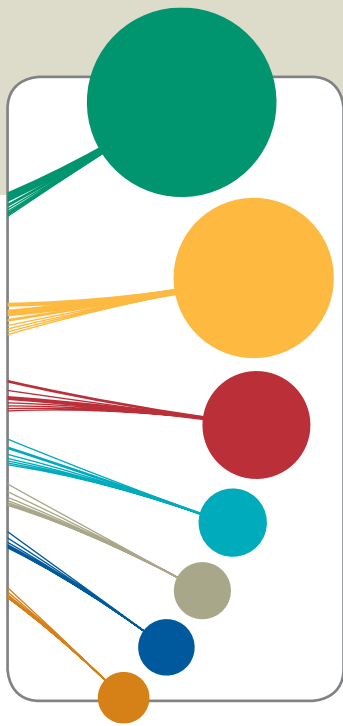


Warren J. Keegan

Mark C. Green

GLOBAL MARKETING

SEVENTH EDITION



What's NEW to the Seventh Edition?

- ⇒ **NEW learning objectives** guide students through the key goals of every chapter.
- ⇒ **NEW chapter-opening vignettes** create relevance and engage students from the beginning of each chapter.
- ⇒ **NEW related end-of-chapter cases** tie chapter concepts together at the end of each chapter.
- ⇒ **NEW key company, country, and industry tables** provide students with real-world examples including “The World’s Largest Corporations”, “Index of Economic Freedom”, “The World’s Most Valuable Brands”, “Top 25 Global Marketers”, and “Top 20 Global Advertising Organizations.”
- ⇒ **NEW section “Marketing Metrics and Analytics”** teaches students how to focus on quantitative measures and analytics, such as return on investment.
- ⇒ **NEW discussion of social media** is integrated throughout the Seventh Edition to engage students and keep Global Marketing current and relevant with today’s students.
- ⇒ **NEW 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, and other emerging topics.



GLOBAL

MARKETING

SEVENTH EDITION

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

—WJK

To Diana, the love of my life.

—MCG

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Preface

Global Marketing, Seventh 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.

Our goal for all seven 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 than 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 currency, Daimler AG’s Smart car, 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*, Seventh 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 Chinese (simplified and traditional), Japanese, Korean, Portuguese, and Spanish editions.

What’s New to the Seventh 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. Two specific geopolitical developments formed the backdrop to this revision. First, popular uprisings in North Africa have upended the long-entrenched political order and raise the question: What’s next for this region? Second, the sovereign debt crisis in the eurozone raises the question: What is the future of the euro?

More generally, the global economic crisis continues to impact global marketing strategies. Virtually every industry sector, company, and country has been affected by the downturn. The signs are everywhere: Cash-strapped consumers continue to pay down their debts instead of spending. Companies are scaling back production, and unemployment remains high. Spooked lenders have tightened credit, squeezing companies and consumers alike. Merger and acquisition activity has slowed dramatically. Real estate values have not rebounded.

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:

- Each chapter now includes Learning Objectives.
- Fifty percent of the chapter-opening vignettes and related end-of-chapter cases are new to the Seventh 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 Organizations.”
- A new section, “Marketing Metrics and Analytics,” focuses on quantitative measures and analytics, such as return on investment.
- New discussion of social media is integrated throughout the Seventh 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, and other emerging topics.
- To supplement their use of *Global Marketing*, Seventh Edition, faculty and students can access author updates and comments on Twitter, the microblogging Web site. In addition, the authors have archived nearly 2,000 articles pertaining to global marketing on Delicious.com, the social bookmarking site (www.delicious.com/MarkCGreen).
- Infographics, a cutting-edge data presentation format, have been incorporated into the cover design as well as the text itself.

Time marches on. As this edition goes to press in 2011, the first members of the Baby Boom generation turn 65 years old. Jaguar celebrates the 50th anniversary of its iconic E-Type roadster. It was 40 years ago, in March 1971, that Starbucks opened its first store at the Pike Place Market in Seattle. Also in 2011, MTV turns 30; too, 2011 marks the thirtieth anniversary of the IBM PC launch (and the 100th anniversary of IBM itself). Twenty years ago, on December 31, 1991, Kremlin officials lowered the red flag emblazoned with the hammer and sickle, signaling the end of the Soviet Union. In 2011, Apple commemorated a decade of acclaim for its iconic, game-changing iPod music player. And it was 10 years ago, in 2001, that China joined the World Trade Organization.

