CHAPTER 17

Marketing Globally

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The international market for tackle continues to expand as the popularity of recreational fishing increases worldwide.

OBJECTIVES

After studying this chapter, you should be able to

17-1 Classify international marketing strategies in terms of marketing orientations, segmentation, and targeting

17-2 Discuss the pros and cons of country adaptation versus global standardization of products

17-3 Describe pricing complexities when selling in foreign markets

17-4 Recognize the pros and cons of using uniform promotional marketing practices among countries

17-5 Explain the different branding strategies companies may employ internationally

17-6 Discern major practices and complications of international distribution

17-7 Illustrate how gap analysis can help in managing the international marketing mix

Markets have customs and communes have traditions.

—Vietnamese proverb

CASE

Svendsen Sport: Marketing Globally for Healthy Business Development[1]

—Martha Lynn Eriksen

With a population of just under 6 million, the Danish domestic market is small. Consequently, Denmark has historically depended on exporting its goods and services in order to maintain a healthy economy. You may be familiar with many of the larger Danish companies, such as LEGO, Carlsberg, and Novo Nordisk, one of the largest manufacturers of insulin.

Like other countries in the European Union, Denmark's small and medium-sized enterprises (SMEs) are significant contributors to the economy. As of 2017, SMEs accounted for 65 percent of all jobs in the business sector. One such company, with 94 percent of its business turnover outside Denmark, is Svendsen Sport. With just over 180 employees, Svendsen Sport is a one of the largest suppliers of fishing tackle in Europe, with a significant presence in Australia, Asia, and the United States.

Fishing tackle is the equipment used by recreational anglers: from the hook, line, and sinker, to the rod, reel, and tackle box. The World Bank has estimated that anglers spend approximately $190 billion annually on recreational fishing, contributing about

$70 billion per year to the global gross domestic product. The global market for fishing rods was valued at $909.4 million in 2018. Fishing as a recreational activity across various age groups in countries including the United Kingdom, Japan, and Australia, is expected to promote further market growth. The global sports fishing equipment market is also expected to grow by $2.86 billion during 2020–2025.

PRODUCTS AND PRICING

The Svendsen Sport headquarters in Gadstrup houses a product development team and designers who work closely with suppliers worldwide to innovate their product lines, which include fishing tackle, clothing, wading gear, nets, and watercraft. With more than 13 brands, Svendsen Sport is a portfolio supplier that pursues a middle-market rather than a high-end pricing strategy to achieve a healthy balance between quality and sales volume.

The brand categories target anglers based on their location, fishing methods, and the choice of fish species. Segmenting the market is quite straightforward. Some anglers prefer saltwater fishing, while others prefer, or have access to, freshwater lakes or rivers. The fish species and size are very important in determining the type of lure, rod, and other equipment needs, such as clothing, watercraft, and boat motors. Does the desired catch swim in deep or in shallow water? Fishing for carp, snapper, or trout is an experience very different from fly fishing or fishing for sturgeon and big game fish. Seasons also affect product sales, not only for tackle but also clothing and other accessories.

Svendsen Sport prunes its deep product lines when products are no longer selling or have become redundant, and frequently augments the product line to address anglers' needs and wants. In this respect, Svendsen Sport has to constantly assess how developing and altering the products affect production costs and product performance. At its headquarters in Denmark, Svendsen Sport has invested in a large showroom. Customers are welcome to visit and test the fishing lures in a large basin, to see how the lures look and move underwater. Suggestions and critique are welcome and treated as important inputs for future product development.

PROMOTION AND BRANDING

So how does a Danish company get the attention of anglers worldwide? In their downstream marketing (logistics), Svendsen Sport ships their products to subsidiary companies and agents and works closely with these resellers, as they are key in Svendsen's downstream marketing. The physical retail stores are important in providing attractive displays and giving advice and guidance on product use. The retailers are also instrumental in communicating feedback to Svendsen Sport about the preferences and expectations of end users.

Svendsen Sport has over three million followers worldwide on social media. As an important part of their branding strategy, Svendsen Sport showcases influencers in their social media accounts. The influencers are essentially brand ambassadors, and Svendsen Sport acknowledges their importance by referring to them as Pro Staff, or the Savage Pro Team on the Savage Gear website. The Pro Staff members come from several countries and are typically fishing guides who know their fishing regions very well. They act as product testers and reviewers and fulfill an important role as user-generated content (UGC) contributors through their blogs, videos, tips, and masterclasses. Anglers can also join Club Savage or the local Facebook pages of the company. They can contribute to UGC and participate in numerous giveaway competitions. Members receive frequent newsletters with information about the products from Svendsen Sport and "fishing buddies."

