



# Global Marketing

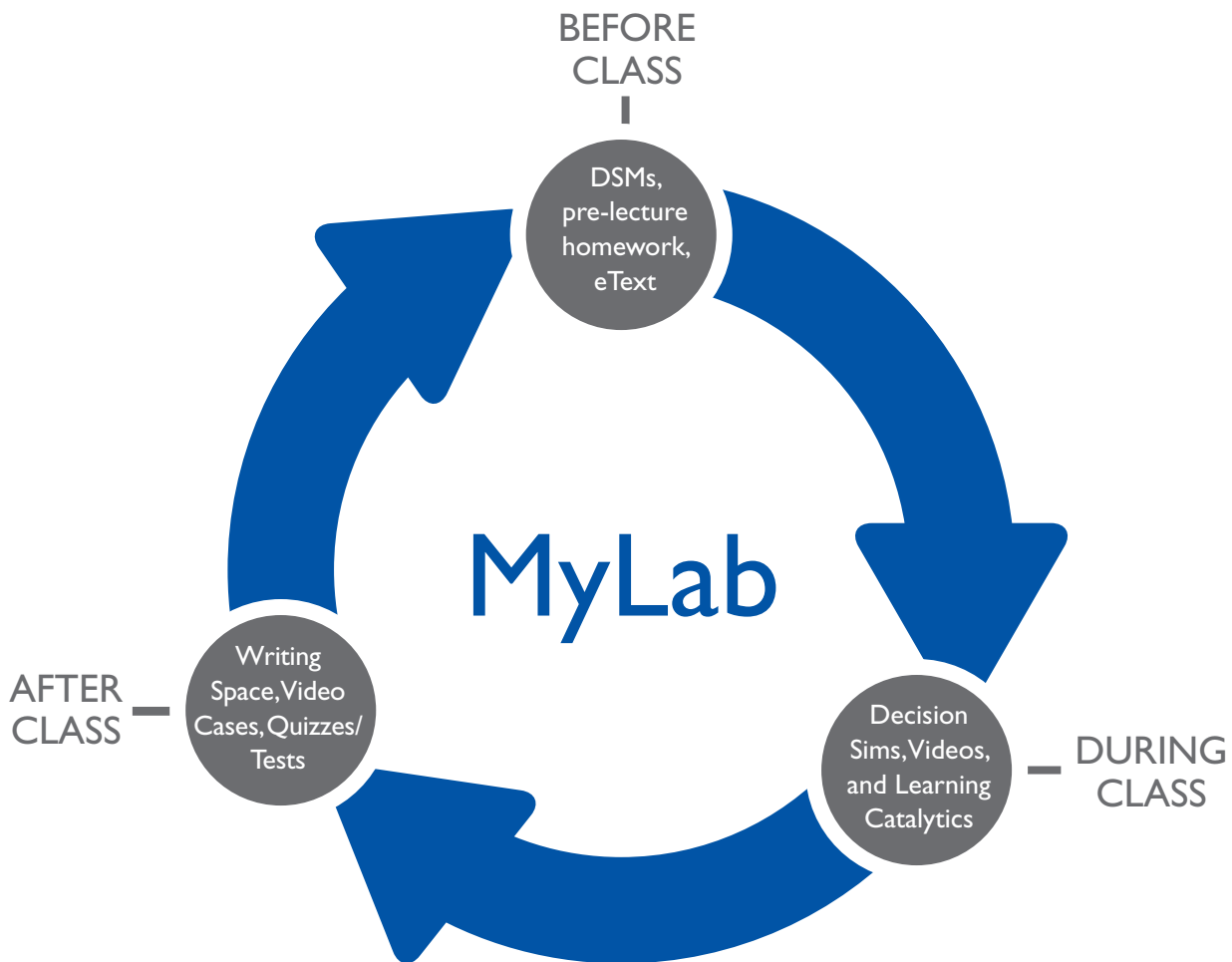
**WARREN J. KEEGAN**

**MARK C. GREEN**

NINTH EDITION

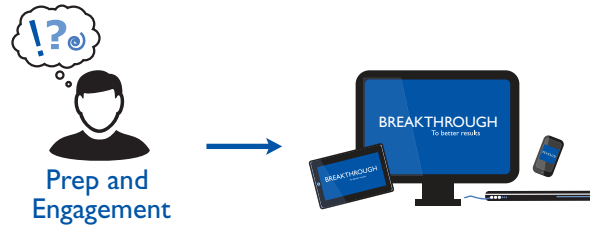
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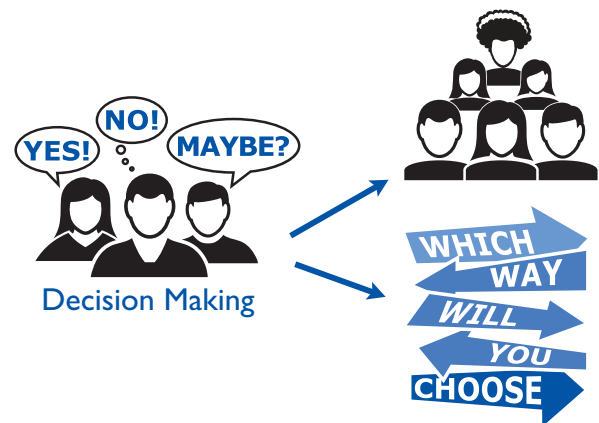
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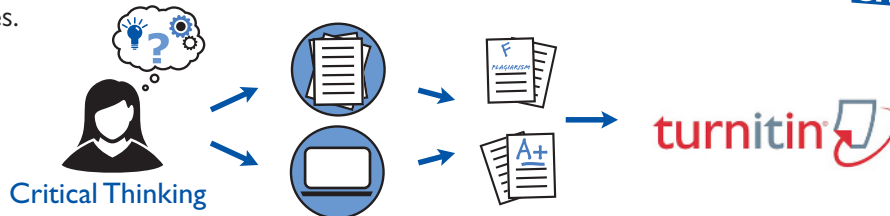


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To Cynthia, my wife, best friend,  
and partner in living life creatively.

