
GLOBAL MARKETING STRATEGIES



CHAPTER OVERVIEW

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On a political map, country borders are clear as ever. But on a competitive map, financial, trading, and industrial activities across national boundaries have rendered those political borders increasingly irrelevant. Of all the forces chipping away at those boundaries, perhaps the most important are the emergence of regional trading blocs (e.g., NAFTA, the European Union, and MERCOSUR), technology developments (particularly in the IT area), and the flow of information.

Today people can see for themselves what tastes and preferences are like in other countries. For instance, people in India watching CNN and Star TV now know instantaneously what is happening in the rest of the world. A farmer in a remote village in Rajasthan in India asks the local vendor for Surf (the detergent manufactured by Unilever) because he has seen a commercial on TV. More than 10 million Japanese traveling abroad every year are exposed to larger-sized homes and much lower consumer prices abroad than at home. Such information access creates demand that would not have existed before.

The availability and explosion of information technology such as telecommunications has forever changed the nature of global competition. Geographical boundaries and distance have become less a constraint in designing strategies for the global market. The other side of the coin is that not only firms that compete internationally but also those whose primary market is home-based will be significantly affected by competition from around the world.

The firm is essentially a collection of activities that are performed to design, procure materials, produce, market, deliver, and support its product. This set of interrelated

corporate activities is called the **value chain**. In this chapter, we explain the nature of global competition and examine various ways to gain competitive advantage along the value chain for the firm facing global competition.

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The development of transportation technology, including jet air transportation, cold storage containers, and large ocean carriers, changed the nature of world trade in the fifty years after the Second World War. Since the 1980s, the explosion of information technology, particularly telecommunications, and more recently, electronic commerce (e-commerce), has forever changed the nature of competition around the world. Geographical distance has become increasingly less relevant in designing global strategy.

Real-Time Management

Information that managers have about the state of the firm's operations is almost in real time. Routinely, the chief executive officer of a firm can know the previous day's sales down to a penny, and can be alerted to events and trends now instead of in several months, when it may be too late to do anything about them.

In the mid-1990s, Volvo faced a classic supply chain dilemma. For whatever reason—perhaps just capricious consumer tastes—halfway through the year the company found itself with an excess inventory of green cars. The sales and marketing team responded appropriately by developing an aggressive program of deals, discounts, and rebates to push green vehicles through the distribution channel. The program worked well, and green Volvos began to move out off dealer lots. However, back at the factory, manufacturing planners also noted the surge in sales of green cars. Unfortunately, they were unaware of the big push taking place on the sales and marketing side and assumed that customers had suddenly developed a preference for the color green. So they responded by increasing production of green cars. The company soon found itself caught in a feedback loop that resulted in an even bigger surplus of green Volvos at end of the year. This story is typical of the kind of disconnect that is far too common in manufacturing companies, especially those that rely on multi-tier distribution. And that inability or failure to share real-time data or knowledge with partners can result in erroneous assumptions and costly errors in decision-making. In order to avoid the problem from happening, companies need to use information technology to link all parts of the organization into a real-time enterprise.¹

Top retailers such as Wal-Mart and Toys 'R' Us get information from their stores around the world every two hours via telecommunications. Industry analysts say that former leader K-Mart fell behind due to its delay in installing point-of-sale information technology, which would have enabled it to get faster and more accurate information on inventories and shelf movement of products.² Such access is now possible because advances in electronic storage and transmission technology have made it possible to store twenty-six volumes of *Encyclopedia Britannica* on a single chip and transmit that material in a second; these figures are expected to improve by a factor of ten by the end of the decade.

The combination of information technology, access tools, and telecommunication has squeezed out a huge chunk of organizational slack from corporate operations that were previously inherent due to the slow and circuitous nature of information flow within the firm, with holdups due to human “switches.” Ordering and purchasing components, which was once a cumbersome, time-consuming process, is now done by Electronic Data Interchange (EDI), reducing the time involved in such transactions from weeks to days and eliminating a considerable amount of paperwork. Levi-Strauss uses LeviLink, an EDI service for handling all aspects of order and delivery. Customers

¹“Does Everyone Have the Same View in Your Supply Chain?” *Frontline Solutions*, 3 (July 2002), pp. 27–30.

²Julia King, “OLAP Gains Fans among Data-Hungry Firms,” *Computerworld*, 30 (January 8, 1996), pp. 43, 48.

can even place small orders as needed, say, every week, and goods are delivered within two days. One of Levi-Strauss' customers, Design p.l.c., with a chain of sixty stores, was able to entirely eliminate its warehouses, which were used as a buffer to deal with the long lead times between order and delivery.³

Sales representatives on field calls who were previously, in effect, tied to the regional or central headquarters due to lack of product information and limited authority, are now able to act independently in the field, because laptop computers, faxes, and satellite uplinks enable instant access to data from the company's central database. Changes in prices due to discounts can now be cleared online from the necessary authority. This reduces reaction time for the sales representative and increases productivity. Monitoring problems for the firm are also reduced, as is paperwork.

Multiple design sites around the world in different time zones can now work sequentially on the same problem. A laboratory in California can close its day at 5pm local time when the design center in Japan is just opening the next day. That center continues work on the design problem and hands it over to London at the end of its day, which continues the work and hands over the cumulated work of Japan and London back to California. Finally, the use of telecommunications improves internal efficiency of the firm in other ways. For instance, when Microsoft came up with an upgrade on one of its applications that required some customer education, a customer, using video conferencing on its global information network, arranged a single presentation for the relevant personnel, dispersed across the world, obviating travel and multiple presentations.

Since the 1990s we have seen the explosive growth of e-commerce on the Internet, beginning from the United States. In 1995, only 4 percent of Americans used the Internet every day. In December 2007, the figure was 74 percent and still growing fast.⁴ As mentioned in Chapter 1, the total global e-commerce turnover in 2006 hit \$12.8 trillion, taking up 18 percent in the global trade of commodities. Developed countries led by the United States are still leading players in this field, while developing countries like China are emerging, becoming an important force in the global e-commerce market.⁵ The number of Internet users reached 1.6 billion by March 2009, which amounts to 3.4 times of that of 2000. According to Internet World Stat, 41.2 percent of the Internet users come from Asia, followed by 24.6 percent and 15.7 percent from Europe and North America, respectively. Although Middle East and Africa constitute only 6.3 percent of the Internet users, these two regions rank the top two with the usage growth of well over 1,000 percent respectively between 2000 and 2008. In the same period, the Internet usage in Asia and Latin America/Caribbean grew by 475 percent and 861 percent.⁶

There is no other marketing channel than e-commerce where revenues are growing at this pace. There is no other way a business can grow unimpeded by the need to build commercial space and hire sales staff. While traditional mass-retailers, such as Wal-Mart in the United States, Carrefour in France, and Metro in Germany, will not disappear any time soon, the Internet has fundamentally changed customers' expectations about convenience, speed, comparability, price, and service. Even the traditional mass retailers are benefiting from e-commerce. In 2007, traditional chain retailers accounted for 39.9 percent of online sales among top 500 retailers, with a growing rate of 18 percent.⁷ For example, Wal-Mart, the largest U.S. company, with annual sales of \$375 billion, even creatively tried hiring TV stars so as to increase its online sales. It has

Online Communication

Electronic Commerce (E-Commerce)

³Sidney Hill, Jr., "The Race for Profits," *Manufacturing Systems*, 16 (May 1998), pp. II-IV+.

⁴Internet usage statistics for the Americas, <http://www.internetworldstats.com>, accessed August 1, 2009.

⁵2006-2007 Annual Report on the Development of Global E-Commerce Industry, http://market.cidinet.com/pub/report/show_17192.html, accessed August 1, 2009.

⁶<http://www.internetworldstats.com>, accessed August 1, 2009.

⁷"Chain Stores Ignore Online Retailing at Their Own Peril," *InternetRetailer.com*, <http://www.internetretailer.com/>, June 12, 2008.

been expanding its online section abroad. As a crucial part of the U.S. retailer's growth strategy in Brazil, the retail giant declared in April 2008 to branch out into electronic commerce in this Latin America's largest country, where it plans to invest \$723 million to keep up with fast-growing consumer demand.⁸ Likewise, Dell Computer rocketed to the top of the personal computer business in the United States by selling directly to consumers online. As commented by Mike George, the chief marketing officer and general manager of its consumer business unit, "if Dell changes prices on its website, its customers' buying patterns change literally within a minute." Many consumers are well-researched and knowledgeable about their prospective purchase from the Internet before they arrive at a showroom or a retail store.⁹ Those new expectations will reverberate throughout the world, affecting every business, domestic or global, in many ways.

Marketing beyond the home country has always been hampered by geographical distance and the lack of sufficient information about foreign markets, although transportation and communications technology has reduced, if not eliminated, many difficulties of doing business across the national boundary. Now as a result of an explosive growth of e-commerce on the Internet, those difficulties are increasingly becoming a thing of the past. In other words, product life cycle is becoming shorter and shorter. E-commerce breaks every business free of the concept of geographic distance. No longer will geography bind a company's aspirations or the scope of its market. Traditional bookstores used to be constrained to certain geographical areas—probably within a few miles in radius of their physical locations. Now Amazon.com and BarnesandNoble.com can reach any place on earth whether you are in Amsterdam or Seoul as long as you have access to the Internet. For every early e-commerce mover to eliminate the geographic boundaries of its business, there will be dozens of companies that lose their local monopolies to footloose online businesses.

Although Japan was somewhat slower in adopting personal computers than the United States, the Internet has also taken off in the world's second largest economy. For example, Dell Computer and other U.S. computer manufacturers arguably were the first to market their products directly to Japanese consumers over the Internet. Dell Computer Japan reported that 75 percent of the total number of computers it sold to individual buyers was bought online in Japan. Rakuten Ichiba, Japan's largest Internet shopping site with more than 71,000 registered businesses, selling 37 million product items.¹⁰ Sales grew from \$26 million in 2000 to \$1.77 billion in 2007, and net profits reached \$304 million in 2007.¹¹

Even the same explosive Internet growth is being experienced in countries that are still catching up technologically to countries such as the United States and Japan. For example, China has already become one of the world's largest Internet markets. The Internet community in China increased by more than 12 times within the ten years from 2000 to 2009, soaring from just 22.5 million users in 1997 to 298 million by March 2009.¹² Some large portals in China, such as Netease, Sina, Sohu, and Tom, have been making a healthy profit since 2003. Online gaming is fast growing and is one of the three largest moneymakers for Internet companies, with the other two being e-finance and e-education. Unlike other high Internet usage countries, the majority of gamers play at the Internet cafés in China, rather than at home, and it is estimated that China has 350,000 Internet cafés. China's largest e-game operator, Shanda Interactive Entertainment Limited, grows by operating licensed South Korean online games and has accumulated a huge amount of wealth within a few years. As of December 2007, Shanda

⁸"Wal-Mart 2008 Financial Review," Wal-Mart Stores 2008 Annual Report; "Increase Online Sales: Wal-Mart.com's Creative Talent," <http://fashion-fox.com/increase-online-sales-wal-martcoms-creative-talent/>, January 14, 2008; and "Wal-Mart Eyes e-Commerce in Fast-Growing Brazil," <http://www.freshplaza.com/>, accessed September 15, 2008.

⁹"Crowned at Last," *Economist*, April 2, 2005, pp. 3–6.

¹⁰Rakuten Ichiba, <http://www.rakuten.co.jp/>, accessed August 1, 2009.

¹¹Rakuten Ichiba, Annual Report 2007, downloaded from <http://www.rakuten.co.jp/>, August 1, 2009.

¹²<http://www.internetworldstats.com>, accessed August 1, 2009.

has over 600 million registered accounts for all its contents. In the first quarter of 2008, Shanda reported net revenues of 779.8 million yuan (US\$111.1 million), representing an increase of 46.5 percent from 532.3 million yuan in the first quarter of 2007.¹³ Now the company is shifting its business focus from the computer platform to the TV platform—including games, music, and literature—through a set-top box to penetrate those 340 million households that have already own a television.

The ultimate effect of information networks within the multinational firm is expected to be on the nature of its organizational structure. As information flows faster across the organization and the number of “filtering” points between the source of information (e.g., point-of-sale information or market and industry analysis) and the user of the information (e.g., the brand manager or the chief executive officer) decreases, the nature of the organization chart in the multinational firm changes drastically. An increasing number of multinational firms have begun to use internal Web servers on the Internet to facilitate communications and transactions among employees, suppliers, independent contractors, and distributors.¹⁴

Many companies today realize the key to this change is e-business. Siemens, for example, spent 1 billion to turn itself into an e-company. Siemens is enabling itself to connect the different parts of its far-flung empire into a more coherent whole. In practice, Siemens plans to utilize its information technology to enhance knowledge management, online purchasing, change the company’s value chain, and to efficiently deal with its customers. Now customers can click on “Buy from Siemens” on the company’s home page and place orders. Inevitably, Siemens demand chain is going smoothly from customers, through Siemens, and then to its suppliers.¹⁵ Similarly, an assembly-line worker in a Procter & Gamble plant knows from his computer that stores have been selling a particular brand of facial cream more briskly than anticipated. Having this information, he can change production scheduling on his own by giving the computer necessary instructions to cut down on some other brands and to increase the production of the brand in question. The foreperson and the section manager of a conventional plant are no longer required.

The obvious impact of information technology is the more rapid dispersion of technology and the shorter product life cycles in global markets than ever before. It suggests that the former country-by-country sequential approach to entering markets throughout the world, described in the international product cycle model in Chapter 1, is increasingly untenable.

This trend is already reflected in many product markets. The diffusion lag for color television between the United States on one hand and Japan and Europe on the other was six years. With compact discs the household penetration rates had come down to one year. For Pentium-based computers, Taiwan, India, Japan, and U.S.-based companies released computers at about the same time in their respective national markets. Thus, a firm selling personal computers would have to launch a new product on a worldwide basis in order not to fall behind in the global sweepstakes.¹⁶ This issue will be further discussed later when we discuss new product development in Chapter 10.

Another important contributing factor in the globalization of markets is the spread of English as the language of international business. The transformation of the European Union into a monetary union has already taken place with the introduction of the euro

E-Company

Faster Product Diffusion

Global Citizenship

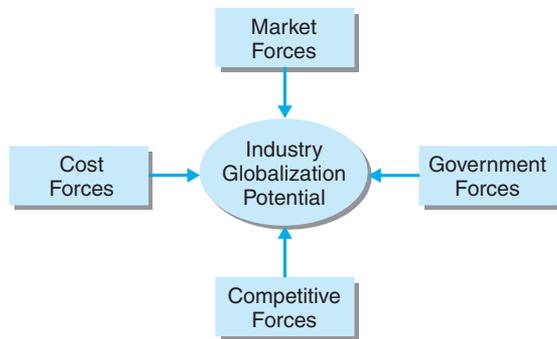
¹³Shanda, <http://www.snda.com/>.

¹⁴John A. Quelch and Lisa R. Klein, “The Internet and International Marketing,” *Sloan Management Review*, 37 (Spring 1996), pp. 60–75.

¹⁵Herbert Heinzl, “Siemens—The e-Company: In its Quest to Become an e-Business Company, Siemens is Pursuing a Comprehensive Approach that Goes Far Beyond the Mere Selling of Products over the Internet,” *Supply Chain Management Review*, March 2002.

¹⁶Shlomo Kalish, Vijay Mahajan, and Eitan Muller, “Waterfall and Sprinkler New-Product Strategies in Competitive Global Markets,” *International Journal of Research in Marketing*, 12 (July 1995), pp. 105–19.