DISTRIBUTION

Svendsen Sport distributes its products through sales companies and subsidiaries in the United States and most of Europe (Sweden, Germany, Benelux, France, Norway, Poland, Czech Republic, Austria, Hungary, Italy, Croatia, and the United Kingdom). In the rest of Europe, the company distributes its products through local agents. Ron Thompson, Prologic, Savage Gear, Scierra, DAM, Quick, and Hansen of Denmark represent a selection of Svendsen Sport's own brands, with Savage Gear as the biggest in terms of contribution to sales turnover. The retailers' role in carrying stock and ensuring attractive product presentation is an important sales parameter. Svendsen Sport is also a distributor for Okuma fishing rods and reels. This 35-year-old Taiwanese company is a globally known brand for affordable quality.

In addition to retail stores, Svendsen Sport also sells its products on major e-commerce platforms, such as eBay and Amazon. As the products are available online and offline in so many outlets, there is not really an incentive for unauthorized distribution or for grey markets to try to exploit minimal price differences in different countries.

BUILDING THE BUSINESS FOR THE FUTURE

In its business development strategy, Svendsen Sport is very focused on innovation, not only in terms of new products that create value for retailers and are desired by anglers but also with regard to building the business. One aspect of building a healthy business involves applying a social marketing orientation and paying close attention to a company's environmental impact.

Unfortunately, there is a lot of greenwashing in most industries, where companies falsely claim to be environmentally sound or to have minimal negative impact on the environment. There are also many different sustainability perceptions in terms of the use of resources and of negative impacts on the natural environment. The Brundtland Report (1987), released by the World Commission on Environment and Development, describes sustainable development as "an approach to economic planning that attempts to foster economic growth while preserving the quality of the environment for future generations." This call to action for a better and more sustainable future is today enshrined in the United Nations' 17 Sustainable Development Goals.

Amid increasing concern about the environment, anglers are now generally in favor of practicing sustainable fishing. This seems to hold true for the target group regardless of geographical market. There are a number of lobby groups, such as the Center for Sportsfishing Policy (CSP) in the United States and the European Fishing Tackle Trade Association (EFTTA) in Europe, that work to advance policies that deal with the interests of anglers while focusing on conserving natural resources for future generations. Other groups rally around specific causes, such as the correct labeling of monofilament fishing line strength in accordance with industry standards and consumer protection laws. Another example concerns the use of lead. While lead in fishing tackle is yet to be banned worldwide, it has been limited to 0.01 percent in Denmark since December 2002. Routine random sampling by the Danish Environmental Protection Agency, however, shows that limits are constantly exceeded. In their product development, Svendsen Sport applies high standards for all of their target markets.

FISHING FOR A SOLUTION TO THE PLASTIC PROBLEM

As a large part of its turnover is comprised of soft plastic fishing lures, Svendsen Sport intends to reduce the harmful impact of non-biodegradable plastics. The rigid plastics in packaging, including blister packs and clamshell packaging, are not recyclable and sometimes end up as garbage in nature or in landfills.

Currently, Svendsen Sport outsources production to numerous suppliers in China. While Svendsen Sport specifies the use of products without unwanted phthalates and other harmful chemicals in the soft plastic lures, quality control checks reveal that the Chinese suppliers do not always deliver this. In such cases, Svendsen Sport replaces the suppliers not adhering to product specifications. Nevertheless, while Svendsen Sport can control which suppliers they choose, they cannot control the pollution caused by tackle when they are accidentally lost or not properly disposed of. To build a more environmentally sustainable business, Svendsen must ascertain if customers are genuinely willing to pay more for environment-friendly products.

QUESTIONS

17-1 Which international marketing orientations most apply to Svendsen Sport? Why?

17-2 Changing materials or lure composition risks dissatisfied customers. Discuss the considerations and consequences of replacing non-biodegradable plastics and support your arguments.

INTERNATIONAL MARKETING STRATEGIES: ORIENTATIONS, SEGMENTATION, AND TARGETING

17-1 Classify international marketing strategies in terms of marketing orientations, segmentation, and targeting

Although marketing principles are global, companies may need to apply them differently abroad.