—WJK

In memoriam:  
Warren J. Keegan 1936–2014

—MCG

# GLOBAL MARKETING

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**NINTH EDITION**

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# Preface

*Global Marketing*, Ninth Edition, builds on the worldwide success of the previous editions of *Principles of Global Marketing* and *Global Marketing*. Those books took an environmental and strategic approach by outlining the major dimensions of the global business environment. The authors also provided a set of conceptual and analytical tools that prepare students to successfully apply the 4Ps to global marketing.

We are proud that this Ninth Edition marks our 20th anniversary. The first edition appeared in September 1996 and was an immediate success. Our goal for all nine editions has been the same: to write a book that is authoritative in content yet relaxed and assured in style and tone. Here's what students have to say:

- “The textbook is very clear and easy to understand.”
- “An excellent textbook with many real-life examples.”
- “The authors use simple language and clearly state the important points.”
- “This is the best textbook that I am using this term.”
- “The authors have done an excellent job of writing a text that can be read easily.”

When *Principles of Global Marketing* first appeared in 1996, we invited you to “look ahead” to such developments as the ending of America’s trade embargo with Vietnam, Europe’s new single market, Daimler AG’s Smart car, Volkswagen’s global ambitions, and Whirlpool’s expansion into emerging markets. Those topics represented “big stories” in the global marketing arena and continue to receive press coverage on a regular basis.

Guided by our experience using the text in undergraduate and graduate classrooms and in corporate training seminars, we have revised, updated, and expanded *Global Marketing*, Ninth Edition. We have benefited tremendously from your feedback and input; we also continue to draw on our direct experience in the Americas, Asia, Europe, Africa, and the Middle East. The result is a text that addresses your needs and the needs of instructors in every part of the world. *Global Marketing* has been adopted at scores of colleges and universities in the United States; international adoptions of the English-language Global Edition include Australia, Canada, China, Ireland, Italy, Japan, Malaysia, Saudi Arabia, South Korea, Spain, and Sri Lanka. The text is also available in Albanian, Chinese (simplified and traditional), Japanese, Korean, Macedonian, Portuguese, Spanish, and Turkish editions.

## What’s New to the Ninth Edition

Thunderclap Newman once sang,

“Call out the instigator,  
there’s something in the air ...  
we’ve got to get together sooner or later,  
because the revolution’s here.”

Indeed, something *is* in the air. Pro-democracy demonstrations in Hong Kong drew a harsh response from Beijing. Regional geopolitical developments in North Africa and the Middle East that have dominated headlines around the world continue to have a direct bearing on the content of this textbook. Years after popular uprisings in North Africa upended the long-entrenched political order, the region is still in transition. The political environment in Syria remains toxic. The Arab world is also witnessing the emergence of the Islamic State of Iraq and the Levant (ISIS), which threatens to further destabilize the region.

In addition, the repercussions of the global economic crisis continue to impact global marketing strategies. The lack of credit remains a key issue that is still squeezing companies and consumers; compounding the situation is a shift in consumer tastes and buying behavior.

Sluggish sales in key domestic markets have been a drag on revenues and earnings at global giants such as Coca-Cola, McDonald's, Tesco, and Walmart. The issue of income and wealth disparity has taken on new urgency; the recent best-selling book by French economist Thomas Piketty, *Capital in the Twenty-First Century*, has generated considerable discussion and controversy.

The sovereign debt crisis in the euro zone, while still not resolved, is not as acute today as it was a few years ago. High on the EU's agenda now are broader concerns about high unemployment levels and stagnant demand in Greece, Italy, Spain, and elsewhere. Layoffs are being announced on a weekly basis, including:

- Osram Licht AG (Germany): 7,800 jobs
- Halliburton (United States): 9,000 jobs
- Microsoft (United States): 7,800 jobs

To the east, Russia's dealings with Ukraine, and the tragic downing of a Malaysian passenger jet over Ukrainian air space by Russian-backed separatist rebels, have riveted the world's attention on President Vladimir Putin's leadership. The United States and the European Union responded by imposing trade sanctions. As the global price of oil crashed through the \$100 per barrel mark, Russia's currency plunged. Between January 2014 and January 2015, the ruble lost half its value.

In the United States, the economic recovery has been the weakest since World War II despite record low interest rates. Even so, there is some good news. Wall Street is experiencing a bull market, with some stocks hitting record highs. The North American auto industry is rebounding; Europe's automakers, although still plagued by excess capacity, are also enjoying increased demand at home. Other bright spots: the rate of job creation in the United States is steadily improving, real estate values have bottomed out, and the uptick in demand for housing provides grounds for optimism.

Although all of these storylines continue to unfold as this edition goes to press, we have tried to offer up-to-date, original insights into the complexities and subtleties of these shifts in the external environment and their implications for global marketers. Other specific updates and revisions include:

- *Global Marketing* now offers Pearson's MyMarketingLab, an online resource to help students.
- Fifty percent of the chapter-opening vignettes and related end-of-chapter cases are new to the Ninth Edition. Holdover cases have been revised and updated.
- All tables containing key company, country, and industry data have been updated. Examples include Table 2-3, "Index of Economic Freedom"; all the income and population tables in Chapters 3 and 7; Table 10-2, "The World's Most Valuable Brands"; Table 13-1, "Top 25 Global Marketers"; and Table 13-2, "Top 20 Global Advertising Agency Companies."
- The discussion of the BRICS nations has been updated to incorporate the impact of slowing growth in China and the decline of commodity prices.
- New discussion of social media is integrated throughout the Ninth Edition. Chapter 15, "Global Marketing and the Digital Revolution," has been completely revised and updated to include discussion of location-based mobile platforms, cloud computing, tablets, wearable devices, and other cutting-edge topics.
- The Innovation, Entrepreneurship, and the Global Startup sidebar has been expanded to include profiles of more visionary business leaders from around the world.
- Income and population data in Chapter 3 have been reorganized for improved clarity, comparability, and visual impact.
- More infographics have been incorporated into the text to enhance clarity and visual appeal.
- To supplement their use of *Global Marketing*, Ninth Edition, faculty and students can access author updates and comments on Twitter, the microblogging Web site. In addition, the authors have archived hundreds of articles pertaining to global marketing on Delicious.com, the social bookmarking site ([www.delicious.com/MarkCGreen](http://www.delicious.com/MarkCGreen)).