EXHIBIT 8-1 INDUSTRY GLOBALIZATION DRIVERS



Market Forces

Market forces depend on the nature of customer behavior and the structure of channels of distribution. Some common market forces are:

- Per-capita income converging among industrialized nations
- Emergence of rich consumers in emerging markets such as China and India
- Convergence of lifestyles and tastes (e.g., McDonald's in Moscow and Stolichnaya vodka in America)
- Revolution in information and communication technologies (e.g., personal computer, fax machines, and the Internet)
- Increased international travel creating global consumers knowledgeable of products from many countries
- Organizations beginning to behave as global customers
- Growth of global and regional channels (e.g., America's Wal-Mart, France's Carrefour/Promodès, Germany's Metro, and Japan's 7-Eleven)
- Establishment of world brands (e.g., Coca-Cola, Microsoft, Toyota, and Nestlé)
- Push to develop global advertising (e.g., Saatchi and Saatchi's commercials for British Airways)
- Spread of global and regional media (e.g., CNN, MTV, Star TV in India)

Cost Forces

Cost forces depend on the economics of the business. These forces particularly affect production location decisions, as well as global market participation and global product development decisions. Some of these cost forces are:

- Push for economies of scale and scope, further aided by flexible manufacturing
- Accelerating technological innovations
- Advances in transportation (e.g., FedEx, UPS, DHL, and Yamato Transport)
- Emergence of newly industrializing countries with productive capabilities and low labor costs (e.g., China, India, and many Eastern European countries)
- High product development costs relative to shortened product life cycle

Government Forces

Rules set by national governments can affect the use of global strategic decision-making. Some of these rules/policies include:

- Reduction of tariff and non-tariff barriers
- Creation of trading blocs (e.g., European Union, North American Free Trade Agreement, and MERCOSUR—a common market in South America)

(continued)

EXHIBIT 8-1 (CONTINUED)

- Establishment of world trading regulations (e.g., World Trade Organization and its various policies)
- Deregulation of many industries
- Privatization in previously state-dominated economies in Latin America
- Shift to open market economies from closed communist systems in China, Eastern Europe, and the former Soviet Union

Competitive Forces

Competitive forces raise the globalization potential of their industry and spur the need for a response on the global strategy levels. The common competitive forces include:

- Increase in world trade
 - More countries becoming key competitive battlegrounds (e.g., Japan, Korea, China, India, and Brazil)
 - Increased ownership of corporations by foreign investors
 - Globalization of financial markets (e.g., listing of corporations on multiple stock exchanges and issuing debt in multiple currencies)
 - Rise of new competitors intent on becoming global competitors (e.g., Japanese firms in the 1970s, Korean firms in the 1980s, Taiwanese firms in the 1990s, Chinese and Indian firms in the 2000s, and probably Russian firms in the 2010s)
 - Rise of “born global” Internet and other companies
 - Growth of global networks making countries interdependent in particular industries (e.g., electronics and aircraft manufacturing)
 - More companies becoming geocentric rather than ethnocentric (e.g., Stanley Works, a traditional U.S. company, moved its production offshore; Uniden, a Japanese telecommunications equipment manufacturer has never manufactured in Japan)
 - Increased formation of global strategic alliances
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Source: Adapted from George S. Yip, *Total Global Strategy II* (Upper Saddle River, N.J.: Prentice Hall, 2003, pp. 10–12.

The implications of a distinction between multidomestic and global strategy are quite profound. In a multidomestic strategy, a firm manages its international activities like a portfolio. Its subsidiaries or other operations around the world each control all the important activities necessary to maximize their returns in their area of operation independent of the activities of other subsidiaries in the firm. The subsidiaries enjoy a large degree of autonomy, and the firm’s activities in each of its national markets are determined by the competitive conditions in that national market. In contrast, a global strategy integrates the activities of a firm on a worldwide basis to capture the linkages among countries and to treat the entire world as a single, borderless market. This requires more than the transferring of intangible assets between countries.

In effect, the firm that truly operationalizes a global strategy is a geocentrically oriented firm. It considers the whole world as its arena of operation, and its managers maintain equidistance from all markets and develop a system with which to satisfy its needs for both global integration for economies of scale and scope *and* responsiveness to different market needs and conditions in various parts of the world (to be discussed in Chapter 15 in the context of sourcing strategy). In a way, the geocentric firm tries to “kill two birds with one stone.”²¹ Such a firm tends to centralize some resources at home, some abroad, and distributes others among its many national

²¹Masaaki Kotabe, “To Kill Two Birds with One Stone: Revisiting the Integration-Responsiveness Framework,” in Michael Hitt and Joseph Cheng, ed., *Managing Transnational Firms*, New York: Elsevier, 2002, 59–69.



GLOBAL PERSPECTIVE 8-1

GLOBALIZING THE MULTIDOMESTIC CORPORATE CULTURE

At Unilever, three main groups used to be involved in strategic management: operating companies, management groups that oversee them, and the corporation as a whole. To be a successful global company, the strategies at different levels needed to interrelate, considering bottom-up and top-down approaches. The dilemma is to find the right equilibrium between instructions from the top and inputs from the bottom in order not to stifle management creativity at the bottom as well as to provide sufficient direction to achieve the interests of all the corporation's stakeholders.

The company's culture and philosophy influence this equilibrium. Unilever, for example, used to be highly decentralized, with individual operating companies, with their own identity, linked by a common corporate culture and some common services such as research, finance, and management development. After having experimented with various organizational structures to encourage global strategic management, Unilever has adopted a full-time Corporate Development board member, who is on staff with an advisory role, free from major line responsibilities.

In 2005, Unilever Chief Executive Patrick Cescau kicked off an ambitious restructuring program. He ditched underperforming brands, divested Unilever's frozen-foods business,

Source: Kerry Capell, "Unilever Lathers Up," *BusinessWeek.com*, February 15, 2008.

and stripped out layers of bureaucracy, including half the ranks of top management, which had for years kept the company lagging behind fleet-footed rivals. Under Cescau's "One Unilever" plan, unnecessary complexity was removed. Brands now rely on one formulation, one packaging design, and one marketing strategy, instead of the fragmented approach of the past. Local managers no longer run the autonomous fiefdoms where they were responsible for everything from marketing and sales to running factories and back-office operations. Instead, these functions have been largely centralized, eliminating duplication and allowing for faster decision-making and global economies of scale. Equally important, emerging markets, where Unilever historically has been strong, were made a higher priority. To ensure products meet the needs of local consumers around the world, nearly one-third of the company's home and personal products brand development resources now are based in the developing world.

The changes are paying off. Unilever posted its best annual results in five years on February 7 2008, with sales up 5.5 percent, to \$15 billion, and net profits of nearly \$8 billion. "The transformation of Unilever continues apace," Cescau says. Unilever's London-traded shares are up 12 percent since a year ago. What's more, developing markets now account for nearly 45 percent of revenues, up from 38 percent in 2005.

operations, resulting in a complex configuration of assets and capabilities on a global basis.²²

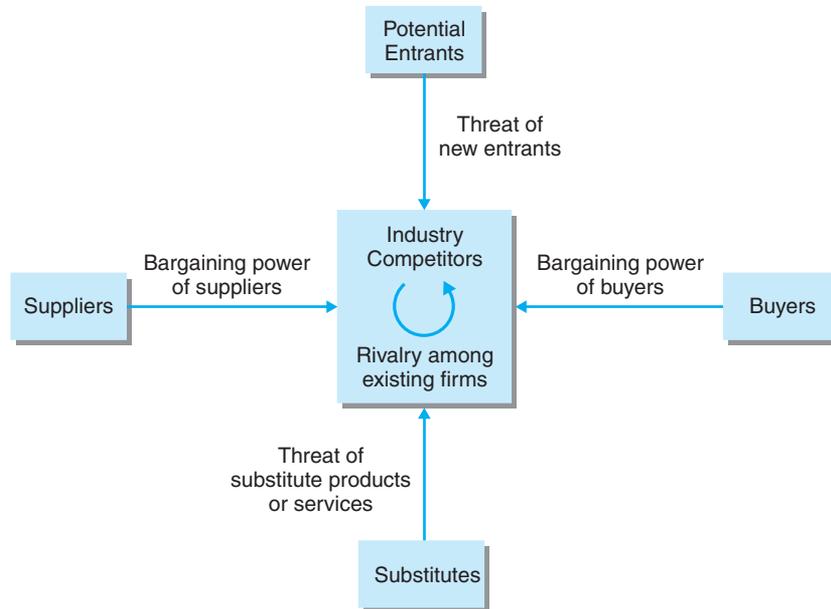
This is in contrast to an ethnocentric orientation, where managers operate under the dominant influence of home country practices, or a polycentric orientation, where managers of individual subsidiaries operate independently of each other—the polycentric manager in practice leads to a multidomestic orientation, which prevents integration and optimization on a global basis. Until the early 1980s the global operations of Unilever were a good example of a multidomestic approach. Unilever's various country operations were largely independent of each other, with headquarters restricting itself to data collection and helping out subsidiaries when required. As presented in **Global Perspective 8-1**, Unilever has started adding some geocentric dimensions to its global strategy.

Competitive industry structure is the second conceptualization that is useful in understanding the nature of global strategy. A conceptual framework that portrays the multidimensional nature of competitive industry structure is presented in **Exhibit 8-2**. It identifies the key structural factors that determine the strength of competitive forces within an industry and consequently industry profitability. Competition is not limited to the firms in the same industry. If firms in an industry collectively have insufficient

Competitive Industry Structure

²²Christopher A. Bartlett and Sumantra Ghoshal, *Managing Across Borders*. Boston, MA: Harvard Business School Press, 1989; and for an empirical study, see, for example, Andreas F. Grein, C. Samuel Craig, Hirokazu Takada, "Integration and Responsiveness: Marketing Strategies of Japanese and European Automobile Manufacturers," *Journal of International Marketing*, vol. 9, no. 2, 2001, pp. 19-50.

EXHIBIT 8-2
NATURE OF COMPETITIVE INDUSTRY STRUCTURE



Source: Reprinted with the permission of the Free Press, a division of Simon & Schuster from *COMPETITIVE STRATEGY: Techniques for Analyzing Industries and Competitors* by Michael E. Porter, p. 4. Copyright © 1980 by The Free Press.

capacity to fulfill demand, the incentive is high for new market entrants. However, such entrants need to consider the time and investment it takes to develop new or additional capacity, the likelihood of such capacity being developed by existing competitors, and the possibility of changes in customer demand over time. Indirect competition also comes from suppliers and customers, as well as substitute products or services.

1. **Industry competitors** determine the rivalry among existing firms.
2. **Potential entrants** may change the rule of competition but can be deterred by entry barriers. For example, Shanghai Jahwa Co., Ltd., its predecessor founded in 1898, became the largest cosmetics and personal care products company in China by 1990.²³ Shanghai Jahwa owns such successful brands as Maxam, Liushen, Ruby, and G.L.F, among others, and is making gradual inroads into markets outside China. Although not yet known to the Western world, its brands may some day pose a major competitive threat to Clinique, Estée Lauder, Lancôme, Maxfactor, and other well-known brands and may change the nature of competition in the cosmetics and personal care products industry.
3. The **bargaining power of suppliers** can change the structure of industries. Intel has become a dominant producer of microprocessors for personal computers. Its enormous bargaining power has caused many PC manufacturers to operate on wafer-thin profit margins, making the PC industry extremely competitive.
4. The **bargaining power of buyers** may affect the firm's profitability. It is particularly the case when governments try to get price and delivery concessions from foreign firms. Similarly, Nestlé, whose subsidiaries used to make independent decisions on cocoa purchase, has centralized its procurement decision at its headquarters to take advantage of its consolidated bargaining power over cocoa producers around the world. Given its bargaining power, Nestlé has further completed a trial of a groundbreaking supply chain project that allows suppliers to view its production

²³Based on the first author's visit to Shanghai Jahwa based in Shanghai, China, August 2002.

information and ensure it can meet fluctuations in demand for its products by removing about 20 percent of excess stock from its supply chain.²⁴

5. The **threat of substitute products or services** can restructure the entire industry above and beyond the existing competitive structure. For example, a recent *Economist* article alerted that PlayStation 2, the successor to Sony's best-selling PlayStation, a computer game console, introduced in 2000, contained a 128-bit microprocessor having twice the raw number-crunching power of Intel's most advanced Pentium chip and that could play DVD movies, decode digital TV, and surf the Internet, for less than \$400.²⁵ Now imagine Sony's PlayStation 3 introduced in 2006, is several times more powerful than PS2, and is capable of surpassing 250 gigaflops per second, rivaling the best mid-1990s supercomputer; it may even challenge the Microsoft-Intel PC standard.²⁶

Competitive advantage is a third conceptualization that is of use in developing and understanding a strategy on a global scale. Companies may adopt different strategies for different competitive advantage. The firm has a competitive advantage when it is able to deliver the same benefits as competitors but at a lower cost, or deliver benefits that exceed those of competing products. Thus, a competitive advantage enables the firm to create superior value for its customers and superior profits for itself.²⁷ Simply stated, competitive advantage is a temporary monopoly period that a firm can enjoy over its competitors. To prolong such a monopolistic period, the firm strives to develop a strategy that would be difficult for its competitors to imitate.

The firm that builds its competitive advantage on economies of scale is known as one using a **cost leadership** strategy. Customized flexible manufacturing as a result of CAD/CAM (computer-aided design and computer-aided manufacturing) technology has shown some progress. However, it proved to be more difficult operationally than was thought, so economies of scale still remain the main feature of market competition. The theory is that the greater the economies of scale, the greater the benefits to those firms with a larger market share. As a result, many firms try to jockey for larger market shares than their competitors. Economies of scale come about because larger plants are more efficient to run, and their per-unit cost of production is less as overhead costs are allocated across large volumes of production. Further economies of scale also result from learning effects: the firm learns more efficient methods of production with increasing cumulative experience in production over time. All of these effects tend to intensify competition. Once a high level of economies of scale is achieved, it provides the firm strong barriers against new entrants to the market. In the 1970s and early 1980s, many Japanese companies became cost leaders in such industries as automobiles and consumer electronics. However, there is no guarantee that cost leadership will last. Also, the cost leadership strategy does not necessarily apply to all markets. According to a recent study, implementation of a cost-leadership strategy by developed-country multinational companies (MNCs) actually is rarely effective in emerging markets. In order to achieve high performance, therefore, MNCs that benefit from cost leadership strategy may try using different strategies in different markets instead of a single generic strategy globally.²⁸

Until flexible manufacturing and customized production becomes fully operational, cost leaders may be vulnerable to firms that use a **product differentiation** strategy to better serve the exact needs of customers. Although one could argue that lower cost will attract customers away from other market segments, some customers are willing to pay a premium price for unique product features that they desire. Uniqueness

Competitive Advantage

²⁴Nestlé Links SAP Systems to Allow Suppliers to View Production Data," *Computer Weekly*, October 21, 2003, p. 8.

²⁵"War Games," *Economist*, April 22, 2000, p. 60.

²⁶"Super Cell," *Forbes*, February 14, 2005, p. 46.

²⁷Michael E. Porter, *Competitive Advantage: Techniques for Analyzing Industries and Competitors*, New York: The Free Press, 1980.

²⁸Daniel W. Baack and David J. Boggs, "The Difficulties in Using a Cost Leadership Strategy in Emerging Markets," *International Journal of Emerging Markets*, 3, April 2008, pp. 125–39.

may come in the form of comfort, product performance, and aesthetics, as well as status symbol and exclusivity. Despite the Japanese juggernaut in the automobile industry (primarily in the North American and Asian markets) in the 1970s and 1980s, BMW of Germany and Volvo of Sweden (currently under Ford's ownership), for example, managed to maintain their competitive strengths in the high-end segments of the automobile market. Indeed, Japanese carmakers have struggled for years to make a dent in the European market, and they are finally seeing a turnaround after releasing a spate of new models that European drivers want to buy—small cars with spacious cabins—the type that European firms have yet to make, such as Honda's Jazz (known as the Fit in Japan), Toyota's Yaris (known as the Vitz in Japan), and Mazda's Mazda 6 (known as the Atenza in Japan).²⁹ While high oil prices are causing pain for U.S. carmakers such as GM and Ford, U.S. consumers welcome small Japanese cars. In May 2008, for example, the sales of Toyota's Camry and Corolla for the first time exceeded Ford's F-150 pick-up, one of the America's traditional favorite vehicles.³⁰

Smaller companies may pursue a limited differentiation strategy by keeping a niche in the market. Firms using a **niche** strategy focus exclusively on a highly specialized segment of the market and try to achieve a dominant position in that segment. Again in the automobile industry, Porsche and Saab maintain their competitive strengths in the high-power sports car enthusiast segment. However, particularly in an era of global competition, niche players may be vulnerable to large-scale operators due to sheer economies of scale needed to compete on a global scale.

First-Mover Advantage versus First-Mover Disadvantage. For many firms, technology is the key to success in markets where significant advances in product performance are expected. A firm uses its technological leadership for rapid innovation and introduction of new products. The timing of such introductions in the global marketplace is an integral part of the firm's strategy. However, the dispersion of technological expertise means that any technological advantage is temporary, so the firm should not rest on its laurels. The firm needs to move on to its next source of temporary advantage to remain ahead. In the process, firms that are able to continue creating a series of temporary advantages are the ones that survive and thrive. Technology, marketing skills, and other assets that a firm possesses become its weapons to gain advantages in time over its competitors. The firm now attempts to be among the pioneers, or first-movers, in the market for the product categories that it operates in.³¹ Sony offers an excellent example of a company in constant pursuit of first-mover advantage with Trinitron color television, Betamax video recorder, Walkman, 8mm video recorder, DVD (digital video disc), and Blue-ray disc technology, although not all of its products, such as MiniDisc, succeeded in the market. Another interesting example in the IT era is Friendster, a Mountain View, California-based social networking site, which was one of the initial social networking sites to launch in 2003; it has been growing its Asian subscriber base since the first "connections" from the region were made in 2004. Due to its first-mover advantage in the Asian region, Friendster is getting 36 million monthly unique visitors from Asia, out of the overall 40 million globally—it was accessible ahead of its biggest competitor, Facebook, which opened its doors to global access later in 2006.³²

Indeed, there could even be some first-mover disadvantages.³³ Citigroup's recent case vividly raises the possibility of first-mover disadvantages. To establish its foothold

²⁹Japanese Carmakers Make European Dent," *Japan Times Online*, <http://www.japantimes.co.jp/>, December 31, 2002.

