999) and Dimofte et al. (2008).

[52] de Mooij (2010).

[53] Euromonitor (2011).

[54] Gineikienė et al. (2015).

[55] Schuiling and Kapferer (2004).

[56] Winit et al. (2014).

[57] van Ittersum and Wong (2010).

8.3.6 Global Brand Portfolios

Brand portfolios of companies are often the result of past mergers and acquisitions rather than a deliberate strategic plan that carefully considers which brands to introduce and whether these brands should be managed as global, regional or local brands. Consequently, companies may find themselves in very different situations at different times. While at the beginning of the twenty-first century, the ten largest L'Oréal brands accounted for 90 % of its revenue, Unilever needed 400 brands to achieve the same percentage.[58] As a consequence, Unilever engaged in a process of *brand rationalization* that aimed to streamline its brand portfolio by deleting a large number of local brands.

Diageo, formed by the 1997 merger of Guinness and Grand Met, engaged in a similar process of brand rationalization. Finding itself in charge of an expanding and wide-ranging collection of brands, some of which only appealed to few markets, the company decided to focus on premium alcohol drinks. Specifically, in order to improve focus and allocate resources more effectively, Diageo developed three brand classifications: global priority brands that included the big sellers across a number of important markets and received most of the promotional resources (£1.3 billion in 2010), local priority brands popular in specific geographic areas, and category brands aimed at a particular type of consumer or price point. Meanwhile, the global priority brands were renamed strategic brands, as not all of the 14 brands placed in this group were necessarily global even though they were considered relatively international. Notwithstanding this cosmetic adjustment, the brand rationalization contributed to Diageo's world-leading position in the premium drinks business, and that in terms of volume, value and profit.[59]

However, deleting local brands is not always the way to success. Coca-Cola, for example, has a rather mixed brand portfolio of a few global and many local brands. Nestlé's brand architecture also consists of about 10 "worldwide corporate brands" (e.g., Nestlé and Maggi), 50 "worldwide strategic brands" (e.g., KitKat and Polo), 140 "regional strategic brands" (e.g., Herta and Findus) and some 8000 local brands (e.g., Rocky and Solis).[60] With this geographically diversified portfolio, Nestlé generated sales of CHF 92.2 billion in 2013 and sold throughout America (44 %), Asia, Oceania and Africa (28 %), and Europe (28 %).[61] In line with this position, some scholars argue that a mixed brand portfolio including both local and global brands is better for risk management than a portfolio with mostly global brands.[62]

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[58] de Mooij (2010).

[59] Ghobadian (2011).

[60] Zentes et al. (2013).

[61] Nestle' (2014).

[62] Schuiling and Kapferer (2004).

8.4 The Communication Mix

In order to shape the dialogue with customers and stakeholders, companies need to communicate the brand effectively. If the brand is newly introduced into a market, the prime focus of the company's communication will be to achieve a certain level of brand awareness (cf. Fig. 8.1). If the brand is already known, different means of communication will be used to shape and transform the current brand knowledge into the desired brand knowledge. Thus, whatever the specific objectives pursued, the communication strategy is of critical importance to brand building. The choice of media drives the segment penetration, and the tone and style of communication determines the creation of the brand image and brand personality.

According to Gregory and Wiechmann, "[a]s markets become more fragmented, audiences more sophisticated, and technologies develop so quickly, the opportunities to communicate with consumers about a brand become almost endless."[63] However, at an aggregated level, the communication mix available to companies consists of four key elements: (1) advertising, (2) personal selling, (3) sales promotion and (4) public relations. In a more fine-grained perspective, each of these elements can be divided further (e.g., TV advertising, online advertising, magazine advertising, radio advertising, outdoor advertising, etc.). Below, we will briefly discuss the key elements of the communication mix available to build brands and then look at the impact of different environments on the scope to standardize communication globally.

8.4.1 Advertising

A comprehensive analysis of the global media environment is regularly compiled by McKinsey and Company.[64] Their Global Media Report traces the ongoing shift from traditional to digital advertising and predicts that by 2019, spending on digital advertising will be more than half of the overall media spending. And within digital advertising, other sources predict[65] that mobile advertising will grow six times more quickly than desktop Internet, with an expected growth rate of about 50 % per year between 2013 and 2016. This reflects the growing importance of mobile devices like tablet computers and mobile phones.

McKinsey[66] also expects developing markets to play a strong role in the growth of global media. In these markets, traditional media will remain comparatively strong. Figure 8.4 shows the geographical spread of media spending and once again illustrates the growing importance of Asia Pacific.

Finally, looking at advertising spending by companies, unsurprisingly, the biggest spenders are consumer goods companies (Table 8.1). In business-to-business

[63] Gregory and Wiechmann (2002).

[64] McKinsey and Co. (2015).

[65] Pottada (2014).

[66] McKinsey and Co. (2015).

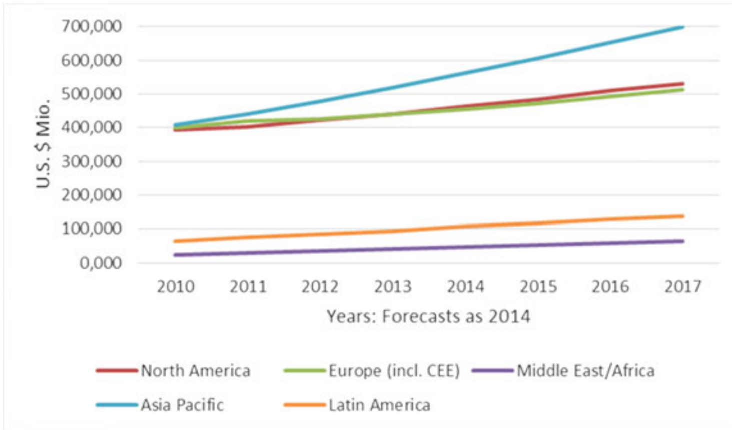

Fig. 8.4 Global media spending by region

Table 8.1 Largest global advertisers

Company	Worldwide measured-media spending (millions U.S. $)	US: Measured-media ad spending (millions U.S. $)
Procter and Gamble Co.	10,615	3143
Unilever	7413	858
L'Oréal	5643	1507
Toyota Motor Corp.	3310	1245
General Motors Co.	3206	1655
Coca-Cola Co.	3029	385
Nestlé	2987	840
Volkswagen	2971	546
McDonald's Corp.	2693	957
PepsiCo	2470	844

markets, the number of customers tends to be substantially lower and, consequently, advertising plays a much less important role. For more than a decade, the list of top global advertising companies has been headed by Procter and Gamble.[67]

8.4.2 Personal Selling

While advertising is particularly important for businesses that sell to a large number of consumers, personal selling is primarily relevant in business-to-business

[67] Advertising Age (2013).

relationships. However, particularly in less developed markets where labor costs are low, personal selling is still widely used even for consumer goods. In India, for example, the Indian Direct Selling Association reported a "total distributor base" (i.e., direct sellers and independent sales consultants) of 5,775,345 during 2012–2013.[68] Amway alone, one of the best known direct sales companies in the world, uses more than 450,000 "independent business owners" who sell nutrition and wellness, beauty, personal care and home care products across India.[69]

The personal selling process can be divided into several stages: prospecting, pre-approach, approach, presentation, problem solving, handling objections, closing the sale, and following up.[70] The importance of each stage, in particular the time involved, may vary by country and region. Japan, for example, is renowned for the long time it takes to negotiate a sale.[71]

In the prospecting phase, potential purchasers are identified and their probability of purchase is assessed. Next, the sellers approach the potential buyers to present their offers. Depending on the circumstances and the complexity of the deal, a large number of meetings may be necessary. In cross-cultural settings, it is important for the salesperson, or more often the sales team, to understand cultural norms. Both verbal and non-verbal communication difficulties may represent substantial challenges. After all objections have been resolved, the sales is closed and the order is taken. But the process does not end here; good salespeople follow up and ensure that the customer is satisfied.

The steps outlined above depict sales as a discrete one-off process. However, in most instances sales take place in ongoing relationships. To this end, it is often more fitting to talk about *customer relationship managers*, *business development mangers* or *key account managers* instead of salespeople. Also, technological advances have enhanced many of the steps outlined above. Computer algorithms, for example, have improved the prospecting stage and can be quite sophisticated in pre-qualifying potential customers, i.e., predicting the probability of a successful sale more accurately.

8.4.3 Sales Promotion

From a manufacturer's point of view, sales promotions can be targeted to consumers (e.g., samples, the production of promotional mini-packs, on-packs, in-packs and by-packs, raffles, coupons, and promotional displays), distributors (e.g., special volume target incentives for retailers, temporary price reductions) or its own sales force (e.g., incentive trips or bonuses for the best sales performance in a certain period). In all three groups, the propensity to respond to sales promotions

[68] Indian Direct Selling Association (2013).

[69] Indian Direct Selling Association (2013).

[70] Keegan and Schlegelmilch (2001).

[71] Keegan and Schlegelmilch (2001).

differs between countries. Many US consumers, for example, are bargain-hunters and numerous weekend newspapers are filled with coupons and other promotional offers. In Germany, in contrast, presenting coupons at a retailer was long viewed as "cheap" and carried a social stigma.

Once again, technologies have changed the way products are promoted. For example: supermarkets can analyze the spending patterns of their customers and may print coupons for diapers on the back of the cash receipt when a customer buys baby food. Store cards, which allow a plethora of data to be collected about the consumer, permit offers that are more accurately and closely targeted to the profile of the consumer. Search engines, such as Google, can synchronize the promotional banners with the search terms of the users. Specialized companies, e.g., Groupon, allow their users to search for price promotions among a wide array of products and offer stores the opportunity to reach out to additional customers. Finally, location based services can display targeted offers on a consumer's mobile device dependent on the real-time physical location of the consumer. The examples suggest that targeting sales promotions accurately and delivering them in a timely fashion to increase their relevance offers a rich playing field for companies that specialize in the analysis of so-called "big data."

8.4.4 Public Relations

Public relations aims to place favorable news reports about a company in the press. In contrast to advertising, such reports are viewed as more objective and neutral. By definition, a newspaper, TV or radio station is not paid for its reports. To this end, skillful PR managers have to tread carefully when developing goodwill and excellent relationships with the press. For example, the news stories they offer in the form of press-releases have to be truly newsworthy. Unsurprisingly, the degree to which the press responds to corporate incentives aimed at generating positive news, such as invitations to visit corporate premises etc., very much depends on the role the media plays in different countries. The same holds for the neutrality of the press. Most media are heavily dependent on advertising spending and the old adage "don't bite the hand that feeds you" may certainly be a consideration for some journalists when they compile their reports.

Increasingly, the agenda of PR managers is being enlarged to developing relationships with influential bloggers or relevant Internet communities, which develop independent websites that comment on topics pertaining to the firm. Various social networks on the web have made the communication among consumers much easier. Given the power of *word-of-mouth*, monitoring and possibly commenting on publicly accessible network posts is becoming ever more important for companies.

PR is not only directed toward the final customers but also to other internal and external stakeholders. Managing investor relations is particularly important for a publicly listed company. Investors are primarily interested in the financial performance and the future prospects of the company. Other topics, such as the CSR

credentials of the company, may resonate more with policy makers and the general public. Additional dimensions of PR may include a newsletter for employees in order to promote a sense of identity or news items that are directed toward suppliers and depict the company as a reliable business partner.

8.4.5 Integrated Marketing and Relationship Communication

Integrated Marketing Communication (IMC) proposes that integrating all elements of the communication mix discussed above provides cost efficiencies and synergies in terms of persuasive impact. Although the use of IMC is widespread,[72] some researchers argue that IMC does not go far enough, since it is too focused on outgoing messages and treats the receiver of the communication merely as a passive participant in the exchange. Consequently, it is argued that a relationship focus is essential and should be concerned with the receiver's long-term commitment to the sender.[73] In this, the time dimension of the communication is crucial, as past interactions impact current perceptions and shape future interactions. The Relationship Communication Model (RCM) represents a broader view than IMC and suggests that it is necessary to monitor both the time and situational dimensions of the communication activity to gain a holistic view. Thus, emphasis has to be placed on the meaning created by consumers rather than on the message sent by companies.[74]

8.4.6 Barriers to Standardizing the Communication Mix

Virtually all environmental factors, i.e., the political, economic, social, technological, legal and environmental factors (PESTLE) impact the scope for standardizing communication across countries. One way of conceptualizing the impact of the environment on the content and use of the communication mix is to distinguish between situations where cross-country standardization is not possible and situations where it is possible but not desirable. The first may involve a whole array of legal reasons, such as restrictions on advertising tobacco products, the use of children in advertising or the use of product claims, as well as technological constraints, e.g., different format requirements or limited Internet penetration. There is little a company can do about such differences, other than possibly lobbying for change, and the company is essentially forced to adapt its communication, if it wants to be active in the market in question.[75]

[72] Kitchen and Ilchul (2008).

[73] Finne and Grönroos (2009).

[74] Maklan et al. (2008).

[75] Also see our discussion on positioning in Chap. 4.

The more interesting set of factors are those where changes in the communication mix are discretionary. The economic environment, for example, often leads to differences in usage rates of household products, such as automated dishwashers (Fig. 8.5). As a consequence, companies may decide to focus their communication on different messages in different markets. For example, they may emphasize primary benefits in countries where the penetration of automated dishwashers is still low, and secondary benefits in countries with higher penetration rates.

Other important economic factors that may lead to an adaptation of the communication mix across different countries include the number and type of competitors in the market, the competitive position of the company (e.g., being a market leader or challenger), the composition of the retail environment, labor costs (e.g., making the use of a direct sales force more or less attractive) and the discretionary income of the consumers.

Social and cultural factors are most often responsible for preventing a globally standardized communication content and use of communication instruments. Some examples illustrate this argument: Take the relatively low literacy rate among women in India (51 %)[76], which suggests it might be more beneficial to move away from print and put more emphasis on TV. The way women can be depicted in Saudi Arabia means that bikini models are not an option here. Superstition in China or Japan means that companies should be careful in using the (unlucky) number 4. Advertising whitening products makes sense in Asia but not in Europe, given different beauty ideals. Finally, the use of symbols in visuals, such as flowers or animals, might not be understood (or misinterpreted) in different cultures.

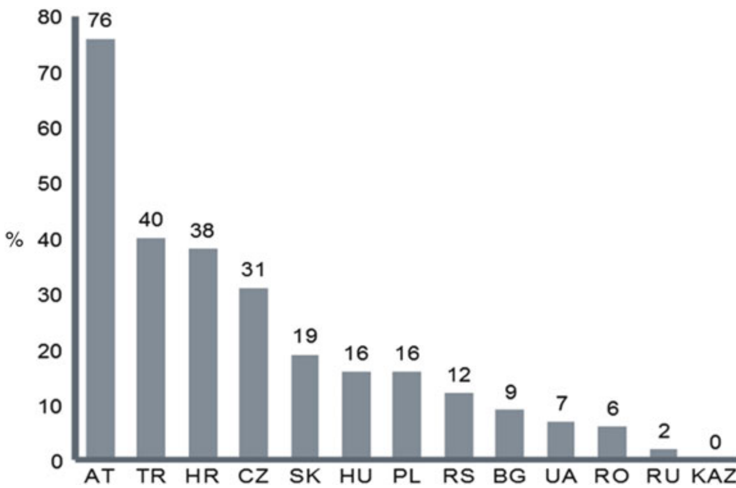

Fig. 8.5 Household penetration of dishwashing machines in selected CEE countries. *Source*: Henkel CEE Vienna: Omnibus studies 2009/2010

[76] UNESCO Institute for Lifelong Learning (n.d.).

Differences in consumer perceptions and responses provide further reasons why communication may have to be adapted. US consumers, for example, are reported to respond better to individualistic appeals, such as self-sufficiency and the pursuit of individual gains, whereas Chinese consumers favor collective appeals with an emphasis on sharing, cooperation and harmony.[77] In general, consumer attitudes and behavior framed within collectivism are distinct from those shaped by individualism. The former is guided by interdependent self-construal in which social identity represents an extended part of the self. The latter is rooted in independent self-construal in which personal traits and attributes define a person.[78] However, while marketing communication should reflect such differences, recent studies warn against simplistic categorizations of Asian consumers[79] and call for a more fine-grained perspective that distinguishes clearly between religiously and historically rooted differences among Asian countries.[80]

So where does all of this leave global marketing executives? The spectrum of strategic communication options open to companies operating globally ranges from complete standardization to cultural segmentation with mostly local advertising. The former can rarely be achieved and the latter may even result in local brands. While a large number of factors indicate the need for the (compulsory or voluntary) adaptation of the communication mix across different countries or regions, many companies may nevertheless strive for standardized global communication campaigns. The cost savings, increased control and the potential leverage a global campaign can offer may outweigh the advantages of achieving a better local fit in each different country or cultural environment. Given that full standardization is often impossible or undesirable, the balancing act between achieving a better local fit and benefitting from the advantages of running a global campaign frequently results in the development of "Glocal" communication strategies. These typically involve umbrella campaigns with global themes and local adaptations.

8.5 Summary

At the outset, we define the term "brand" and argue that branding is the lynchpin of any corporate communication. Brands are core strategic assets for companies and represent values consumers are willing to pay for.

Next, we look at some branding basics, starting with the term *brand architecture*, which describes how an organization structures and names the brands within its portfolio. This is followed by the distinction between *brand identity* (what the company can control) and *brand image* (how the brand is perceived). Other important terms include *brand personality* and *brand resonance*. The discussion

[77] Zhang and Neelankavil (1997).

[78] Markus and Kitayama (1991).

[79] Tiwsakul and Hackley (2012).

[80] Awanis et al. (2015).

of branding basics closes with a discussion of *brand extensions* and its various permutations, such as *line extensions*, *endorser brands* as well as *brand alliances* and *co-branding*.

In the following section we focus on global brands. It is noted that there is little agreement on what constitutes a global brand and that full global standardization in terms of brand name, packaging or advertising is not easy to find. There are numerous stumbling blocks to global brand standardization, such as historic, legal and language reasons, as well as a wide array of cultural differences.

Two other obstacles to global branding are religious labeling, which may not be universally appreciated, and the persistence of local brands. Both are particularly apparent in the food industry. Consequently, when looking at the brand portfolio of companies, deleting local brands is not always the way to success. We argue that a mixed brand portfolio, including both local and global brands, is often better than a portfolio with mostly global brands.

The final part of the chapter is devoted to the key communication mix elements companies use to communicate with their customers and other stakeholders. Acknowledging that technological advances have created an ever-expanding array of channels through which companies can communicate, we discuss four key elements in depth: *advertising*, *personal selling*, *sales promotion* and *public relations*. Integrated Marketing Communication (IMC) proposes that an integration of all elements of the communication mix provides cost efficiencies and synergies in terms of persuasive impact; the Relationship Communication Model (RCM) suggests that it is necessary to monitor both the time and situational dimensions of the communication activity to gain a more holistic view.

The chapter closes by noting that virtually all environmental factors, i.e., the political, economic, social, technological, legal and environmental factors, impact the scope for standardizing communication across countries. Despite these barriers, many companies strive for standardized global communication campaigns. The balancing act between achieving a better local fit and benefitting from the advantages of running a global campaign frequently results in the development of "Glocal" communication strategies.