Time marches on. As this edition goes to press in 2015, the Coca-Cola Company is celebrating the 100th anniversary of its iconic contoured bottle. It was 60 years ago, in July 1955, that Disneyland opened its gates in Anaheim, California. A number of golden anniversaries are also being observed. Moore's Law, named for Gordon Moore, turns 50. Also, it was 1965 when the Grateful Dead emerged from the San Francisco Bay area. As noted in the Chapter 1 sidebar, the Dead were harbingers of a new experimental culture that had far-reaching impact. It was 40 years ago, in 1975, that Vietnam was reunified after the fall of Saigon. April 2015 marked the 10th anniversary of YouTube, the Web site that dramatically impacted the way the world shares video content.

Unifying themes in earlier editions included the growing impact of emerging nations in general, and in Brazil, Russia, India, China, and South Africa in particular. We explored the marketing strategies used by global companies such as Embraer (Brazil), Lukoil (Russia), Cemex (Mexico), Lenovo (China), and India's Big Three—Wipro, Infosys, and Tata—to build scale and scope on the global stage. We then broadened our view to examine emerging markets as a whole. We noted that, prior to the world economic downturn, Mexico, Indonesia, Nigeria, Turkey (the so-called MINTs), and a handful of other emerging nations were rapidly approaching the tipping point in terms of both competitive vigor and marketing opportunity.

The path of the nascent economic recovery and the resulting shifts in global market opportunities and threats have dominated the news for the past several years. Terms such as *austerity*, *capital flight*, *currency wars*, *double-dip recession*, *global imbalances*, *global rebalancing*, *quantitative easing (QE)*, and *sovereign-debt crisis*, still dominate the business news. New terms such as *tax inversion* are now part of the conversation as well. The euro zone crisis continues to dominate the news; there is ongoing speculation about both a "Grexit" (i.e., Greece leaving the currency bloc) and a "Brexit" (the United Kingdom leaving the EU). Job creation in Greece, Ireland, Italy, Portugal, and Spain continues to be a key issue; this is the opening case in Chapter 3. Meanwhile, the big news in Asia was China's overtaking Japan as the world's second-largest economy. China has also surpassed the United States as the world's leading manufacturer and, in 2014, became number 1 in terms of per capita purchasing power parity.

The above-mentioned trends are central to the Ninth Edition as well. As noted earlier, unprecedented social and political change is underway in North Africa. Sub-Saharan Africa's economies are rebounding from the global financial crisis at a rapid pace. Every day the business press contains another announcement that a global company plans to enter Africa or expand operations there. Bharti-Airtel, Coca-Cola, Ford, General Electric, IBM, Nestlé, and Walmart are among the companies that have joined the "final gold rush" into the world's last untapped market. At the same time, local champions such as United Bank of Africa and Dangote Industries are expanding across the continent and promoting the growth of Africa's middle class. "Africa 3.0," the lead-in case to Chapter 15, explores the way mobile phones are transforming business and home life in Kenya and across the continent. This is clearly a region that bears watching.

Current research findings have been integrated into each chapter of *Global Marketing*, Ninth Edition. For example, we have incorporated key insights from Seung Ho Park and Wilfried R. Vanhonacker's article "The Challenge for Multinational Corporations in China: Think Local, Act Global" that appeared in *MIT Sloan Management Review* in 2007. Similarly, we found Arindam K. Bhattacharya and David C. Michael's 2008 *Harvard Business Review* article, "How Local Companies Keep Multinationals at Bay," to be extremely insightful. And our thinking about the global/local market paradox has been influenced by John Quelch's 2012 book, *All Business is Local*.

Throughout the text, we have added scores of current examples of global marketing practice as well as quotations from global marketing practitioners and industry experts. Organizational Web sites are referenced for further student study and exploration. A Companion Web site ([www.pearsonhighered.com/keegan](http://www.pearsonhighered.com/keegan)) is integrated with the text as well.

## End-of-Chapter Cases and Chapter Sidebars

Each chapter opens with a brief case study introducing a company, a country, a product, or a global marketing issue that directly relates to chapter themes and content. The cases vary in length from a few hundred words to more than 2,600 words, yet they are all short enough to be

covered in a single class period. The cases were written with the same objectives in mind: to raise issues that will encourage student interest and learning; to stimulate class discussion; to give students a chance to apply theory and concepts while developing critical-thinking skills; and to enhance the classroom experience for students and instructors alike. Every chapter and case has been classroom-tested in both undergraduate and graduate courses.

The end-of-chapter case set strikes a balance between revisions and updates of cases from the Eighth Edition and cases that are new to this edition. Revised and updated cases include Case 1-2, “McDonald’s Expands Globally While Adjusting Its Local Recipe”; Case 1-3, “Apple versus Samsung: The Battle for Smartphone Supremacy Heats Up”; Case 4-1, “Will Tourism Ruin Venice?”; Case 5-2, “President Barack Obama’s 2014 ‘Christmas Surprise,’”; Case 5-3, “Gambling Goes Global on the Internet”; Case 8-1, “How Can the United States Double Its Exports?”; Case 9-1, “Starbucks Expands Abroad”; Case 11-1, “Global Automakers Target Low-Income Consumers”; Case 12-1, “Walmart’s Adventures in India”; Case 15-1, “Africa 3.0”; and Case 16-1, “Volkswagen Aims for the Top.”

New cases in the Ninth Edition include Case 2-1, “Venezuela After Chavez: The Case for Economic Freedom”; Case 3-1, “Global Trading Partners Look East and West for Economic Growth”; Case 5-1, “Will Western Sanctions Hurt Putin’s Russia?”; Case 6-1, “Big Data: ‘Number One with a Bullet’ in the Music Industry”; Case 7-1, “Segmenting the Chinese Luxury Goods Market”; Case 10-1, “Google”; Case 13-1, “Coca-Cola: Using Advertising and Public Relations to Respond to a Changing World”; and Case 14-1, “Milan Expo 2015.”