³⁰"Crisis? What Oil Crisis?," *Economist*, June 7, 2008, pp. 73–74.

³¹Gerard J. Tellis and Peter N. Golder, "First to Market, First to Fail?: Real Causes of Enduring Market Leadership," *Sloan Management Review*, 37 (Winter 1996), pp. 65–75; and Richard Makadok, "Can First-Mover and Early-Mover Advantages be Sustained in an Industry with Low Barriers to Entry/Imitation?" *Strategic Management Journal*, 19 (July 1998), pp. 683–96.

³²Victoria Ho, "Friendster Looks to Expand Asian Base," *BusinessWeek.com*, June 26, 2008.

³³Marvin B. Lieberman and David B. Montgomery, "First-Mover (Dis)advantages: Retrospective and Link with the Resource-Based View," *Strategic Management Journal*, 19 (December 1998), pp. 1111–125.

in the growing Chinese economy, Citigroup recently entered into an alliance with Shanghai Pudong Development Bank in China targeting the country's credit card market. About 10 million cards with revolving credit have already been issued in China. Some experts argue that Chinese credit services would be risky for first-mover companies given that the country has no nationwide credit-rating system and lacks adequate risk-management technology.³⁴

In general, stable markets favor the first-mover strategy while market and technology turbulence favor the follower strategy. Followers have the benefit of hindsight to determine more precisely the timing, form, and scale of their market entry. It is therefore important for the firm to clearly assess the key success factors and the resulting likelihood of success for achieving the ultimate targeted position in the highly competitive global business environment.³⁵

A firm's competitive advantage lies in its capability to effectively anticipate, react to, and lead change continuously and even rhythmically over time. Firms should "probe" into the unknown by making many small steps to explore their environments. These probes could take the form of a number of new product introductions that are "small, fast, and cheap," and can be supplemented by using experts to contemplate the future, making strategic alliances to explore new technologies, and holding meetings where the future is discussed by management. To compete on the edge, firms need to understand that:

1. Advantage is temporary. In other words, firms need to have a strong focus on continuously generating new sources of advantages.
2. Strategy is diverse, emergent, and complicated. It is crucial to rely on diverse strategic moves.
3. Reinvention is the goal. It is how firms keep pace with a rapidly changing marketplace.
4. Live in the present, stretch out the past, and reach into the future. Successful firms launch more experimental products and services than others while they exploit previous experiences and try to extend them to new opportunities.
5. Grow the strategy and drive strategy from the business level. It is important for managers to pay attention to the timing and order in which strategy is grown and agile moves are made at the business level.
6. To maintain sustainable power in fast-paced, competitive and unpredictable environments, senior management needs to recognize patterns in firms' development and articulate semi-coherent strategic direction.³⁶

With these strategic flexibilities in mind, we could think of two primary approaches to gaining competitive advantage. The *competitor-focused* approaches involve comparison with the competitor on costs, prices, technology, market share, profitability, and other related activities. Such an approach may lead to a preoccupation with some activities, and the firm may lose sight of its customers and various constituents. *Customer-focused* approaches to gaining competitive advantage emanate from an analysis of customer benefits to be delivered. In practice, finding the proper links between required customer benefits and the activities and variables controlled by management is needed. Besides, there is evidence to suggest that listening too closely to customer requirements may cause a firm to miss the bus on innovations because current customers might not want innovations that require them to change how they operate.³⁷

³⁴"Risks in Credit Card Business," *China Daily*, January 10, 2005.

³⁵Dean Shepherd and Mark Shanley, *New Venture Strategy: Timing, Environmental Uncertainty and Performance*, Thousand Oaks, CA: Sage publications, 1998.

³⁶Shona L. Brown and Kathleen M. Eisenhardt, *Competing on the Edge*, Boston, MA: Harvard Business Press, 1998.

³⁷See, for example, John P. Workman, Jr. "Marketing's Limited Role in New Product Development in One Computer Systems Firm," *Journal of Marketing Research*, 30 (November 1993), pp. 405–21.

Competitor-Focused Approach. Black & Decker, a U.S.-based manufacturer of hand tools, switched to a global strategy using its strengths in the arenas of cost and quality and timing and know-how. In the 1980s Black & Decker's position was threatened by a powerful Japanese competitor, Makita. Makita's strategy of producing and marketing globally standardized products worldwide made it into a low-cost producer and enabled it to steadily increase its world market share. Within the company, Black & Decker's international fiefdoms combined with nationalist chauvinism to stifle coordination in product development and new product introductions, resulting in lost opportunities.

Then, responding to the increased competitive pressure, Black & Decker moved decisively toward globalization. It embarked on a program to coordinate new product development worldwide in order to develop core-standardized products that could be marketed globally with minimum modification. The streamlining of R&D also offered scale economies and less duplication of effort—and new products could be introduced faster. Its increased emphasis on design made it into a global leader in design management. It consolidated its advertising into two agencies worldwide in an attempt to give a more consistent image worldwide. Black & Decker also strengthened the functional organization by giving the functional manager a larger role in coordinating with the country management. Finally, Black & Decker purchased General Electric's small appliance division to achieve world-scale economies in manufacturing, distribution, and marketing. The global strategy initially faced skepticism and resistance from country managers at Black & Decker. The chief executive officer took a visible leadership role and made some management changes to start moving the company toward globalization. These changes in strategy helped Black & Decker increase revenues and profits by as much as 50 percent in the 1990s.³⁸ In order to meet further cost competition, Black & Decker's new global restructuring project plans to reduce manufacturing costs by transferring additional power tool production from the United States and England to low-cost facilities in Mexico, China, and a new leased facility in the Czech Republic and by sourcing more manufactured items from third parties where cost advantages are available and quality can be assured. Its global restructuring plan resulted in global sales increase of 20 percent to record \$5.4 billion and increased earnings of 36 percent to \$5.40 per share in 2005.³⁹

A word of caution is in order. Although a company's financial resources provides durability for its strategy, regulatory and other barriers could prove to be overwhelming even in a very promising market such as China. As presented in **Global Perspective 8-2**, AOL/Time Warner's expansion into China illustrates this difficulty.

Customer-Focused Approach. Estée Lauder is one good corporate example that superbly used cost and quality, timing and know-how, strongholds, and financial resources to its advantage. Estée Lauder has grown from a small, woman-owned cosmetics business to become one of the world's leading manufacturers and marketers of quality skin care, makeup, fragrance, and hair-care products. Its brands include Estée Lauder, Aramis, Clinique, Prescriptives, Origins, M·A·C, La Mer, Bobbi Brown, and Tommy Hilfiger, among others.

How did Estée Lauder accomplish such a feat? The answer lies in its ability to reach consumers in nearly every corner of the world, in its internal strengths, and in the diversity of its portfolio of brands. Since the beginning of its international operations, the company has always conducted in-depth research to determine the feasibility and compatibility of its products with each particular market, which has led to its high-quality image. Another reason for the company's success lies in its focus on global expansion before its competitors. Estée Lauder's international operations commenced in 1960. Because of its strong visibility in Europe, it served as a springboard to other

³⁸Black & Decker, various annual reports.

³⁹Black & Decker, Investor Relations, http://www.corporate-ir.net/ireye/ir_site.zhtml?ticker=BDK&script=2100, accessed December 10, 2005.



GLOBAL PERSPECTIVE 8-2

“ROME” COULD NOT BE BUILT IN A DAY . . . EVEN BY AOL/TIME WARNER IN CHINA

AOL, a Time Warner company, made a foray into China in 2001. AOL partnered with Lenovo (previously known as Legend), China’s largest computer maker, to tackle the world’s most promising Internet-service market; and became the first foreign broadcaster allowed onto a Chinese cable-TV service. However, AOL realized that it would take years and years to turn a profit. In China, any vendor or operator that wants to come into the Internet space needs deep pockets to last at least five years or more for anything to happen. It takes so many regulatory hurdles to just get approval to start offering Internet service in China. Furthermore, because China has a lot of competition, the margins have come down so much and Internet-service providers cannot become profitable instantly. But AOL could not wait for that long. Because of its continued losses in Japan, AOL just closed its Japanese venture. AOL’s new portal had many problems. It is not even as good as similar services from money-losing portals like sina.com or sohu.com. Furthermore, Lenovo is essentially a hardware company without much experience in telecom operations. Thus, this partnership lacked a distribution channel for AOL services. As a result, the business failed to go anywhere, and Lenovo finally pulled out of its legacy relationship with Time Warner in 2004. So far, the only places where Internet-service providers make money are in protected markets like South Korea or Taiwan, or where a firm blows out its competition early, as AOL did in

the United States. In competitive markets such as Hong Kong, Singapore, and China, price competition for basic services tends to leave everyone unprofitable.

Recently, AOL has been preparing to flex its mobile muscles. This includes its section in China as well—while AOL has revealed its wireless aspirations by hiring a telecommunications executive, former AT&T vice-president John Burbank, as new chief marketing officer for all of AOL, and listing 14 mobile-related jobs in the U.S., the careers section of AOL’s corporate site currently registers even nine more, that is, 23 such jobs in China.

As for television, AOL and other foreign broadcasters still face many regulatory obstacles. Though CCTV has been granted “landing rights,” it can only reach a very small part of Guangdong province, and its competitors include established programmers like Hong Kong’s TVB and ATV. Meanwhile, AOL’s other channels also have problems. Warner Music faces piracy issues that about 95 percent of all music and movie CDs in China are pirated; Time’s two flagship news publications—Time and Fortune—officially only sell fewer than 2,000 copies each in China, although *Fortune China* published through a licensee is helping establish the brand name. As for movies, China promises to double the number of overseas films it allows to be released each year, but that still means only 20 films, distributed among all of the world’s film studios, the potentials are not good enough for Time Warner. All these obstacles take a long time to improve, which means that Time Warner needs to have the patience and financial resources as well as a strong commitment in the China market, hoping that it will be the first player once China opens its door to foreign media companies.

Sources: Ben Dolvens and Alkman Granitsas, “Media—Don’t Hold your Breath,” *Far Eastern Economic Review*, www.feer.com, May 02, 2002; “Lenovo Reaches for New Direction,” CRN, <http://www.crn.com>, December 3, 2004; and Olga Kharif, “AOL’s Mobile Ambitions,” *BusinessWeek.com*, September 26, 2007.

European markets. Shortly thereafter, the company made its foray with the Estée Lauder brand into new markets in the Americas, Europe, and Asia. In the late 1960s the Aramis and Clinique brands were founded and a manufacturing facility was established in Belgium. In the 1970s, Clinique was introduced overseas and Estée Lauder began to explore new opportunities in the former Soviet Union. During the 1980s, the company made considerable progress in reaching markets that were still out of reach for many American companies. For example, in 1989 Estée Lauder was the first American cosmetic company to enter the former Soviet Union when it opened a perfumery in Moscow. The same year, it established its first freestanding beauty boutique in Budapest, Hungary. In 1990s the firm moved further into untapped markets such as China. Recently, Clinique established a presence in Vietnam. The company is focusing further on China and the rest of Asia. In addition, there are still many opportunities in Europe. The company will continue to look to Latin America for expansion but with caution, due to economic circumstances and political instability. One more reason for the company’s success is its use of financial resources to further strengthen brand value. Since 1989, the firm has opened some of its freestanding stores overseas because it could not find the right channels of distribution to maintain the brand’s standards.

Estée Lauder has built strong brand equity all over the world with each brand having a single, global image. The company's philosophy of never compromising brand equity has guided it in its selection of the appropriate channels of distribution overseas. In the United States and overseas, products are sold through limited distribution channels to uphold the particular images of each brand.

At the same time, Estée Lauder has successfully responded to the needs of different markets. In Asia, for example, a system of products was developed to whiten the skin. This ability to adapt and create products to specific market needs has contributed greatly to the company's ability to enter new markets. Estée Lauder's global strategies have paid off. In 2001, 61 percent of net sales came from the Americas, 26 percent from Europe, the Middle East, and Africa, and 13 percent from Asia/Pacific countries. For the past five years, international sales have increased almost 10 percent annually. Estée Lauder currently has manufacturing facilities in the United States, Canada, Belgium, Switzerland, and the United Kingdom, and research and development laboratories in the United States, Canada, Belgium, and Japan.⁴⁰

Hypercompetition

Hypercompetition, a fourth conceptualization, refers to the fact that all firms are faced with a form of aggressive competition that is tougher than oligopolistic or monopolistic competition, but is not perfect competition where the firm is atomistic and cannot influence the market at all. This form of competition is pervasive not just in fast-moving high-technology industries like computers and deregulated industries like airlines, but also in industries that have traditionally been considered more sedate, like processed foods. The central thesis of this argument is that no type of competitive advantage can last—it is bound to erode.

In any given industry, firms jockey among themselves for better competitive position, given a set of customers and buyers, the threat of substitutes, and the barriers to entry in that industry. However, the earlier arguments represent the description of a situation without any temporal dimension; there is no indication as to how a firm should act to change the situation to its advantage. For instance, it is not clear how tomorrow's competitor can differ from today's. A new competitor can emerge from a completely different industry given the convergence of industries. Ricoh, once a low-cost facsimile and copier maker, has now come up with a product that records moving images digitally, which is what a camcorder and a movie camera do using different technologies. This development potentially pits Ricoh as a direct competitor to camcorder and movie camera makers, emphasizing differentiation by providing unique technical features—something not possible ten or twenty years ago.

Such a shift in competition is referred to as *creative destruction*. This view of competition assumes continuous change, where the firm's focus is on disrupting the market. In a hypercompetitive environment, a firm competes on the basis of price; quality, timing, and know-how; creating strongholds in the markets it operates in (this is akin to entry barriers); and the financial resources to outlast its competitors.⁴¹

Interdependency

A fifth aspect of global strategy is *interdependency* of modern companies. Recent research has shown that the number of technologies used in a variety of products in numerous industries is rising.⁴² Because access to resources limit how many distinctive competencies a firm can gain, firms must draw on outside technologies to be able to build a state-of-the-art product. Since most firms operating globally are limited by a lack of all required technologies, it follows that for firms to make optimal use of outside technologies, a degree of components standardization is required. Such standardization would enable different firms to develop different end products, using, in a large

⁴⁰Anastasia Xenias, "The Sweet Smell of Success: Estée Lauder Honored at World Trade Week Event," *Export America*, May 2002 (print version), or to be accessed at <http://www.trade.gov/exportamerica/>.

⁴¹Richard D'Aveni, *Hypercompetition: Managing the Dynamics of Strategic Maneuvering* (New York: The Free Press, 1994).

⁴²Aldor Lanctot and K. Scott Swan, "Technology Acquisition Strategy in an Internationally Competitive Environment," *Journal of International Management*, 6 (Autumn 2000), pp. 187–215.

measure, the same components.⁴³ Research findings do indicate that technology intensity—that is, the degree of R&D expenditure a firm incurs as a proportion of sales—is a primary determinant of cross-border firm integration.⁴⁴

The computer industry is a good instance of a case where firms use components from various sources. HP/Compaq, Dell, and Acer all use semiconductor chips from Intel, AMD, or Cyrix, hard drives from Seagate Western Digital, Maxtor, or Hitachi, and software from Microsoft. The final product—in this case, the personal computer—carries some individual idiosyncrasies of Compaq, Dell, or Acer, but at least some of the components are common and, indeed, are portable across the products of the three companies.

In the international context, governments also tend to play a larger role and may, directly or indirectly, affect parts of the firm's strategy. Tariff and non-tariff barriers such as voluntary export restraints and restrictive customs procedures could change cost structures so that a firm could need to change its production and sourcing decisions. It is possible, however, that with the end of the Cold War and the spread of capitalism to previously socialist economies, such factors may decrease in importance. As presented in Chapter 2, the creation of the World Trade Organization in 1995, which launched the Doha Round of trade negotiations in 2001, is an encouraging sign because it leads to greater harmonization of tariff rules and less freedom for national governments to make arbitrary changes in tariff and non-tariff barriers and in intellectual property laws.

GLOBAL MARKETING STRATEGY



Multinational companies increasingly use global marketing and have been highly successful—for example, Nestlé with its common brand name applied to many products in all countries, Coca Cola with its global advertising themes, Xerox with its global leasing policies, and Dell Computer's "sell-direct" strategy. But global marketing is not about standardizing the marketing process on a global basis. Although every element of the marketing process—product design, product and brand positioning, brand name, packaging, pricing, advertising strategy and execution, promotion and distribution—may be a candidate for standardization, standardization is one part of a global marketing strategy and it may or may not be used by a company, depending on the mix of the product-market conditions, stage of market development, and the inclinations of the multinational firm's management. For instance, a marketing element can be global without being 100 percent uniform in content or coverage. **Exhibit 8-3** illustrates a possible pattern.