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Organizational Design for Global Marketing Strategy

9

9.1 Aligning Strategy and Structure

The previous chapters illustrate that contrasting standardization versus adaptation is far too simplistic to capture the intricacies of international marketing strategy. In a similar vein, casting the organizational debate into dichotomies like integration versus responsiveness[1] or centralization versus decentralization[2] inevitably fails to reflect the multifaceted subtleties of organizational design that are required to deliver an effective global strategy. Far from thinking in either/or scenarios, globally operating companies usually strive for the right balance between local and global. Often, this middle ground involves a regional solution, such as establishing a regional headquarters.[3]

In this chapter, we start by looking at traditional product and geographic structures. Next, we extend this perspective by introducing the integration/responsiveness framework and discuss two organizational responses, the global matrix and the transnational network. Subsequently, we place considerable emphasis on regional structures and shift the discussion to examine the potential benefits of regional headquarters. In this context, we also discuss some organizational design options for regional headquarters. The chapter closes with a look at the allocation of roles and responsibilities across different organizational units and the associated relationship issues inherent in the interactions of headquarters, regional headquarters and national subsidiaries.

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[1] Bartlett and Ghoshal (1998).

[2] Picot et al. (1996) and Brooke (1984).

[3] The subsequent discussion of regional management and regional headquarters draws on Ambos and Schlegelmilch (2010).

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9.2 Global Organizational Structures

9.2.1 Area Structures or Product Divisions

A number of scholars have focused on the drivers that may lead companies to opt for geographic area structures or worldwide product structures.[4] One of the key drivers determining the organizational design is the pattern of a company's internationalization: When primarily characterized by the number of diverse products sold abroad, companies tend to favor worldwide product divisions. In contrast, when companies sell relatively similar products to many countries, a worldwide geographic structure may be called for.

Egelhoff[5] anchors these arguments in information processing theory. He illustrates that area structures have the potential to improve headquarters' information processing and that companies with geographical structures can cope better with large foreign manufacturing operations, high levels of product modifications and lower product diversity. Thus, companies with growing international sales supplied by foreign manufacturing operations should consider abandoning their worldwide product division in favor of an area structure or implement a matrix structure between product and area division. Figure 9.1 summarizes these arguments.

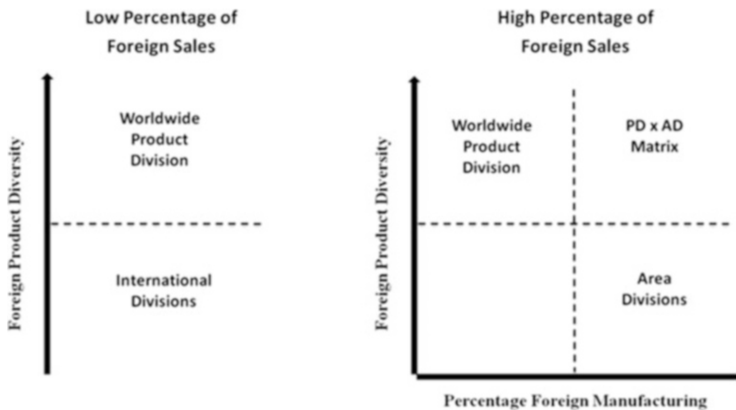

Fig. 9.1 Geographic area structures versus product divisions. *Source*: Egelhoff, W.G. (1988). Strategy and Structure in Multinational Corporations: A Revision of the Stopford and Wells Model. *Strategic Management Journal*, 9(1), 12

[4] Stopford and Wells (1972), Egelhoff (1988, 1991, 2010) and Wolf and Egelhoff (2001, 2002).

[5] Egelhoff (1982).

9.2.2 Matrix Structures or Transnational Networks

One of the most stubborn managerial challenges in conducting international business is how to balance global integration against local responsiveness. The underlying tension manifests itself in the need to respond to the unique business environments of individual country markets versus the desire to achieve cross-country efficiency. For companies, the integration-responsiveness dilemma goes beyond strategic issues like standardization or adaptation of products, processes and policies, and affects its entire organizational design.

The motivation behind local responsiveness is to achieve a better market fit. Sometimes, localization is even a prerequisite to gaining market access. If successful, higher sales and profits resulting from a local responsiveness strategy will outweigh the costs involved in pursuing localization. In contrast, global integration aims to drive down costs through pursuing economies of scale (e.g. through product standardization) or economies of scope (e.g. through shared back-office activities). Such cost reductions tend to have implications for the global configuration of the value chain. Globally operating firms seek benefits by allocating each value-added activity to the best possible location and then coordinating and integrating the activities. The Japanese sport shoe manufacturer Asics, for example, centralizes its research and design in Japan, conducts some manufacturing and prototyping of key components, such as the cushioning gel, in South Korea, and produces the bulk of its shoes in China.

As the tension between global integration and local responsiveness increases, companies tend to replace their product or geographic structures with global matrix structures or transnational networks. The matrix structure attempts to reflect the tensions and multiple dimensions of global business. To this end, a typical matrix structure might consist of geographic areas and business divisions. When conflicts between these dimensions occur, managers should coordinate with both reporting lines to resolve the conflict. Thus, a global matrix structure aims to improve cooperation among product managers, country managers and functional managers.

In some cases, different structural elements are mixed. Nike, for example, uses a geographic structure and clusters countries primarily based on consumer similarities. One of its sub-regions, for instance, is Austria, Germany, Switzerland and Slovenia (AGSS). However, Nike uses the matrix structure at regional level (Fig. 9.2), where it distinguishes between business units (apparel, equipment and footwear) and functions (human resources, operations, finance, marketing, and sales including retail). As a result, managers find themselves in a three-dimensional matrix: geographic region, business unit and function.

While the goals of a matrix structure are laudable, namely to foster coordination and team spirit, practice shows that the various dimensions of a matrix often possess different degrees of power and influence. As a result, product management may constantly overrule country management or vice versa. Consequently, matrix structures often fail to produce a culture that is able to balance the big picture (thinking global) with the required flexibility (acting local).

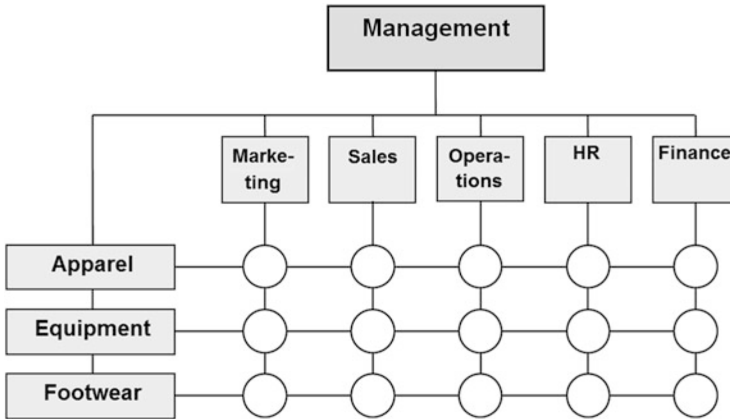

Fig. 9.2 Matrix structure. *Source*: Ambos, B., & Schlegelmilch, B.B. (2010). *The New Role of Regional Management*. Basingstoke: Palgrave-Macmillan, 467

Transnational networks are organizational formats that try to overcome some of the shortcomings of global matrix structures.[6] Instead of using a systematic form, such as a matrix, the transnational network focuses on the competence profiles when linking different subsidiaries across the globe. This could result in the marketing "headquarters" located in New York, manufacturing "headquarters" in Hanoi, and market responsibility in Frankfurt. Within such networks, goods and knowledge are supposed to flow without structural hierarchies. Coordination should be achieved through a mix of different control instruments, where social integration and a shared culture assume a prominent role. Thus, the transnational network aims to reduces hierarchy through a center-less (or multi-centered) organization that assigns critical decision-making rights to different units across the globe.

9.2.3 Limitations of Global Matrix Structures and Transnational Networks

Global matrix structures and transnational networks both aim to enable MNCs to bridge the global integration versus local responsiveness divide. Though this may be excellent in theory, in practice, both organizational structures can have considerable shortcomings. In addition to the uneven distribution of power and the influence of various elements of the organizations already mentioned, dual (or triple) reporting and profit responsibilities frequently lead to role ambiguities and the dilution of responsibility. This may also result in a costly bureaucratic bloat, non-goal-oriented compromises and a loss of flexibility in decision-making.

[6] Bartlett and Ghoshal (1998).

Although transnational networks seek to overcome the shortcomings of global matrix structures, they do not perform much better. Managers do not always like the fact that there is no clear hierarchy in transnational networks.[7] In addition, one of the assumed advantages of transnational networks, their ability to foster worldwide learning, rarely materializes. More often than not, the strong focus on social control is detrimental to knowledge sourcing and to stimulating innovation. While social control is useful for maintaining unity in transnational networks, it frequently leads to a company-centric rather than geocentric culture. This, in turn, hinders knowledge acquisition from local subsidiaries.[8] It is not surprising, therefore, that only very few firms have adopted a transnational network structure.[9]

Given that both global matrix structures and transnational networks have considerable drawbacks, even firms formally operating under a matrix structure usually assign clear authority to either geography or product divisions. Below, we argue that regional headquarters have the potential to resolve critical parts of the inherent tensions faced by global organizations.

9.3 Benefits of Regional Strategies and Structures

Defining "global firms" as those with a minimum of 20 % of their sales in each of the triad markets (North America, Europe and Asia), Rugman concludes that few firms actually pursue a global strategy.[10] In fact, only nine of the world's 380 largest companies for which he obtained data qualify as truly global by his standards, 25 are "bi-regional" and the vast majority are home-regional. While Rugman's analysis has been criticized for various reasons,[11] his data indicate that most firms struggle to be successful in more than one region of the globe.

So what hinders many of the most successful companies from achieving a more balanced global sales portfolio? A possible explanation is that they do not have the required non-location-bound advantages to achieve global integration.[12] Many firm-specific advantages may indeed be region-bound and hard to transfer across regions.[13] Furthermore, companies may already achieve optimal scale and scope advantages at the regional level and see no need to extend their business activities further.[14] For example, most car factories become viable at a production capacity of 100,000 cars per annum, and thus seldom require plants to cater for global markets.[15]

[7] Nell et al. (2011).

[8] Ambos and Reitsperger (2004).

[9] Wolf (1997).

[10] Rugman (2005).

[11] Osegowitsch and Sammartino (2008).

[12] Rugman and Verbeke (1992).

[13] Rugman (2005).

[14] Ghemawat (2007).

[15] Ambos and Schlegelmilch (2010).

Another eminent scholar, Pankaj Ghemawat, also stresses the limitations of globalization and calls for strategies in a semi-globalized world.[16] In addition to the arguments presented above, he points to limitations inherent in transferring products or knowledge across markets. It is intriguing that the largest potential to leverage knowledge can be said to be on a regional level and not on a global level. In fact, most innovative clusters, such as the German automotive industry or the IT cluster in Silicon Valley in California, are geographically defined, suggesting that knowledge may not travel well into unfamiliar territories. Taken collectively, there are a number of convincing arguments that competitive advantage can often be achieved on a regional level. These theoretical arguments are supported by actual corporate behavior, which reveals an increasing number of regional headquarters.

Figure 9.3 demonstrates that regional headquarters are an increasingly important structural response to deal with the global-local dilemma. Below, we discuss the role of such regional headquarters in corporate organizational design.

9.3.1 The Parenting Advantage

Regional headquarters are intermediaries between global headquarters and local subsidiaries. They organize the economic activity within their region and fulfil the classic role of a parent. Thus, from the perspective of local subsidiaries, the advantages that regional headquarters bring to the organization are similar to that of other corporate parents. In particular regional headquarters should add two central values, namely an understanding of the local subsidiaries' business and the ability to contribute to their resources and capabilities.[17] Regional headquarters often possess these two advantages in that they have a firm understanding of the regional business environment and can pool resources and knowledge within the region.

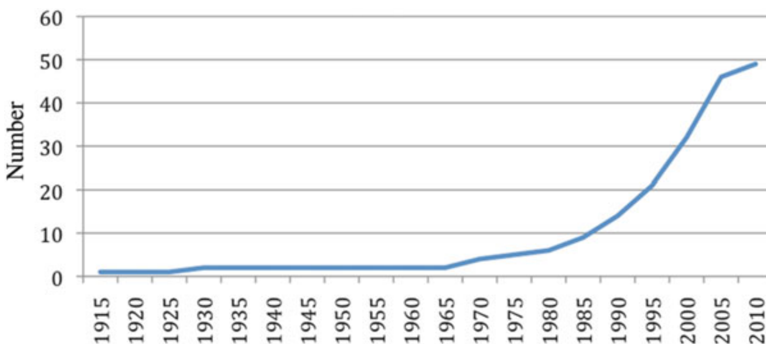

Fig. 9.3 Formation of regional headquarters over time. *Source*: Ambos, B., & Schlegelmilch, B.B. (2010). *The New Role of Regional Management*. Basingstoke: Palgrave Macmillan, 60

[16] Ghemawat (2007).

[17] Campbell et al. (1995).

9.3.2 The Knowledge Advantage

From the perspective of the parent, regional headquarters can offer a knowledge advantage. Specifically, regional headquarters are in a position to fulfil three knowledge broker functions: First, they translate global headquarters' targets into strategies for local markets; second, they serve as competence centers within the corporate network and provide valuable services to local operations; and third, they receive and filter knowledge from local subsidiaries to the global headquarters.

9.3.3 The Organizational Advantage

The intermediary role of regional headquarters also helps to ease the tensions between the headquarters' desire for global integration and the subsidiaries' need for local responsiveness.[18] In this sense, a regional headquarters may function as an organizational pressure valve. In addition, regional headquarters also reduce the corporate parent's span of control. This is important, as in large organizations, managerial attention becomes a scare resource that needs to be managed carefully to avoid dysfunctional priority setting.[19] Thus, by reducing the span of control, regional headquarters help corporations to direct their attention to matters that are most useful for the whole group.

Having outlined some of the potential benefits of regional headquarters, we now look at different organizational design options for regional headquarters in more detail.

9.4 Regional Organizational Structures

The development of regional structures is associated with a number of fundamental questions. For a start, it is not at all clear what constitutes a region. Some companies have created huge regions like EMEA, i.e. Europe, Middle East and Africa, while others might divide Europe into numerous sub-regions, such as DACH, i.e. Germany, Austria and Switzerland. Thus, an important initial question is which countries to combine into a region. Next, there is the location of the regional headquarters itself. Should it be located within the region or outside the region? Miami is a popular location for regional headquarters responsible for Latin America and Vienna for Central and Eastern Europe. Thus, some companies obviously see benefits in locating their headquarters outside the region. Of course, there is always the option of establishing a regional office at the location of the corporate headquarters. This may increase the geographic separation of regional management from the national subsidiaries even further than in the Miami and Vienna examples,

[18] Lehrer and Asakawa (1999).

[19] Birkinshaw et al. (2007).

where the regional headquarters are at least adjacent to the region. Finally, there is the question of how to structure the subsidiaries within a region. Do they all have the same function, and do they all report to the regional headquarters?

9.4.1 Defining a Region

Multinational companies often structure their organization along the triad markets North America, Europe and Asia.[20] Although common practice, this approach often falls short of managerial requirement. Take Puma's regional headquarters in Salzburg, Austria, as example. Puma Salzburg is not only responsible for the CEE region, but its mandate also includes countries like Brazil, the Emirates and South Africa. The key driver for including these rather diverse countries into one region was the availability of appropriate management expertise in Salzburg. There are no obvious answers to the seemingly obvious question of what constitutes a region. Still, five interlinked factors are particularly important in forming regional headquarters: geographic proximity, market similarities, managerial consideration, political consideration, and cost efficiency.

9.4.1.1 Geographic Proximity

Although few companies form their regions on a purely geographical basis, geography still matters. Particularly for companies selling similar products in geographically close markets, a joint distribution center will save costs. An example is Honda, which has set up three (sub-) regional headquarters in Europe (London, Paris, and Frankfurt), each of which supplies its region with appropriate products.

9.4.1.2 Market Similarities

Somewhat paradoxically, market similarities are in fact usually captured by their antonym "distance," meaning differences, which may be cultural, administrative, geographic or economic.[21] Cultural distance may lead to different product offerings but where consumer preferences align, similar marketing strategies make sense. In some industries, administrative bodies drive the grouping of countries into regions. In the pharmaceutical industry, for example, structures are often formed around the Food and Drug Administration (FDA) in the US or the European Medicines Agency (EMA) in Europe. Finally, economic development also has a strong bearing on the formation of regions. Many banks, for example, have bundled their CEE operations into one emerging-market segment.

9.4.1.3 Managerial Considerations

The grouping of markets is often a reflection of the relative importance or attention headquarters wants to devote to individual markets.[22] Big pharmaceutical

[20] The concept of the *triad* was first introduced by Ohmae (1985).

[21] Ghemawat (2001).

[22] Birkinshaw et al. (2007).

companies in Europe usually maintain direct reporting lines to the big five markets (Germany, France, Italy, Spain and the UK), while grouping the other markets into one or two regions.

9.4.1.4 Political Considerations

The allocation of a country into a regional grouping or the separation of a country from a regional grouping can be driven by political considerations. For example, as part of NAFTA, companies often integrate Mexico into their North American operations. This places more emphasis on political considerations than language or cultural similarities, which may result in allocating Mexico to a Central or Latin American cluster.

9.4.1.5 Cost Efficiency

Although firms may acknowledge various factors pointing to the separate treatment of individual countries, cost considerations can still lead them to cluster individual country markets into regions. For example, many companies use the same advertisements in multiple countries and thereby deliberately ignore subtle cultural and language differences. For such companies, cost advantages through economies of scale have priority and regions are based on cost efficiency.

9.4.2 Headquarters for the Region (Regional Office)

Looking at regional headquarters from the vantage point of a corporate headquarters, a reduced span of control is one of the key advantages of a designated regional facility. It is easier for corporate headquarters to deal with one regional headquarters instead of a number of individual country markets (local subsidiaries). Where exactly the regional headquarters are located is immaterial for the span of control argument. Thus, a company may not even set up a physical regional headquarters in the region. Instead, it may decide to manage the region from its global headquarters. Consequently, some scholars distinguish between regional headquarters *for* the region and regional headquarters *in* the region.[23]

A regional office located at corporate headquarters (i.e. a headquarters for the region) acknowledges that important regional differences should be reflected in a designated regional management structure. However, it avoids the duplication of supporting functions (e.g. human resources or IT) in a second physical location. The co-location of the headquarters and regional headquarters also facilitates knowledge transfer between them.

The main disadvantage of a headquarters for the region is its lack of market embeddedness, which in turn may result in insufficient market knowledge.[24]

[23] Schütte (1996).

[24] Andersson and Forsgren (1996) and Andersson et al. (2002).

Consequently, the higher the importance of customer intimacy or the need for quick reactions, the higher the need for a physical presence in the region.