The unifying theme in the Fifth Edition was the growing impact of emerging nations in general and in Brazil, Russia, India, and China 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. The Sixth Edition contained expanded coverage of 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.

In this edition, we chart the path of the nascent economic recovery and the resulting shifts in global market opportunities and threats. New phrases such as *austerity*, *capital flight*, *currency wars*, *double-dip recession*, *global imbalances*, *global rebalancing*, *quantitative easing (QE)*, and *sovereign-debt crisis* have been introduced into the discourse. If one were to judge solely by column inches in the business press, it is obvious that the crisis in the eurozone is one of the top stories of the year. Greece, Ireland, Italy, Portugal, and Spain bear especially close observation; 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. It has also surpassed the United States as the world’s leading manufacturer.

Africa’s renaissance is another current trend that we track in the Seventh Edition. 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, IBM, Nestlé, and Walmart are among the companies that have joined the “final gold rush” into the world’s last untapped market. “Africa 3.0,” the lead-in case to Chapter 15, explores the way mobile phones are transforming business and home life across the continent. This is clearly a region that bears watching.

Current research findings have been integrated into each chapter of *Global Marketing*, Seventh 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. Robyn Meredith's recent book *The Elephant and the Dragon* was a valuable resource for our coverage of India and China.

Similarly, our thinking about global market segmentation and targeting has been influenced by David Arnold's book, *The Mirage of Global Markets*. We have added scores of current examples of global marketing practice as well as quotations from global marketing practitioners and industry experts. Throughout the text, organizational Web sites are referenced for further student study and exploration. A Companion Web site (www.pearsonhighered.com/keegan) is integrated with the text as well.

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. More than half the chapter-opening cases in the Seventh Edition are new, including: "A New Front in the Battle of Ideas" (Chapter 2); "The Euro Zone Fights for Its Life" (Chapter 3); "Will Sharp-Dressed Americans Become Soccer Fanatics?" (Chapter 4); "Global Companies Target Low-Income Consumers" (Chapter 7); "Can the United States Double Its Exports by 2015?" (Chapter 8); "The Gulf Oil Spill: BP's Public Relations Nightmare" (Chapter 13); "Expo 2010 Shanghai China" (Chapter 14); "Africa 3.0" (Chapter 15); and "VW Aims for the Top" (Chapter 16). In addition, every chapter contains two or more sidebars on four themes: Emerging Markets Briefing Book; Strategic Decision Making in Global Marketing, The Cultural Context; and Marketing Metrics and Analytics.

Cases

The case set in *Global Marketing*, Seventh Edition, strikes a balance between revisions of earlier cases (e.g., Case 1-2, "McDonald's Expands Globally While Adjusting Its Local Recipe," and entirely new cases (e.g., Case 2-3, "Argentina Uncorks Malbec"). 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 an efficient manner. 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, 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. Supplements include an Instructor's Resource Manual, a video collection, PowerPoint slides, and a test bank. Special consideration was given to the test bank, with considerable effort devoted to minimizing the number of simplistic, superficial multiple-choice questions with "all of the above"-type answers.

Teaching Aids for Instructors on the Instructor Resource Center

At www.pearsonhighered.com/irc, instructors can access a variety of print, digital, and presentation resources available with this text in downloadable format. Registration is simple and gives you immediate access to new titles and new editions. As a registered faculty member, you can download resource files and receive immediate access and instructions for installing course management content on your campus server.

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The following supplements are available to adopting instructors (for detailed descriptions, please visit www.pearsonhigher.com/irc):

- **Instructor's Manual.** This downloadable instructor's manual includes sample syllabi, lecture outlines, answers to all end-of-chapter questions and case questions, additional activities and assignments for your students, and video teaching notes, which are tied to the DVD. This manual is available for download by visiting www.pearsonhighered.com/irc.