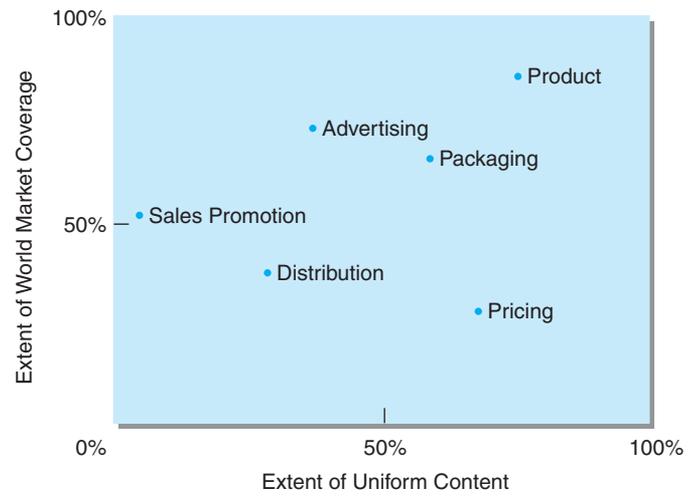
Let us take an instance from **Exhibit 8-3** and look at distribution with a magnitude of less than 50 percent on both coverage of world market and extent of uniform content. If we assume that the firm in question (represented in the diagram) does not have a manufacturing facility in each of the markets it serves, then to the extent that various markets have a uniform content, and presumably similar operations, there is a requirement for coordination with manufacturing facilities elsewhere in the firm's global network. Also, where content is not uniform, any change requirements for the non-uniform content of distribution require corresponding changes in the product and/or packaging. Thus, a global marketing strategy requires more intimate linkages with a firm's other functions, such as research and development, manufacturing, and finance.⁴⁵

In other words, a global marketing strategy is but one component of a global strategy. For an analogy, you may think of a just-in-time inventory and manufacturing

⁴³Masaaki Kotabe, Arvind Sahay, and Preet S. Aulakh, "Emerging Roles of Technology Licensing in Development of Global Product Strategy: A Conceptual Framework and Research Propositions," *Journal of Marketing*, 60 (January 1996), pp. 73–88.

⁴⁴Stephen Kobrin, "An Empirical Analysis of the Determinants of Global Integration," *Strategic Management Journal*, 12 (1991), pp. 17–31.

⁴⁵Masaaki Kotabe, *Global Sourcing Strategy: R&D, Manufacturing, and Marketing Interfaces* (New York: Quorum Books, 1992).

EXHIBIT 8-3**VARIATION IN CONTENT AND COVERAGE OF GLOBAL MARKETING.**

Source: Adapted from George S. Yip, *Total Global Strategy: Managing for Worldwide Competitive Advantage* (Englewood Cliffs, NJ: Prentice Hall, 1992), p. 136.

system that works for a single manufacturing facility to optimize production. Extend this concept now to finance and marketing, and include all subsidiaries of the firm across the world as well. One can imagine the magnitude and complexity of the task when a manager is attempting to develop and implement a global strategy. One implication is that without a global strategy for R&D, manufacturing, and finance that meshes with the various requirements of its global marketing strategy, a firm cannot best implement that global marketing strategy.

Benefits of Global Marketing

Global marketing strategy can achieve one or more of four major categories of potential globalization benefits: cost reduction, improved quality of products and programs, enhanced customer preference, and increased competitive advantage.⁴⁶ General Motors and Ford approach global marketing somewhat differently; such a strategic difference suggests that the two U.S. automakers are in search of different benefits of global marketing (see **Case Study 8-1**).

Cost Reduction. This arises from savings in both workforce and materials. When multiple national marketing functions are consolidated, personnel outlays are reduced through avoidance of duplicating activities. Costs are also saved in producing global advertisements and commercials and producing promotional materials and packaging. Savings from standardized packaging include reduction in inventory costs. With typical inventory carrying costs at 20 percent of sales, any reduction in inventory can significantly affect profitability. With the availability of a global span of coverage by various forms of modern communication media, multicountry campaigns capitalizing on countries' common features would also reduce advertising costs considerably. ExxonMobil's "Put a Tiger in Your Tank" campaign (and the Tiger in many other forms) offers a good example of a campaign that used the same theme across much of the world, taking advantage of the fact that the tiger is almost universally associated with power and grace.⁴⁷

⁴⁶George S. Yip, *Total Global Strategy: Managing for Worldwide Competitive Advantage* (Englewood Cliffs, N.J.: Prentice Hall, 1992), pp. 21–23.

⁴⁷If interested in the history of the Esso (ExxonMobil) tiger, probably one of the most recognized mascots in the world in the last 100 years, read "Tiger History," at ExxonMobil's website <http://www2.exxonmobil.com/Corporate/About/History/Corp_A_H_Tiger.asp>, accessed January 20, 2006.

Owning a website on the Internet for marketing to consumers is another way to reduce costs of conducting global marketing. It benefits both consumers, who can order to their own specifications everything from cars to swimsuits, and manufacturers in helping avoid inventory buildups. It also allows companies to have direct contact with consumers from different parts of the world, giving them deeper insight into market trends at a fraction of the cost incurred in traditional marketing. Cost savings can also translate into increased program effectiveness by allowing more money and resources into a smaller number of more focused programs. Disney, for example, is trying to break out of its traditional marketing methods with some alternative media. Now the company is launching a multi-player online game—Virtual Magic Kingdom—intended to drive kids to Disney resorts.⁴⁸

Improved Products and Program Effectiveness. This may often be the greatest advantage of a global marketing strategy. Good ideas are relatively scarce in the business arena. So a globalization program that overcomes local objections to allow the spread of a good marketing idea can often raise the effectiveness of the program when measured on a worldwide basis. Traditionally, R&D has been concentrated in the headquarters country of a global company. This has sometimes circumscribed a possible synergy from amalgamation of good ideas from around the world.

Procter & Gamble has solved this problem by setting up major R&D facilities in each of its major markets in the Triad—North America, Japan, and Western Europe—and by putting together the pertinent findings from each of the laboratories. As in the saying, “necessity is the mother of invention,” different needs in different parts of the world may lead to different inventions. For example, Procter & Gamble’s Liquid Tide laundry detergent was an innovative product developed in an innovative way by taking advantage of both the company’s technical abilities and various market requirements in the key markets around the world. Germans had been extremely concerned about polluting rivers with phosphate, a key whitening ingredient in the traditional detergent. To meet the German customer demand, Procter & Gamble in Germany had developed fatty acid to replace phosphate in the detergent. Similarly, Procter & Gamble Japan had developed surfactant to get off grease effectively in tepid water that Japanese use in washing their clothes. In the United States, Procter & Gamble in Cincinnati, Ohio, had independently developed “builder” to keep dirt from settling on clothes. Putting all these three innovations together, the company introduced Liquid Tide and its sister products (e.g., Ariel) around the world.

Three benefits followed from this multiple R&D location strategy. By being able to integrate required product attributes from three separate markets, P & G was able to introduce a much better product than would otherwise be possible and increase its chances of success. Second, its development costs were spread over a much larger market—a market that was more inclined to receive the product favorably because of the incorporation of the product features described. Third, it increased the sources from which product ideas are available to it. Thus, not only does P & G have immediate returns, but also it has secured for itself a reliable resource base of future products.

Enhanced Customer Preference. Awareness and recall of a product on a worldwide basis increase its value. A global marketing strategy helps build recognition that can enhance customer preferences through reinforcement. With the rise in the availability of information from a variety of sources across the world and the rise in travel across national borders, more and more people are being exposed to messages in different countries. So a uniform marketing message, whether communicated through a brand name, packaging, or advertisement reinforces the awareness, knowledge, and attitudes of people toward the product or service. Pepsi has a consistent theme in its marketing communication across the world—that of youthfulness and fun as a part of the experience of drinking Pepsi anywhere in the world.

⁴⁸Disney’s Virtual Magic Kingdom, <http://vmk.disney.go.com/>.

Increased Competitive Advantage. By focusing resources into a smaller number of programs, global strategies magnify the competitive power of the programs. Although larger competitors might have the resources to develop different high-quality programs for each country, smaller firms might not. Using a focused global marketing strategy could allow the smaller firm to compete with a larger competitor in a more effective manner. However, the most important benefit of a global strategy may be that the entire organization gets behind a single idea, thus increasing the chances of the success of the idea. Avis created a global campaign communicating the idea, “We are number two, therefore we try harder,” not only to customers, but also to its employees. As a result the entire organization pulled together to deliver on a global promise, not just in marketing but also in all activities that directly or indirectly affected the company’s interface with the customer.

Equally if not more important, are the benefits of market and competitive intelligence provided by the increased flow of information due to the worldwide coordination of activities. As the global firm meshes the different parts of the organization into the framework of a focused strategy, information flow through the organization improves and enables the functioning of the strategy. A byproduct is that the organization as a whole becomes much better informed about itself and about the activities of its competitors in markets across the world. Access to more and timely information results in the organization being more prepared and able to respond to signals from the marketplace.

Limits to Global Marketing

Although national boundaries have begun losing their significance both as a psychological and as a physical barrier to international business, the diversity of local environments, particularly cultural, political, and legal environments, still plays an important role not as a facilitator, but rather as an inhibitor, of optimal global marketing strategy development. Indeed, we still debate the very issue raised more than thirty years ago: counteracting forces of “unification versus fragmentation” in developing operational strategies along the value chain. As early as 1969, John Fayerweather wrote emphatically:

What fundamental effects does (the existence of many national borders) have on the strategy of the multinational firm? Although many effects can be itemized, one central theme recurs; that is, their tendency to push the firm toward adaptation to the diversity of local environments which leads toward fragmentation of operations. But there is a natural tendency in a single firm toward integration and uniformity that is basically at odds with fragmentation. Thus the central issue . . . is the conflict between unification and fragmentation—a close-knit operational strategy with similar foreign units versus a loosely related, highly variegated family of activities.⁴⁹

Many authors have since revisited the same counteracting forces in such terms as “standardization versus adaptation” (1960s), “globalization versus localization” (1970s), “global integration versus local responsiveness” (1980s), and most recently, “scale versus sensitivity” (1990s). Today, we may even add another variant, “online scale versus offline market sensitivity.” Basically, the left-side concept (i.e., unification, standardization, globalization, global integration, scale, and online scale) refers to a *supply-side* argument in favor of the benefit of economies of scale and scope, while the right-side concept (i.e., fragmentation, adaptation, localization, local responsiveness, sensitivity, and offline market sensitivity) refers to a *demand-side* argument addressing the existence of market differences and the importance of catering to the differing market needs and conditions. Terms have changed, but the quintessence of the strategic dilemma that those multinational firms face today has not changed and will probably remain unchanged for years to come.⁵⁰

⁴⁹ John Fayerweather, *International Business Management: Conceptual Framework* (New York: McGraw-Hill, 1969), pp. 133–34.

⁵⁰ Masaaki Kotabe, “To Kill Two Birds with One Stone: Revisiting the Integration-Responsiveness Framework,” in Michael Hitt and Joseph Cheng, ed., *Managing Transnational Firms*, New York: Elsevier, 2002, 59–69.

Now the question is, to what extent can successful multinational firms circumvent the impact of local environmental diversity? In some industries, product standardization may result in a product that satisfies customers nowhere. For processed foods, for example, national tastes and consumption patterns differ sufficiently to make standardization counterproductive. In Latin America, a variety of canned spicy peppers, such as jalapeño peppers, is a national staple in Mexico, but is virtually unheard of in Brazil and Chile. Obviously, firms cannot lump together the whole of Latin America into one regional market for condiments.

The Internet is global in nature and so are the websites. Being on the Web arguably translates into reaching customers in many corners of the world from day one. However, it does not mean that e-commerce can be developed without any need for local and regional adaptation. To effectively target and reach the global consumers online, many companies still need to approach them in their languages, conforming to their cultural value systems.⁵¹ Indeed, one recent study clearly shows that local websites of India, China, Japan, and the United States not only reflect cultural values of the country of their origin, but also differ significantly from each other on cultural dimensions.⁵²

On the other hand, Merck, the world's second largest pharmaceutical company, faces a different kind of problem with global marketing. The company can market the same products around the world for various ailments, but cultural and political differences make it very difficult to approach different markets in a similar way. Merck, which operates internationally as MSD, has to increase public awareness of health care issues in Mexico, Central America, and much of South America by bringing top journalists from these countries together on a regular basis to meet with health care experts ranging from physicians to government officials. The company is trying to change the way it does business in the Pacific Rim. It used to operate through local distributors and licensees without learning the local quirks of pharmaceutical business. Now, the company is creating subsidiaries in nearly all main Asian countries, including Korea, China, the Philippines, Taiwan, Singapore, and Malaysia, to learn what goes on inside those markets. In Eastern Europe, Merck is starting from scratch, because its entry had been previously barred under the region's strict communist control. For example, in Hungary, the company devoted its initial investment to establishing resource centers that are affiliated with local hospitals and universities in order to create a special image for Merck.⁵³

Even in supposedly similar cultures, there can be huge differences in what are effective marketing campaigns. The Body Shop found this out when it took a successful ad campaign in Britain and brought it to the United States, assuming it would have the same appeal. The ad showed the naked buttocks of three men and completely misfired in the U.S. market. In the words of Body Shop founder Anita Roddick, "We thought it was funny and witty here, but women in New Hampshire fainted."⁵⁴

However, despite such cultural and political constraints in the markets, Nestlé, for example, has managed to integrate procurement functions to gain bargaining power in purchasing common ingredients such as cocoa and sugar. In other industries, such as computers and telecommunications, consumption patterns are in the process of being established and the associated cultural constraint is getting less prominent. Also, the simultaneous launch of most products in these categories across the world precludes large differences. For these products, governments frequently attempt to exert national control over technological development, the products or the production process.⁵⁵

⁵¹E. James Randall and L. Jean Harrison-Walker, "If You Build It, Will They Come? Barriers to International e-Marketing," *Journal of Marketing Theory & Practice*, 10 (Spring 2002), pp. 12–21.

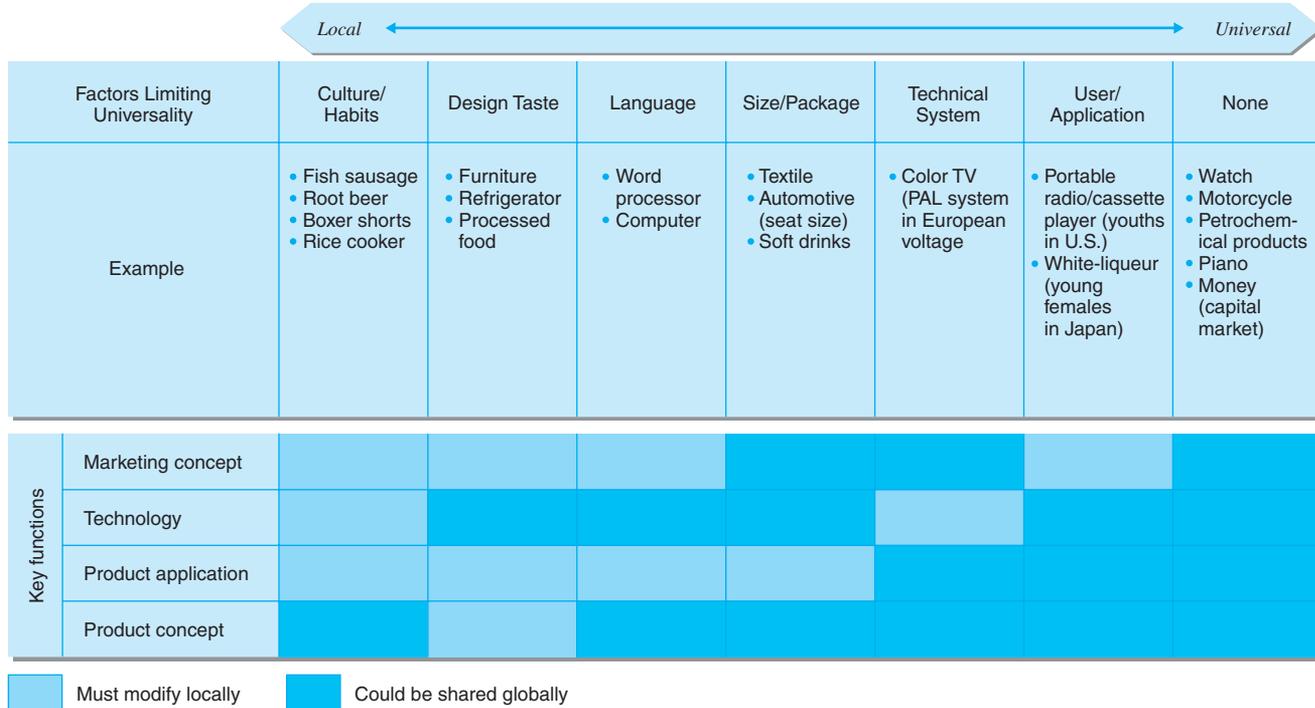
⁵²Nitish Singh, Hongxin Zhao, and Xiaorui Hu, "Analyzing the Cultural Content of Web Sites: A Cross-National Comparison of China, India, Japan, and US," *International Marketing Review*, 22 (2), 2005, pp. 129–45.