In addition, every chapter contains two sidebars on the following themes: Emerging Markets Briefing Book; Innovation, Entrepreneurship, and the Global Startup; and The Cultural Context. Among the entrepreneurs profiled are Kevin Plank (Under Armour), Blake Mycoskie (TOMS), Reed Hastings (Netflix), Diego Della Valle (Tod’s), Travis Kalanick (Uber), Daniel Ek (Spotify), Oscar Farinetti (Eataly), Elon Musk (Tesla and SpaceX), Malcom McLean (containerization), Harry Gordon Selfridge (Selfridge & Company), and Jack Ma (Alibaba).

## Instructor Resources

At the Instructor Resource Center, [www.pearsonhighered.com/irc](http://www.pearsonhighered.com/irc), instructors can easily register to gain access to a variety of instructor resources available with this text in downloadable format. If assistance is needed, our dedicated technical support team is ready to help with the media supplements that accompany this text. Visit <http://247.pearsoned.com> for answers to frequently asked questions and toll-free user support phone numbers.

The following supplements are available with this text:

- **Instructor’s Resource Manual**
- **Test Bank**
- **TestGen® Computerized Test Bank**
- **PowerPoint Presentation**
- **Student Companion Website**
- **Student Study Guide**

One of our challenges is the rate of change in the global business environment. Yesterday’s impossibility becomes today’s reality; new companies explode onto the scene; company leadership changes abruptly. In short, any book can be quickly outdated by events. Even so, we set out to create a compelling narrative that captures the unfolding drama that is inherent in marketing in the globalization era. The authors are passionate about the subject of global marketing; if our readers detect a note of enthusiasm in our writing, then we have been successful. We believe that you will find 20th Anniversary Edition of *Global Marketing* to be the most engaging, up-to-date, relevant, useful text of its kind.



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Warren J. Keegan  
September 2014

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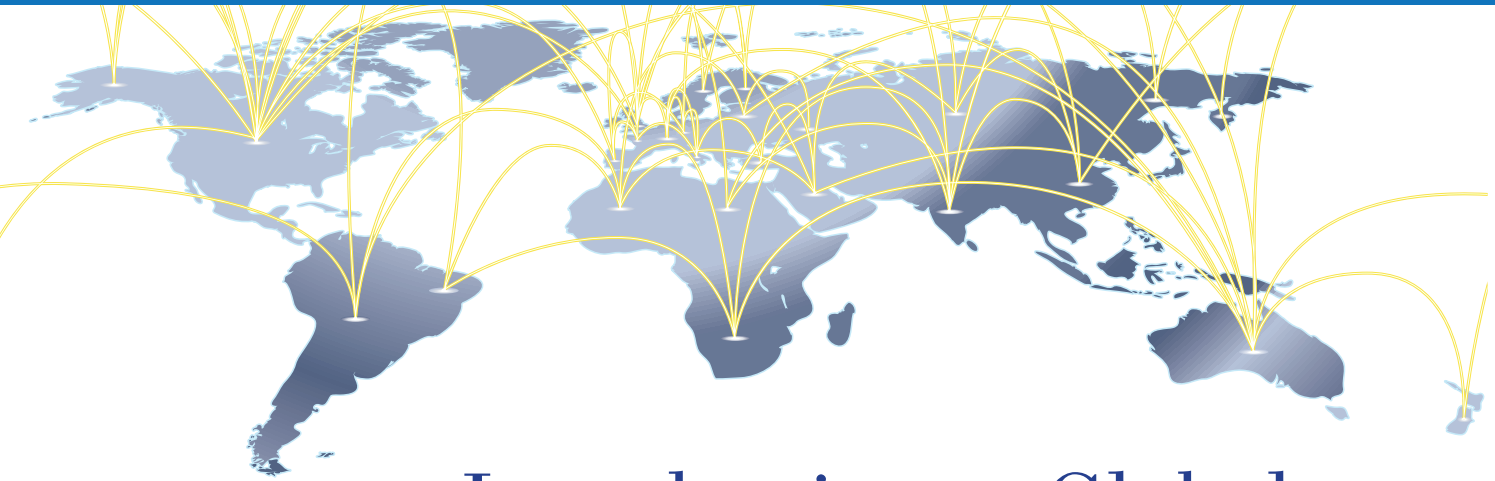
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Mark C. Green  
September 2015





# I

## Introduction to Global Marketing

### LEARNING OBJECTIVES

- 1-1** Use the product/market growth matrix to explain the various ways a company can expand globally.
- 1-2** Describe how companies in global industries pursue competitive advantage.
- 1-3** Compare and contrast single-country marketing strategy with global marketing strategy (GMS).
- 1-4** Identify the companies at the top of the Global 500 rankings.
- 1-5** Explain the stages a company goes through as its management orientation evolves from domestic and ethnocentric to global and geocentric.
- 1-6** Discuss the driving and restraining forces affecting global integration today.



### CASE 1-1

## The Global Marketplace Is Also Local

Consider the following proposition: *We live in a global marketplace.* Apple iPhones, Burberry trench coats, Caterpillar earthmoving equipment, Facebook, LEGO toys, McDonald's restaurants, Samsung HDTVs, and Swatch watches are found practically everywhere on the planet. Global companies are fierce rivals in key markets. For example, American auto industry giants General Motors and Ford are locked in a competitive struggle with Toyota, Hyundai, and other global Asian rivals as well as European companies such as Volkswagen. United States (U.S.)-based Intel, the world's largest chip maker, competes with South Korea's Samsung. In the global smartphone market, Apple (U.S.), BlackBerry (Canada), Motorola (China), and Samsung are dominant players. The globalization of the appliance industry means that Bosch, Electrolux, Haier Group, LG, and Whirlpool all compete for precious retail floor space and consumer awareness and preference.