9.4.3 Headquarters in the Region

Placing a designated regional headquarters in the region offers a number of advantages. First and foremost, companies are able to centralize core activities across the region to achieve economies of scale. This permits the development of regional expertise, for example in marketing research, that an individual subsidiary could otherwise not afford. Compared to a global structure, the location within the region also tends to lead to better responsiveness to local or regional requirements. Talent scouting at individual subsidiaries is also easier when located in relatively close geographic proximity.

It is evident that many of the advantages of regional headquarters are closely linked to considerations of what constitutes an optimal region, illustrating the close link between regional strategies and structures. This link is particularly obvious when the different dimensions considered in defining an optimal region point to different solutions regarding the number of regional headquarters needed and where they should possibly be located. For example, when taking the stage of market development into account, companies may decide to establish a regional headquarter that serves Germany, Austria, Sweden, Finland and Norway. However, considering distribution and logistics would suggest splitting the three Scandinavian countries from Germany and Austria, indicating the possibility of two regional headquarters. Managerial considerations, yet again, may call for separate reporting for the larger German market, while grouping all the other countries into one sub-region and point to a mixed system with one directly reporting subsidiary and a regional headquarters serving the other countries (see Sect. 9.4.3.3). When faced with such challenges, companies may use different structural options to organize their activities within a region.

9.4.3.1 Single Country Markets

In this organizational structure, one regional headquarters (RHQ) is the central hub to which all country markets (local units /LUs) report (Fig. 9.4). Firms tend to favor a single market approach when the span of control is relatively small, the markets are of similar importance, or consumers are relatively homogeneous across the whole region.

9.4.3.2 Sub-Regional Headquarters

In a sub-regional structure, companies attempt to take out variance within the region by grouping subsidiaries with similar needs into sub-regions (Fig. 9.5). The logic of this approach does not differ much from the single country market approach.

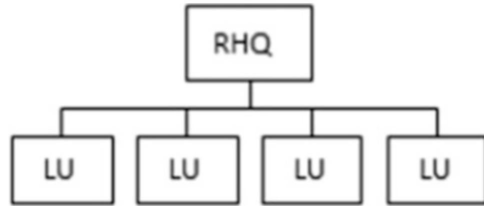

Fig. 9.4 Single country market. *Source*: Adapted from Ambos, B., & Schlegelmilch, B.B. (2010). *The New Role of Regional Management*. Basingstoke: Palgrave Macmillan, 74

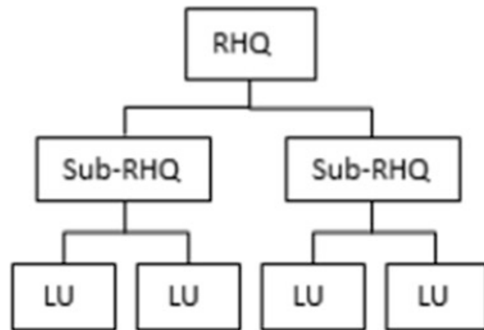

Fig. 9.5 Sub-regional headquarter structure. *Source*: Adapted from Ambos, B., & Schlegelmilch, B.B. (2010). *The New Role of Regional Management*. Basingstoke: Palgrave Macmillan, 74

9.4.3.3 Mixed Regional Structures

When companies find themselves in the situation of having an unbalanced business portfolio or markets in their region that require special attention, for example, because of their high impact on corporate profitability or the interests of influential political stakeholders, they may place some local units into sub-regions while others maintain a direct reporting line (Fig. 9.6).

9.4.3.4 Regional Network Structures

In a network structure, individual subsidiaries carry out regional management tasks assigned to them in a shared manner (Fig. 9.7). Thus, the regional headquarters becomes a virtual entity without a physical manifestation in one location. Different subsidiaries in different countries hold regional responsibilities for different functions. The advantage of this structure is that it does not add another layer of hierarchy but instead places more responsibility in the hands of the individual subsidiaries. To this end, network structures lead to higher engagement among subsidiaries and are particularly useful for well-established and mature national subsidiaries that may be reluctant to accept a designated regional headquarters as a power broker between themselves and the corporate headquarters. The disadvantage of a network approach lies in the inherent instability of all self-organizing systems, namely that the very lack of hierarchy identified as an advantage may cause potential conflicts between national subsidiaries and leads to high coordination costs.

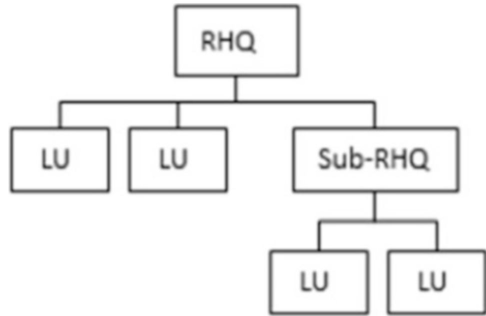

Fig. 9.6 Mixed regional headquarter structure. *Source*: Adapted from Ambos, B., & Schlegelmilch, B.B. (2010). *The New Role of Regional Management*. Basingstoke: Palgrave Macmillan, 74

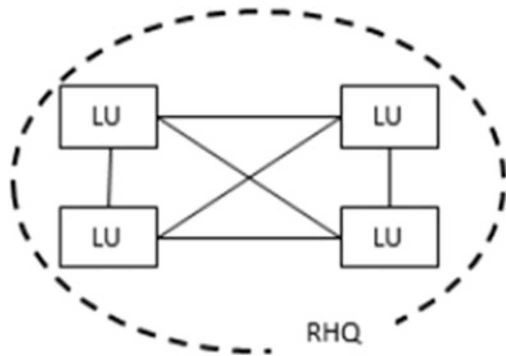

Fig. 9.7 Regional network structure. *Source*: Adapted from Ambos, B., & Schlegelmilch, B.B. (2010). *The New Role of Regional Management*. Basingstoke: Palgrave Macmillan, 74

9.5 Managing Relationships Between Organizational Units

What kind of relationships between organizational units a company has to manage obviously depends on its organizational set-up. Regardless of whether companies have regional headquarters or use a model where the subsidiaries report directly to the global headquarters, there should be a relatively clear understanding of which remits and responsibilities each unit holds. A simplified way to conceptualize this is shown in Fig. 9.8, which assumes the presence of regional headquarters, and shows with a few examples how the responsibilities of headquarters, regional headquarters and national subsidiaries (Local Units) could be allocated to different parts of a value chain. While such an outline of responsibilities is necessary to clarify the communication and working relationships between different organizational units, it still leaves a considerable degree of ambiguity.

It is not difficult to see that the devil lies in the detail. Take, for example, Research and Development. Where exactly are the differences between central R&D, the responsibility of the global headquarters, and product development, the responsibility of the regional headquarters? Where does product development stop and product adaptation, the responsibility of the national subsidiaries, start? And

Fig. 9.8 Allocating organizational responsibilities across different hierarchies and units of a value chain

can new product ideas not (also) originate at subsidiary level?[25] Sketching out remits like the one presented in Fig. 9.8 can only be a start. In reality, a company needs to spend a large amount of time and effort on developing three areas: the *anatomy*, i.e. the roles, responsibilities, distribution of assets and resources; the *physiology*, i.e. the flow of information through the organization, the processes and relationships, and the *psychology*, i.e. the set of norms and values.

9.5.1 Relationship Between Global and Regional Headquarters

Global headquarters set the overall vision and mission of the company. They are responsible for fundamental strategic questions like *where*, *how* and *with whom* to compete. Where regional headquarters are part of the overall corporate design, they represent an intermediate layer between the global and local units and acts as an agent of the global parent. In carrying out this role, it is not unusual for managers of regional headquarters to hold board positions at the global headquarters.[26] Such arrangements enhance trust and communication between both levels of the organization and provide opportunities for regional representatives to support the interests of their units. The remit and responsibilities given to regional headquarters tend to correlate with the performance of the business unit. Of course, this also applies to individual country units where companies do not implement a regional headquarters structure. Thus, the remits of units that are at the same hierarchical level are not necessarily uniform, i.e. different regional headquarters or different country subsidiaries are likely to hold different levels of autonomy. In fact, important regional headquarters or country subsidiaries may have a considerable influence on the overall strategy of the company.

[25] Ambos et al. (2006).

[26] Ambos and Schlegelmilch (2010).

9.5.2 Relationship Between Regional Headquarters and National Subsidiaries

Regional headquarters need to fulfil two key roles or, to use a different terminology, have two key charters: an *entrepreneurial* and an *integrative* charter. The entrepreneurial charter can be broken down into scouting, strategic simulation and signaling commitment, while the integrative charter primarily comprises the coordination and pooling of resources.[27] Thus, regional headquarters have the remit to scout for novel business opportunities throughout the region, assist the national units in incorporating structural and strategic changes and to signal commitment to the region as well as promote the value of their business. In terms of their integrative role, regional headquarters focus on coordinating activities across national markets and pooling resources throughout their regions, while at the same time focusing on achieving and maintaining control of their operations.

9.5.3 Relationship Between Different National Subsidiaries

The types of relationships that develop between different national subsidiaries vary depending on the underlying design of the corporate structure. Subsidiaries embedded in mixed regional structures or subsidiaries that report directly to global headquarters have, by definition, different relationships to each other. The relationship between subsidiaries is further influenced by the functions they fulfil in the corporate value chain (e.g. a lead subsidiary responsible for worldwide marketing versus a national subsidiary without any cross-country coordination remit). As mentioned in the context of networked structures, more direct coordination and responsibility sharing between national subsidiaries can lead to higher levels of engagement from subsidiaries. On the contrary, the lack of a hierarchical relationship may also lead to tensions that need to be mediated by an organizational unit that has a superior hierarchical relationship to the national subsidiaries, i.e. either a regional or global headquarters.

9.6 Summary

This chapter focuses on some pertinent questions of organizational design encountered by companies that pursue a global marketing strategy. We start with a review of traditional area and product structures and suggest that the number and diversity of products sold abroad as well as the size of the companies' geographic coverage are the key drivers behind adopting one of these structures. Whether a company runs manufacturing operations abroad also has a bearing on its preferred organizational structure. Specifically, researchers suggest that headquarters' information

[27] Lasserre (1996).

processing improves when companies with growing international sales supplied by their foreign manufacturing operations favor an area structure.

Next, we extend the discussion by introducing the integration/responsiveness dilemma, which refers to the need to balance global integration versus local responsiveness. The two organizational responses that attempt to achieve this balance are the matrix structure and the transnational network. Matrix structures typically combine geographic areas and business divisions in dual reporting lines. When conflicts between area and product dimensions occur, managers coordinate with both reporting lines to resolve the conflict. While this aims to improve the cooperation among product managers, country managers and functional managers, we also discuss why these laudable aims do not always work in practice.

Transnational networks try to overcome some of the shortcomings of global matrix structures by focusing on the competence profiles of different subsidiaries across the globe. Based on these competencies, different national units hold different global responsibilities (e.g. the global responsibility for manufacturing). In this sense, transnational networks do not have a single global headquarters, but a number of headquarters (or no headquarters, depending on the perspective taken). Given the absence of structural hierarchies, coordination and control rely strongly on social integration and a shared corporate culture. In practice, managers do not always like the fact that there is no clear hierarchy in transnational networks and one of the key objectives of transnational networks, namely, to foster cooperation and worldwide learning, rarely materializes. Consequently, only few firms have adopted a transnational network structure.

Given the drawbacks of both global matrix structures and global transnational networks, we subsequently devote considerable attention to regional structures and argue that regional headquarters have the potential to solve critical aspects of the inherent tensions faced by global organizations. This argument finds support in the realities of the current business environment, which shows that most companies still tend to have a strong regional rather than global focus and struggle to be successful in more than one region of the globe. Eminent scholars like Ghemawat also stress the limitations of globalization and call for strategies that reflect a semi-globalized world. Regional headquarters are an increasingly important structural response to the global-local dilemma in that they are able to realize a number of advantages at regional level, such as parenting advantages, without encountering the substantial challenges inherent in global cooperation.

Consequently, the chapter proceeds by looking at some organizational design options for regional headquarters. In this context, we discuss whether there is an optimal composition and size of a region, as well as where (outside the region or inside the region) and how (single country market hub, sub-regional headquarters, mixed regional structures or regional network structures) regional headquarters can be established.

The chapter closes with a look at the complex problems inherent in allocating roles and responsibilities between different types of organizational units and some of the associated relationship issues that are unavoidable in interactions between headquarters, regional headquarters and national subsidiaries.

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Global Marketing Ethics and CSR 10

10.1 CSR Tops Business Leaders' Agendas

When business leaders talk about their companies these days, they rather talk about their latest social responsibility initiatives, the environmental credentials of their companies and the ethical behavior of their management and employees, than the "grubby financial realities of business."[1] While this is not a new phenomenon,[2] the importance of these topics has risen during the last decades.[3] Although it is debatable whether the increased focus on these topics has reduced unethical business conduct, there appears to be widespread agreement among stakeholders that businesses need to pay more attention to ethics, should develop a strong corporate social responsibility (CSR) agenda and must confront sustainability challenges.

While these are laudable objectives, there is still considerable disagreement on rather fundamental questions: When exactly is a particular course of action ethical or unethical? What are the limits of CSR? Do businesses have the legitimization and the right skills to deal with issues that should arguably be handled by government? What is the right balance between environmental protection and, for example, the development of new infrastructure like roads and airports? Many of these questions are debated with intense emotions and strong convictions.

Below, we will highlight some of the main issues underlying this debate as well as some of the key arguments put forward. Initially, we attempt to clarify the terms *business ethics*, *CSR* and *sustainability*. Subsequently, we briefly outline some ethics theories and show why it is not surprising that ethical judgments can differ substantially depending on which of the theories they are based upon. This then leads to the question how multinational companies should deal with differences that

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[1] Tett (2012).

[2] Schlegelmilch (1994).

[3] Schlegelmilch and Öberseder (2010).

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may exist across cultures. A separate section follows that focuses on international marketing communication, an intriguing subject due to the particularly strong influence of cultural forces on this field. The chapter closes with a discussion on how ethics and CSR can be implemented into global marketing practice. Among others, we briefly discuss the role of corporate codes of ethics, the US Federal Sentencing Guidelines, the Foreign Corrupt Practices Act and, given their relevance to corporate CSR disclosure, the Global Reporting Initiative (GRI) Guidelines.

10.2 Deciphering the Terms

Milton Friedman, one of the key critics of CSR, has already bemoaned that "the discussions of the 'social responsibilities of business' are notable for their analytical looseness and lack of rigor."[4] It is therefore fitting to start with an attempt to decipher the key terms *business ethics*, *CSR* and *sustainability*.

10.2.1 Business Ethics, Marketing Ethics and Global Marketing Ethics

Business ethics can be defined as an "inquiry into the nature and ground of morality where the term morality is taken to mean moral judgments, standards and rules of conduct."[5] Thus, business ethics guides business behavior in terms of what is right or wrong in specific business situations. Consequently, "*marketing ethics* is the systematic study of how moral standards are applied to marketing decisions, behaviors and institutions,"[6] and *global marketing ethics* can be defined as "standards of conduct and moral judgment applied to the field of global marketing."[7]

Although business ethics has long been a central issue for many famous economists like Adam Smith, Max Weber and Friedrich August von Hayek, marketing ethics only played a minor role in the marketing literature until the 1960s. Global marketing ethics took even longer to attract wider attention. The early contributions in the 1980s were primarily comparative studies.[8] Among the first books that focused on international aspects of business ethics is Donaldson's *The Ethics of International Business*.[9] In the late 1990s, I had the opportunity to publish one of the first books exclusively devoted to international marketing ethics.[10]

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[4] Friedman (1970).

[5] Taylor (1975).

[6] Laczniak and Murphy (1993).

[7] Schlegelmich (2010).

[8] Becker and Fritzsche (1987) and Schlegelmilch (1989).

[9] Donaldson (1989).

[10] Schlegelmilch (1998).

Since 2000, the contributions to the field of global marketing ethics have increased substantially. The issues addressed range from ethical sensitivity to stakeholder interests across cultures, e.g. international marketing ethics from an Islamic perspective, to the role of moral intensity and personal moral philosophies in international marketers' decision-making. Increasingly, ethical issues are not only discussed from a corporate vantage point but also through the lens of the consumer. Topics include comparisons of consumers' ethical beliefs in different countries or cross-cultural studies of the role of religion in consumers' ethical positions. A number of recent reviews focusing on marketing ethics provide a good overview of other international topics addressed by researchers in this field.[11]

10.2.2 Corporate Social Responsibility

After decades of CSR debate, there is still no single widely accepted definition of this concept.[12] Instead, nearly 40 definitions of CSR are proposed in the literature.[13] One of the most concise, with a strong stakeholder focus, is the definition suggested by the European Commission, which defines CSR as "the responsibility of enterprises for their impacts on society."[14]

From a marketing point of view, the consumer's perception of CSR appears to be particularly relevant. Taking this vantage point, we propose the following definition: "A socially responsible company integrates social and environmental topics in its core business activities and acts responsibly towards its employees, its customers, the environment, its suppliers, the local community, its shareholders and society at large."[15]

This definition highlights the fact that consumers distinguish between different CSR domains by focusing on the various stakeholders of a company: its employees, customers, environment, suppliers, shareholders, the local community and society at large. The employee domain encompasses issues such as working conditions, non-discrimination and adequate remuneration. The customer domain addresses topics like fair prices, clear and comprehensive product labeling, safe and high-quality products, etc. Regarding the environment, consumers ascribe many responsibilities to companies, such as the reduction of energy consumption, waste and emissions. The supplier domain focuses on the topic of fairness with issues like fair terms and conditions for producers, supplier selection and auditing. Another important dimension concerns a company's responsibility towards the local community. Here consumers stress the responsibilities of creating jobs for people living in the community, local sourcing, and an economic contribution to the region's

[11] Nill and Schibrowsky (2007) and Schlegelmilch and Öberseder (2010).

[12] Freeman et al. (2010).

[13] Dahlsrud (2008) and Matten and Moon (2008).

[14] European Commission (2011).

[15] Öberseder et al. (2013).

development. Finally, consumers also expect that a company lives up to its responsibilities towards society at large. The societal domain addresses issues such as donations to social causes, employment of people with disabilities and the support of social projects.[16] These CSR domains are shown in Fig. 10.1.