⁵³Fannie Weinstein, "Drug Interaction: Merck Establishes Itself, Country by Country, in Emerging Markets," *Profiles*, (September 1996), pp. 35–39; and Richard T. Clark, "Added Standing Behind Our Core Values," *Vital Speeches of the Day*, January 15, 2006, pp. 220–24.

⁵⁴Ernest Beck, "Body Shop Gets a Makeover to Cut Costs," *Wall Street Journal*, (January 27, 1999), p.A18.

⁵⁵C. K. Prahalad and Yves L. Doz, *The Multinational Mission* (New York: The Free Press, 1987).

EXHIBIT 8-4
DEGREE OF STANDARDIZABILITY OF PRODUCTS IN WORLD MARKETS



Source: Reprinted with the permission of The Free Press, a Division of Simon & Schuster Adult Publishing Group, from *Triad Power: The Coming Shape of Global Competition* by Kenichi Ohmae, p. 193. Copyright © 1985 by Kenichi Ohmae and McKinsey & Company, Inc.

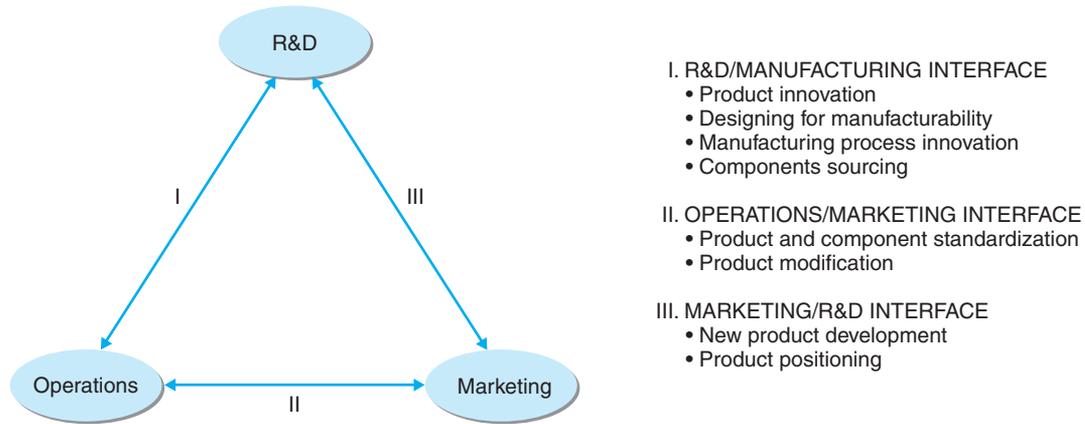
However, while it is the multinational firms that are the vehicle through which technology, production and economic activity in general are integrated across borders, *it is the underlying technology and economic activity that should be globally exploited for economies of scale.* National markets, regardless of how they are organized economically, are no longer enough to support the development of technology in many industries. See **Exhibit 8-4** for some generalizations about the degree of product standardization around the world.

◆ ◆ ◆ ◆ ◆ ◆ ◆ ◆ ◆ ◆ R&D, OPERATIONS, AND MARKETING INTERFACES

Marketing managers cannot develop a successful marketing strategy without understanding how other functional areas, such as R&D and operations, influence the degree of their marketing decision-making as well as how those functions may be influenced by them. In this section, we focus on the three most important interrelated activities in the value chain: R&D (e.g., technology development, product design, and engineering), operations (e.g., manufacturing), and marketing activities. Marketing managers should understand and appreciate the important roles that product designers, engineers, production managers, and purchasing managers, among others, play in marketing decision making. Marketing decisions cannot be made in the absence of these people.⁵⁶ Management of the interfaces, or linkages, among these value-adding activities is a crucial determinant of a company's competitive advantage. A recent study also shows

⁵⁶David B. Montgomery and Frederick E. Webster, Jr., "Marketing's Interfunctional Interfaces: The MSI Workshop on Management of Corporate Fault Zones," *Journal of Market Focused Management*, 2, 1997, pp. 7–26.

EXHIBIT 8-5
INTERFACES AMONG R&D, OPERATIONS, AND MARKETING



that marketing not only plays a pivotal role but also affects firm performance more than R&D and operations.⁵⁷ See **Exhibit 8-5** for an outline of a basic framework of management of R&D, operations, and marketing interfaces. Undoubtedly, these value-adding activities should be examined as holistically as possible, by linking the boundaries of these primary activities. As presented in Global Perspective 8-3, linking R&D and operations with marketing provides enormous direct and indirect benefits to companies operating in a highly competitive environment.

GLOBAL PERSPECTIVE 8-3

POWER OF GOOD LINKAGE MANAGEMENT

In today's world of global competition and high-speed product development, linkage among R&D, operations and marketing is more vital to successful business than ever before. Delivering a competitive product to the market at the right time, with the right specifications and feature benefits, all at a manufacturing cost that allows for profit is one tough assignment. Add to this the global complexity of marketing, R&D, and operations not being co-located in the same place, competing in an environment where world-class product-development time is under 50 weeks, and you have a challenge that few companies are dealing with appropriately today.

International marketing executives can no longer have the luxury of time to consider R&D and manufacturing as activities remotely related and remotely relevant to them. They have to deal with all of this complexity and be fully aware that without adequate understanding of the linkages necessary

among R&D, operations, and marketing, their businesses run a very high risk of failure.

John A. Bermingham, who has worked as executive vice president at Sony Corporation of America, president and CEO of AT&T Smart Cards Systems, and most recently as president and CEO of Rolodex Corporation, has a keen appreciation of how important and beneficial it is to manage linkages among R&D, operations, and marketing activities on a global basis. He offers the following advice:

- When marketing determines a product need, the very first thing that marketing managers must do is to bring R&D and manufacturing together to establish a powerful linkage for the duration of the project. Marketing should also include finance, sales, and operations in this project, but the key linkage for the purpose of the product development is among marketing, R&D and manufacturing.

(continued)

⁵⁷ Alexander Krasnikov and Staish Jayachandran, "The Relative Impact of Marketing, Research-and-Development, and Operations Capabilities on Firm Performance," *Journal of Marketing*, 72, (July 2008), pp. 1–11.

According to John Bermingham, good linkage management has many benefits for these teams.

- A powerful linkage develops the requisite personal/business relationship needed among the three groups that allows for the understanding and empathy for each other's responsibilities. These relationships cannot be fostered via faxes and teleconferences. They need to be developed on a face-to-face basis as well as throughout the project, especially if the marketing, R&D and manufacturing teams are in different countries.
- A powerful linkage is necessary to ensure that issues are on top of the table at the beginning of the project and also as they develop throughout the project. Marketing must ensure that R&D and manufacturing are aware of the marketing strategy, competitive environment, and global implications. Any situations arising during the project must be discussed openly and positively with mutual understanding and with decisions being made to minimize impairment to the project, and with full understanding among the teams.
- A powerful linkage allows for speed. When you consider that world-class product development time is less than

Source: John A. Bermingham, "Executive Insights: Roles of R&D and Manufacturing in Global Marketing Management," *Journal of International Marketing*, 4 (4) (1996), pp. 75–84.

50 weeks, and some say it will be less than forty weeks in the not too distant future, a powerful linkage is imperative. Teams must be working a series parallel effort. Some things have to happen before others, but others can be accomplished simultaneously. Only linkage makes this possible.

- A powerful linkage develops a high sense of urgency. Teams really begin to understand how important speed is in this type of environment when they go past understanding their own needs and problems and begin to understand the needs and problems of the other linked teams. Hence, urgency surrounds everything that these linked teams set out to accomplish. They see their linkage to the others and want to meet the needs of the entire team.
- A powerful linkage fosters mutual ownership individually and collectively. It is very important that there be individual ownership in the project, but it is just as important that the teams understand and accept collective ownership in the project. A tight linkage across the teams develops this collective ownership.
- A powerful linkage develops a true team environment that is essential and obligatory for success. Therefore, one of the most important roles for today and for the future for R&D and manufacturing in global marketing management is to ensure that these powerful linkages are established and strengthened.

R&D/Operations Interface

Technology is broadly defined as know-how. It can be classified based on the nature of know-how composed of product technology (the set of ideas embodied in the product) and process technology (the set of ideas involved in the manufacture of the product or the steps necessary to combine new materials to produce a finished product). However, executives tend to focus solely on product-related technology as the driving force of the company's competitiveness. Product technology alone may not provide the company a long-term competitive edge over competition unless it is matched with sufficient manufacturing capabilities.⁵⁸

Consider the automobile industry as an example. R&D is critical today for automakers because manufacturers are under tremendous pressure to provide more innovative products. Customers continue to raise the bar with respect to styling, quality, reliability, and safety. At the same time, manufacturers face difficult technical challenges on the energy and environmental front. They must make continual improvements in vehicle fuel economy and reductions in tailpipe emissions everywhere in the world. Although more improvement can be squeezed out of the conventional internal combustion engine, manufacturers are looking ahead to hybrid vehicle technology and, ultimately, to a hydrogen-based fuel-cell vehicle. The development costs and infrastructure changes necessary to take the step to fuel cell technology are staggering, so it makes sense for auto manufacturers to team up and share knowledge in order to move the industry as a whole ahead faster.

To reduce the R&D costs, General Motors is working with its alliance partners on more than 50 joint technology development projects ranging from pedestrian protection and 42-volt electrical architecture to all-wheel drive and clean diesel engines. Besides cooperating with other manufacturers, GM has formed research partnerships

⁵⁸Bruce R. Guile and Harvey Brooks, ed., *Technology and Global Industry: Companies and Nations in the World Economy* (Washington, D.C.: National Academy Press, 1987).

with suppliers, universities, and governmental agencies. These research alliances cover such areas as advanced internal combustion engine development, fuel cell technology, advanced chassis systems, and electronics and communications systems. They are truly global, involving companies and universities in Canada, Europe, Japan, China, and the Middle East.

By pulling together the talents and resources from this global R&D network, GM has been able to reduce redundancy, accelerate ongoing development, and jump-start new development. Of course, to launch such collaboration successfully requires that the companies involved overcome differences in culture, language, business practices, engineering, and manufacturing approaches.⁵⁹ This example suggests that manufacturing processes should also be innovative. To facilitate the transferability of new product innovations to manufacturing, a team of product designers and engineers should strive to design components such that they are conducive to manufacturing without the requirement of undue retooling. Low levels of retooling requirements and interchangeability of components are necessary conditions for efficient sourcing strategy on a global scale. If different equipment and components are used in various manufacturing plants, it is extremely difficult to establish a highly coordinated sourcing plan on a global basis.

A continual conflict exists between manufacturing operations and marketing divisions. It is to the manufacturing division's advantage if all products and components are standardized to facilitate standardized, low-cost production. The marketing division, however, is more interested in satisfying the diverse needs of customers, requiring broad product lines and frequent product modifications, which add cost to manufacturing. How have successful companies coped with this dilemma?

Recently, an increasing amount of interest has been shown in the strategic linkages between product policy and manufacturing long ignored in traditional considerations of global strategy development. With aggressive competition from multinational companies emphasizing corporate product policy and concomitant manufacturing, many companies have realized that product innovations alone cannot sustain their long-term competitive position without an effective product policy linking product and manufacturing process innovations. The strategic issue, then, is how to design a robust product or components with sufficient versatility built in across uses, technology, and situations.⁶⁰

Four different ways of developing a global product policy are generally considered an effective means to streamline manufacturing operations, thus lowering manufacturing cost, without sacrificing marketing flexibility: (1) core components standardization, (2) product design families, (3) universal product with all features, and (4) universal product with different positioning.⁶¹

Core Components Standardization. Successful global product policy mandates the development of universal products, or products that require no more than a cosmetic change for adaptation to differing local needs and use conditions. A few examples illustrate the point. Seiko, a Japanese watchmaker, offers a wide range of designs and models, but they are based on only a handful of different operating mechanisms. Similarly, the best-performing German machine tool-making companies have a narrower range of products, use up to 50 percent fewer parts than their less successful rivals, and

Operations/ Marketing Interface

⁵⁹Larry J. Howell and Jamie C. Hsu, "Globalization within the Auto Industry," *Research Technology Management*, 45 (July/August 2002), pp. 43-49.

⁶⁰K. Scott Swan, Masaaki Kotabe, and Brent Allred, "Exploring Robust Design Capabilities, Their Role in Creating Global Products, and Their Relationship to Firm Performance," *Journal of Product Innovation Management*, 22 (March 2005), pp. 144-64.

⁶¹Hiroataka Takeuchi and Michael E. Porter, "Three Roles of International Marketing in Global Strategy," in Michael E. Porter, ed. *Competition in Global Industries*, (Boston, MA: Harvard Business School Press, 1986), pp. 111-46.

make continual, incremental product and design improvements with new developments passed rapidly on to customers.

Product Design Families. A variant of core components standardization involves product design families. It is also possible for companies marketing an extremely wide range of products due to cultural differences in product-use patterns around the world to reap economies of scale benefits. For example, Toyota offers several car models based on a similar family design concept, ranging from Lexus models to Toyota Avalons, Camrys, and Corollas. Many of the Lexus features well received by customers have been adopted into the Toyota lines with just a few minor modifications (mostly downsizing). In the process, Toyota has been able to cut product development costs and meet the needs of different market segments. Similarly, Electrolux, a Swedish appliance manufacturer, has adopted the concept of “design families,” offering different products under four different brand names, but using the same basic designs. A key to such product design standardization lies in standardizing components, including motors, pumps, and compressors. Thus, two Electrolux subsidiaries, White Consolidated in the United States and Zanussi in Italy, have the main responsibility for component production within the group for worldwide application.

Universal Product with All Features. As just noted, competitive advantage can be achieved by standardizing core components and/or product design families. One variant of components and product standardization is to develop a universal product with all features demanded anywhere in the world. Japan’s Canon has done so successfully with its AE-1 cameras and newer models. After extensive market analyses around the world, Canon identified a set of common features customers wanted in a camera, including good picture quality, ease of operation with automatic features, technical sophistication, professional looks, and reasonable price. To develop such cameras, the company introduced a few breakthroughs in camera design and manufacturing, such as an electronic integrated circuitry brain to control camera operations, modularized production, and standardization and reduction of parts.

Universal Product with Different Positioning. Alternatively, a universal product can be developed with different market segments in mind. Thus, a universal product can be positioned differently in different markets. This is where marketing promotion plays a major role to accomplish such a feat. Product and/or components standardization, however, does not necessarily imply either production standardization or a narrow product line. For example, Japanese automobile manufacturers have gradually stretched out their product line offerings, while marketing them with little adaptation in many parts of the world. This strategy requires manufacturing flexibility. The crux of global product or component standardization, instead, calls for proactive identification of homogeneous segments around the world, and is different from the concept of marketing abroad a product originally developed for the home market. A proactive approach to product policy has gained momentum in recent years as it is made possible by intermarket segmentation.⁶² In addition to clustering countries and identifying homogeneous segments in different countries, targeting different segments in different countries with the same products is another way to maintain a product policy of standardization.

For example, Honda marketed almost identical Accord cars around the world by positioning them differently in the minds of consumers from country to country. Accord has been promoted as a family sedan in Japan, a relatively inexpensive sports car in Germany, and a reliable commuter car in the United States. In recent years, however, Honda has begun developing some regional variations of the Accord. Through a flexible global platform, Honda now offers Accords of different widths, heights, and lengths in the United States, Europe, and Japan. In addition, from the same platform, a minivan, a sport utility vehicle (SUV), and two Acura luxury cars have been developed. From a practical

⁶²Theodore Levitt, “The Globalization of Markets,” *Harvard Business Review*, 61 (May-June 1983), pp. 92–102.

standpoint, the platform is the most expensive and time-consuming component to develop. The global platform allows Honda to reduce the costs of bringing the three distinct Accords to market by 20 percent, resulting in a \$1,200 savings per car. Honda clearly adheres to a policy of core component standardization so that at least 50 percent of the components, including the chassis and transmission, are shared across the variations of the Accord.⁶³

Both R&D and manufacturing activities are technically outside the marketing manager's responsibility. However, the marketing manager's knowledge of consumers' needs is indispensable in product development. Without a good understanding of the consumers' needs, product designers and engineers are prone to impose their technical specifications on the product rather than fitting them to what consumers want. After all, consumers, not product designers or engineers, have the final say in deciding whether or not to buy the product.