Now consider a second proposition: *We live in a world in which markets are local.* In China, for example, Yum! Brands' East Dawning fast-food chain competes with local restaurants such as New Asia Snack and Haidi Lao. Likewise, the best-selling smartphone in China isn't marketed by Samsung or Apple; rather, Beijing-based Xiaomi enjoys that distinction. In Taiwan, 85C has



**Exhibit 1-1** Salvatore Ferragamo, based in Florence, Italy, is one of the world's leading fashion brands. Emerging markets represent important opportunities for luxury goods marketers. As Ferruccio Ferragamo notes, "We cannot make enough to keep up with demand from the Chinese. They want their shoes not just 'Made in Italy' but often 'Made in Florence.'"

Source: Roussel Bernard/Alamy.

overtaken Starbucks as the largest chain of coffee shops. In India, Dunkin' Donuts goes head to head with local chain Mad Over Doughnuts. In Poland, many consumers frequent small, family-owned shops rather than huge stores operated by France's Carrefour and United Kingdom (UK)-based Tesco.<sup>1</sup> In Germany, the children's television powerhouse Nickelodeon competes with local broadcaster Super RTL. In Brazil, many consumers are partial to Guaraná Antarctica and other local soft drink brands made from guaraná, a berry that grows in the Amazon region.

The "global marketplace versus local markets" paradox lies at the heart of this textbook. In later chapters, we will investigate the nature of local markets in more detail. For now, however, we will focus on the first part of the paradox. Think for a moment about brands and products that are found throughout the world. Ask the average consumer where this global "horn of plenty" comes from, and you'll likely hear a variety of answers. It's certainly true that some brands—McDonald's, Dos Equis, Swatch, Waterford, Ferragamo, Volkswagen, and

Burberry, for instance—are strongly identified with a particular country. In much of the world, Coca-Cola and McDonald's are recognized as iconic American brands, just as Ferragamo and Versace are synonymous with classic Italian style (see Exhibit 1-1).

However, for many other products, brands, and companies, the sense of identity with a particular country is becoming blurred. Which brands are Japanese? American? Korean? German? Indian? Where is Nokia headquartered? When is a German car *not* a German car? Can a car be both German *and* American? Consider:

At the end of this chapter, you will find the rest of Case 1-1. Taken together, the two parts give you the opportunity to learn more about the global marketplace and test your knowledge of current issues in global marketing. You may be surprised at what you learn!

<sup>1</sup>Jan Cienski, "The Man Who Bet on Tradition," *Financial Times* (January 14, 2015), p. 12.

## 1-1 Introduction and Overview

As the preceding examples illustrate, the global marketplace finds expression in many ways. Some are quite subtle; others are not. While shopping, you may have noticed more multilingual labeling on your favorite products and brands. Chances are you were one of the millions of people around the world who tuned in to television coverage of the World Cup Soccer championship in 2014. On the highway, you may have seen a semitrailer truck from FedEx's Global

Supply Chain Services fleet. Or perhaps you are one of the hundreds of millions of iTunes customers who got a free download of U2's latest album—whether you wanted it or not! When you pick up a pound of Central American coffee at your favorite coffee café, you will find that some beans are labeled Fair Trade Certified. You have surely followed media reports about the Occupy Wall Street movement in New York City and related protests in Great Britain, Germany, Greece, and Italy.

The growing importance of global marketing is one aspect of a sweeping transformation that has profoundly affected the people and industries of many nations during the past 160 years. International trade has existed for centuries; beginning in 200 B.C., for example, the legendary Silk Road was a land route connecting China with Mediterranean Europe. From the mid-1800s to the early 1920s, with Great Britain the dominant economic power in the world, international trade flourished. However, a series of global upheavals, including World War I, the Bolshevik Revolution, and the Great Depression, brought that era to an end. Then, following World War II, a new era began. Unparalleled expansion into global markets by companies that previously served only customers located in their respective home countries is one hallmark of this new global era.

Four decades ago, the phrase *global marketing* did not exist. Today, businesspeople use global marketing to realize their companies' full commercial potential. That is why, no matter whether you live in Asia, Europe, North America, or South America, you may be familiar with the brands mentioned in the opening paragraphs. However, there is another, even more critical reason why companies need to take global marketing seriously: survival. A management team that fails to understand the importance of global marketing risks losing its domestic business to competitors with lower costs, more experience, and better products.

But what is global marketing? How does it differ from “regular” marketing as it is typically practiced and taught in an introductory course? **Marketing** can be defined as the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large.<sup>2</sup> Marketing activities center on an organization's efforts to satisfy customer wants and needs with products and services that offer competitive value. The **marketing mix** (the four Ps of product, price, place, and promotion) comprises a contemporary marketer's primary tools. Marketing is a universal discipline, as applicable in Argentina as it is in Zimbabwe.

This book is about *global marketing*. An organization that engages in **global marketing** focuses its resources and competencies on global market opportunities and threats. A fundamental difference between regular marketing and global marketing is the scope of activities. A company that engages in global marketing conducts important business activities outside the home-country market. The scope issue can be conceptualized in terms of the familiar product/market matrix of growth strategies (see Table 1-1). Some companies pursue a *market development strategy*; this involves seeking new customers by introducing existing products or services to a new market segment or to a new geographical market. Global marketing can also take the form of a *diversification strategy* in which a company creates new product or service offerings targeting a new segment, a new country, or a new region.

Starbucks provides a good case study of a global marketer that can simultaneously execute all four of the growth strategies shown in Table 1-1:

**Market penetration:** Starbucks is building on its loyalty card and rewards program in the United States with a smartphone app that enables customers to pay for purchases electronically. The app displays a bar code that the barista can scan.

**Market development:** Starbucks is entering India via an alliance with the Tata Group. Phase 1 calls for sourcing coffee beans in India and marketing them at Starbucks stores throughout the world. The next phase will likely involve opening Starbucks outlets in Tata's upscale Taj hotels in India.<sup>3</sup>

**Product development:** Starbucks created a new instant coffee brand, Via, to enable its customers to enjoy coffee at the office and other locations where brewed coffee is not

<sup>2</sup>American Marketing Association. [www.ama.org/AboutAMA/Pages/Definition-of-Marketing.aspx](http://www.ama.org/AboutAMA/Pages/Definition-of-Marketing.aspx). Accessed June 19, 2015.