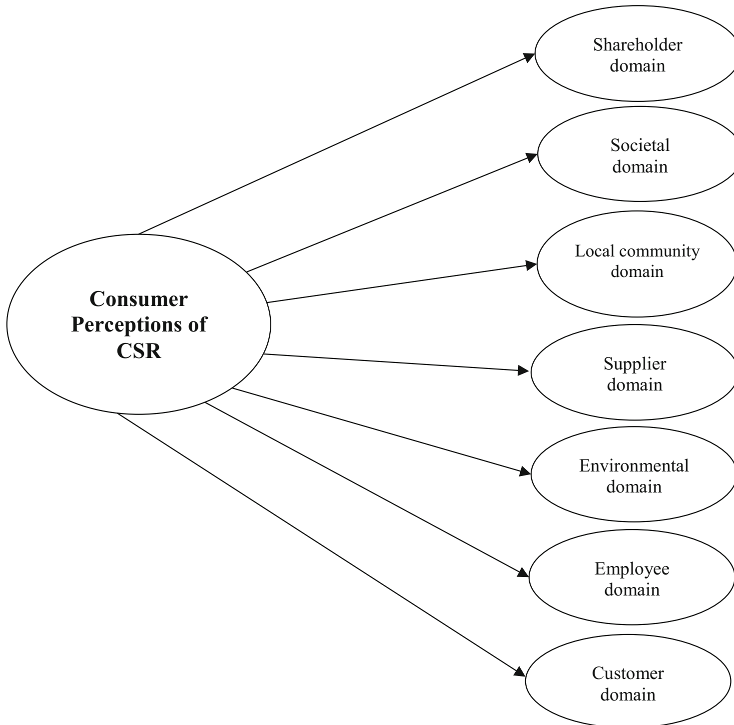

Fig. 10.1 Consumer perceptions of corporate social responsibility. *Source*: Adapted from Öberseder, M., Schlegelmilch, B.B., Murphy, P.E. & Gruber, V. (2013). Consumers' perceptions of corporate social responsibility—Scale development and validation. *Journal of Business Ethics*, 93(1), 101–115

[16] Öberseder et al. (2013).

10.2.3 Sustainability

The preceding discussion shows the link between the "twin idea" of corporate social responsibility and sustainability.[17] As regards the latter, the United Nations' Bundtland Report states that "sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs."[18] While this definition has been criticized for its vagueness,[19] it continues to shape the debate on sustainability. Indeed, it can be argued that a key reason for the widespread support of sustainability is precisely that it can be used to cover a wide range of rather diverse ideas.[20] The United Nations' Agenda 21,[21] for example, distinguishes between economic, ecological, political and cultural sustainability. Based on these distinctions, a method for assessing and managing sustainable development, referred to as the "circle of sustainability", has been advanced and demonstrated by several large cities in different parts of the world.[22] This approach defines the various domains very broadly: *Economic sustainability* includes the use and management of resources, but also wealth and distribution; *ecology* focuses on the interaction between nature and people; the *political* domain is primarily concerned with public and private governance, but also social relations in general; and the *cultural* domain, finally, includes issues like identity, gender, age, equity, education, health and wellbeing.

The proponents of a wider approach to sustainability are particularly critical of the common "triple bottom line" method,[23] which treats the economic aspect as a central point and views the environment as an externality. However, the triple bottom line, also referred to as the "people-planet-profit" perspective, is close to mainstream sustainability thinking that centers on environmental, social and economic sustainability. As shown in Fig. 10.2, these three domains tend to be illustrated as columns supporting sustainable development, as concentric circles with the economy embedded in the environment and society, or as interlocking circles which are, depending on the underlying arguments, sometimes of different sizes, for instance, showing the economy larger (implying more importance) than the environment.

One of the criticisms of viewing sustainability in these three domains is the implicit assumption that trade-offs can be made between them. Consequently, distinctions have been drawn between "strong" sustainability, where trade-offs are not permissible or are at least restricted, and "weak" sustainability, where trade-offs are permissible/accepted. "Strong" sustainability supporters may, for

[17] Hildebrand et al. (2011).

[18] United Nations General Assembly (1987).

[19] Lélé (1991).

[20] Adams (2006).

[21] Johnson (1993).

[22] Liam et al. (2012) and Scerri and James (2010).

[23] Slaper and Hall (2011).

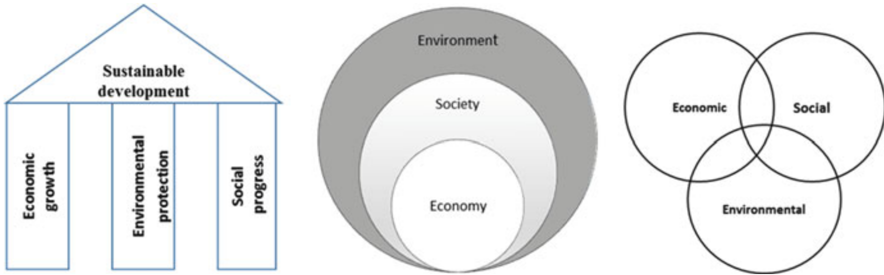

Fig. 10.2 Illustrations of mainstream sustainability domains

example, point to critical ecosystems or species that cannot be compromised.[24] In practice, trade-offs appear inevitable and the nature of the trade-offs often fuels highly emotive debates.

10.3 Sources of Disparity

While it would be difficult to find senior managers who do not publicly embrace the need for ethics, CSR and sustainability, when it comes to the details, managers often support fundamentally different positions. Below, we explore some of the key reasons for discontent and, based on that, attempt to identify whether there is any common ground.

10.3.1 Competing Theories in Business Ethics

Many ethical questions remain unresolved and are heavily contested.[25] For example: Can it ever be justified to take actions that would sacrifice the well-being of one person but would benefit many others? Are moral norms relative and depend on geographic and cultural boundaries? Do people have certain basic rights that should never be violated?

Depending on the ethical theory or school, the answers to such fundamental questions will vary. Consequently, even managers who are trying to be ethical may decide differently on moral issues. And although managers may not consciously follow a particular theoretical approach when facing difficult moral decisions, a basic understanding of different ethical theories will help them to frame their decisions.

[24] Adams (2006).

[25] This section is based on Schlegelmilch (1998).

10.3.1.1 Relativism

Relativism considers different views of morality as equally valid and rejects the idea of a common universal standard. Consequently, everyone should be judged on the basis of their own moral codes; what may be considered 'wrong' in one situation could be considered 'right' in another. In an international business context, the position of a relativist would be: 'When in Rome, do as the Romans do.' Foreigners should respect and follow a host country's moral codes even if these are different from their own beliefs.

On the positive side, relativism respects different religious and cultural ideologies. On the negative side, relativism is often used to justify immoral behavior on the grounds that 'everybody else is doing it.' Moreover, managers of multinational companies must realize that their decisions and actions will not be judged exclusively by local standards, but also by stakeholders from other countries. Consequently, relativism does not offer multinational companies an easy fix for solving their ethical dilemmas.

10.3.1.2 Utilitarianism

Utilitarianism focuses on the outcome of a decision: If the outcome produces the greatest good for the greatest number of people affected by the action, the decision is morally right. It is a *consequentialist* theory, because it emphasizes the end result and not the means used to achieve the result. Thus, managers following the utilitarian school would initially identify all stakeholders involved and then estimate the costs and benefits for the affected groups. Subsequently, the managers would take the course of action that will result in the greatest good for the greatest number of stakeholders.

On the positive side, utilitarianism takes a "broad-picture" approach in its emphasis on doing what is best for the common good. It also appeals to the traditional cost-benefit approach taken by most managers. On the negative side, the collective good sometimes comes at an unreasonable cost to an individual or a particular stakeholder group. Take the example of a drug that cures 75 % of patients, but results in the death of 25 %; following a strictly utilitarian approach, the drug should be sold because it is beneficial to the majority of users, even if it kills others.

10.3.1.3 Universalism

Universalism is a duty-based theory, also referred to as deontological approach (from the Greek word *deon*, meaning 'duty'), which demands that everybody should act in such a way that the act could be taken as a universal rule. The essence of universalism is summarized in Immanuel Kant's famous *Categorical Imperative*: First, "act only according to that maxim whereby you can, at the same time, will that it should become a universal law;"[26] second, act so as to never treat a human being merely as a means to an end. Universalism is thus closely related to the *golden rule* of 'Treat others how you wish to be treated' and puts an individual's

[26] Kant and Ellington (1993).

well-being at the center of any decision. Universalism postulates that no matter how 'good' the outcome of an action, it is not justifiable to use unethical means to achieve the outcome. Thus, in contrast to the consequentialist utilitarianism, universalism is a *non-consequentialist* theory.

On the positive side, universalism considers individual human welfare to be of primary importance in any decision. On the negative side, it is difficult to apply when situations arise where the interests of different stakeholders are at odds and, objectively, a 'win-win' situation cannot be achieved.

10.3.1.4 Theory of Justice

Rawls' *Theory of Justice*[27] can be understood as a critique of utilitarianism. The proponents of the Theory of Justice argue that defining justice as 'the greatest good for the greatest number of people'—as utilitarianism does—denies any categorical rights and duties. Thus, they reason that trade-off relationships between the basic rights of individuals and the goals of society do not lead to justice. This can be illustrated as follows: Strict utilitarianism would see slavery as permissible as long as it generates the greatest welfare for the greatest number of people; the Theory of Justice rejects this position.

Instead, the Theory of Justice suggests a contractarian approach to moral justice. For Rawls, a person can judge principles from an impartial standpoint. This is based on Kant's view that people have the capacity to reason from a universal point of view. Rawls argues that the moral view is discovered via impartiality. He stresses that each person should have equal rights and that social and economic inequalities should be arranged to give the greatest benefit to the least advantaged. He argues that liberty cannot be compensated by an increase in economic efficiency and that justice is achieved when the advantages of the more fortunate promote the well-being of the least fortunate.

On the positive side, the Theory of Justice is concerned with establishing principles that protect the disadvantaged. On the negative side, the theory appears to be difficult to apply in practice, as elusive expressions such as liberty or benefit have to be defined and gauged.[28] Thus, it is difficult to derive concrete recommendations from Rawls' abstract contractarian approach.

10.3.1.5 Virtue Theory

Virtue Theory is rooted in the teaching of Aristotle and suggests that people should seek to live a "virtuous" life. This means going beyond duty and self-interest to pursue a spirit of goodness. A virtuous life is said to be based on three concepts: First, the 'good habits' one learns, practices and nurtures; second, the existence of virtuous people as role models; and third, a healthy balance of desirable and virtuous qualities that should be sought.[29]

[27] Rawls (1971).

[28] Rusche (1992).

[29] Laczniak and Murphy (1993).

In the last few decades, virtue theory has enjoyed renewed interest. Corporate codes of ethics that include desirable and virtuous qualities are a means to introduce aspects of virtue theory into an organization. "Virtuous" leaders who are role models for their managers and employees are another facet reflecting virtue theory in an organization.

10.3.2 Finding Common Ground

Having demonstrated that theoretical approaches to business ethics vary, it is not surprising that ethical standards may also differ across cultures. In fact, most managers working internationally will have experienced differences in attitudes and behavior that are rooted in the diverging ethics of people with different cultural backgrounds. This poses the question of how ethical differences across countries can best be analyzed and how multinational companies should deal with such differences. Scholars have suggested different frameworks for approaching these questions[30] and we highlight three of them below.

Donaldson[31] proposes categorizing ethical differences between two societies. Category 1 comprises issues where the reason underlying the host country's view that a practice is permissible lies in its relative level of economic development. Category 2 includes cases where the reason for ethical differences is independent of the host country's relative level of economic development. When faced with Category 1 situations, multinational companies (MNCs) should make allowances for local conditions like environmental standards or work-safety conditions. In a Category 2 situation, Donaldson calls for additional analysis to decide whether different ethical standards should be accepted. Specifically, a practice should be seen as permissible if it is impossible to conduct business successfully in the host country without engaging in the practice, and the practice does not violate *fundamental international rights*, such as freedom of physical movement, ownership of property, freedom from torture, a fair trial, non-discrimination on grounds of characteristics like race or gender, physical security, freedom of speech and association, minimal education, political participation, and subsistence.[32]

Donaldson's approach has been criticized on various accounts, among others that the phrase "conduct business successfully" leaves too much room for interpretation.[33] For example, if conducting business successfully in a given country is not possible without bribery, making such payments would not violate any fundamental

[30] For a more detailed discussion, see Schlegelmilch (1998).

[31] Donaldson (1992).

[32] A more in-depth discussion of the underlying contractual view of business ethics can be found in Donaldson and Dunfee (1994).

[33] Solell and Hendry (1994).

international rights and would, consequently, be permissible based on the criteria set out by Donaldson.

Nash,[34] like Donaldson, also suggests a division of ethical problems into two categories. The first category comprises 'acute' ethical dilemmas of moral uncertainty, where it is difficult to separate right from wrong as two or more ethical values are in conflict. Nash believes that in such situations, the outcome will probably always be flawed. Consequently, it is the *process* for resolving such a dilemma that provides the moral test. The honesty of the deliberation process and the adequate representation of the affected parties' points of view become the litmus test of the ethical values in use. She suggests 12 questions to guide this process (Table 10.1).

The second category comprises 'cases of acute denial'. Here the right action is known, but not followed, for example, in compliance issues or implementation. Nash suggests that such issues can be addressed by appropriate training and the dissemination of corporate standards.

While Nash's approach has the advantage of being relatively simple and emphasizes the central importance of a fair process, it can be criticized for making moral evaluations primarily based on behavior while largely ignoring intentions. In this context, Nash further clarifies her stance by stating that a good corporation focusing on its purpose of making profit should avoid inflicting irretrievable social injury and assume the costs of any unintentional injury. However, she believes that a corporation does not have the moral capacity to determine by itself what will improve the general social welfare. While most managers would accept that corporations should avoid inflicting social injury, many would object to denying

Table 10.1 Key questions guiding the process for resolving ethical dilemmas

1.	Have you defined the problem accurately?
2.	How would you define the problem if you stood on the other side of the fence?
3.	How did the situation occur in the first place?
4.	To whom and to what do you give your loyalty as a person and as a member of the corporation?
5.	What is your intention in making this decision?
6.	How does this intention compare with the probable results?
7.	Whom could your decision or action injure?
8.	Can you discuss the problem with the affected parties before you make your decision?
9.	Are you confident that your position will be as valid over a long period as it seems now?
10.	Could you disclose without qualm your decision or action to your boss, CEO, the board of directors, your family, society as a whole?
11.	What is the symbolic potential of your action if understood? If misunderstood?
12.	Under what conditions would you allow exceptions to your stand?

Source: Nash, L. L. (1989). Ethics without the Sermon. In K. R. Andrews (Ed.). *Ethics in practice: Managing the moral corporation*. Boston: Harvard Business School Press, 246

[34] Nash (1992).

corporations the capacity to determine what will improve social welfare. Thus, it is questionable whether the Nash approach is sufficiently comprehensive for resolving complex differences arising from disparate cultural and business environments.

Nill,[35] finally, is a proponent of dialogic idealism. This abandons any attempts to find universal ethical principles that are both valid and practical. Instead, communication in the form of an open dialogue is viewed as a way to find mutually acceptable norms. These norms may not be universally valid but they are acceptable to the specific participants of a given dialogue. Still, as participants usually have conflicting interests, they may not be able or willing to come to an agreement.

Taken collectively, differences in ethical perspectives may occur in a domestic setting but are far more likely to manifest themselves when business is conducted across cultural and national boundaries. While an open dialogue and a fair process are important in trying to resolve issues that arise when ethical values conflict, there is no golden bullet that can guarantee an outcome that always satisfies all parties involved. This is not to say that ethical relativism should rule the day. To flourish, global marketing needs trust, fairness and mutual respect, i.e. it requires ethical behavior which meets certain standards. While such general sentiments are easily agreed upon, disparities often arise when specific marketing practices are scrutinized. Below, we look at some ethical issues occurring in international marketing.

10.4 Ethical Issues in Global Supply Chains

In addition to the numerous ethical concerns connected to marketing in general,[36] there is a kaleidoscope of ethical issues specifically relating to global marketing that can be traced along the supply chain. Many of these issues have become increasingly relevant for global marketing strategy as both consumers and traders become more concerned about the working conditions of farmers or production workers, the role of intermediaries like export and import companies or wholesalers, and the ethical conduct of retailers.

But it is not only the ethics of suppliers that is under scrutiny. Many consumers are only too quick to abandon their ethical positions and buy products produced under suspicious working conditions or counterfeits when the price is low enough. However, there is not only gloom and doom when it comes to consumer ethics. The Fair Trade movement, trying to ensure that farmers from low-income countries get a better deal, continues to gain momentum. Making an ethical stance with the supermarket trolley appears to be in vogue.

Below, we take a look at some important ethical issues associated with international supply chains. We start with issues relating to production and subsequently

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[35] Nill (1995).

[36] For a detailed debate, see Smith and Quelch (1993) and Smith and Murthy (2012).

move along the supply chain, focusing on the role of intermediaries and retailers. Finally, we focus on consumers who, on the one hand, are the driving force behind many positive ethical developments but, on the other hand, are also part of the problem due to their own unethical behavior.

10.4.1 Ethical Issues Pertaining to Product Sourcing

Ethical issues pertaining to product sourcing, particularly from developing countries, are currently at the forefront of debate. Global marketers are regularly confronted with concerned questions on child labor, adequate working conditions, fair wages, the ecological sustainability of their production methods, and intellectual property rights violations, to name just a few.

On child labor, there is broad agreement that the practice is unethical, unjustifiable and degrading. However, it remains a problem in many developing countries. In the past, MNCs have often argued that they find it difficult to control the practice as the children do not work in their own facilities but for sub-contractors, and that the evidence of someone's age can easily be falsified.[37] However, the consumers clearly hold the owner of the brand responsible for ethical conduct beyond the legal boundaries of the corporation. Responding to criticisms of child labor, low-income countries frequently point out that developed nations should not forget their own past. During the Industrial Revolution, children working in the textiles industry and in mining were very common indeed.[38]

Safe and healthy working conditions are another ethical concern. While most countries do have regulations and laws in place, it becomes an ethical issue when companies are reluctant to implement these.[39] The length of the working day and the working week are also concerns. Workers employed in sweatshops have been reported to work more than 12 h a day, 6 days a week. In addition, they have to fulfil quotas and work overtime if they do not want to be dismissed.[40]

Unfortunately, workers in the low-income countries often have no better option than to work in sweatshops. A study of a sweatshop in Honduras showed that the salaries paid in the sweatshop were, on average, 44 % higher than the average salary of a Honduran worker.[41] While this is no excuse for sweatshops and the exploitation of human beings, it sheds light on the desperate plight of many workers in the low-income countries.

A major ethical issue for producers and marketers in many developing countries is weak intellectual property rights protection. Often, laws protecting patents, trademarks and copyrights are actually in place, but enforcement of these laws is

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[37] Boggan (2001).

[38] Cruickshank (1981) and Nardinelli (1990).

[39] Crane and Matten (2007).

[40] Adams (2002).

[41] Powell and Skarbek (2004).

lacking. Consequently, counterfeit goods have become a severe concern for global industry. According to the International Anti-Counterfeiting Coalition (IACC), US manufacturers alone lose about US$200 billion per year in revenues, and some 750,000 jobs have been lost in the US due to fake products produced abroad.[42]

Counterfeits can be divided into non-deceptive products, where consumers know that they are buying counterfeits (e.g. when buying a Rolex watch for 10 € in China, consumers must realize that they are not purchasing the original product) and the arguably more dangerous, deceptive counterfeits, where consumers believe they are buying an original product. Deceptive counterfeits may cause considerable product safety issues. If consumers, for example, purchase "genuine" brake shoes for their cars that turn out to be all but genuine, it is not only the reputation of the manufacturer of the original product that is at stake, but the consumers themselves may be harmed or even killed.