Japanese companies, in particular, excel in management of the marketing/R&D interface.⁶⁴ Indeed, their source of competitive advantage often lies in marketing and R&D divisions' willingness to coordinate their respective activities concurrently. In a traditional product development, either a new product was developed and pushed down from the R&D division to the manufacturing and marketing divisions for sales, or a new product idea was pushed up from the marketing division to the R&D division for development. This top-down or bottom-up new product development takes too much time in an era of global competition, in which a short product development cycle is crucial to meet constant competitive pressure from new products introduced by rival companies around the world.

R&D and marketing divisions of Japanese companies are always on the lookout for the use of emerging technologies initially in existing products to satisfy customer needs better than their own existing and their competitors' products. This affords them an opportunity to gain experience, debug technological glitches, reduce costs, boost performance, and adapt designs for worldwide customer use. As a result, they have been able to increase the speed of new product introductions, meet the competitive demands of a rapidly changing marketplace, and capture market share.

In other words, *the marketplace becomes a virtual R&D laboratory for Japanese companies to gain production and marketing experience, as well as to perfect technology.* This requires close contact with customers, whose inputs help Japanese companies improve upon their products on an ongoing basis. In the process, they introduce new products one after another.

Another example worth noting is the exploitation of the so-called "fuzzy" logic by Hitachi and others.⁶⁵ When fuzzy logic was conceived in the mid-1960s by Lotfi A. Zadeh, a computer science professor at the University of California at Berkeley, nobody other than several Japanese companies paid serious heed to its potential application in ordinary products. The fuzzy logic allows computers to deal with shades of gray or something vague between 0 and 1—no small feat in a world of the binary computers. Today, Hitachi, Panasonic, Mitsubishi, Sony, and Nissan Motors, among others, use fuzzy logic in their products. For example, Hitachi introduced a "fuzzy" train that automatically accelerates and brakes so smoothly that no one reaches for the hanging straps. Panasonic began marketing a "fuzzy" washing machine with only one start button that automatically judges the size and dirtiness of the load and decides the optimum cycle times, amount of detergent needed, and water level. Sony introduced a palm-size computer capable of recognizing written Japanese, with a fuzzy circuit to iron out the inconsistencies in different writing styles. Now fuzzy circuits are put into the autofocus mechanisms of video cameras to get constantly clear pictures. Fuzzy chips

Marketing/R&D Interface

⁶³"Can Honda Build a World Car," *Business Week*, September 8, 1997, pp. 100–108; and "The Also-Rans," *Economist*, February 21, 2004, pp. 61–62.

⁶⁴X. Michael Song and Mark E. Parry, "A Cross-National Comparative Study of New Product Development Processes: Japan and the United States," *Journal of Marketing*, 61 (April 1997), pp. 1–18.

⁶⁵Larry Armstrong, "Why 'Fuzzy Logic' Beats Black-or-White Thinking," *Business Week* (May 21, 1990), pp. 92–93.

have already been incorporated into a wide range of products in Japan, yet virtually unheard of in the rest of the world.⁶⁶

The continual introduction of newer and better-designed products also brings a greater likelihood of market success.⁶⁷ Ideal products often require a giant leap in technology and product development, and naturally are subject to a much higher risk of consumer rejection. The Japanese approach of incrementalism not only allows for continual improvement and a stream of new products, but also permits quicker consumer adoption. Consumers are likely to accept improved products more quickly than very different products, because the former are more compatible with the existing patterns of product use and lifestyles. Indeed, a recent research reinforces the importance of information sharing between R&D and marketing departments as a way to reduce uncertainty in the highly volatile environment of new product development, whether it is in Japan, China, or the United States.⁶⁸

◆ ◆ ◆ ◆ ◆ ◆ ◆ ◆ ◆ ◆ REGIONALIZATION OF GLOBAL MARKETING STRATEGY

Some firms, such as General Motors, may have difficulty in organizing, or may not be willing to organize, operations to maximize flexibility and encourage integration across national borders. Beyond various cultural, political, and economic differences across national borders, organizational realities also impair the ability of multinational firms to pursue global marketing strategies. Not surprisingly, integration has often been opposed by foreign subsidiaries eager to protect their historical relative independence from their parent companies.

In finding a balance between the need for greater integration and the need to exploit existing resources more effectively, many companies have begun to explore the use of regional strategies in Europe, North America, and the Pacific Rim. Regional strategies can be defined as the cross-subsidization of market share battles in pursuit of regional production, branding, and distribution advantages.⁶⁹ Regional strategies in Europe and North America have been encouraged by the economic, political, and social pressures resulting from the development of regional trading blocs, such as European Union, North American Free Trade Agreement (NAFTA), and Southern Common Market (MERCOSUR).⁷⁰

Regional trading blocs have had two favorable effects. First, the volatility of foreign exchange rates within a bloc seems to be reduced.⁷¹ Second, with the growing level of macroeconomic integration with regions, the trend is also toward greater harmonization of product and industry standards, pollution and safety standards, and environmental standards, among other things.⁷² These regional commonalities further encourage firms to develop marketing strategies on a regional basis.⁷³ Global

⁶⁶Robert J. Crawford, "Reinterpreting the Japanese Economic Miracle," *Harvard Business Review*, 76 (January/February 1998), pp. 179–84.

⁶⁷Michael R. Czinkota and Masaaki Kotabe, "Product Development the Japanese Way," *Journal of Business Strategy*, 11 (November/December 1990), pp. 31–36.

⁶⁸X. Michael Song and R. Jeffrey Thieme, "A Cross-National Investigation of the R&D–Marketing Interface in the Product Innovation Process," *Industrial Marketing Management*, 35 (April 2006), pp. 308–22.

⁶⁹Allen J. Morrison and Kendall Roth, "The Regional Solution: An Alternative to Globalization," *Transnational Corporations*, 1 (August 1, 1992), pp. 37–55; and Gerald Millet, "Global Marketing and Regionalization—Worlds Apart?" *Pharmaceutical Executive*, 17 (August 1997), pp. 78–81.

⁷⁰Alan M. Rugman, "Regional Strategy and the Demise of Globalization," *Journal of International Management*, 9 (4), 2003, pp. 409–17.

⁷¹Alan David MacCormack, Lawrence James Newmann, and Donald B. Rosenfield, "The New Dynamics of Global Manufacturing Site Location," *Sloan Management Review*, 35 (Summer 1994), pp. 69–80; and Masaaki Kotabe, "To Kill Two Birds with One Stone: Revisiting the Integration-Responsiveness Framework," in Michael Hitt and Joseph Cheng, ed., *Managing Transnational Firms*, New York: Elsevier, 2002, pp. 59–69.

⁷²Edmund W. Beaty, "Standard Regionalization: A Threat to Internetworking?" *Telecommunications*, Americas Edition, 27 (May 1993), pp. 48–51.

⁷³Maneesh Chandra, "The Regionalization of Global Strategy," A paper presented at 1997 Academy of International Business Annual Meeting, Monterrey, Mexico, October 8–12, 1997.

marketing strategy cannot be developed without considering competitive and other market forces from different regions around the world. To face those regional forces proactively, three additional strategies need to be considered at the firm level. These are cross subsidization of markets, identification of weak market segments, and the lead market concept.⁷⁴ See also **Global Perspective 8-4** for an example of global

GLOBAL PERSPECTIVE 8-4



SONY, MICROSOFT, AND NINTENDO BATTLING FOR GLOBAL DOMINANCE IN THE VIDEO GAME INDUSTRY

Back in 1995, Sony revolutionized the video game industry when it launched the PlayStation console. The consumer electronics behemoth set a new standard by tapping CD-technology in the design of game consoles. Sony was a relative latecomer in the industry. Sony's main rivals Sega and Nintendo had popularized the cartridge for gaming consoles. However, CD-technology was perceived as technologically superior to cartridge. CDs could hold up to 650 megabytes of data compared to only 16 megabytes storage capacity for cartridge-based consoles. CDs also yielded higher margins to third-party developers, one of the main reasons why they were attracted to the Sony PlayStation platform. CDs were also a less expensive medium, selling for \$35 in retail outlets while Nintendo games were in the \$75 price range. When Sony therefore adopted CD technology, the firm created the impression that the PlayStation would become the wave of the future in the videogame industry. Nintendo steadfastly refused to adopt this new technology even when it released its 64-bit N64. Nintendo's lack of enthusiasm for the CD-platform was mainly due to the fact that it *owned* the cartridge technology and, therefore, was reluctant to abandon this platform. Nintendo's slow response in the wake of new technologies proved to be a recipe for disaster.

Five years later in 2000, the second generation of PlayStation, known as PlayStation 2 (PS2), which Sony introduced instantly became dominant in the global gaming market. PS2 is the first video game system to use the Digital Video Disc (DVD) format. The DVD platform allows the PS2 to hold much more information than rival video game systems. Another solid feature of PS2 is that it is able to play most of the original PlayStation games. Due to the blockbuster success of the first generation PS, PS2 penetrated the video game market very easily.

The good times for the video game industry do not last forever. According to analysts, 2002 was the peak of the cycle

Sources: "Sony's PS3 Problems Cast a Long Shadow," *BusinessWeek.com*, May 16, 2007; "How the Wii Is Winning," *BusinessWeek.com*, September 12, 2007; "Bringing PlayStation Back to Basics," *BusinessWeek.com*, September 24, 2007; and "More Delays for PlayStation," *BusinessWeek.com*, April 22, 2008.

and the market cooled off gradually till the seventh generation of consoles began appearing since late 2005 when Microsoft Xbox 360 was introduced. On November 11, 2006, Sony launched PlayStation 3 (PS3), the successor to the PlayStation 2 as part of the PlayStation series. Eight days later, the Wii, the fifth home video game console by Nintendo, was released as the direct successor to the Nintendo GameCube.

In the competition of the seventh generation video game consoles, Nintendo is definitely the winner, with its units sales of 24.5 million which is much larger than the ever-champion Sony's 12.8 million of PS3 and Microsoft's 19 million of Xbox 360. The key for its success lies in its broader demographic target, which benefits from the console's distinguishing feature, the wireless controller known as the Wii Remote. The remote can be used as a handheld pointing device and detect movement in three dimensions, resulting in a revolution of the way playing video games. Another significant feather is Wii-Connect24, which enables it to receive messages and updates over the Internet while in standby mode. Its low price of \$249 is also an important reason for its popularity.

The Sony-Microsoft-Nintendo competition is being played out globally and particularly in the Triad regions of North America, Japan, and Europe. The following table shows the launch dates and the sales volumes for Sony PS2, Microsoft Xbox, and Nintendo GameCube.

	Launch Date		
	Sony PlayStation 3	Microsoft Xbox	Nintendo Wii
Japan	November 11, 2006	December 10, 2005	December 2, 2006
United States	November 17, 2006	November 22, 2005	November 19, 2006
Europe (U.K.)	March 23, 2007	December 2, 2005	December 8, 2006
Unit Sales since Launch	12.8 million (as of March 31, 2008)	19 million (as of April 25, 2008)	24.5 million (as of March 31, 2008)

⁷⁴Gary Hamel and C.K. Prahalad, "Do You Really Have a Global Strategy?" *Harvard Business Review* (July–August 1985), pp. 139–48.

competition among Sony PlayStation, Microsoft Xbox, and Nintendo GameCube employing these three strategies on an ongoing basis.

Cross-Subsidization of Markets

Cross-subsidization of markets refers to multinational firms using profits gained in a market where they have a strong competitive position to beef up their competitive position in a market where they are struggling to gain foothold. For example, Michelin used its strong profit base in Europe to attack the home market of Goodyear in the United States. Reducing prices in its home market (by Goodyear) would have meant that Goodyear would have reduced its own profits from its largest and most profitable market without substantially affecting Michelin's bottom line, because Michelin would have exposed only a small portion of its worldwide business by competing with Goodyear in the United States. Goodyear chose to strike back by expanding operations and reducing prices in Europe.

Kodak's ongoing rivalry with Fuji in the photographic film market provides another example of the importance of not permitting a global competitor unhindered operation in its home market. Kodak did not have a presence in Japan until the early 1980s. In this omission, Kodak was making the same mistake that many other Western companies have done—avoiding Japan as unattractive on a stand-alone basis, while not seeing its strategic importance as the home base of a global competitor and a source of ideas.⁷⁵

Identification of Weak Market Segments

The second strategy that firms should always keep an open eye for is the identification of **weak market segments** not covered by a firm in its home market. Japanese TV makers used small-screen portable TVs to get a foot in the door of the large U.S. market for TVs. RCA and Zenith did not think this segment attractive enough to go after. Another classic example is Honda's entry into the U.S. motorcycle market in the 1960s. Honda offered small, lightweight machines that looked safe and cute, attracting families and an emerging leisure class with an advertising campaign, "You can meet the nicest people on a Honda." Prior to Honda's entry, the U.S. motorcycle market was characterized by the police, military personnel, aficionados, and scofflaws like Hell's Angels and Devil's Disciples. Honda broke away from the existing paradigms about motorcycles and the motorcycle market, and successfully differentiated itself by covering niches that did not exist before.⁷⁶ Once the Japanese companies were established in the small niche they had a base to expand on to larger and more profitable product lines. More recently in 1997, Labatt International of Canada took advantage of freer trading relationships under NAFTA and awakened Canadian consumers to things Mexican by importing a Mexican beer, Sol, brewed by Cerveceria Cuauhtemoc Moctezuma, to fill a newly found market segment in Canada. Thus, firms should avoid pegging their competitive advantage entirely on one market segment in their home market.

What directions can this lead to in terms of a global product strategy—or a worldwide distribution, pricing, or promotion strategy? We discuss some aspects of a global product strategy for an automobile company. Suppose market data tell the managers that four dozen different models are required if the company desires to design separate cars for each distinct segment of the Triad market, but the company has neither the financial nor the technological resources to make so many product designs. Also, no single global car will solve the problems for the entire world. The United States, Japan, and Europe are different markets, with different mixes of needs and preferences. Japan requires right-hand drive cars with frequent inspections, while many parts of Europe need smaller cars as compared to the United States. The option of

⁷⁵Yoshi Tsurumi and Hiroki Tsurumi, "Fujifilm-Kodak Duopolistic Competition in Japan and the United States," *Journal of International Business Studies*, 30 (4th Quarter 1999), pp. 813–30.

⁷⁶Richard P. Rumelt, "The Many Faces of Honda," *California Management Review*, 38 (Summer 1996), pp. 103–11; and Richard D. Pascale, "Reflections on Honda," *California Management Review*, 38 (Summer 1996), pp. 112–17.

leaving out a Triad market would not be a good one. The company needs to be present in, at least, all of these three markets with good products.

The solution may be to look at the main requirements of each lead market in turn. A **lead market** is a market where unique local competition is nurturing product and service standards to be adopted by the rest of the world over time. A classic case is facsimile (fax) technology. Siemens in Germany had developed a considerable technological advantage in fax technology in the 1970s. However, because of lukewarm reaction from its domestic market, the German company abandoned the fax and concentrated on improving the telex system. In the meantime, sensing a strong demand for this technology, Japanese companies invested continuously in fax technology and introduced a stream of improved and affordable fax machines in Japan and abroad. Backed by the strength of the local markets, the Japanese bandwagon, led by Sharp and Ricoh, spread over to the rest of the world, displacing the telex system eventually. In retrospect, Siemens should have introduced fax machines in Japan as the lead market instead.⁷⁷

Use of the “Lead Market” Concept

Another example is wireless financial services. Although many U.S. banks are globally competitive, banks in Europe and Asia have already surpassed those in the United States when it comes to offering such services. According to a recent TowerGroup report, over 90 percent of the estimated 10 million users of wireless financial services are in the Asia-Pacific region and in Western Europe. The United States is far behind this trend.⁷⁸ There are several reasons, some technological and some cultural. A technological one involves digital phones. Although the push toward smart digital phones that can use the Web and e-mail has started, only one person in five in the United States has digital devices of any kind. Analog phones still account for a majority of cell phones in the United States. Digital has caught on earlier in Europe, where 40 percent of people have some sort of wireless digital device. Asia is not far behind. In Scandinavia and Japan, more than half the population has digital devices. In addition, Europe has one generally accepted standard for mobile phones—the Global System for Mobile Communications that allows for short, two-way messages. The United States has a hodgepodge of competing technologies, making it expensive for financial institutions to reach a broad range of customers. Europe and Japan could serve as lead markets or better learning grounds for U.S. financial institutions to be able to compete in the U.S. market down the road.