The Instructor's Manual also contains interesting learning tools, such as "Lessons from the Global Marketplace" and "Open to Debate" sections, which are unique features that can be used to enhance the lessons by adding interactivity.

- **Test Item File.** This downloadable Test Item File contains over 1,600 questions, including multiple-choice, true/false, and essay-type questions. Each question is followed by the correct answer, the learning objective it ties to, a page reference, the AACSB category, the question type (concept, application, critical thinking, or synthesis), and a difficulty rating. It has been thoroughly reviewed by assessment expert(s) to ensure learning efficiency in your classroom.
- **PowerPoints.** Two versions of downloadable PowerPoints are available. Each version is available for download from www.pearsonhighered.com/irc:
 - **Instructor PowerPoints.** This presentation includes basic outlines and key points from each chapter. It includes figures from the text but no forms of rich media, which makes the file size manageable and easier to share online or via email. This set was also designed for the professor who prefers to customize PowerPoints and who wants to be spared from having to strip out animation, embedded files, and other media-rich features.
 - **Media-Rich Instructor PowerPoints.** This media-rich alternative includes basic outlines and key points from each chapter, plus key points, advertisements, images from outside of the text, discussion questions, Web links, and embedded video.
- **TestGen.** Pearson Education's test-generating software is available from www.pearsonhighered.com/irc. The software is PC/Mac compatible and preloaded with all of the Test Item File questions. You can manually or randomly view test questions and drag-and-drop to create a test. You can add or modify test-bank questions, as needed.
- **Learning management systems.** Our TestGens are converted for use in BlackBoard and WebCT. These conversions can be found on the Instructor's Resource Center. Conversions to Moodle, D2L, or Angel can be requested through your local Pearson Sales Representative.
- **DVD.** The DVD, which can be ordered using ISBN (0132745453), contains 16 clips that are mapped to the chapters in the book. Companies covered include Radian6, Monster.com, Google, McCann, and so on.

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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 *Global Marketing* Seventh Edition, to be the most engaging, up-to-date, relevant, useful text of its kind.

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Mark C. Green
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He enjoys travel, theatre, music, reading, rowing, hiking, tennis, swimming, riding motorcycles and horses, the outdoors, home maintenance, loafing and family and friends. He is an enthusiastic global traveler and enjoys field research of global markets by motorcycle with his wife, Dr. Cynthia MacKay MD, Clinical Professor of Ophthalmology at Columbia University Medical School, Retina specialist and general ophthalmology in private practice in New York City.

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In addition to coauthoring *Global Marketing*, Seventh Edition, with Warren Keegan, Dr. Green has also contributed case studies and chapter materials to several other textbooks published by Prentice Hall. These include: *Advertising Principles and Practices*, Fourth Edition, by William Wells, John Burnett, and Sandra Moriarty (1997); *Behavior in Organizations*, Sixth Edition, by Jerald Greenberg and Robert Baron (1996); *Business*, Fourth Edition, by Ricky Griffin and Ronald Ebert (1995); and *Principles of Marketing* by Warren Keegan, Sandra Moriarty, and Thomas Duncan (1992). Dr. Green has also written essays on technology and global business that have appeared in the *Des Moines Register* and other newspapers.

Dr. Green has traveled to the former Soviet Union on numerous occasions. In 1995 and 1996, he participated in a grant project funded by the U.S. Agency for International Development (USAID) and presented marketing seminars to audiences in Nizhny Novgorod. In addition, Dr. Green has served as a consultant to several Iowa organizations that have business and cultural ties with Russia and other former Soviet republics. Dr. Green has lectured in Russia and Ukraine on topics relating to emerging market economies. His 1992 monograph, *Developing the Russian Market*, received an award from the Iowa-based International Network on Trade.

In 1997, Dr. Green was the recipient of Simpson College's Distinguished Research and Writing Award. Dr. Green also received the 1995 Distinguished Teaching Award for senior faculty. In 1990, he was the recipient of Simpson's Excellence in Teaching Award for junior faculty. He also received the 1988 Outstanding Faculty of the Year awarded by the Alpha Sigma Lambda adult student honorary at Simpson College.