10.4.2 Ethical Issues Pertaining to Intermediaries

The roles and ethical conduct of intermediaries, such as agents, distributers and brokers are also frequently debated. Ethical issues concern, for example, fair purchasing agreements, fair sales prices, the fair share of wealth creation and the fair treatment of producers. The key term is always 'fair.' However, agreeing on what is fair is extremely difficult. Bolton and her co-authors[43] have defined 'fairness' as "a judgment of whether an outcome and/or the process to reach an outcome are reasonable, acceptable or just." Unsurprisingly, the root cause of many disagreements lies in the operationalization of fairness. Debates on what constitutes fairness can be traced back to the ancient Greek philosophers such as Plato. In contemporary business ethics literature, a number of scholars have also discussed fairness. According to Ferrell et al.,[44] fairness is made up of three elements: equality (i.e. how wealth is distributed), reciprocity (i.e. the equal interchange of small favors) and optimization (i.e. the compromise between equality and maximum productivity). However, while conceptualizations like these are helpful, they hardly resolve disputes about fairness. Fairness is, and always will be, a contentious issue.

To this end, fair purchasing agreements, such as exclusive dealing (i.e. an intermediary is not allowed to sell a competitor's products), exclusive territories (i.e. an intermediary has the exclusive right to sell a manufacturer's product in an exclusive territory), or tying arrangements (i.e. an intermediary has to buy a range of products offered by a manufacturer although he might be interested in only one product), continue to be discussed both from an ethical and legal perspective.

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[42] Freedman (1999) and IACC (2006).

[43] Bolton et al. (2003).

[44] Ferrell et al. (2008).

Issues connected to discriminatory pricing are also of particular relevance for intermediaries. Why should they offer better prices to economically powerful key accounts than to regular customers? What constitutes a fair margin? And what would be a fair share of wealth creation for middlemen? Fair relationships with producers and customers are another issue, as powerful intermediaries might use their bargaining power to arbitrarily switch from one small producer to another or threaten customers with no or rationed supplies. Last but not least, another pricing issue that may be relevant to agents or commodity brokers that act on behalf of powerful manufacturers is dumping, i.e. the practice of offering imports at a below-cost price in order to gain competitive advantages versus local industry and ultimately drive them out of business (cf. discussion on dumping in Chapter 6).

10.4.3 Ethical Issues Pertaining to Retailers[45]

The domestic equivalent of dumping is predatory pricing. This refers to a practice where a retailer sells a product or a range of products below cost for a period of time to drive a competitor out of business. Where it is impossible to drive competition out of business, a retailer could collude with its competitors to harm consumers. Horizontal price fixing or collusion refers to a practice where direct competitors agree to charge an identical price. Such price fixing is clearly unethical and illegal, as it affects the fairness of price setting as driven by the normal supply and demand for a product or service.

Gray marketing, in an international context also referred to as *parallel importing*, poses another interesting set of ethical issues. This occurs when legitimate products are sold through unauthorized distribution channels.[46] Thus, the product is not a counterfeit but the distribution method is not legitimate, at least from the perspective of the manufacturer. Take, for example, a manufacturer of exclusive electronics, which, in a given country A, intends to sell its expensive line of audio products only through selective retailers in order to maintain high prices, ensure service quality and achieve an exclusive positioning for his products. Now assume that the prices for these products are lower in another country market B and a wholesaler or retailer there sells the products to an unauthorized dealer in country A. This unauthorized dealer, say a large chain of electronic discounters, now undermines the efforts of the manufacturer to achieve exclusive distribution, to keep prices high and to provide a high quality of service. The availability of the products in unauthorized distribution channels also harms the relationship between the manufacturer and the authorized dealers. Thus, parallel importing clearly damages the commercial interest of the manufacturer and the authorized dealers and may therefore be regarded as unethical. On the other hand, parallel importing is

[45] For the purpose of this discussion, we treat retailers separately from other intermediaries, although it can be argued that they also intermediate between producers and the final consumer.

[46] Antia et al. (2004).

only attractive if there are price differences between countries or the prices set by the exclusive distributers are artificially high.[47] Both harm the consumers. Thus, one may also argue that parallel importing is in the best interest of consumers and is consequently not at all unethical. Then again, there are the marketing investments the manufacturer and the authorized distributors have made, which are simply taken advantage of by the unauthorized dealers. Overall, this represents a vexing example of opposing interests and debatable ethical positions. However, the majority of commentators view parallel importing as unethical.[48]

Ethical concerns are also frequently raised in connection to *network marketing*, sometimes also called *multilevel marketing*. This direct sales technique recruits independent, part-time sales people to sell door-to-door, often primarily to friends and family. In addition, the sales force is also encouraged to recruit new part-time sales people and is compensated by a percentage cut on the sales these new recruits generate.[49] While network marketing is not unethical per se, even its supporters agree that this marketing instrument has often been abused through over-inflated claims and unrealistic promises. Criticism has also been focused on the similarity to illegal pyramid marketing approaches, the high initial entry costs individuals have to bear to buy the first set of products and some marketing support material, and the exploitation of personal relationships. Network marketing techniques are not only used in industrialized countries but have now become very popular in developing countries. In these countries, many market participants tends to be less sophisticated in business, which increases the need for MNCs in such markets to use network marketing techniques with care.

An entirely different set of issues is concerned with attempts of some retailers to use ethics as a competitive positioning instrument. Specifically, retailers may attempt to present themselves as more ethical, more ecologically minded or more charitable than their competitors.[50] To enhance its image, the retailer Tesco, for example, emphasizes that it is a proud supporter of Fair Trade on its homepage.

Other means of using ethics as a positioning instrument are offered by so-called *cause-related* marketing activities. Here, the retailer may publically commit a certain percentage of revenue to be donated to a good cause, such as a children's charity. Of course, such cause-related marketing appeals are also used by manufacturers (e.g. each time customers buy a product, the manufacturer will donate a certain proportion of the purchase price to charity X) or service companies (e.g. American Express ran a campaign called 'charge against hunger' in which a certain percentage of the customer's monthly American Express bill was donated to a charity).[51]

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[47] See also our discussion in Chap. 7.

[48] Dasu et al. (2012), Hsiu-Li (2007) and Duhan and Sheffert (1988).

[49] Xardel (1993).

[50] Schlegelmilch (1994).

[51] Varadarajan and Menon (1988).

Philanthropic donations are similar to, yet conceptually different from cause-related marketing activities. Here, there is no *direct* link between a particular purchase and the donation of money by a company to a charity.[52] Szöcs et al.[53] have analyzed the connection between cause assessment, corporate philanthropy, and dimensions of corporate reputation from different stakeholders' perspectives and show that corporate philanthropy can improve perceptions of corporate reputation.

While the use of ethics as a positioning instrument can improve a retailer's image and lead to a competitive advantage, there is a downside to ethical positioning, as any ethical misconduct or problem will be viewed much more critically. Sainsbury, for instance, sold a "truly eco-friendly" shopping bag that was apparently Fair Trade certified. However, it later emerged that these bags were produced by cheap labor in China and were not as environmentally friendly as the consumers were led to believe. Naturally, this resulted in a volley of cynical reports in the UK tabloids.[54]

10.4.4 Ethical Issues Pertaining to Consumers

Overall, there is good news. Consumers increasingly want to be informed about the ecological and social background of the products they buy and use their shopping trolley to express social and ethical concerns.[55] However, to depict all consumers as ethical or ecologically concerned would clearly be wrong. Consumer theft and fraud cost businesses worldwide billions of dollars. Other consumer misbehavior also incurs financial costs. Examples are unjustified complaints, the psychological and physical abuse of employees or the many subtle forms of cheating, e.g., receiving too much change and not saying anything. Most consumers are also easily swayed to jettison their attitudes towards ethical issues when they buy non-deceptive counterfeits.[56] With few exceptions[57] these more subtle forms of consumer misdemeanors have largely been overlooked in previous research.

Still, there is a group of consumers who deserve particular protection, namely vulnerable consumers. These are consumers who have an impaired ability to give an informed consent to a market exchange.[58] Vulnerable consumers have also been labeled 'the least sophisticated' consumers,[59] who do not have the skills, knowledge and attitudes which efficient consumption decisions would require.[60]

[52] Schlegelmilch and Szöcs (2015).

[53] Szöcs et al. (2014).

[54] Poulter (2007).

[55] De Pelsmacker et al. (2005).

[56] Schlegelmilch and Stöttinger (1999).

[57] Schlegelmilch et al. (2004).

[58] DesJardins (2003) and Schlegelmilch and Houston (1989).

[59] Hill (2002).

[60] Jones and Middleton (2007).

Vulnerable consumer groups may include people with disabilities, children and the elderly. In developing countries, where illiteracy and very low level of education are often characteristic for large segments of the population, MNCs arguably also have an ethical obligation not to take undue advantage of vulnerable groups, for example by marketing unhealthy food or lottery tickets to very poor consumers.

10.5 Ethics and Global Communication

While ethical challenges can emerge in virtually all aspects of marketing and strategy, the plethora of cultural issues impinging on international marketing communication makes this a particularly intricate field. In addition to the usual ethical concerns connected to advertising everywhere, such as misleading and deceptive messages, advertising directed toward vulnerable consumer groups, advertising of certain product categories or services (e.g., gambling, alcohol, cigarettes, firearms, escort services), there are numerous issues that arise from differences in what is deemed acceptable and in good taste in different countries. Advertisers are usually well advised to adjust their messages to cultural, and in particular to religious sensitivities of their national target markets. Some fragrance manufactures, for example, produce two versions of an advertisement: one for European audiences, where the model wears a dress with a deep décolleté, and one for the Arabic market, where the same model dresses in modest high-cut attire, which covers any naked skin. Usually, this kind of adaptation does not pose an ethical concern.

However, when adaptation to local cultures conflicts with ethical positions held in the home country, MNCs may run into ethical conflict. This happened to the Swedish furniture retailer IKEA, which was criticized for removing female images from their catalogue used in Saudi Arabia (see Fig. 10.3).[61] Many consumers in Western Europe argued that IKEA should have acted as a change agent and promote the role of women in Saudi Arabia instead of over-zealously adapting beyond local legal constraints.[62]

Another interesting ethical debate connected to culture has been labeled 'cultural appropriation.'[63] It involves the use of some element of a culture (e.g. a typical design or a symbol) by another cultural group.[64] With the growing importance and pride people attach to their cultural roots, there is an increased likelihood of a negative reaction to cultural appropriation from the referent group. For example, when the lingerie manufacturer Victoria's Secrets had their models wear American Indian headdresses at a fashion show (see Fig. 10.4), they were faced with negative

[61] What IKEA Told Us (2012).

[62] The Guardian (2012).

[63] Francis and Beninger (2014).

[64] Young and Brunk (2009) and Rogers (2006).

Fig. 10.3 IKEA catalogue picture with and without woman. *Source*: With kind permission of IKEA: Accessed January 4, 2015, from http://buytheway.annenbergcourse.org/what-ikea-told-us

reactions in Web blogs, arguing that this promotes stereotyping Native cultures, and that the headdresses, feathers and war-bonnets have deep spiritual significance.[65]

10.6 Implementing Ethics into Global Marketing Practice

10.6.1 Mission Statements

The integrity of corporate leaders and a corporate culture that fosters high ethical standards are prerequisites for implementing ethics into corporate practice in general, and global marketing practice in particular. Beyond this, there are a number of more formal measures most large companies take to implement ethics into their decision-making. Starting at the roots of every strategic planning exercise, a first indication of the role of ethics in the company can already be found in many mission statements. A corporate mission statement embodies the business philosophy of a company and describes "…the firm's product, market, and technology in a way that reflects the *values and priorities* of the strategic decision makers"[66] (emphasis added). The pharmaceutical company Merck Sharp and Dohme Corp., for example, identifies five core values: "improving life, ethics and integrity, innovation, access to health, and diversity and teamwork." Each of these values is further detailed. Under "ethics and integrity" the company states: "We are committed to the highest standards of ethics and integrity. We are responsible to our customers, to Merck employees, to the environments we inhabit, and to the societies we serve worldwide."[67]

[65] Adrienne (2010).

[66] Graham and Havlick (1994).

[67] Merck (n.d.).

Fig. 10.4 Cultural appropriation. *Source*: Capital Pictures, London, UK

10.6.2 Corporate Codes of Ethics and Credos

While mission statements provide a first glimpse into corporate ethics, most companies publish separate documents labeled “codes of ethics” or “corporate credos”. Corporate codes of ethics can be very lengthy and detailed, and may be defined as “a statement setting down corporate principles, ethics, rules of conduct, codes of practice or company philosophy concerning responsibilities to employees, shareholders, consumers, the environment or any other aspect to society external to the company.”[68] Credos, in contrast, are usually brief statements about fundamental corporate beliefs and values.

[68] Langlois and Schlegelmilch (1990).

Corporate codes of ethics are relatively common among large companies. Taking a global marketing perspective, it is interesting to note that the issues addressed in codes of ethics tend to vary across countries. In earlier research, Catherine Langlois and I found that codes of ethics include both principles that transcend cultures and those which are culture-specific.[69] Issues that can be found in virtually all codes include relationships with customers, shareholders, suppliers and contractors; community; the environment; innovation; the use of technology; and fairness and honesty. In codes of ethics issued by US companies, political interests and employee relations are also frequently found. Given that the relationship to the government often takes a prominent place in US codes, this might indicate an underlying mistrust of the government. American managers are also more likely than, for example, British or German managers to perceive personnel issues as ethical issues. In general, US firms emphasize concepts of employee fairness and equity more strongly, while European firms are more likely to stress employee responsiveness to company activities.

10.6.3 Corporate Ethics Training Programs

There are also some country-specific differences in terms of ethics training, albeit not as pronounced as regards their written policies.[70] Ethics training programs may include having a speaker at a dealers' meeting or the organization of an annual corporate conference on business ethics that lasts a couple of days. More conventional ethics training programs may be quite lengthy and involve discussion of vignettes that focus on compliance with rules, balancing multiple responsibilities as well as values and integrity.[71] Many companies have also developed tailored online ethics training programs. McDonald's, for example, offers online ethics training around the globe.

10.6.4 Ombudsmen, Ethics Committees and Hotlines

There are also a number of other measures that support corporate integrity. Ombudsmen, also called ethics officers, may be selected or committees that are responsible for monitoring corporate ethics may be formed. Companies may also draft codes of ethics, run ethics training programs or organize ethics audits.

Hotlines offer a channel for employees and external parties to report suspected ethical misconduct. Usually, this is done anonymously. Whistle blowing is a related term most often used when suspected unethical behavior is reported to authorities. Hotlines and whistleblowers are very much an American invention and are hardly

[69] Langlois and Schlegelmilch (1990).

[70] Schlegelmilch and Robertson (1995).

[71] Paine (1994).

ever used in Europe and Japan.[72] This may be explained by the strong tradition of individualism in the US, which seemingly requires individuals to make ethical choices based on his or her personal ethical convictions.[73]

10.6.5 Regulatory Drivers

While it would be nice to think that all the aforementioned measures to implement ethics into corporations were entirely voluntary, in reality there are a number of legal and regulatory considerations that drive the corporate institutionalization of ethics. Two pieces of US legislation are particularly important in this context: the US Federal Sentencing Guidelines and the Foreign Corrupt Practices Act. The former encourage efforts to prevent ethical misconduct by reducing the liability of individual managers and companies, and the severity of the sentence in the case of ethical infractions, should such provisions be in place. This legislation has, for example, contributed to the strong increase in hiring ethics officers.

The Foreign Corrupt Practices Act is particularly important in the international arena in that it helps define ethical and legal behavior to limit bribes, fees and gifts. Interestingly, the Foreign Corrupt Practices Act also attempts to make a difference between a 'facilitating payment' (which is permitted) and a 'bribe' (which is forbidden and can result in high fines and the imprisonment of the managers responsible).[74]

There are also noteworthy guidelines that relate to corporate CSR disclosure.[75] While many companies provide information on their CSR activities,[76] these reports often lack uniformity and are consequently perceived by stakeholders as being not particularly helpful. In response, the Global Reporting Initiative (GRI) Guidelines were introduced in 1999, and have since been revised a number of times.[77] These guidelines provide companies with reporting principles for the preparation of sustainability reports, including the description of the values, principles, standards and norms of behavior, such as codes of conduct and codes of ethics. In addition, they provide performance indicators that describe the firm's economic, environmental and social impact. As a result, the GRI Guidelines have become the most widely adopted reporting standard by firms globally, with 82 % of the Global 250 currently using them.[78]

With the GRI Guidelines, companies must make two important decisions in determining their CSR disclosure strategy. First, they need to determine the degree

[72] Pickard (1995).

[73] Vogel (1993).

[74] Schlegelmich (2010).

[75] Simmons (2013).

[76] Hubbard (2011) and Kolk and Pinkse (2010).

[77] Global Reporting Initiative (2013).

[78] KPMG (2011).

of detail they wish to report; second, they have to decide whether the reported CSR activities should be subjected to third-party assurance. The latter helps to verify that the CSR report and methodology used to prepare it are well documented, evidence-based, and consistent with the GRI Reporting Framework.[79]

10.7 Summary

At the beginning of the chapter, we define key terms like *business ethics*, *marketing ethics*, *global marketing ethics*, *corporate social responsibility* (CSR) and *sustainability*. In doing so, we also highlight some of the main positions that fuel the debate in these areas.

Focusing on business ethics, we subsequently introduced some ethics theories, namely relativism, utilitarianism, universalism, Rawls' Theory of Justice and virtue theory. We showed that ethical judgments can differ substantially depending on which of the theories they are based upon, and that it is therefore not surprising that ethical standards may also differ across cultures. This leads to the question of how MNCs should deal with existing differences. While scholars continue to debate this complex issue, we highlight frameworks by Donaldson, Nash and Nill that aim to find common ground for dealing with ethical differences across cultures.

Since marketing in general, and global marketing in particular, are widely accused of being the worst offenders when it comes to ethics and CSR, we next review some of the most common challenges faced by marketers. While there is a kaleidoscope of ethical concerns connected to marketing in general, we mainly focus on those ethical issues specifically relating to global marketing and structure the discussion along the supply chain. Specifically, we highlight issues connected to product sourcing, intermediaries such as agents, distributers and brokers, as well as retailers and the consumers themselves.

Next, we examine some ethical problems that may arise in global communication. Although ethical challenges can emerge in virtually all aspects of marketing and strategy, the plethora of cultural issues impinging on international marketing communication makes this a particularly intriguing field.

The chapter closes with a description of how ethics and CSR can be implemented into global marketing practice. Building on corporate values that are expressed in mission statements, we look at the role of corporate codes of ethics and credos, at ethics training programs, ombudsmen, committees and hotlines. In addition, we also scrutinize some aspects of the regulatory environment that drive the corporate institutionalization of ethics. Since they are particularly relevant in an international context, we focus on the US Federal Sentencing Guidelines and the Foreign Corrupt Practices Act. And, given their relevance to corporate CSR disclosure, to conclude, we address the Global Reporting Initiative (GRI) Guidelines.

[79] Dhaliwal et al. (2011).