<sup>3</sup>Paul Beckett, “Starbucks Brews Coffee Plan for India,” *The Wall Street Journal* (January 14, 2011), p. B8.

**TABLE 1-1 Product/Market Growth Matrix**

		Product Orientation	
		Existing Products	New Products
Market Orientation	Existing markets	Market penetration strategy	Product development strategy
	New markets	Market development strategy	Diversification strategy

available. After a successful launch in the United States, Starbucks rolled out Via in Great Britain, Japan, South Korea, and several other Asian countries. Starbucks also recently introduced its first coffee machine. The Versimo allows Starbucks' customers to "prepare their favorite beverages at home."

**Diversification:** In 2011, Starbucks dropped the word "Coffee" in its logo. It recently acquired a juice maker, Evolution Fresh; the Bay Bread bakery, and tea retailer Teavana Holdings. Next up: Revamping stores so they can serve as wine bars and attract new customers in the evening.<sup>4</sup>

To get some practice applying Table 1-1, create a product/market growth matrix for another global company. IKEA, LEGO, and Walt Disney are all good candidates for this type of exercise.

Companies that engage in global marketing frequently encounter unique or unfamiliar features in specific countries or regions of the world. In China, for example, product counterfeiting and piracy are rampant. Companies doing business there must take extra care to protect their intellectual property and deal with "knockoffs." In some regions of the world, bribery and corruption are deeply entrenched. A successful global marketer understands specific concepts and has a broad and deep understanding of the world's varied business environments. He or she also must understand the strategies that, when skillfully implemented in conjunction with universal marketing fundamentals, increase the likelihood of market success. And, as John Quelch and Katherine Jocz assert, "The best global brands are also the best local brands." That is, managers at global companies understand the importance of local excellence.<sup>5</sup> This book concentrates on the major dimensions of global marketing. A brief overview of marketing is presented next, although the authors assume that the reader has completed an introductory marketing course or has equivalent experience.

## 1-2 Principles of Marketing: A Review

As defined in the previous section, marketing is one of the functional areas of a business, distinct from finance and operations. Marketing can also be thought of as a set of activities and processes that, along with product design, manufacturing, and transportation logistics, comprise a firm's **value chain**. Decisions at every stage, from idea conception to support after the sale, should be assessed in terms of their ability to create value for customers.

For any organization operating anywhere in the world, the essence of marketing is to surpass the competition at the task of creating perceived value—that is, a superior value proposition—for customers. The **value equation** is a guide to this task:

$$\text{Value} = \text{Benefits/Price (money, time, effort, etc.)}$$

The marketing mix is integral to the equation because benefits are a combination of the product, the promotion, and the distribution. As a general rule, value, as the customer perceives

<sup>4</sup>Bruce Horovitz, "Starbucks Remakes Its Future with an Eye on Wine and Beer," *USA Today* (October 22, 2010), p. 1B.

<sup>5</sup>John Quelch and Katherine Jocz, *All Business Is Local* (New York: Portfolio/Penguin, 2012).



it, can be increased in these ways. Markets can offer customers an improved bundle of benefits or lower prices (or both!). Marketers may strive to improve the product itself, to design new channels of distribution, to create better communications strategies, or a combination of all three. Marketers may also seek to increase value by finding ways to cut costs and prices. Nonmonetary costs are also a factor, and marketers may be able to decrease the time and effort that customers must expend to learn about or seek out the product.<sup>6</sup> Companies that use price as a competitive weapon may scour the globe to ensure an ample supply of low-wage labor or access to cheap raw materials. Companies can also reduce prices if costs are low because of process efficiencies in manufacturing or because of economies of scale associated with high production volumes.

Recall the definition of a market: *people or organizations that are both able and willing to buy*. In order to achieve market success, a product or brand must measure up to a threshold of acceptable quality and be consistent with buyer behavior, expectations, and preferences. If a company is able to offer a combination of superior product, distribution, or promotion benefits *and* lower prices than the competition does, it should enjoy an extremely advantageous position. Toyota, Nissan, and other Japanese automakers made significant gains in the American market in the 1980s by creating a superior value proposition: They offered cars with higher quality, better mileage, and lower prices than those made by General Motors, Ford, and Chrysler. Today, the auto industry is shifting its attention to emerging markets such as India and Africa. Renault and its rivals are racing to offer middle-class consumers a new value proposition: high-quality vehicles that sell for the equivalent of \$10,000 or less. On the heels of Renault's success with the Dacia Logan come the \$2,500 Nano from India's Tata Motors and a \$3,000 Datsun from Nissan (see Case 11-1).

Achieving success in global marketing often requires persistence and patience. Following World War II, some of Japan's initial auto exports were market failures. In the late 1960s, for example, Subaru of America began importing the Subaru 360 automobile and selling it for \$1,297. After *Consumer Reports* judged the 360 to be unacceptable, sales ground to a halt. Similarly, the Yugo automobile achieved a modest level of U.S. sales in the 1980s (despite a "don't buy" rating from a consumer magazine) because its sticker price of \$3,999 made it the cheapest new car available. Low quality was the primary reason for the market failure of both the Subaru 360 and the Yugo.<sup>7</sup> The Subaru story does have a happy ending, however, due in no small measure to the company's decades-long efforts to improve its vehicles. In fact, in 2015, *Consumer Reports* put Subaru near the top of its quality rankings, after Lexus, Mazda, Toyota, and Audi.<sup>8</sup> History has not been so kind to the Yugo, however; it ended up on *Time* magazine's list of the "50 Worst Cars of All Time."

Even some of the world's biggest, most successful companies stumble while pursuing global opportunities. Walmart's recent exit from the German market was due, in part, to the fact that German shoppers could find lower prices at stores known as "hard discounters." In addition, many German consumers prefer to go to several small shops rather than seek out the convenience of a single, "all-in-one" store located outside a town center. Likewise, UK-based Tesco's attempts to enter the U.S. market with its Fresh & Easy stores failed, in part, because U.S. consumers were unfamiliar with the private-label goods that make up much of the merchandise stock (see Case 12-2). And, in 2015, American "cheap chic" retailer Target terminated its operations in Canada, a victim of missteps in terms of store locations and pricing. The cost for closing 133 stores: more than \$5 billion.