Dr. Green enjoys playing bass and guitar with the Sonny Humbucker Band; the members include Simpson colleagues David Wolf (associate professor of English) and Mark Juffernbruch (associate professor of accounting). Rounding out the lineup are David Kochel, a political consultant with Red Wave Communications, and Thom Wright, an architect who is currently employed by Pigott Inc. Dr. Green blogs about music on the band's Web sites: www.myspace.com/thesonnyhumbuckerband and www.sonnyhumbucker.com. Dr. Green also manages tenor saxophone jazz great Dave Tofani, who records for the SoloWinds label.

GLOBAL MARKETING

SEVENTH EDITION

1 Introduction to Global Marketing



CASE 1-1

The Global Marketplace Is Also Local

Consider the following proposition: *We live in a global marketplace.* McDonald's restaurants, Sony HDTVs, LEGO toys, Swatch watches, Burberry trench coats, and Caterpillar earthmoving equipment 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. U.S.-based Intel, the

world's largest chip maker, competes with South Korea's Samsung. In the global cell phone market, Nokia (Finland), Apple (United States), Motorola (United States), and Samsung are key players. Appliances from Whirlpool and Electrolux compete for precious retail space with products manufactured and marketed by Germany's Bosch, China's Haier Group, and South Korea's LG.

Now consider a second proposition: *We live in a world in which markets are local.* In China, for example, Yum! Brands' new



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.'"

To show its support for socially responsible initiatives, Ferragamo recently introduced a new shoe line called Ferragamo WORLD that utilizes eco-friendly production processes. A portion of the proceeds from every pair sold supports Acumen Fund's anti-poverty efforts in East Africa, India, and Pakistan.

Source: Roussel Bernard/Alamy.

East Dawning fast-food chain competes with local restaurants such as New Asia Snack.¹ France's domestic film industry generates about 40 percent of local motion picture box office receipts; U.S.-made movies account for about 50 percent. In Turkey, local artists such as Sertab account for more than 80 percent of recorded music sales. *Kiki*, a Japanese magazine for teenage girls, competes for newsstand sales with *Vogue Girl*, *Cosmo Girl*, and other titles from Western publishers. 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, Corona Extra, Swatch, Waterford, Ferragamo, and Burberry, for instance—are strongly identified with a particular country. In much of the world, McDonald's is the quintessential American fast-food restaurant, just as Ferragamo is 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? Where

is Nokia headquartered? When is a German car *not* a German car? Can a car be both German *and* American? Consider:

- An American-built Ford Mustang has 65 percent American and Canadian content; an American-built Toyota Sienna XLE minivan has 90 percent American and Canadian content.²
- China's Shanghai Automotive (SAIC) owns the rights to the MG, the legendary two-seat British sports car. In 2008, SAIC began manufacturing a limited edition TF model at a plant in Longbridge, UK. In 2011, production of the MG6 sedan began in Birmingham.³ India's Tata Group recently paid \$2.4 billion to acquire Land Rover and Jaguar from Ford.
- German carmaker BMW exports the X5 sport utility vehicle that it builds in Spartanville, South Carolina, to more than 100 countries.

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!

¹Janet Adamy, "East Eats West: One U.S. Chain's Unlikely Goal: Pitching Chinese Food in China," *The Wall Street Journal* (October 20, 2006), pp. A1, A8.

²Jathon Sapsford and Norihiko Shirouzu, "Mom, Apple Pie and . . . Toyota?" *The Wall Street Journal* (May 11, 2006), p. B1.

³Norihiko Shirouzu, "Homecoming is Set for MG," *The Wall Street Journal* (March 16, 2011), p. B8.