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The Future of Global Marketing Strategy 11

11.1 Different Visions of the Future

People have rather different perspectives on the future. With increasing age, the statement of the famous German physicist Albert Einstein gains attractiveness: "I never think of the future—it comes soon enough."[1] The infamous statement of the former US Vice President Dan Quayle also indicates that he saw the future as rather unpredictable: "I believe we are on an irreversible trend toward more freedom and democracy—but that could change."[2]

In contrast, Abraham Lincoln, the 16th president of the United States, believed that we shape our own future: "The best way to predict the future is to create it."[3] Similarly, William Jennings Bryan, a former US Secretary of State, proclaimed, "Destiny is not a matter of chance, but of choice. Not something to wish for, but to attain."[4]

As so often is the case, the truth appears to lie somewhere in the middle. Quite clearly, it is impossible to predict the future with any degree of certainty. However, what is possible is to spot trends. John Scully, who shaped both Pepsi Cola and Apple as Vice President and CEO, respectively, hit the nail on the head when he remarked, "The future belongs to those who see possibilities before they become obvious."[5] This chapter aims to identify some of these possibilities and discusses the likely implications for global marketing strategy.

Below, we single out *eight paradoxical* future trends. *Eight* trends—and not the usual top ten—because eight is a lucky number in Asia and should signal our optimism about the future. Of course, there are more! This is an admittedly

[1] BrainyQuote (n.d.).

[2] Dan Quayle Quotes (n.d.).

[3] Goodreads (n.d.).

[4] Tumblr.com (n.d.).

[5] BrainyQuote (n.d.).

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subjective selection without any claim to being comprehensive. *Paradoxical* trends, because trends are not what they used to be. In the past, trends were mostly linear—more or less of something that was either good or bad for everyone. In the post-modern twenty-first century, trends are often paradoxical. They are neither universally positive nor negative, nor are they bad for everyone or good for everyone.[6]

Following a discussion of the eight paradoxical trends, we turn to the possible implications for global marketing strategy. Decision-makers need to understand how they can capitalize on the opportunities trends may offer and minimize the threats they represent. Here, we revisit the idea of a balanced approach to global marketing strategy. Key decisions include how to balance corporate efforts between the exploitation of existing products and services versus the exploration of emerging trends; evolutionary and revolutionary change in transformation processes; and strategic marketing efforts between global standardization and local adaptation to take best advantage of paradoxical developments. The chapter closes with a summary of the key points.

11.2 Eight Paradoxical Trends

11.2.1 Globalization Versus the Renaissance of Local Values

It is debatable whether globalization started with the discovery of America by Christopher Columbus in 1492 or is a more contemporary phenomenon.[7] However, there is agreement that a significant advance in globalization occurred around the mid-nineteenth century and ended with the outbreak of World War I. The second wave of globalization began after World War II and continues today.[8] Dramatic decreases in transportation and communication costs and advances in the liberalization of trade and capital markets have fueled the development of globalization. The expression “death of distance”[9] succinctly captures these developments. For evidence of globalization, economists usually point to trade and investment flows around the world. The figures are truly impressive: Since the mid-1800s, the world population has grown about sixfold, world output 60-fold, but world trade over 140-fold.[10] In the last 25 years, world trade in manufactured products has increased by more than 300 %.[11] Investment figures are equally stunning; increasingly, multinationals produce goods in different countries around the planet. From 1982 to 2005, the value of foreign assets held by multinational enterprises rose by more than 20-fold.[12] Value chains stretching across multiple countries explain why some

[6] Pitt and Schlegelmilch (2008).

[7] The Economist (2013).

[8] Globalization and Trade (2008).

[9] Cairncross (2001).

[10] Maddison (2010).

[11] World Trade Organization (2011).

[12] BBC News (n.d.).

60 % of global trade consists of intermediate products and services incorporated at various stages of production.[13]

What does this all mean for consumers? You may read this text on an eBook Reader made in South Korea. If you still prefer the printed version, you may read the book sitting in a chair imported from Poland and working at a desk manufactured in Vietnam. You may have purchased these items from IKEA, the Swedish global furniture retailer. Your shoes may be designed in Italy but manufactured somewhere in South East Asia. The coffee you are sipping may be from Latin America and sold by a subsidiary of the Seattle-based Starbucks located on your local high street. Your hi-fi system may play the Vienna Philharmonic Orchestra's latest CD—but hang on, what are CDs? This is obsolete technology. Welcome to the fast-paced global market place. "Yesterday's marketing fantasy has become today's reality: the world has turned into a global village!"[14]

In the late 1950s and early 1960s, travelers would have recognized only a few signs and logos when visiting foreign countries. In contrast, today's tourists feel familiar with their surroundings even when visiting a country for the first time. Global brands such as Coca-Cola, Sony, Apple, and Mercedes-Benz are everywhere. The TV in the hotel broadcasts the same CNN and BBC World News as the TV back home. Not only do the McDonald's burgers and Starbucks coffee taste the same as those at home, the stores also look alike and the personnel wear the same uniforms. And of course, Visa and MasterCard are accepted just about everywhere, so there is not even a need to struggle with currency conversions. Thus, for many consumers, globalization is bliss. Cultures and countries across the globe finally appear to have realized that the similarities between them are greater than the differences, and that they all have more to gain from cooperation than conflict.[15]

However, there is also a flip side to globalization and not everyone shares this sense of bliss. In fact, there is a pervasive sense of global gloom. Many people feel that globalization is bad, and that we are worse off as a result.[16] Anti-globalization protests accompany almost every major meeting of political and business leaders, with the protesters united in their opposition to the power of large corporations. They allege that globalization harms the environment, undermines labor rights, threatens national sovereignty, and harms many people in the developing world. Critics also contend that globalization promotes unsustainable consumption, and contributes to unhealthy dietary patterns and to unsafe food technologies; in addition, they believe that globalization dilutes languages, interests, arts and beliefs.[17] Another claim is that the global economy has a tendency to insulate consumers from the various negative impacts of their purchases by stretching the distance between different stages of the value chain—from raw material extraction

[13] UNCTAD Geneva (2013).

[14] Keegan and Schlegelmilch (2001).

[15] Pitt and Schlegelmilch (2008).

[16] Eurobarometer 69 (2008).

[17] Cowen (2002).

to processing, use, and finally, disposal.[18] At the heart of all these allegations lies the assertion that globalization places profits ahead of human rights.

So how will globalization develop in the future? We agree with Kofi Annan, the Nobel Peace Prize winner and seventh Secretary-General of the United Nations: "... arguing against globalization is like arguing against the laws of gravity."[19] The more relevant question is how quickly it will proceed. However, increased globalization is also increasing risks that go beyond national boundaries. This has been sadly evidenced, for example, by the rapid spread of financial crises. Managing such risks, and ensuring the continuation of global integration, demands an increase in international cooperation and an alignment of national and international regulatory regimes.

Taking a consumer perspective, we expect strong pockets of resistance against international brands. In some industries, such as food, domestic brands still dominate. Euromonitor data[20] shows that the global packaged-food market is exceptionally fragmented, with the top ten branded players accounting for less than 16 % of global retail value in 2010, and only two global players holding a global share of more than 3 % (Nestlé and Kraft). We do not foresee any major changes in this, as consumers' domestic bias is an important determinant of domestic product purchase behavior.[21]

So what is the overall conclusion? Globalization is here to stay and will expand. However, it will not be a smooth development. There are strong forces resisting globalization, and for marketers, the need to adapt to local requirements and preferences will remain strong. Even standardized global products are bought by unstandardized local people! Opportunities for building successful marketing strategies around local products will remain and, paradoxically, may even become stronger in certain industries, such as food.

11.2.2 Population Growth Versus Population Shortage

As early as the eighteenth-century, the French sociologist Auguste Comte declared that "Demography is destiny."[22] Today, this observation is as relevant as ever. The world population continues to rise and is predicted to reach nearly nine billion people in 2040 (see Fig. 11.1). However, the rate of growth has slowed down. While the world population doubled from three billion to six billion in the 40 years running up to 1999, the growth in the next 40 years is expected to be "only" just under 50 %.

While the slower growth of the world population may be hailed as good news, the enormous differences in the population development are still concerning. The population in the poorest 50 countries is predicted to triple in size by 2050.[23]

[18] Barber (1995).

[19] BrainyQuote (n.d.).

[20] Euromonitor (2011).

[21] Josiassen (2011) and Gineikiene and Schlegelmilch (2015).

[22] BrainyQuote (n.d.).

[23] BBC News (2004).

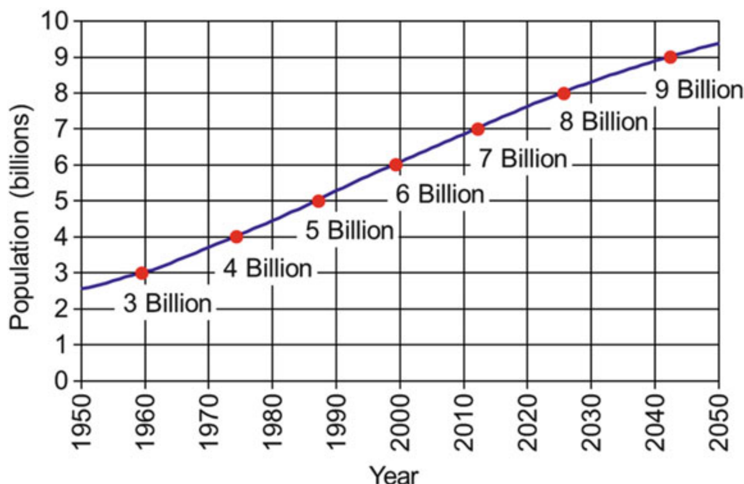

Fig. 11.1 Development of the world population: 1950–2050. *Source*: U.S. Census Bureau, International Data Base, July 2015 Update. https://www.census.gov/population/international/data/idb/worldpopgraph.php. Accessed 23 August 2015

Meanwhile, many countries face the opposite problem: Their population is contracting. The population of Japan, for example, is expected to decline by some 25 % and Germany's population by 14 % until 2050. During the same period, a widespread population decline is also projected for Eastern Europe: Every single country in the region, except the Czech Republic, is forecast to contract.[24] One of the big uncertainties, of course, is the impact of migration on the population development in Europe.

A contrasting picture exists when looking at the number of young people. There are more young people on our planet than ever before: 1.8 billion people, a quarter of the world population, are between the ages of 10 and 24; of these, nine out of ten live in less developed countries.[25] In fact, in 17 developing countries, half of the population is younger than 18.[26] Given such pressures, youth unemployment remains at a very high level worldwide:[27] "Up to 60 % of young people in developing regions are not working or in school, or have only irregular employment."[28] But once again, there is another side to the story. By 2050, some 20 % of the world population will be older than 60 years of age[29] (Fig. 11.2).

As the division between developed and developing countries in Fig. 11.2 indicates, population aging is happening in all regions of the world and progresses

[24] The Population Reference Bureau (2010).

[25] UNFPA (2014).

[26] UNFPA (2014).

[27] International Labour Organization (2013).

[28] UNFPA (2014).

[29] UNFPA and HelpAge International (2012).

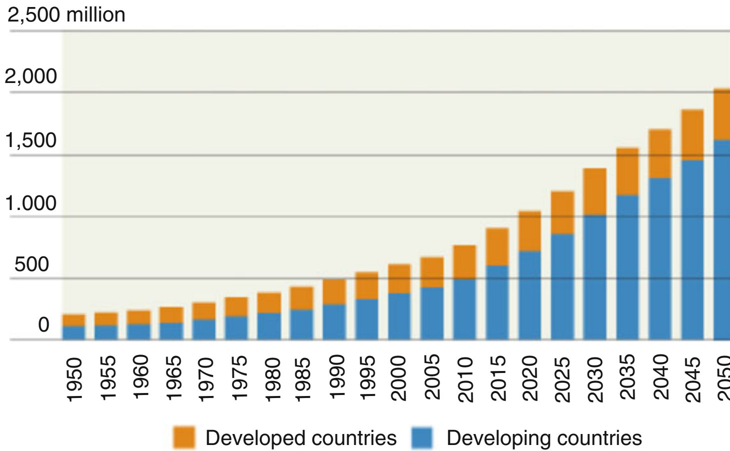

Fig. 11.2 World population aged 60 and over. *Source*: UNDESA, World Population Ageing 2011 (2012; forthcoming), based on UNDESA Population Division medium projection scenario, World Population Prospects: The 2010 Revision

fastest in developing countries. Still, marked differences are projected: By 2050, 10 % of the African population will be older than 60, compared to 24 % in Asia, 27 % in North America and 34 % in Europe. The described demographic trends have given rise to a new phenomenon, namely the emergence of "aged economies," that is, economies in which consumption by persons aged 65 or older surpasses that of the youth.[30] Thirty years ago, there were no aged economies. In 2010, there were 23 aged economies in the world, all of which were located in Europe, with the exception of Japan. By 2040, nearly 90 countries will be aged economies, including all of Europe, North America, Russia, China and Australia. Since the phenomenon of aged economies is so new, the consequences of this development are difficult to foresee. Will systems that build on intergenerational support (pensions, health care) be sustainable? What will happen to the economic growth of these economies? And will aged economies increase inequality? These and many more questions indicate the high degree of uncertainty we are facing in the light of the predicted demographic developments.

In conclusion, the demographic trends are clear, but their implications are muddy and paradoxical. On the one hand, increasing life expectancies indicate that marketers are well-advised to pay attention to the comparatively wealthy 60-plus market segment. Health care and wellness products, for example, will find receptive customers. On the other hand, the youth market, consisting of some 20 % of the world population, cannot be neglected either. Music and fashion products spring to mind for this segment. However, demographic trends show marked differences across regions and countries. These demographic differences,

[30] UNFPA and HelpAge International (2012).

coupled with key factors like youth unemployment and the distribution of wealth, dictate the need for a fine-grained country-by-country analysis. Again, a one-size-fits-all, worldwide, standardized marketing approach is unlikely to be successful.

11.2.3 Power of Supranational Organizations Versus the Rise of Megacities

The nation state appears to have few friends among supporters of globalization and its demise has been long since predicted. Intellectual heavyweights like the political scientist Stanley Hoffman,[31] the international business scholar Raymond Vernon[32] or the McKinsey consultant Kenichi Ohmae[33] all perceive the nation state as a dinosaur which will be overwhelmed by something larger, be it the European Union, multinational enterprises or, more generally, the rise of regional economies. The typical narrative depicts nation states as constructs that are losing relevance. Advances in global trade and investment, the global spread of technology and, in particular, the advances in global communication and transportation networks render national borders irrelevant, a hindrance that must be overcome. Different currencies, import tariffs, capital controls, visa controls and various other diverse legal practices are seen as obstacles driven by national, possibly even nationalistic, interests that prevent a unified global economy and ultimately the emergence of a true global community. The consequence is a call for harmonization that imposes limits on nation states with regard to setting their own standards. Instead, rules, regulations and standards are increasingly being developed by regional bodies. This will increase the importance of political and economic unions like the EU, NAFTA or ASEAN, the role of multilateral trade agreements like TTIP or TPP, and the need for worldwide bodies, notably the WTO. In this scenario, the pursuit of social goals will increasingly be driven by non-governmental organizations and corporate social responsibility will be an instrument of self-regulation used by responsible multinationals.

While the above arguments are intellectually attractive, there are a number of indicators that speak against the disappearance of nation states and, in fact, indicate the emergence of even smaller administrative units. We predict that diverging interests and different national agendas make cooperation hard to achieve. Even traditional nation states find it difficult to convince parts of their own population to stay united: Scots, Catalans, and Basques in Europe; Kurds and Palestinians in the Middle East; Tibetans in China and Kashmiris in India are all vying for various degrees of independence. Thus, it is easy to see how much more demanding it will be to gain agreement on trade and investment issues in supranational entities. Entrusting too much regulatory power to supranational domains often leads to the

[31] Hoffman (1966).

[32] Vernon (1971).

[33] Ohmae (1995).

detachment of local people and institutions affected by these regulations. Complaints about a lack of democratic legitimacy and a loss of voice and accountability arise.[34] In this context, it is interesting to observe that even after decades of European integration, European citizens feel a vastly stronger attachment to their respective nation states than to the EU.[35]

Individuals differ in their preferences over public goods and do not agree on the trade-offs between equality versus opportunity, economic security versus innovation, or stability versus dynamism. This implies that the larger the population, the greater the number of people who find their preferences ill-served by a standardized approach.[36] As Dani Rodrik, the well-known critic of globalization, puts it: "Differences in preferences are ultimately the chief argument against institutional harmonization globally [. . .] Smaller countries are better able to respond to their citizens' needs. The optimum number of jurisdictions, or nation states, trades off the scale benefits of size against the heterogeneity costs of public good provision."[37]

So what could these smaller administrative units look like? We see two trends that point toward the shape of things to come. First, a breakup of some nation states or, alternatively, the devolution of central powers to federal structures. Second, and closely connected to this, the emergence of mega-cities that, simply based on their size, will rival the importance of smaller nation states.

As regards the first point, there are strong signs that local regions within seemingly well-established nation states long for independence. Extending on some of the examples given above, Scotland strives for more independence from the United Kingdom, Catalonia vies for independence from Spain and Flanders seeks autonomy from Belgium. Other examples are the Basques, the Kurds, the French-speaking Canadians (Quebeckers), the Uyghur in North West China, the Chechens in Russia, or the separatists in South Yemen; to name but a few.[38] Somehow, many people perceive a stronger identity to specific culturally and geographically smaller sub-groups than to the nation state in which these sub-groups are embedded.

Second, there is the emergence of megacities, i.e. a metropolitan area with more than ten million people. The UN notes that in 1990, there were ten megacities worldwide, in 2014 there were 28 and by 2030 it predicts there will be 41 cities with ten million inhabitants or more.[39] Already, cities are powerful: For example, Mexico City and São Paulo account for some 50 % of the GDP of Mexico and Brazil, respectively, and although only about 10 % of the population of Thailand lives in Bangkok, it accounts for more than 40 % of the Thai GDP. In addition, most megacities also have a higher GDP per capita than their national average.[40] Since

[34] Rodrik (2011).

[35] The World Values Survey (n.d.).

[36] Alesina and Spolaore (2003).

[37] Rodrik (2013).

[38] Roth (2015).

[39] United Nations (2014).

[40] OECD (2006).

they yield so much economic power, it is likely that cities will also become more influential administrative units.

So what can we conclude? Will we see a power shift from nation states to supranational organizations? Will megacities become more influential? Will nation states be crowded out between these two contravening forces? The paradoxical answer is a yes to all three scenarios. Supranational organizations will undoubtedly be needed to provide frameworks and regulations for world trade and investments. The rising economic role of megacities is likely to be accompanied by an increasing demand for political power. Nation states, finally, are likely to survive but will increasingly lose their ability to set independent fiscal and economic policies. Competition for influence will come from both sides: supranational organizations on the one hand and smaller federal units or megacities on the other. Corporations are therefore well-advised to use a balanced approach and cultivate their networks on multiple levels.