### Competitive Advantage, Globalization, and Global Industries

When a company succeeds in creating more value for customers than its competitors do, that company is said to enjoy **competitive advantage** in an industry.<sup>9</sup> Competitive advantage is measured relative to rivals in a given industry. For example, your local laundromat is in a

<sup>6</sup>With certain categories of differentiated goods, including designer clothing and other luxury products, higher price is often associated with increased value.

<sup>7</sup>The history of the Subaru 360 is documented in Randall Rothman, *Where the Suckers Moon: The Life and Death of an Advertising Campaign* (New York: Vintage Books, 1994), p. 4.

<sup>8</sup>"Best and Worst Car Brands," *Consumer Reports* (April 2015), p. 12.

<sup>9</sup>Jay Barney notes that "a firm is said to have a competitive advantage when it is implementing a value-creating strategy not simultaneously being implemented by any current or potential competitors." See Jay Barney, "Firm Resources and Sustained Competitive Advantage," *Journal of Management* 17, no. 1 (1991), p. 102.

local industry; its competitors are local. In a national industry, competitors are national. In a global industry—consumer electronics, apparel, automobiles, steel, pharmaceuticals, furniture, and dozens of other sectors—the competition is, likewise, global (and, in many industries, local as well). Global marketing is essential if a company competes in a global industry or one that is globalizing.

The transformation of formerly local or national industries into global ones is part of a broader economic process of *globalization*, which Jagdish Bhagwati defines as follows:

Economic globalization constitutes integration of national economies into the international economy through trade, direct foreign investment (by corporations and multinationals), short-term capital flows, international flows of workers and humanity generally, and flows of technology.<sup>10</sup>

From a marketing point of view, globalization presents companies with tantalizing opportunities—and challenges—as executives decide whether to offer their products and services everywhere. At the same time, globalization presents companies with unprecedented opportunities to reconfigure themselves; as John Micklethwait and Adrian Wooldridge put it, the same global bazaar that allows consumers to buy the best that the world can offer also allows producers to find the best partners.<sup>11</sup> For example, globalization is presenting significant marketing opportunities for professional sports organizations such as the National Basketball Association, the National Football League, and Major League Soccer (Exhibit 1-2). As Major League Soccer commissioner Don Garber noted, “In the global culture the universal language is soccer. That’s the sweet spot. If it weren’t for the shrinking world caused by globalization, we wouldn’t have the opportunity we have today.”<sup>12</sup>

Is there more to a global industry than simply “global competition”? Definitely. As defined by management guru Michael Porter, a **global industry** is one in which competitive advantage can be achieved by integrating and leveraging operations on a worldwide scale. Put another way,

“We believe a company can only think in one set of terms. If you are premium, you have to focus on it.”<sup>13</sup>

Helmut Panke, former chairman, Bayerische Motoren Werke (BMW) AG



**Exhibit 1-2** The National Football League (NFL) promotes American football globally. The NFL is focusing on a handful of key markets, including Canada, China, Germany, Japan, Mexico, and the United Kingdom. In fall 2013, the NFL draped banners on London’s Regent Street to create awareness of the game between the Pittsburgh Steelers and the Jacksonville Jaguars.

Source: Amer Ghazza/Alamy.

<sup>10</sup>Jagdish Bhagwati, *In Defense of Globalization* (New York: Oxford University Press, 2004), p. 3.

<sup>11</sup>John Micklethwait and Adrian Wooldridge, *A Future Perfect: The Challenge and Hidden Promise of Globalization* (New York: Crown Publishers, 2000), p. xxvii.

<sup>12</sup>Grant Wahl, “Football vs. Fútbol,” *Sports Illustrated* (July 5, 2004), pp. 68–72.

<sup>13</sup>Scott Miller, “BMW Bucks Diversification to Focus on Luxury Models,” *The Wall Street Journal* (March 20, 2002), p. B4.

an industry is global to the extent that a company's industry position in one country is interdependent with its industry position in other countries. Indicators of globalization include the ratio of cross-border trade to total worldwide production, the ratio of cross-border investment to total capital investment, and the proportion of industry revenue generated by companies that compete in all key world regions.<sup>14</sup> One way to determine the degree of globalization in an industry sector is to calculate the ratio of the annual value of global trade in the sector—including the value of components shipped to various countries during the production process—to the annual value of industry sales. In terms of these metrics, the consumer electronics, apparel, automobile, and steel industries are highly globalized.<sup>15</sup>

Achieving competitive advantage in a global industry requires executives and managers to maintain a well-defined strategic focus. **Focus** is simply the concentration of attention on a core business or competence. The importance of focus for a global company is evident in the following comment by Helmut Maucher, former chairman of Nestlé SA:

Nestlé is focused: We are food and beverages. We are not running bicycle shops. Even in food we are not in all fields. There are certain areas we do not touch. For the time being we have no biscuits [cookies] in Europe and the United States for competitive reasons, and no margarine. We have no soft drinks because I have said we either buy Coca-Cola or we leave it alone. This is focus.<sup>16</sup>

However, company management may choose to initiate a change in focus as part of an overall strategy shift. Even Coca-Cola has been forced to sharpen its focus on its core beverage brands. Following sluggish sales in 2000 and 2001, former chairman and chief executive Douglas Daft formed a new alliance with Nestlé that jointly developed and marketed coffees and teas. Daft also set about the task of transforming Coca-Cola's Minute Maid unit into a global division that markets a variety of juice brands worldwide. As Daft explained:

We're a network of brands and businesses. You don't just want to be a total beverage company. Each brand has a different return on investment, is sold differently, drunk for different reasons, and has different managing structures. If you mix them all together, you lose the focus.<sup>17</sup>