LEARNING OBJECTIVES

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

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 multi-language labeling on your favorite products and brands. Your local gas station may have changed its name from Getty to Lukoil, reflecting the Russian energy giant's expanding global reach. On the highway, you may have seen a semitrailer truck from FedEx's Global

Supply Chain Services fleet. Or perhaps you took advantage of Radiohead's offer to set your own price when you downloaded *In Rainbows* from the Internet. When you pick up a pound of whole-bean Central American coffee at your favorite coffee café, you will find that some beans are labeled Fair Trade Certified. Your toll-free telephone call to a software technical support service or an airline customer service center may be answered in Bangalore or Mumbai. *Slumdog Millionaire*, which received an Oscar in 2009 for Best Picture, was filmed on location in and around Mumbai. 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 connected the East with the West. From the mid-1800s to the early 1920s, with Great Britain the dominant economic power in the world, international trade flourished. 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 home country 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? **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.⁴ 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** (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 one 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.⁵
- **Product development:** Starbucks created a brand of instant coffee, Via, to enable its customers to enjoy coffee at the office and other locations where brewed coffee is not

⁴American Marketing Association. <http://www.marketingpower.com/AboutAMA/Pages/DefinitionofMarketing.aspx>. Accessed March 1, 2011.

⁵Paul 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	1. Market penetration strategy	2. Product development strategy
	New markets	3. Market development strategy	4. 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.

- **Diversification:** Starbucks has launched several new ventures, including music CDs and movie production. Next up: Revamping stores so they can serve as wine bars and attract new customers in the evening.⁶

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. 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.

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 it, can be increased in two basic 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.⁷ 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

⁶Bruce Horovitz, “Starbucks Remakes Its Future with an Eye on Wine and Beer,” *USA Today* (October 22, 2010), p. 1B.

⁷With certain categories of differentiated goods, including designer clothing and other luxury products, higher price is often associated with increased value.

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, 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 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 can sell for the equivalent of \$10,000 or less. On the heels of Renault's success with the Dacia Logan comes the \$2,500 Nano from India's Tata Motors (see Case 11-1).

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.⁸ Walmart's recent exit from the German market was due, in part, to the fact that Germans 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.

Competitive Advantage, Globalization, and Global Industries

When a company succeeds in creating more value for customers than its competitors, that company is said to enjoy **competitive advantage** in an industry.⁹ Competitive advantage is measured relative to rivals in a given industry. For example, your local laundromat is in a 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.¹⁰

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.¹¹ 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

⁸The 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.

⁹Jay 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.

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

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



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 2010 guitar legend Jeff Beck performed “God Save the Queen” at Wembley Stadium in London prior to an NFL exhibition game between the San Francisco 49ers and the Denver Broncos. The final score: 49ers 24, Broncos 16.

Sources: Michael Zagaris/Getty Images and James Starling/Alamy.

League Soccer commissioner Don Garber noted recently, “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.”¹²

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, 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.¹³ 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 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.¹⁴

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.¹⁵

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

“We believe a company can only think in one set of terms. If you are premium, you have to focus on it.”¹⁶

Helmut Panke, former Chairman of Bayerische Motoren Werke (BMW) AG

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

¹³Vijay Govindarajan and Anil Gupta, “Setting a Course for the New Global Landscape,” *Financial Times—Mastering Global Business*, part I (1998), p. 3.

¹⁴Diana Farrell, “Assessing Your Company’s Global Potential,” *Harvard Business Review* 82, no. 12 (December 2004), p. 85.

¹⁵Elizabeth 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.

¹⁶Scott Miller, “BMW Bucks Diversification to Focus on Luxury Models,” *The Wall Street Journal* (March 20, 2002), p. B4.

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.¹⁷

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 Electronics, Toshiba, 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 besides alliances, including mergers, acquisitions, divestitures, and folding some businesses into other company divisions.¹⁸

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 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.¹⁹

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.²⁰ 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 functions are still in Hong Kong, the marketing chief is based in New York City and the head of operations is in Singapore. As company director John Ying noted, "We're trying to create a minimultinational."²¹

Global Marketing: What It Is and What It Isn't

The discipline of marketing is universal. It is natural, however, that marketing practices will vary from country to country for the simple reason that the countries and peoples of the world are different. These differences mean that a marketing approach that has proven successful in one country will not *necessarily* succeed in another country. Customer preferences, competitors, channels of distribution, and communication media may differ. An important managerial task in global marketing is learning to recognize the extent to which it is possible to extend marketing plans and programs worldwide, as well as the extent to which adaptation is required.