Emerging markets could also increasingly serve as potential lead markets. One such interesting example is Mahindra & Mahindra, a major Indian tractor manufacturer, began marketing in 2002 its basic tractors in a so-called recreational farmers market segment in the United States that U.S. tractor manufacturers had largely ignored. Deere & Co., a U.S. company known for its heavy-duty farm equipment and large construction gear Deere opened its R&D facility in Pune, India in 2001 to develop farm equipment suitable for the Indian market. Deere tractors marketed in India were so basic that the U.S. company had never even contemplated selling them in the United States until Mahindra’s entry into the recreational farmers market. Now Deere, taking a cue from Mahindra, started marketing a slightly modified version with softer seats and higher horsepower of the Indian line of tractors to hobbyists and bargain hunters in the United States. As a result, India is fast becoming a lead market for developing stripped-down tractors for India and other emerging markets, which double as recreational tractors for hobbyists in the United States.⁷⁹

As indicated earlier, this is a strategic response to the emergence of lead countries as a market globalization driver. Each can be a lead country model—a product carefully tailored to meet distinct individual needs. With a short list of lead country models in

⁷⁷Marian Beise and Thomas Cleff, “Assessing the Lead Market Potential of Countries for Innovation Projects,” *Journal of International Management*, 10 (October 2004), pp. 453–77.

⁷⁸“Wireless Financial Services: Batteries Running Low,” *American Banker*, July 23, 2002, p. 6A; and “Remember Wireless Financial Services? They Never Went Away,” *Securities Industry News*, June 16, 2003, p. 38.

⁷⁹“John Deere’s Farm Team,” *Fortune*, April 14, 2008, pp. 121–26.

hand, minor modifications may enable a fair amount of sales in other Triad markets and elsewhere. This will halve the number of basic models required to cover the global markets and, at the same time, cover a major proportion of sales with cars designed for major markets. Additional model types could be developed through adaptation of the lead country models for specific segments. This approach in each of the largest core markets permits development of a pool of supplemental designs that can be adapted to local preferences.

In line with our earlier example of Procter & Gamble, it is not necessary that the design and manufacture of a lead country model be restricted to one R&D and manufacturing facility. Ford has now integrated the design and manufacturing process on a global basis. It has design centers at Dearborn in the United States, England, Italy, and Japan, which are connected by a satellite uplink. Designers using fast workstations and massively parallel computers simulate a complete model and the working of the model for various conditions. Separate parts of the car are simulated at different facilities. Thereafter, the complete design for a lead country is integrated in the facility assigned for the purpose. For instance, the complete design for the new Ford Mustang was put together in Dearborn, but it incorporated some significant changes in body design that were made in England based on designs of Jaguar, which Ford had acquired. Similarly, different components of an automobile may be sourced from different parts of the global network of the firm or even from outside the firm. As firms move toward concentrating on developing expertise in a few core competencies,⁸⁰ they are increasingly outsourcing many of the components required for the total product system that constitutes the automobile.

This increase in outsourcing raises another question for firms that practice it. How can firms ensure uninterrupted flow of components when the component makers are independent companies? The answer to this question and the set of issues that it raises takes us into the area of cooperation between firms and strategic alliances, which will be discussed in Chapter 9.

Marketing Strategies for Emerging Markets

As stated earlier in Chapters 1 and 2, one salient aspect of the globalization of markets is the importance of the emerging markets, known as ten Big Emerging Markets (BEMs) including China, India, Indonesia, Russia, and Brazil. As multinational companies from North America, Western Europe, and Japan search for growth, they have no choice but to compete in those big emerging markets despite the uncertainty and the difficulty of doing business there. A vast consumer base of hundreds of millions of people—the middle class market, in particular—is developing rapidly. When marketing managers working in the developed countries hear about the emerging middle class markets in China or Brazil, they tend to think in terms of the middle class in the United States or Western Europe. In the United States, people who earn an annual income of between \$35,000 and \$75,000 are generally considered middle class.⁸¹ In China and Brazil, people who have the purchasing power equivalent of \$20,000 or more constitute only 2 and 9 percent of their respective populations and are considered upper class. In these emerging countries, people with the purchasing power equivalent of \$5,000–\$20,000 (and most of them in the \$5,000–10,000 equivalent bracket) are considered middle class and constitute a little more than 25 percent of the population. Indeed, the vast majority (67 percent of the population) in China and Brazil are in the low-income class with the purchasing power equivalent of less than \$5,000. Obviously, the concept of the middle class market segment differs greatly between developed and emerging countries, and so does what they can afford to purchase.⁸²

⁸⁰C. K. Prahalad and Gary Hamel, “The Core Competence of the Corporation,” *Harvard Business Review*, 68 (May–June 1990), pp. 79–91.

⁸¹“The Billionaire Next Door,” *Forbes*, October 11, 1999, pp. 50–62.

⁸²C. K. Prahalad and Kenneth Lieberthal, “The End of Corporate Imperialism,” *Harvard Business Review*, 76 (July–August 1998), pp. 69–79.

Consumers in big emerging markets are increasingly aware of global products and global standards, but they often are unwilling—and sometimes unable—to pay global prices. Even when those consumers appear to want the same products as sold elsewhere, some modification in marketing strategy is necessary to reflect differences in product, pricing, promotion, and distribution. Some unnecessary frills may need to be removed from the product to reduce price, yet maintaining its functional performance; and packaging may need to be strengthened as the distribution problems, such as poor road conditions and dusty air, in emerging markets hamper smooth handling. Promotion may need to be adapted to address local tastes and preferences. As these emerging markets improve their economic standing in the world economy, they tend to assert their local tastes and preferences over existing global products. Further, access to local distribution channels is often critical to success in emerging markets because it is difficult and expensive for multinational companies from developed countries to understand local customs and a labyrinthine network of a myriad of distributors in the existing channel.

If a vote were taken for the foreign company that has changed most in the Chinese market, the winner might be Amway, the U.S.-based direct sales company. It had to re-engineer its China network when its original method was virtually outlawed by China as unsuitable to national characteristics. It owns and runs some 200 retail outlets in China in 2008, but when it arrived in China in the early 1990s, it had none. It is churning out advertising campaigns featuring some of the world's most well-known athletes, while for most part of its history, its only marketing strategy was to depend on word of mouth. When it comes to pricing globally, Amway keeps a different price policy based on the local conditions of each country or regional market. In Southeast Asian markets, where currency levels are more fluid, prices are adjusted every couple of years. In China, raising prices seemed unavoidable in 2008 too as Amway needed to offset the inflation in almost every aspect of business - from labor to materials there.⁸³

Despite these operational complexities, many foreign companies are actually making BEMs as corporate priority. Take two retail giants for example. Many of us tend to think that Wal-Mart is one of the most global. However, only 10 percent of its sales are generated outside its core NAFTA market, compared to Carrefour, which generates more than 20 percent of sales outside Europe. What is more, in the all-important emerging markets of China, South America and the Pacific Rim, Carrefour outpaces Wal-Mart in actual revenue. Take China, the land of a billion-plus consumers, as an example. Carrefour is the first foreign retailer tapping into the attractive Chinese market in 1997. By 2005, Carrefour had opened 62 stores and was planning to open between 12 and 15 new hypermarkets each year, with one-third of them located in central and western areas of China. Wal-Mart, with more than 5,000 stores worldwide, is catching up with Carrefour for its 46th store in China. In 2004, Carrefour generated sales revenues of \$2 billion, whereas Wal-Mart had a sales revenue of \$0.94 billion, or slightly less than half of Carrefour's revenue.⁸⁴ Wal-Mart needed to expand the number of outlets quickly in order to lower costs and capitalize on the growing affluence among China's urban customers before Carrefour and other rivals get a chance to further establish themselves. Being No. 2 risks being doomed for failure, as Wal-Mart learned to its cost in South Korea when it sold its eight-year-old operation there to the domestic market leader, Shinsegae, in May 2006. Wal-Mart has recently raised the stakes in China by acquiring Trust-Mart, the top retail chain of 100 stores that sell everything from food to electronics in the country, for about \$1 billion. Despite Trust-Mart's reputation for mediocre management, Wal-Mart would gain massive scale through the acquisition for it to more than double its retail presence. By purchasing an entire chain rather than opening new stores, Wal-Mart will be able to bypass cumbersome Chinese

⁸³You Nuo, "Amway's Way," *ChinaDaily.com*, May 12, 2008.

⁸⁴"Boost for Foreign Retailers," *SPC Asia*, March 2005, p. 4; and "Wal-Mart Aims for 12–15 New China Stores in 2005," *China Daily*, May 18, 2005.

red tape: each city has its own requirements for new stores. By acquiring existing stores, Wal-Mart can avoid the complexities of land acquisition.⁸⁵

European companies like Unilever have also broadened the scope of their market by addressing these issues and also competing for the low-income classes. In Indonesia, Unilever does brisk business by selling inexpensive, smaller-size products, that are affordable to everyone, and available anywhere. For instance, it sells Lifebuoy soap with the motto: “With a price you can afford.” Unilever’s subsidiary in India, Hindustan Lever, approaches the market as one giant rural market. It uses small, cheap packaging, bright signage, and all sorts of local distributors. In fact, Unilever has been so successful and profitable in Indonesia that its biggest rival, P & G, is now trying to follow suit.

Local companies from those emerging markets are also honing their competitive advantage by offering better customer service than foreign multinationals can provide. They can compete with established multinationals from developed countries either by entrenching themselves in their domestic or regional markets or by extending their unique homegrown capabilities abroad. For example, Honda, which sells its scooters, motorcycles, and cars worldwide on the strength of its superior technology, quality, and brand appeal, entered the Indian market. Competing head-on with Honda’s strength would be a futile effort for Indian competitors. Instead, Bajaj, an Indian scooter manufacturer, decided to emphasize its line of cheap, rugged scooters through an extensive distribution system and a ubiquitous service network of roadside-mechanic stalls. Although Bajaj could not compete with Honda on technology, it has been able to stall Honda’s inroads by catering to consumers who looked for low-cost, durable machines. Similarly, Jollibee Foods, a family-owned fast-food company in the Philippines, overcame an onslaught from McDonald’s in its home market by not only upgrading service and delivery standards but also developing rival menus customized to local Filipino tastes. In addition to noodle and rice meals made with fish, Jollibee developed a hamburger seasoned with garlic and soy sauce, capturing more than half of the fast-food business in the Philippines. Using similar recipes, this Filipino company has now established dozens of restaurants in neighboring markets and beyond, including Hong Kong, the Middle East, and as far as California.⁸⁶

In an era when manufacturing, customer service, and increasingly, the bulk of new sales are coming from Asia, a growing number of U.S. and European companies are starting to look east to India, China, and other emerging markets for their next generation of board leadership. Goldman Sachs, which is investing in Indian industry, named steel magnate Lakshmi Mittal a director on June 29, 2008. Finland’s Nokia, the largest seller of mobile phones to India, added Lalita Gupte, chair of Mumbai’s ICICI Venture Funds (IBN), to its board in May 2007. And Infosys Technologies co-founder N. R. Narayana Murthy joined the board of Dutch consumer products maker Unilever in 2007. Novartis, Procter & Gamble, and Deere are among the handful of other U.S. and European companies that have recruited Chinese and Indian natives to their boards. Given demand by an emerging middle class of consumers in India, China, and the Middle East for laptops and cell phones—as well as the need for those countries’ industries to modernize their computer systems—technology companies, such as Hewlett-Packard, IBM, and Cisco Systems, are natural candidates to diversify their boards. Directors who hail from emerging markets can stand toe to toe with management on decisions about how to proceed in Asia, help the Western companies gauge the impact of decisions made in home countries on customers in host counterparts, and make more fit marketing strategies to make the companies be more compelling to customers in these fast growing regions.⁸⁷

⁸⁵“Wal-Mart Trumps Carrefour in China,” *Forbes.com*, October 16, 2006.

⁸⁶Niraj Dawar and Tony Frost, “Competing with giants. Survival strategies for local companies in emerging markets,” *Harvard Business Review*, 77 (March-April 1999), pp. 119–29; and “Fast Food from Asia,” *U.S. News & World Report*, February 26, 2001, p. 48.

⁸⁷“For Corporate Boards, a Global Search,” *BusinessWeek.com*, July 21, 2008.

COMPETITIVE ANALYSIS



As we have discussed so far, a firm needs to broaden the sources of competitive advantage relentlessly over time. However, careful assessment of a firm's current competitive position is also required. One particularly useful technique in analyzing a firm's competitive position relative to its competitors is referred to as **SWOT (Strengths, Weaknesses, Opportunities, and Threats) analysis**. A SWOT analysis divides the information into two main categories (*internal factors* and *external factors*) and then further into positive aspects (*strengths* and *opportunities*) and negative aspects (*weaknesses* and *threats*). The framework for a SWOT analysis is illustrated in **Exhibit 8-6**. The internal factors that may be viewed as strengths or weaknesses depend on their impact on the firm's positions; that is, they may represent strength for one firm but weakness, in relative terms, for another. They include all of the marketing mix (product, price, promotion, and distribution strategy); as well as personnel and finance. The external factors, which again may be threats to one firm and opportunities to another, include technological changes, legislation, sociocultural changes, and changes in the marketplace or competitive position.

Based on this SWOT framework, marketing executives can construct alternative strategies. For example, an S*O strategy may be conceived to maximize both the company's strengths and market opportunities. Similarly, an S*T strategy may be considered in such a way as to maximize the company's strengths and minimize external threats. Thus, a SWOT analysis helps marketing executives identify a wide range of alternative strategies to think about.

You should note, however, that SWOT is just one aid to categorization; it is not the only technique. One drawback of SWOT is that it tends to persuade companies to compile lists rather than think about what is really important to their business. It also presents the resulting lists uncritically, without clear prioritization, so that, for example, weak opportunities may appear to balance strong threats. Furthermore, using the company's strengths against its competitors' weaknesses may work once or twice but not over several dynamic strategic interactions, as its approach becomes predictable and competitors begin to learn and outsmart it.

EXHIBIT 8-6
SWOT ANALYSIS

		SWOT Analysis	
		Strengths	Weakness
Internal Factors		Brand Name, Human Resources, Management Know-How, Technology, Advertising, etc.	Price, Lack of Financial Resources, Long Product Development Cycle, Dependence on Independent Distributors, etc.
External Factors			
Opportunities	Growth market Favorable investment Environment, deregulation, stable exchange rate, patent protection, etc.	S*O Strategy Develop a strategy to maximize strengths and maximize opportunities	W*O Strategy Develop a strategy to minimize weaknesses and maximize opportunities
Threats	New entrants, change in consumer preference, new Environmental protection laws, local content requirement, etc.	S*T Strategy Develop a strategy to maximize strengths and minimize threats	W*T Strategy Develop a strategy to minimize weaknesses and minimize threats

The aim of any SWOT analysis should be to isolate the key issues that will be important to the future of the firm and that subsequent marketing strategy will address.

SUMMARY

Market-oriented firms, facing increased competitiveness in world markets, find it essential to assume a global perspective in designing and implementing their marketing strategies. Cost containment, rising technology costs and the dispersal of technology, a greater number of global competitors in many industries, and the advent of hypercompetition in many markets mean that international business practices need to undergo continuous refinement in order to keep them aligned with company goals. The explosive growth of e-commerce has added urgency to competitive analysis involving not only established multinational firms but also an increasing number of entrepreneurial start-ups leapfrogging geographical constraints via the Internet.

Strategic planning and the integration of the global activities into one coherent whole needs to be implemented for a firm to maximize its activities and for the firm to remain a viable player in international markets. In doing so, the multinational firm needs to mesh in information technology and

telecommunications with its global operations in order to make relevant data available to managers in real time. In the end, a global strategy of any kind has to resolve a number of apparent contradictions. Firms have to respond to national needs yet seek to exploit know-how on a worldwide basis, while at all times striving to produce and distribute goods and services globally as efficiently as possible.

In recent years, however, as a result of the formation of regional trading blocs, an increasing number of companies have begun to organize their marketing strategies on a regional basis by exploiting emerging regional similarities. Globally minded, proactive firms increasingly exploit their competitive position in some regions by funneling abundant resources and regionally successful marketing programs to other regions where they do not necessarily occupy a strong market position. SWOT analysis helps isolate the key issues that will be important to a firm's competitiveness and that its subsequent marketing strategy will address.

KEY TERMS

Bargaining power of buyers	Global citizenship	Interfaces	Substitute product (or service), threat of
Bargaining power of suppliers	Global industry	Lead market	SWOT (Strengths, Weaknesses, Opportunities, Threats) analysis
Cost leadership	Global marketing strategy	Niche	
Cross-subsidization of markets	Global strategy	Potential entrant	
E-company	Hypercompetition	Product differentiation	
First-mover (dis)advantage	Interdependency	Regionalization	

REVIEW QUESTIONS

- How are the developments in information technology impacting firms' global strategies?
- What are the various factors/forces/drivers that determine the globalization potential of industries? How do global industries differ from multidomestic industries?
- What do you understand by the term hypercompetition? What, according to hypercompetition, are the various arenas of competition?
- How are the concepts interdependency and standardization related? What are the implications for global strategy?
- How is a global marketing strategy distinct from standardization?
- What are the benefits and limitations of global marketing strategies?
- How do regional and global strategies differ? What are some advantages and disadvantages of a regional strategy?

DISCUSSION QUESTIONS

- Food habits have been known to vary considerably across countries and regions. Would you describe the food industry as primarily multidomestic or global in nature? Use the fast-food chain McDonald's as a case example to explain your answer. Note that while there are certain similarities in all of the McDonald's outlets around the world, there are differences,

especially in the menu, in various countries. Can the McDonald's example be generalized across the food industry?