11.2.4 Disruptive Technologies Versus Retro Products

That technological progress can change entire industries is old news. Steam engines rendered the cottage industry uncompetitive and, in turn, electricity replaced the steam engines. However, what is new is the speed of change. The digital revolution is, once again, changing the playing field for many industries—at an unprecedented pace. Examples can be found in the travel industry (from online bookings to Airbnb), the telecom industry (from Skype to WhatsApp) or the retail industry (from location-based services to online shopping). Many of these developments result from the rapid rate of technological advances. Since 2005, the costs of delivering one megabyte of data wirelessly have dropped from US$8 to just a few cents.[41] Taken together with the prediction that, by 2020, 80 % of the world's adult population will own smartphones,[42] we start to understand the potential behind this technological revolution. WhatsApp was founded in 2009 and already delivers ten billion more messages than SMS global text messaging systems every day. Interestingly, WhatsApp, which has more than a billion users located primarily in the US and Europe, appears to have lost its monopoly and is now battling against WeChat, which has some three billion users in China and South East Asia, and Line with more than 100 million users, again primarily in South East Asia and Japan. Both WeChat and Line were only founded in 2011.[43] Or take another example: Uber, the mobile taxi app, which now operates in 55 countries but was only founded in 2009. What will the speed of adoption be for other disruptive technologies such as 3D printers, wearable technologies (e.g. smart watches, fitness products or connected eyeglasses), radio-frequency identification (RFID) chips, etc.?[44] We have to

[41] The Economist (2015a).

[42] The Economist (2015b).

[43] The Fuse Joplin (2014).

[44] Manyika et al. (2013).

acknowledge that 5 years is a long time when it comes to technological progress. Many developments that will revolutionize entire industries, including the emergence of new multinational firms, will happen in an unprecedentedly short time.

As so often, there is a flip side to all the innovative technologies and new business models: "retro" brands, i.e. relaunched historical brands with updated features.[45] These brands appeal to consumers' nostalgic leanings by using familiar slogans or packages. They embody moral values of craftsmanship and durability, and connect to times when the world seemed safer, more comprehensible, and less commercial.[46] Usually, the retro products are not exact reproductions, but products that combine old-fashioned forms with up-to-date functions and thereby harmonize the past with the present.[47] The contemporary Volkswagen Beetle[48] embodies this approach. A distinction between personal and communal nostalgia[49] provides some pointers on why we predict the growing importance of retro brands. Personal nostalgia is associated with individual life cycles. Thus, a growing number of older people (see Sect. 11.2.2) is likely to be more interested in retro brands that help them to remember their youth. Communal nostalgia, on the hand, is said to occur at the societal level in the wake of epochal changes. As we are no doubt experiencing epochal changes in our technological environment—some observers talk about a technological paradigm shift[50]—it seems highly likely that a contrasting trend that offers consumers familiarity and a sense of stability will emerge.

In conclusion, two paradoxical developments can be observed. Consumers are bombarded with new technologies and new ways of doing business. Many of these new products will dramatically change our lives (e.g. household robots) and our consumption behavior (e.g. online shopping). Meanwhile, the accelerating speed of change will make consumers yearn for stability, grounding and a connection to a past which they could better understand. This is where nostalgic products enter the picture. Thus, from a marketing strategy perspective, opportunities will arise for both the exploration of new technologies and the exploitation of well-established products and brands.

11.2.5 Large Multinationals Versus Niche Players

Large enterprises continue to play a major role in globalization. To illustrate their power, it is often pointed out that the revenues of the largest multinational companies exceed the GDPs of countries like Norway, Thailand or New Zealand.[51] This

[45] Brown et al. (2003).

[46] Thompson et al. (1994).

[47] Brown et al. (2003).

[48] VW.com (n.d.).

[49] Davis (1979).

[50] Liu (2009).

[51] Trivett (2011).

is a somewhat misleading comparison, as GDP refers to value added. However, the value added of a company is not its revenue, but the profit plus the wages paid in a particular year. Thus, the better mapping would be against *smaller* countries; for example, last year Apple would have been about in line with Hungary, Vietnam or Ecuador, depending on the exact wage-bill of the company.[52] Nevertheless, the core argument still holds, namely that MNCs are more economically important than many countries.

The activities of large multinationals usually span multiple countries. Table 11.1 lists the world's top non-financial transnational companies and shows their foreign assets, foreign sales and foreign employees in relationship to the respective total figures. Looking at the Transnationality Index (TNI), defined as the average ratio of the foreign assets to total assets, foreign sales to total sales, and foreign employment to total employment, shows the high degree of internationalization of these companies.

So how do these figures translate into the realities of a particular company? Take Nestlé as an example: With about 330,000 employees, the company offers more than 2000 brands worldwide. These include Nespresso, Perrier, Carnation, Häagen-Dazs, Coffee-mate, Gerber, Maggi, KitKat, Lean Cuisine, Purina, and many more. According to its latest annual report,[53] Nestlé sells its products in 196 countries and operates 447 factories in 86 countries. The production facilities are relatively evenly spread throughout Europe (140), the Americas (164) and Asia, Oceania and Africa (143).

The Volkswagen Group offers another example.[54] With nearly 600,000 employees, the VW Group operates 118 production plants in 31 countries. Their vehicles are sold in 153 countries and include the brands VW, Audi, Seat, Skoda, Bentley, Bugatti, Lamborghini, Porsche, Ducati, Scania, and MAN. And, just for good measure, the VW Group also owns a bank, Volkswagen Financial Services AG.

For companies like Nestlé, Volkswagen and other MNCs, globally integrated production and supply chains are daily routine. Global value chains offer multinationals a number of potential advantages, such as access to raw materials, markets and capital, production sites which offer beneficial cost structures, the ability to tap into knowledge hubs and transfer knowledge from one market to the other, economies of scale and scope, and, albeit with legal limitations, the ability to avoid taxes. Will the rise of TNCs continue to the detriment of niche players? Already, only two companies, Philip Morris and Nestlé, dominate some 50 % of the world coffee roasting and processing market[55] and five car companies, Toyota, General Motors, Volkswagen, Hyundai-Kia and Renault-Nissan, control just over 50 % of the global automobile market.[56]

While the reach of large global multinationals appears overwhelming, there are also niche players that are highly successful in their markets. Hermann Simon coined

[52] Apple has more than 34,000 full-time employees and we assumed an average wage bill of US$50,000 per person.

[53] Nestle.com (2015).

[54] Volkswagen.com (n.d.).

[55] FOA (n.d.).

[56] Lowry (2014).

Table 11.1 Top non-financial transnational companies: Foreign assets, sales and employees

Ranking by:				Assets[a]		Sales[a]		Employment[b]		TNI[c]
foreign assets	Corporation	Home economy	Industry	Foreign	Total	Foreign	Total	Foreign	Total	(%)
1	General Electric Co.	United States	Electrical and electric equipment	331,160	656,560	74,382	142,937	135,000	307,000	48.8
2	Royal Dutch shell plc	United Kingdom	Petroleum expl./ ref./distr.	301,898	357,512	275,651	451,235	67,000	92,000	72.8
3	Toyota Motor Corporation	Japan	Motor Vehicles	274,380	403,088	171,231	256,381	137,000	333,498	58.6
4	Exxon Mobil Corporation	United States	Petroleum expl./ ref./distr.	231,033	346,808	237,438	390,247	45,216	75,000	62.6
5	Total SA	France	Petroleum expl./ ref./distr.	226,717	238,870	175,703	227,901	65,602	98,799	79.5
6	BP plc	United Kingdom	Petroleum expl./ ref./distr.	202,899	305,690	250,372	379,136	64,300	83,900	69.7
7	Vodafone Group Plc	United Kingdom	Telecommunications	182,837	202,763	59,059	69,276	83,422	91,272	88.9
8	Volkswagen Group	Germany	Motor vehicles	176,656	446,555	211,488	261,560	317,800	572,800	58.6
9	Chevron Corporation	United States	Petroleum expl./ ref./distr.	175,736	253,753	122,982	211,664	32,600	64,000	59.3
10	Eni SpA	Italy	Petroleum expl./ ref./distr.	141,021	190,125	109,886	152,313	56,509	83,887	71.2
11	Enel SpA	Italy	Electricity,gas and water	140,396	226,006	61,867	106,924	37,125	71,394	57.3
12	Glencore Xstrata PLC	Switzerland	Mining and quarrying	135,080	154,932	153,912	232,694	180,527	190,000	82.8
13	Anheuser-Busch InBev NV	Belgium	Food, beverages and tobacco	134,549	141,666	39,414	43,195	144,887	154,587	93.3

14	EDF SA	France	Utilities (Electricity, gas and water)	130,161	353,574	46,978	100,364	28,975	158,467	34.0
15	Nestlé SA	Switzerland	Food, beverages and tobacco	124,730	129,969	98,034	99,669	322,996	333,000	97.1
16	E.ON AG	Germany	Utilities (Electricity, gas and water)	124,429	179,988	115,072	162,573	49,809	62,239	73.3
17	GDF Suez	France	Utilities (Electricity, gas and water)	121,402	219,759	72,133	118,561	73,000	147,199	55.2
18	Deutsche Telekom AG	Germany	Telecommunications	120,350	162,671	50,049	79,835	111,953	228,596	61.9
19	Apple Computer Inc.	United States	Electrical and electronic equipment	119,918	207,000	104,713	170,910	50,322	84,400	59.6

Source: Based on UNCTAD World Investment Report 2014, Annex Table 28. http://unctad.org/Sections/dite_dir/docs/WIR2014/WIR14_tab28.xls. Accessed 23 August 2015

[a] Millions of US$

[b] Number of employees

[c] TNI, the Transnationality index, is the average of the following three ratios: foreign assets to total assets, foreign sales to total sales and foreign employment to total employment

the label "hidden champions" to refer to small and medium-sized companies with revenues of less than 3 billion euros that hold strong positions in the markets they are operating in and are often not listed on the stock exchange.[57] These companies tend to be number one, two or three in the global market or on the continent where they are headquartered. Hidden champions are usually found in niche markets for which they manufacture specialized products. To achieve economies of scale, these niche players need to offer their products on a global (or at least regional) scale. They tend to work closely with their customers and often use them to co-develop new products. These niche players are usually not cost leaders but gain their competitive advantage through high quality. For their industrial customers, the total cost of ownership would be higher if they were to internalize the operations of these niche players.

According to Simon, many of these niche players can be found in the German Mittelstand (SMEs). A typical hidden champion is Delo, which produces special adhesives for electronic applications; about 80 % of all smart (chip) cards and more than 50 % of all mobile phones in the world are glued together by Delo adhesives.[58] Other examples include Tetra, which holds a 60 % global market share in food for ornamental fish or Grimme, which specializes in potato, beet and vegetable technology.[59]

However, hidden champions are not the only challenge to traditional large global enterprises. So-called "born global" firms also demonstrate that globalization is not a question of firm age. These are firms that seek to derive significant competitive advantage from the use of their resources and the sale of outputs in multiple countries virtually right from their inception.[60] Thus, instead of following a traditional stage model where companies first establish growth in their home markets and then gradually internationalize by focusing on psychologically close markets,[61] their globalization occurs much quicker. This has become possible through rapidly changing market conditions, new technologies and a management that has a global focus. In terms of changing market conditions, it is the ease of international sourcing, production and selling which facilitates globalization. Technological drivers are, for example, the lower communication costs, e-business opportunities and reduced transaction costs. In many industries, the disintegration of the value chain[62] has opened up new opportunities for smaller, specialized companies. Take the biotech sector and the emergence of specialized research firms as an example,[63] or the trend toward "fabless", i.e. non-manufacturing chip design companies.[64] Even the traditional car industry is leaning more and more toward the vertical disintegration of its value chain, with

[57] Simon (2007).

[58] Hennigan (2015).

[59] Palm (2014).

[60] Knight and Cavusgil (2004).

[61] Johanson and Vahlne (1977).

[62] Jacobides (2005).

[63] Arora et al. (2001).

[64] Macher and Mowery (1998).

the effect that new specialist players have emerged. Finally, managers now also have a higher awareness of geographically dispersed knowledge resources or customer bases. Managers with an international orientation tend to have a network of trusted personal relationships; it is this social capital that enables them to tap into dispersed knowledge bases and leads them to an early and rapid internationalization.

To conclude, we are again seeing two paradoxical developments. On the one hand, the power of large global enterprises is phenomenal and often rivals the economic power of entire countries. On the other hand, there are the "hidden champions", the "born global" firms and the disintegration of the value chain. Many small and medium-sized companies, the hidden champions, are successfully defending global niche positions. The born global firms are flouting traditional internationalization trajectories and become global players virtually from the start. The disintegration of the value chain has given nourishment to these developments in that it leads to increased specialization and fosters the emergence of smaller, yet still global companies.

11.2.6 Growing Prosperity in Asia Versus Sluggish Economies in the West

Comparing the economic development of Asia, and in particular China, with those of the European Union and the USA makes for sober reading for Europeans and Americans. Figure 11.3 shows the decline of the EU15,[65] the USA and Japan, versus the impressive rise of "Emerging Asia," which refers to China, India, Indonesia, Malaysia, the Philippines, Thailand, and Vietnam. Meanwhile, Central Eastern Europe, the Middle East and Africa (CEEMEA) show a much slower upwards trend, while Latin America (Latam) exhibits modest gains but remains at a low level overall.[66]

Emerging Asia is also an attractive place to invest money. UNCTAD reports in its investment priority survey[67] that China tops the list of the most attractive host economies for investments identified by transnational companies (TNCs). The importance of Emerging Asia is further highlighted by the fact that six countries in this group are among the top 15 investment destinations of TNCs. And not all of these investments are in manufacturing; although the US still spends more on R&D than any other country in the world, Emerging Asia, led by China, already employs far more researchers than Europe or the United States.[68]

From a marketing perspective, the growing importance of Emerging Asia is best illustrated with reference to China. The country has just overtaken Japan and is

[65] EU15 refers to the countries that where members of the European Union prior to the accession of ten additional countries in 2004. The EU15 countries are Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden and the United Kingdom.

[66] Citi: 10 Mega-Themes that Spell the End of Western Dominance (2010).

[67] United Nations Conference on Trade and Development (UNCTAD) (2010).

[68] UNESCO (2010).

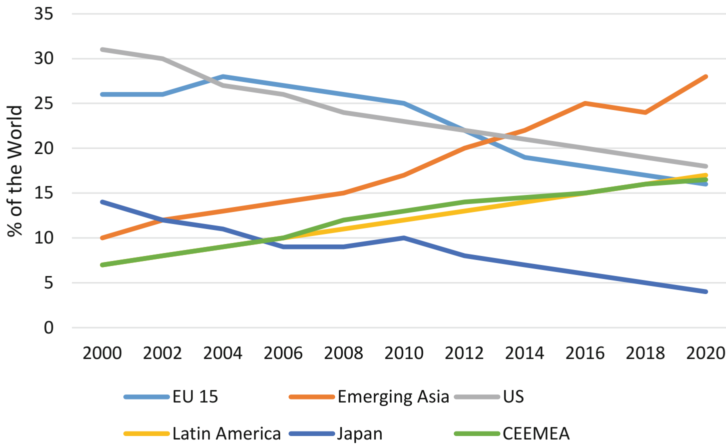

Fig. 11.3 Share of nominal world GDP

expected to surpass the US as the world's largest consumer market before 2020.[69] While the very strong growth in China has recently slowed down and adjustments of the expanding economy are highly probable, there is still so much development potential in this vast market that the country remains on track in terms of this prediction. By 2010, China had already overtaken the United States as the largest market for new cars.[70] Driven by an expanding middle class and massive urbanization, the Chinese consumer market has shown an exceptionally strong growth, in particular at the luxury end of the market. However, it is not urbanization alone that drives the trend; access to information about luxury products and the availability of online shopping are also fueling the Chinese taste for top-end brands.[71]

In the meantime, Europe and the United States offer a substantially bleaker picture characterized by weak (or even negative) GDP growth.[72] While the United States is developing slightly better than Europe, both regions are losing ground against Emerging Asia (see Fig. 11.3). The Eurozone appears to go from one crisis to the next, with the debate surrounding a possible Greek exit (Grexit) unearthing only the most obvious of the many structural problems beleaguering the weak Euro. Looking at the EU at large, national interests still diverge strongly in terms of crucial issues ranging from migration, fiscal policies, legislation on social welfare or competition. Furthermore, the threat of the United Kingdom exiting the EU (Brexit), which is widely debated, would harm the European Union more substantially than a Greek exit from the Euro.[73]

[69] The Economist (2014a).

[70] Wang et al. (2012).

[71] Atsmon et al. (2011).

[72] Eurostat (2015).

[73] Arnold (2014).

However, not all is doom and gloom in Europe. The IMD as well as the WEF[74] consistently rank some European economies among the most competitive countries in the world, notably Germany, the Netherlands, Sweden, Norway, Finland and, of course, Switzerland. In addition, Europe can boast a highly global corporate sector, led by energy companies like Royal Dutch Shell, BP and E.ON, automobile companies like VW, Daimler or BMW, financial services like Allianz, BNP Paribas or Deutsche Bank, and consumer goods companies like Nestlé, Unilever or Henkel.

As far as consumer spending is concerned, in 2014 Western Europe's retail spending was still slightly larger than that of the US (US$3.4 vs. 3.2 trillion). However, in 2010, Western Europe's retail expenditure was surpassed by the Asia Pacific region, which recorded US$4.5 trillion in retail expenditure in 2014. In the apparel and footwear industry, the pattern has also been repeated: Asia Pacific overtook Western Europe as the largest market in 2009. In 2014, Asia Pacific (US$585 billion) led Western Europe (US$420 billion) and North America (US$364 billion). In luxury goods, finally, Western Europe is still the largest market is the world (US$112 billion in 2014 vs. US$90 billion in Asia Pacific and US$85 billion in North America). But once again, Asia Pacific is poised to outpace Western Europe within the next 4 years.[75] At present, the Chinese, the world's biggest shoppers abroad, still like to buy many of their luxury items in Europe. This may change with increased availability of such products in their domestic market; at present, some 50 % of the world's new shopping malls are being built in China.[76]

To conclude, in terms of economic development, Europe and the US are not doing too well and are on a declining trajectory in terms of their proportion of world GDP. In the foreseeable future, most economic growth will come from Emerging Asia, where urbanization and the consumer spending of an expanding middle class are paving the way for a positive development. Paradoxically, increasing travel and the associated shopping of Asians in Europe will somewhat cushion the decreasing spending power of European consumers in the luxury goods industry. A glimmer of hope also lies in the fact that many European MNCs are in a strong position in Asia and are likely to benefit from the positive market environments in Emerging Asia.

11.2.7 Increasing Environmental Degradation Versus Inaction on Climate Change

Environmental degradation is widely accepted as a major and complex global problem. The OECD defines it as "the deterioration in environmental quality from ambient concentrations of pollutants and other activities and processes such as improper land

[74] The World Economic Forum (2014).

[75] All retail, apparel and footwear and luxury goods figures mentioned in this paragraph are retrieved from Euromonitor, http://portal.euromonitor.com. Accessed March 30, 2015.