The way a company addresses this task is a reflection of its **global marketing strategy (GMS)**. In single-country marketing, strategy development addresses two fundamental issues: choosing a target market and developing a marketing mix. The same two issues are at the heart of

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

¹⁸Robert A. Guth, "How Japan's Toshiba Got Its Focus Back," *The Wall Street Journal* (December 12, 2000), p. A6.

¹⁹C. 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.

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

²¹Phred Dvorak, "Big Changes Drive Small Carpet Firm," *The Wall Street Journal* (October 30, 2006), p. B3.

→ THE CULTURAL CONTEXT

50 Years of Social Commentary from Great Britain

In the 1960s, England's exports to the world included music by "British Invasion" bands such as the Animals, the Kinks, the Rolling Stones and, of course, the Beatles. In the Kinks' heyday, frontman Ray Davies was known as a sharp-eyed observer of social matters who championed the cause of working men and women and also exhibited an acute awareness of class barriers (see Exhibit 1-3).

By January 1965, three Kinks singles had enjoyed global success, reaching the Top 10 in the United Kingdom, the United States, and elsewhere. Then, at the height of their popularity, the Kinks were targeted by an informal blacklist in the United States following several backstage incidents while the band was on tour.

In 1968, with the ban still in force, the band released *The Kinks Are the Village Green Preservation Society*. Davies recalls, "I wanted to create a time capsule of England—or what I imagined England to be." As one reviewer has noted, Davies was:

. . . Perpetually worrying about the little man in the era of Big History, meticulously documenting emotional stasis and ennui in the context of societal upheaval. Davies wrote about a world where the factory windows and the steam trains hadn't been cleaned for 20 years.

Although the Kinks officially broke up in 1996, Davies continues to write and record new material as a solo artist. In the new millennium, Davies' gift for trenchant observation and commentary is undiminished. What's on his mind? Globalization, for one thing, and its impact on working men and women. For example, in "Vietnam Cowboys," a track from his 2007 album *Working Man's Café*, Davies sings:

Hamburger in China, with sushi bars in Maine and Boston,
The dollar sign said, "Expand," now it's cowboys in Vietnam.

A reviewer with the Associated Press noted that *Working Man's Café* is a "not-quite-concept-album that manages to be both intimate and take



on globalization all at once." Davies, according to this reviewer, "gives shape to a post-9/11 disaffection that is often hard to put into words."

While the Kinks and other British Invasion bands were storming the U.S. record charts in the 1960s, American companies were expanding production in England. For example, Ford Motor Company had operated a plant in the London suburb of Dagenham since 1931. In keeping with the multinational model, this was an autonomous operation with its own steel foundry and power station. In the late 1950s, production capacity at Dagenham was doubled.

By the mid-1960s, the factory's 55,000 male assembly-line employees earned higher wages than the 187 women who sewed upholstery for car interiors. *Made in Dagenham*, the 2010 film by director Nigel Cole, tells the story of the women's 1968 campaign for equal wages. Management's decision to drop the women's status from "semiskilled" to "unskilled" resulted in a 1-day work stoppage at the plant. Within 2 years, the British government enacted equal-pay legislation.

As for the aging Dagenham plant itself, by 2000 it was producing just one model, the Ford Fiesta. Management made the decision not to tool up the plant for a new 2002 model; instead, Dagenham was converted to an engine production facility. Today, approximately 25 percent of Ford's worldwide engine production takes place at Dagenham.

Sources: David Cavanaugh, "Cover Story: Ray Davies," *Uncut* (December 2010), p. 51; Nick Hasted, "Ready, Steady, Kinks!!!" *Uncut* (September 2004), pp. 46–66; Stephen Holden, "'60s Sweatshop Girls Fighting Ford," *The New York Times* (November 19, 2010), p. C6. Special thanks to Douglas Hinman and James McVeety for additional research.



Exhibit 1-3 In the 1960s, the Kinks chronicled the lives and concerns of everyday working men and women in England. Today Ray Davies continues to write and perform new songs about globalization and other issues.

Source: Pictorial Press Ltd/Alamy.