2. In the summer of 1995, Procter & Gamble, the U.S. multinational giant, modified its global operational structure. Its new structure would include a top-tier management team consisting of four vice-presidents, each representing a particular region, namely North America, Europe (and also to include the Middle East and Africa), Asia (and Pacific Rim), and Latin America. One of the main reasons cited for this organizational change was the elimination of duties and regulations that now allows P&G to distribute its products to foreign consumers cheaper and quicker. While acknowledging that over 50 percent of the company's sales come from North America, and so, too, a bulk of its profits, the top management mentioned that it took care not to emphasize a particular region over the other. But competing globally with mature brands in saturated markets posed continued challenges. In 1999, a belt-tightening initiative called Organization 2005 was launched. Since then, a host of marginal and mature brands have been eliminated and a quarter of P&G's brand managers have left the company. Yet, there is no doubt that most of the company's new products originated in the United States. Few dominant products and brands have been originated from its foreign subsidiaries. There are, however, examples of brands, such as Tide that involved the cross-fertilization of ideas and technologies from its operations around the world.

Based on the facts provided, and any popular press information about P & G you have been exposed to, what would you consider to be P & G's predominant international strategy—global (integrated on a worldwide basis), regional (integrated on a regional level), ethnocentric (predominantly influenced by its operations in North America), or polycentric (primarily independent and autonomous functioning of its international subsidiaries)?

3. Since the early 1980s, the benefits of globalization have been acknowledged by researchers in academia and by business practitioners. However, practitioners have continually indicated the constraints on human management resources in actually implementing global strategies—to implement a global strategy, you need globally thinking managers. In your opinion, are business schools making progress in developing more global managers? Are corporations doing a good job of training their managers to think globally? What are the deficiencies? What are some of the steps that you would recommend to business schools as well as corporations in

order to promote the development of executives who think globally?

4. One of the many advantages of globalization suggested is economy of scale and scope. There is, however, a counterargument to this advantage. Mass customization production techniques could lead to erosion of scale and scope economies with the added advantage of being able to customize products, if not for individual customers, definitely for individual markets. Discuss the strengths and weaknesses of this counterargument.

5. In today's highly competitive business environment, it is the disrupters rather than the disrupted that prolong their competitive advantage. Market disruption takes place a lot faster online than in the retail world. Today, "to Google" is a verb, while the words "Friends Reunited," Britain's most valuable online brand, often appear in newspaper headlines. What we witness is that successful firms are those that reinvent themselves continually and have an open mind about the future. Recently, China's leading Internet search engine, Baidu.com, was listed on America's NASDAQ exchange and became the largest first-day gain since the dotcom bubble with 354 percent stock increase and worth nearly \$4 billion. As one of the world's largest Internet markets, China had roughly 94 million Internet users in 2004. Some large portals in China such as Netease, Sina, Sohu and Tom, have been making a healthy profit since 2003. Yahoo and Google also have established their presence in China. At the same time, they are facing intense competition from domestic rivals. Should U.S. companies adjust their marketing strategies in China? Should they approach the largest market with regional or global strategies? What are some of the advantages and disadvantages of different marketing strategies?

6. In East Asia, many of online games rely on a business model that is different from the way the video-games industry works in the West. Rather than selling games as shrink-wrapped retail products which can then be played on a PC or games console, the Asian industry often gives away the software as a free download and lets users play for nothing. Revenue comes instead from small payments made by more avid players to buy extras for their in-game characters, from weapons to haircuts. In this way, a minority of paying customers subsidizes the game for everyone else. Based on the fact above, discuss the implications for video game firms from the West to market their products in East Asia. Is it possible to apply this model to the West markets? Why or why not?

SHORT CASES



GM AND FORD'S PURSUIT OF DIFFERENT BENEFITS FROM GLOBAL MARKETING

GLOBAL MARKETING THOUGHT: 1991–2000

Ford and General Motors approach globalization differently. In its quest for a “world car,” Ford developed the so-called Ford 2000 program by creating five new vehicle centers—four in the United States and one in Europe—each responsible for designing and developing a different type of car worldwide. Ford’s plan was put to test when it built a midsize world car in 1993 known as the Mondeo in Europe and the Ford Contour in North America. Its plan was to manufacture 700,000 cars a year in Europe and North America for nearly a decade with only a “refreshing” after four or five years. Ford executives say they can no longer afford to duplicate efforts and they want to emulate the Japanese, who develop cars that with minor variations can be sold around the world. While the Mondeo/Contour sold 642,000 units in the first two years in Europe, it had disappointing sales in the United States, attributed to its comparably higher price relative to the car’s predecessors. Successful product development efforts require that the company avoid two problems that can arise from pursuing global design. First, the high cost of designing products or components that are acceptable in many settings could negatively affect efficiency. Second, the product, in this case a “world car,” may be low cost but meet the lowest common denominator of taste in all countries.

Alternatively, General Motors took a more regional tack by retaining strong regional operations that develop distinctly different cars for their own. If a car has a strong crossover potential, engineers and marketers cross the Atlantic to suggest customization. Thus, Cadillac got an Americanized version of the Opel Omega small luxury sedan developed by GM’s Opel subsidiary in Germany. GM managers contend that ad hoc efforts are cheaper and more flexible. One senior executive at Ford of Europe countered that “doing two conventional car programs would have cost substantially more than doing one global program. If we did it again, we could do it in 3½ years.”

Sources: Larry J. Howell and Jamie C. Hsu, “Globalization within the Auto Industry,” *Research Technology Management*, 45, July/August 2002, pp. 43–49; “Where Are the Hot Cars?” *Business Week*, June 24, 2002, pp. 66–67; “Small Carmakers Rise in Large China Market,” *China Daily*, June 3, 2005; Jill Jusko, “Counterfeiters Be Gone,” “Can Global Automakers Learn From Their Mistakes?” *BusinessWeek.com*, June 16, 2008; “Autos: China Auto Sales Up 17 percent in First Half Year,” *ChinaDialy.com*, July 10, 2008; and “Autos: GM, Ford: China H1 Sales Up Steadily,” *ChinaDialy.com*, July 9, 2008.

The two automakers’ contrasting product development and marketing programs in the 1990s illustrate the traditionally viewed tradeoffs of efficiency and effectiveness, global standardization versus customization, market segmentation versus product differentiation, and product orientation versus customer orientation. These debates are framed by the tension between bending demand to the will of supply (i.e., driving the market) versus adjusting to market demand (i.e., driven by the market).

It is difficult to conclude that one strategy is always better than the other. One has to be reminded that while the Ford Mondeo/Contour project cost \$6 billion and took six years to develop, potential cost savings from the global strategy could also be enormous for years to come. On the other hand, GM’s regional strategy could also make sense if regional taste differences remain so large that a Ford-style global strategy could, indeed, end up producing a “blandmobile” that hits the lowest common denominator of taste in different markets.

Which was a winning strategy in the 1990s? Ford’s ex-president, Jacques Nasser, wanted to keep the efficiencies generated from central thinking about design and production. But he wanted to reintroduce the market focus in regions across the globe that will give Ford stronger brands and more appealing products. The Ford 2000 was a good idea carried a bit too far. Ford Contour was discontinued from the U.S. market in 2001. Ford is now trying to redefine the Ford 2000 program with a heightened emphasis on the company’s brands and to give the various regional and brand units more autonomy.

GLOBAL MARKETING THOUGHT: 2001–PRESENT

The automobile industry today is a growth industry in emerging markets. Only about 12 percent of the earth’s 6 billion people enjoy the benefits of vehicle ownership, and industry growth remains positive at about 20 percent per decade, with the potential for global annual sales of 65 to 70 million vehicles by 2010. Most of this expansion will occur in emerging markets such as China, India, Russia, and Brazil.

General Motors’ strategy in China and other Asian markets is very aggressive. Alliances have been the key to its marketing strategies. For example, GM acquired the majority of Korea’s Daewoo Motor Company’s automotive assets in 2002. While GM has 100 percent equity ownership of some of its key units—such as Opel and Saab—the company has used an approach that is more akin to a “loose confederation” in joining recently with other partners such as Suzuki, Fuji, and Fiat. GM has a minority equity stake in each of these companies. In addition, GM has major joint ventures in both

China and Russia. GM's alliance strategy and its initiatives to develop new markets are key elements in the company's approach to globalization. Alliances afford the opportunity for component and architecture sharing as well as the reduction in R&D costs that will be critical for manufacturers looking ahead to hybrid vehicle technology and, ultimately, hydrogen-based fuel-cell vehicles. By pulling together the talents and resources from its global R&D network, GM has been able to reduce redundancy, accelerate ongoing development and jump-start new development. Nevertheless, globalization entails risks from many quarters: economics, political forces, energy, and national differences in social and cultural norms. Consequently, GM is now focusing on the recruitment and empowerment of an international executive team, which will help accelerate the globalization process. For example, in Australia, GM operates through a subsidiary Holden, and it is closely integrated into GM's global manufacturing strategies.

Ford's current strategy is to focus on its luxury brands. Now it owns Aston Martin and Volvo and has hired BMW guru Wolfgang Reitzle to run the duo through its new Premier Automotive Group (PAG), which brings together Aston Martin and Volvo with the American premium brand Lincoln. Since the mid-1990s, Ford Motor has plowed much of its bountiful profits from sports utility vehicles (SUVs) and trucks into a heady expansion of e-commerce ventures and luxury car brands. As a result, little attention has been paid to the development of mass-market cars and trucks. Ford still does not have the financial resources to implement a regional strategy as GM has done. Ford's global business lost US\$5.4 billion in 2001. Consequently, the world's second largest carmaker is restructuring. Five plants are to be closed around the world, while four models, including the Escort, will be discontinued. In Latin America, a recent automotive trade accord between Brazil and Mexico is fostering integration between Ford's two main industrial bases in Latin America. Meanwhile, the company's operations in Argentina and Brazil—which were becoming an integrated business—are coming apart.

Recently, both GM and Ford reported decreased demand for their vehicles, especially their trucks and SUVs largely due to soaring oil price. Today, GM's and Ford's share prices have suffered an 81 percent and an 83 percent drop, respectively.

Toyota surpassed Ford in terms of overall sales to become the No. 2 seller in 2006 and become No. 1 in the world in 2008. GM's big sedans, Buick, which used to dominate the Chinese car market, are showing sluggish business in China. In the promising growing economy, car demand in China is shifting away from large sedans long favored by government officials to economy models demanded by families. GM faces harsh competition from both homegrown and Korean and Japanese automakers. According to China Association of Automobile Manufacturers, between January and June 2008, the country sold 3.61 million passenger motor vehicles, a growth of 17.1 percent over the same period in the previous year. The growth rate, however, was 5.2 percentage points lower than the 22.3 percent level recorded in the same period last year, although GM and Ford also reported strong first-half growth in this world's No. 2 car market. GM posted a 12.7 percent gain in first-half 2008 China sales while Ford sold 21 percent more vehicles over the same period, they are at the same time facing harsh competition from both homegrown and Korean and Japanese automakers. For example, Japan's Honda's sales in China rose 21.3 percent during the same period.

Although we cannot say that General Motors' strategy is genuinely better than Ford's, one thing is clear. General Motors has pursued the benefits of global marketing strategy methodically over time, whereas Ford seems to have been swayed more or less by "fads" of global marketing strategy. Although the recent global recession has caused an unprecedented retrenching not only for General Motors (now emerging from its recent bankruptcy) and Ford but also for the the whole auto industry including a seemingly invincible Toyota, GM-Ford rivalry is likely to continue. One thing is clear, however. Both U.S. automakers will continue to struggle in the face of competition from Japanese, Korean, and even Chinese automakers.

DISCUSSION QUESTIONS

1. Discuss what is missing in GM's and Ford's global strategy.
2. Evaluate GM's going eco-friendly in China and discuss the possible global strategy for GM and Ford in an era of oil shortage.

CASE 8-2

P&G: WE'RE ALSO CHINESE

It is common knowledge that having dominated the Triad region comprising of North America, Europe, and Japan for the better half of the last century, multinationals firms (MNCs)

Sources: Jacques Penhirin, "Understanding the Chinese Consumer," *McKinsey Quarterly*, 2004 Special Edition, p. 46; "Scrambling To Bring Crest To The Masses In China," *Business Week*, June 25, 2007, pp. 72–73; and "Emerging Markets Key to P&G Growth Plans," *Financial Times*, June 25, 2008.

turned their heads toward emerging economies like China, India, and other Asian economies, which are no longer just sources of cheap labor for MNC operations but are also large consumer bases. China, with the largest national population in the world, just became part of the World Trade Organization and therefore even more attractive to Western multinationals.

However, as MNCs are aware, doing business in China is not simple even though the economy is more open to foreign firms now than it has ever been. Local Chinese firms are growing rapidly and therefore pose a significant threat to foreign firms that are often unable to provide goods at



competitive prices the way the local firms can. Today, more MNCs are finding success in the unique Chinese market than they used to. But they have learned the formula to success the hard way.

Take the example of American consumer products giant Procter & Gamble (P&G) that first set up shop in China in 1998 through a joint venture with a local partner, Hutchison Whampoa. Eventually P&G bought out the remaining stake in the venture. P&G's brands like Tide detergent, Crest toothpaste, and skin-care product Oil of Olay made their place in homes in over 75 different countries worldwide and P&G's *modus operandi* included marketing its products as quality goods at profitable prices. When the company started selling its products in China, it soon discovered that its tried and tested global marketing strategy would not work the same way it had in other markets for a variety of reasons.

A developing market like China is characterized by huge disparity in income levels between the wealthy and the not so wealthy. Another glaring feature is the diversity in consumer needs based on whether it is a rural, urban, semi-urban area. These differences are further enhanced by the variety of outlets for sale of consumer goods ranging from large-scale foreign stores like French retailer Carrefour to local Chinese retailers and independent small stores. Therefore, for a company to succeed in China would mean offering a wide variety of products at reasonable prices. And succeed P&G did!

After entering the Chinese market, P&G soon figured out that selling its premium priced products would not help it achieve a significant market share let alone grant it the status of market leader, like many of its brands enjoyed in other foreign markets. Therefore, the company planned out a detailed marketing strategy specifically for the Chinese market. An important feature of strategic implementation was the three-tiered market system, whereby P&G divided the Chinese market up into three segments. According to Laurent Philippe, head of P&G's Greater China region, "Because we aspire to leadership, we need to compete in more than the premium segment. We need to compete at least in the middle segment as well. In volume terms, you can segment our categories into three price tiers: the top tier is 15 percent of the volume in units, the middle tier is 30 percent, and the bottom tier is 55 percent. The split in value, or revenue, is a little bit different: it is 30 percent in premium, 40 percent in the mid-priced segment, and only 30 percent in the low-end segment. This segmentation, by the way, is not mechanical; it is consumer driven." The main objective behind the company's marketing efforts in China was to promote their global products sold in China as Chinese brands so that consumers could identify

with these products. And this strategy proved to be important given that P&G's competitors in the market include not only other foreign firms but also indigenous Chinese ones.

So, how did the company manage to successfully implement this strategy? Well, in the words of Philippe, "You cannot just take a global technology and make it cheaper by simply removing or replacing certain ingredients. The cost gap is too big. So we are now using our research-and-development capabilities to create different value offerings superior to those of the local competitors but at an equal or even lower manufacturing cost. These products are designed from the outset to meet certain cost, and therefore pricing, targets." P&G realized that low-income consumers in China often purchase single serve packets of shampoo, detergent, etc. and it soon began offering some of its products in these sizes. The company is using local resources to achieve its goals. Research and development for the Chinese market is done in Beijing at the Beijing Technical Center and it makes use of local ingredients desired by consumers.

P&G is also sending its advance staff into as many out-of-the-way villages as it can to get a feel for what rural Chinese want to buy and how much they are willing to spend. Just as it has done for years in the cities, P&G's teams of so-called customer research managers descend on villages, often moving in with families for a few days. They have discovered that while low prices surely help sales, it is equally important to develop products that follow cultural traditions. Urban Chinese are happy to pay more than \$1 each for tubes of Crest toothpaste with exotic flavors such as Icy Mountain Spring and Morning Lotus Fragrance. However, those living in the countryside are apt to prefer 50-cent Crest Salt White, since many rural Chinese believe that salt whitens teeth. P&G applies similar segmenting strategies to its Olay moisturizing cream, Tide detergent, Rejoice shampoo, and Pampers diapers.

With more than \$2.5 billion of annual sales, P&G has become the biggest consumer goods company in China today.

DISCUSSION QUESTIONS

1. How does China's entry into WTO affect multinational firms' outlook toward China and their future investment in the country?
2. What are the drawbacks of P&G's strategy for the Chinese market?
3. What other marketing strategy could P&G have adopted for the Chinese market as an alternative to the tier system one?

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