Examples abound of corporate executives addressing the issue of focus, often in response to changes in the global business environment. In recent years, Bertelsmann, Colgate, Danone, Electrolux, Fiat, Ford, Fortune Brands, General Motors, Harley-Davidson, Henkel, LEGO, McDonald's, Royal Philips, Toshiba, Vivendi, and many other companies have stepped up efforts to sharpen their strategic focus on core businesses and brands. Specific actions can take a number of different forms; in addition to alliances, these can include mergers, acquisitions, divestitures, and folding some businesses into other company divisions (see Table 1-2). At Royal Philips, CEO Frans van Houten has shed the electronics and engineering units; instead of marketing TV sets and VCRs, today's Philips is focused on three sectors: health care, lighting, and consumer lifestyle (see Exhibit 1-3). Major changes in the organizational structure such as these must also be accompanied by changes in corporate culture.<sup>18</sup>

Value, competitive advantage, and the focus required to achieve them are universal in their relevance, and they should guide marketing efforts in any part of the world. Global marketing requires attention to these issues on a worldwide basis and utilization of a business intelligence

<sup>14</sup>Vijay Govindarajan and Anil Gupta, "Setting a Course for the New Global Landscape," *Financial Times—Mastering Global Business*, part I (1998), p. 3.

<sup>15</sup>Diana Farrell, "Assessing Your Company's Global Potential," *Harvard Business Review* 82, no. 12 (December 2004), p. 85.

<sup>16</sup>Elizabeth Ashcroft, "Nestlé and the Twenty-First Century," Harvard Business School Case 9-595-074, 1995.

See also Ernest Beck, "Nestlé Feels Little Pressure to Make Big Acquisitions," *The Wall Street Journal* (June 22, 2000), p. B4.

<sup>17</sup>Betsy McKay, "Coke's 'Think Local' Strategy Has Yet to Prove Itself," *The Wall Street Journal* (March 1, 2001), p. B6.

<sup>18</sup>Tony Barber, "Culture Change Is Pivotal as Philips Sheds Its Old Skin," *Financial Times* (July 5, 2013), p. 14.

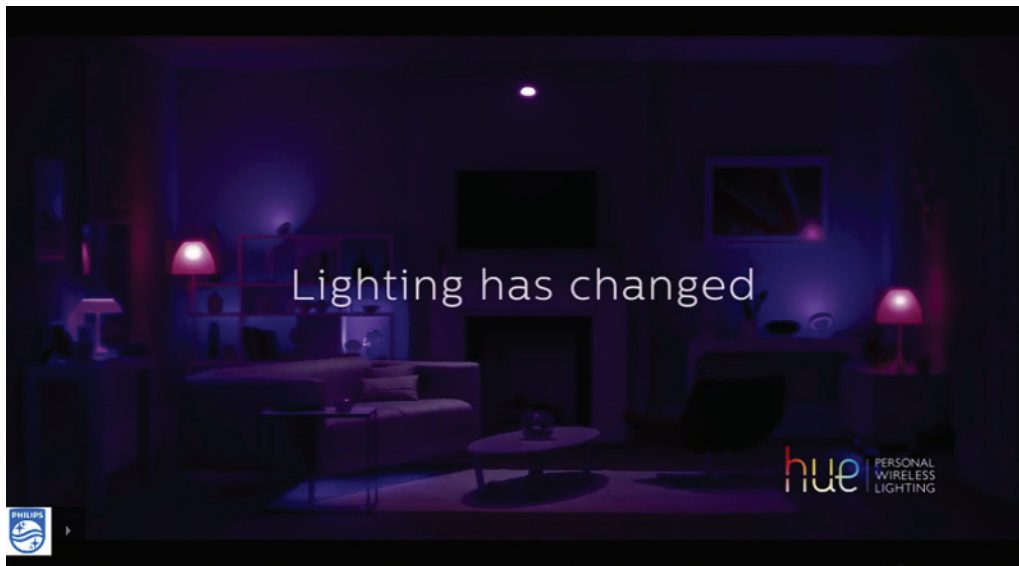
**TABLE 1-2 Strategic Focus**

Company/Headquarters	Divestiture/Buyer
General Electric (U.S.)	Appliance division, sold to Electrolux (Sweden) for \$3.3 billion (2015); NBC Universal, sold to Comcast for \$30 billion (2009).
Vivendi (France)	Activision Blizzard videogame unit, management buyout for \$8.2 billion (2013).
Unilever (UK/Netherlands)	American pasta sauce business, sold to Mizkan Group (Japan) for \$2.15 billion (2014).
IBM (U.S.)	Microelectronics division, sold to GlobalFoundries for \$1.5 billion (2014).

system capable of monitoring the globe for opportunities and threats. A fundamental premise of this book can be stated as follows: Companies that understand and engage in global marketing can offer more overall value to customers than companies that do not have that understanding. There are many who share this conviction. In the mid-1990s, for example, C. Samuel Craig and Susan P. Douglas noted:

Globalization is no longer an abstraction but a stark reality. . . . Choosing not to participate in global markets is no longer an option. All firms, regardless of their size, have to craft strategies in the broader context of world markets to anticipate, respond, and adapt to the changing configuration of these markets.<sup>19</sup>

Evidence is mounting that companies in a range of industries are getting the message. For example, three Italian furniture companies have joined together to increase sales outside of Italy and ward off increased competition from Asia. Luxury goods purveyors such as LVMH and Prada Group provided the model for the new business entity, which unites Poltrona Frau, Cassina, and Cappellini.<sup>20</sup> Hong Kong's Tai Ping Carpets International is also globalizing. Top managers have been dispersed to different parts of the world; while the finance and technology



**Exhibit 1-3** As the “smart home” becomes a reality, Philips has developed a line of lighting products that are connected to the Internet. Homeowners can control the lighting system with a smartphone app.

<sup>19</sup>C. Samuel Craig and Susan P. Douglas, “Responding to the Challenges of Global Markets: Change, Complexity, Competition, and Conscience,” *Columbia Journal of World Business* 31, no. 4 (Winter 1996), pp. 6–18.

<sup>20</sup>Gabriel Kahn, “Three Italian Furniture Makers Hope to Create a Global Luxury Powerhouse,” *The Wall Street Journal* (October 31, 2006), p. B1.