[76] The Economist (2014b).

use and natural disasters."[77] There are numerous reasons for environmental degradation that range from population increase, to unsustainable economic growth, the depletion of finite resources, polluting technologies and climate change. Rather alarmingly, recent studies[78] show that four out of nine processes enabling life on earth have now exceeded safe levels, namely climate change, biosphere integrity, land system change and the flow of pollutants (e.g. phosphorus and nitrogen) into the oceans. The findings show that the changes which have occurred during the last 60 years were unprecedented in the previous 10,000 years. In only six decades, we have witnessed a sevenfold increase in urban population, a fivefold increase in the use of primary energy, an eightfold increase in the amount of fertilisers used, and a fourfold increase in the volume of nitrogen flowing into the oceans. Pointing to these developments, the scientists assert that the economic systems are fundamentally flawed, as they are driving us towards an unsustainable future.

Referring specifically to climate change, the World Economic Forum in Davos, Switzerland, which is not usually known for alarmist statements, remarked that the "consequences of insufficient action [against climate change] are still completely underestimated" and if actions are not taken in a timely fashion, ". . . climate has the potential to wipe out the progress we have made over the past 20 years in economic development, in social development and in environmental protection. It is the major 'wipe out' factor."[79]

Given that there is a broad awareness of the need to take action against environmental degradation, why is it so difficult to combat this issue? While actions are being taken on numerous levels, individual to transnational, and things are moving in the right direction, there are still substantial hurdles to overcome. Many problems, such as unnecessary pollution and the wasteful use of resources, still exist at corporate level. However, to point the finger only at companies would be wrong. Individual consumers are also reluctant to adapt their consumption and waste disposal patterns. In fact, there is often a large discrepancy between positive attitudes towards sustainability and actual behavior. Consumers use numerous "neutralization strategies," such as pointing to their negligible personal impact on pollution or claiming that everyone else is also polluting, to legitimize this inconsistent attitude-actions gap.[80]

Finally, there is the regulatory dimension. When it comes to the ecological damage of economic activities, climate change is at the centre of international endeavours. The United Nations Framework Convention on Climate Change (UNFCCC) is a treaty which was first established in 1992.[81] Countries that joined the convention have tried to find ways to limit average global temperature increases. This convention, better known as the Kyoto Protocol, commits the participating industrialized countries to stabilize greenhouse gas emissions. To

[77] OECD (2001).

[78] Steffen et al. (2015a, b).

[79] World Economic Forum (2014).

[80] Gruber and Schlegelmilch (2014).

[81] United Nations Framework Convention on Climate Change (n.d.).

date, 192 countries have signed and ratified the Kyoto Protocol. However, unease about the potential damage to their economies through the required compliance and concern about excluding some developing countries, including India and China, from having to comply with new emissions standards resulted, for example, in the United States of America never ratifying the Kyoto Protocol and Canada withdrawing from it. Thus, to date, there is no unifying and binding framework that commits all nations to specific measures that reduce emission of pollutants.

National legislation—and the enforcement of legislation—aimed at environmental protection and sustainability also differs widely. Among others, different standards are reflected in the countries' share of carbon emissions. Figure 11.4 shows that China and the United States of America remain the major areas of concern, as evidenced by their respective share of carbon dioxide emissions from the consumption of energy.

To conclude, environmental degradation and climate change are widely recognized as major threats to a sustainable future. The worsening environmental conditions that have occurred during the last 60 years are unprecedented, and actions to combat such negative developments are urgently needed. While important steps toward securing a sustainable future have been taken, there still appears to be inertia among a large number of companies, consumers and law-makers. This is quite paradoxical, since actions need to be taken in a timely fashion. If not addressed, environmental degradation and climate change may wipe out much of the progress made over the past two decades in economic and social development.

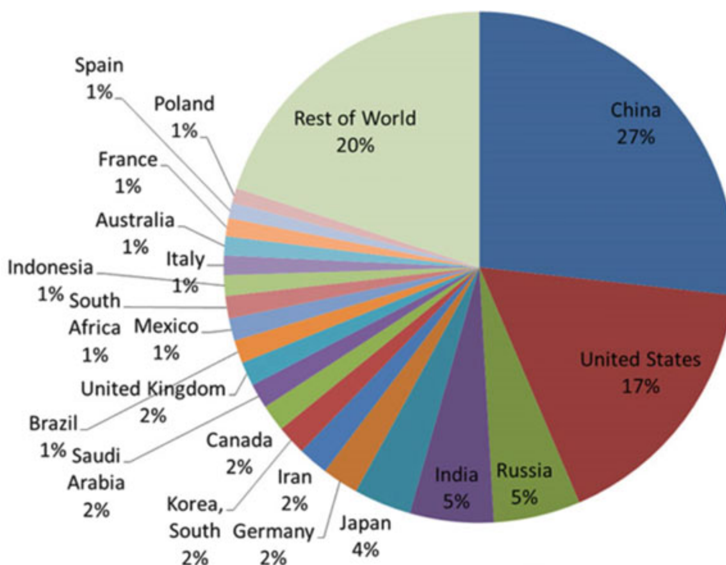

Fig. 11.4 Share of carbon dioxide emissions from the consumption of energy. *Source*: Union of Concerned Scientists (2014, November 18). http://www.ucsusa.org/global_warming/science_and_impacts/science/each-countrys-share-of-co2.html#.VSjosRscQdc. Accessed 23 August 2015

11.2.8 Big Data and Connectivity Versus Privacy and Authenticity

The final trend we would like to highlight pertains to "big data." The term refers to very large or complex data sets that create a host of challenges in terms of capturing, analyzing, storing, etc. What exactly counts as "big" is deliberately left ambiguous. The reason why becomes obvious when looking at a report by McKinsey, where big data is defined as "datasets whose size is beyond the ability of typical database software tools to capture, store, manage, and analyze."[82] What goes beyond the ability of a database software tool today is drastically different from 10 years ago and will be even more different when looking 10 years into the future. Thus, the "big" in big data is a moving target.

Big data is set to revolutionize economic activity by enhancing productivity and competitiveness in such diverse areas as manufacturing, public policy and health care. At the same time, it challenges existing business models, for example broker businesses, as information asymmetries are disappearing rapidly as data transparency increases. From a strategic marketing perspective, it is primarily the predictive analytical power of big data that is of interest. Large amounts of data can now be gathered cheaply, and often automatically, through a variety of devices starting from mobile phones, to software logs, cameras, microphones, radio-frequency identification (RFID) tags or sensors in cars, machines, etc.[83] Such data can be used to create value. Retailers, for example, are mining customer data to better understand customer preferences and buying behavior. Combining customer data collected from multiple sales channels, including e-commerce, helps them to improve the effectiveness of their operations. Amazon, for example, was reported to have increased its sales by nearly 30 % when it first started using big data for recommending products through the simple line "Customers who bought this item also bought. . ."[84] The McKinsey Global Institute identified 16 "big data levers" for the retail sector, including cross-selling, location based marketing, in-store behavior analysis, pricing optimization, assortment optimization and web-based markets.[85]

For the consumer, however, big data often conjures up fears of "small privacy." Most readers will have heard about the example of the retailer Target, who apparently knew that a young woman was pregnant before her father did.[86] Target, like most other retailers, uses credit cards, coupons, surveys, etc. to collect data from their customers. Combining consumer purchasing habits with, for example, information about age and marital status, postcode, estimated income, or externally purchased data on job history, readership habits, educational background, car ownership or social media behavior, apparently enables the company to predict the likelihood of a pregnancy. When a young woman suddenly starts buying

[82] McKinsey Global Institute (2011).

[83] Segaran and Hammerbacher (2009).

[84] Zeng (2015).

[85] McKinsey Global Institute (2011).

[86] Duhigg (2012).

unscented lotion, nutritional supplements, and cotton balls, there is a good chance she is expecting a baby.[87]

Many consumers despise the use of big data. They feel watched or even stalked. Regulators are also increasingly concerned about data privacy issues and worry about how big data is gathered and commercially used. In the EU, data protection regulation tends to be stronger than in the US[88]; however, the US Federal Trade Commission (FTC)[89] is also increasingly concerned about the potential misuse of big data. Recommendations of consumer advocates about how to avoid passing on private data abound, and entire books are devoted to protecting "you and your family" against the big data.[90]

To conclude, we once again face a paradoxical trend. On the one hand, the technological capabilities to gather and analyze big data grow day by day. For companies, this opens up new ways to compete and to conduct business. However, while many of the advances made by big data analytics translate into consumer advantages, such as increased price transparency and more relevant recommendations, many consumers and regulators are also flagging up privacy concerns. Privacy thresholds differ between individuals and cultures. Hence, it will be interesting to watch whether a widely accepted balance between the use and misuse of big data can ever be achieved.

11.3 Implications for Global Marketing Strategy

11.3.1 No More Business as Usual

The paradoxical trends discussed above—in addition to many others not discussed—clearly indicate that we are going through a period of unprecedented change. For global marketing strategy, there are two contrasting implications: (1) Never before has the time for aggressive new market entries been so good; (2) Never before has the value of incumbency been so low. Technological changes have made it possible for companies like Skype, Uber, WhatsApp or Facebook to become global household names in less than a few years since their inception. However, a rapidly changing environment has also led to the demise of well-known, established firms like Grundig, Kodak or Polaroid.

The rapid changes in the business environment also indicate very clearly that there is no more time for business as usual. But what does this mean for managers charged with crafting global marketing strategies? First and foremost, it indicates the need to question the status quo. Among others, managers should think about changes in the competitive landscape: Will the competitors they are facing in 5 years be the same as the ones they are facing now? They also need to consider

[87] Zeng (2015).

[88] European Commission (2014).

[89] Federal Trade Commission (2014).

[90] Payton and Claypoole (2014).

the impact of emerging technologies: How will new technologies change our business? Furthermore, managers must track development on the demand side: Which changes in consumer values, perceptions and demands are likely to occur? And last but not least, they need to reflect on the sustainability of their own business model: Will our business model become obsolete? Figure 11.5 lists six of the key questions that managers concerned with global marketing strategy should reflect on.

11.3.2 The Quest for Balance

Looking for relevant future trends and thinking about how to take advantage of such trends needs to be balanced with a focus on current business. This is the well-known exploitation-versus-exploration balance,[91] where exploitation primarily focuses on refinement, efficiency and production, while exploration refers to searching, experimentation, discovery and innovation (Fig. 11.6). Ideally, a company balances both activities and is able to create organizational structures that permit ambidexterity between both orientations.[92]

The notion of balance not only pertains to technology but is central to global marketing strategy in general. In fact, the need for balance in global marketing strategy is nearly omnipresent.[93] In terms of organizational design, managers need to balance centralization versus decentralization. This not only refers to the structure, i.e. the distribution of assets and resources, but also to the distribution of roles and responsibilities, for example between headquarters, regional headquarters and country subsidiaries.[94] At the same time, the notion of balance also pertains

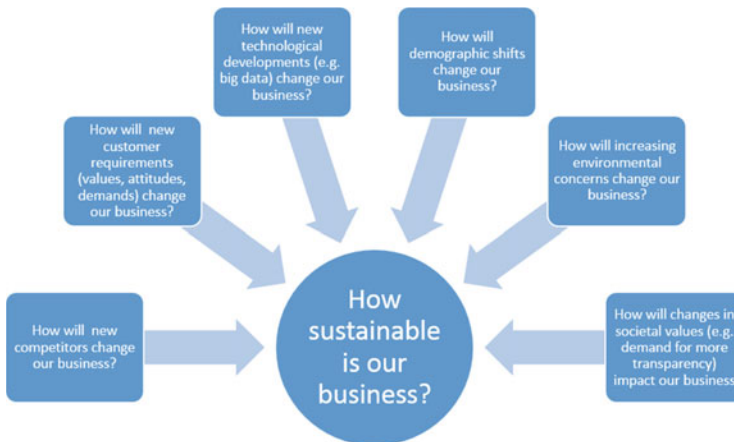

Fig. 11.5 Six big hows on the future of corporations

[91] March (1991).

[92] Prange and Schlegelmilch (2009).

[93] In Chap. 1, we already talked about global strategy as a balancing act.

[94] Also see Chap. 9.

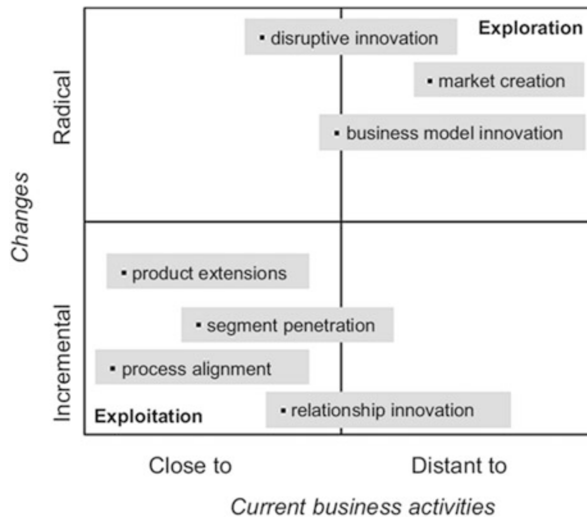

Fig. 11.6 Exploitative and explorative types of innovation. *Source*: Prange, C., & Schlegelmilch, B.B. (2010). Heading for the Next Innovation Archetype? *Journal of Business Strategy*, 31(2), 47

to processes. How information is flowing through an organization, i.e. how much information, with what frequency, in which form (standardized; non-standardized) and between whom, needs to be balanced. An imbalance in form of over-reporting may, for example, stifle entrepreneurial initiatives at country level. Yet headquarters obviously have a legitimate need for information. The organizational culture and norms also need to be balanced between geographically dispersed units: For example, finding the right trade-off between formality and informality or deciding how much self-determination can be granted to employees and how much hierarchy is needed will be influenced by the national cultures in which the organizational unit is embedded.

When it comes to products and services, a balance is again required between standardization and adaptation. As previously discussed in detail,[95] standardization leads to scale efficiency; differentiation enables local flexibility. Finally, the speed of change also needs balancing. On the one hand, companies may wish to evolve through making relatively slow changes to what they do. This ensures that they do not attempt to fix what is not broken and have the time to properly absorb changes into their structures and processes. On the other hand, a period of environmental turbulence may force companies into quick and abrupt changes. The latter would be in line with what evolutionary biologists describe as “punctuated equilibrium,” namely that most species show little to no evolutionary change throughout their history, but when evolution does occur, it happens relatively quickly.[96] Figure 11.7

[95] Also see Chap. 5.

[96] Pitt and Schlegelmilch (2008).

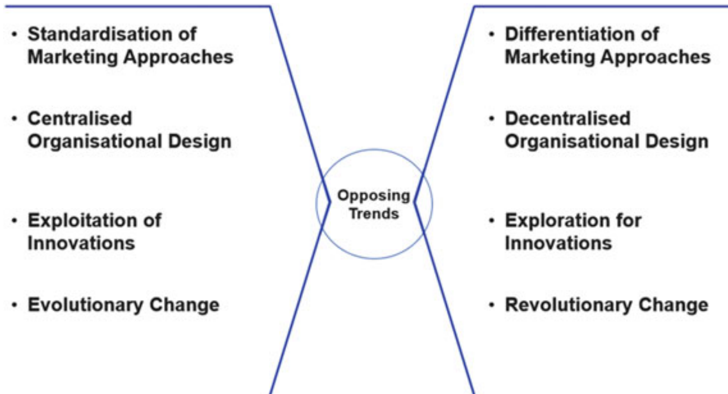

Fig. 11.7 Global marketing strategy needs to balance opposing trends

illustrates how opposing trends result in a quest for balance in global marketing strategy.

With these perspectives, we close on a quasi-philosophical note. Global marketing strategy is a perpetual search for the balance between opposing forces; to draw on an metaphor, the yin and yang. Only managers with the ability to spot trends early and the sensitivity to balance paradoxical developments will be able to lead their corporations to success.

11.4 Summary

This final chapter of the book looks into the future. Although we acknowledge that this is, strictly speaking, an impossible undertaking, we note the importance of interpreting trends and spotting opportunities early. Consequently, we scrutinized eight "paradoxical trends" that open many new opportunities for global marketing managers.

The first trend we looked at is globalization and its advantages for companies and consumers. However, there are strong forces resisting globalization, and for global marketers, the need to adapt to local requirements and preferences will remain strong. For domestically-oriented companies, a renaissance of local values may open new opportunities, in particular in the food business.

A second development that is likely to have a significant impact on many businesses is demographic change. The paradoxical nature of trends could hardly be more obvious than here. While the population in the poorest 50 countries will triple by 2050, the story is quite different in Europe and Japan. These and other demographic differences indicate that a one-size-fits-all, worldwide, standardized marketing approach is unlikely to be successful.

Next, we looked at the distribution of political power and observed that the nation state appears to have few friends among supporters of globalization.

However, we predict that nation states are unlikely to disappear; instead, we are already witnessing a rise in the independence of smaller administrative units embedded within nation states and the increasing influence of mega-cities. On the other hand, globalization needs harmonization and regulation. This will ultimately lead to a shift of power to regional bodies, such as the EU, NAFTA or ASEAN, or even worldwide bodies such as the WTO. Thus, once again we have a paradox: a tension between the influence of supranational organizations on the one hand and smaller federal units or mega-cities on the other hand.

Disruptive technologies are another sign of our times. We discussed examples of companies that, on the back of disruptive technologies, have become household names in only a few short years. On the other hand, there is also a yearning among consumers for “retro” products. Thus, marketers will find opportunities in ultra-new technologies as well as in nostalgic products.

Opportunities and challenges also arise for large global enterprises and niche players. The former may find that the costs of ownership are too high, and the integration of operations too challenging for some specialized products and processes. This opens up opportunities for niche players or small and medium-sized companies.

Paradoxical trends are also evident when comparing the strong growth rates in Asia with the sluggish economic development in the west, in particular in Europe. However, all is not doom and gloom in Europe. The IMD as well as the WEF consistently rank some European economies among the most competitive countries in the world. Once again, global marketing strategists need to cope with contradictory signals.

Environmental degradation and climate change are widely recognized as significant global problems. However, while many important steps toward securing a sustainable future have been taken, there still appears to be substantial inertia among a large number of companies, consumers and law-makers. Thus, global marketers need to reconcile the paradoxical gap between positive environmental rhetoric with the fact that many individuals, companies and societies still have not fully embraced the need for fundamental behavioral changes.

The final trend we highlighted concerns “big data.” While it is predicted to revolutionize economic activity, big data also conjures up fears of “small privacy” among consumers. Thus, we observe another paradoxical trend. On the one hand, big data analytics often translate into consumer advantages; on the other, many consumers and regulators are also flagging up privacy concerns.

In discussing these eight paradoxical trends, it becomes clear that we are going through a period of environmental turbulence. This turbulence provides unprecedented fertile ground for aggressive new market entries, but also reduces the value of incumbency and leads to the demise of many established companies. The rapid changes in the business environment indicate very clearly that there is no more time for business as usual. Instead, managers are challenged to question the status quo and are encouraged to ask a series of piercing questions on the possible impact of future trends on their business. We stress that balance is required in terms of the exploration versus exploitation of technologies, organizational design, and

standardization and adaptation of products and services. In fact, even the speed of change itself often sees trade-offs in evolutionary versus revolutionary change. The book thus closes on a quasi-philosophical note that depicts global marketing strategy as Yin and Yang of opposing forces; only managers with the ability to spot trends early and the sensitivity to balance paradoxical developments will lead their corporations to success.

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