Marketing brings revenue, without which a firm cannot survive. Similar principles apply globally (i.e., a company must have desirable products and services, tell people about them, and offer them at appropriate prices at consumers' favored locations). However, companies may apply these principles differently abroad, such as by customizing products to correspond with local preferences. As the opening case indicates, companies must find the right balance between broad principles and local priorities and preferences.

Although international marketing approaches should be compatible with companies' overall aims and strategies, they need not standardize every practice for every product where they sell. For instance, market differences may call for pursuing cost leadership through standardization in some countries and more costly differentiation in others. A mass-market orientation may be appropriate in one country and a focused strategy in another. Finally, the degree of global standardization versus national responsiveness may vary within the marketing mix, such as standardizing the product as much as possible while promoting it differently among countries.

CONCEPT CHECK

In Chapter 12 (pages 351–354), we describe the strategies of global integration versus local responsiveness and explain how a company can save money by standardizing many of its policies and practices.

Figure 17.1 shows marketing's place in IB.

As we first discuss the orientations that commonly describe companies' marketing strategies, keep in mind that they are not entirely mutually exclusive. We emphasize product policy in our discussion because it is central to a firm's strategy, whereas the other elements in the marketing mix are supportive to it.[2]

MARKETING ORIENTATIONS

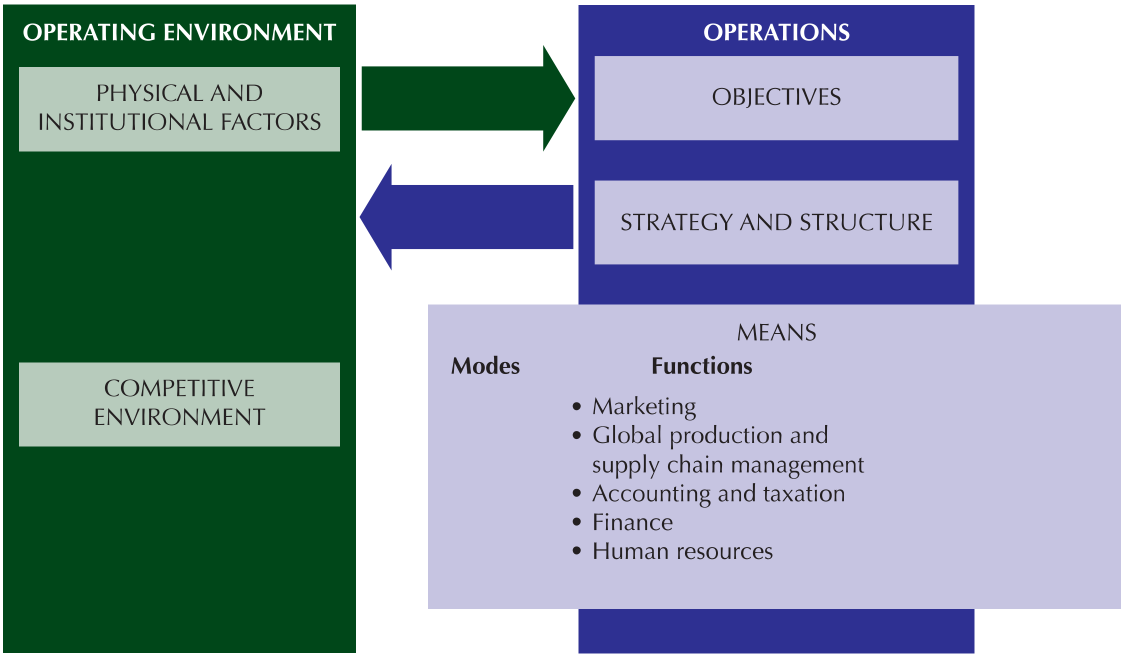
Five common marketing orientations can be applied around the world: *production, sales, customer, strategic marketing,* and *social marketing.* Each is discussed below.

Under certain circumstances, the assumptions that consumers simply want lower prices or higher quality are valid.

Production Orientation In this orientation, managers concentrate on production by assuming that customers simply want products with lower prices, higher quality, or whatever they sell domestically. Although this approach has largely gone out of vogue, it is used internationally for certain cases (as described in the following sections).

FIGURE 17.1 Marketing as a Means of Pursuing an International Strategy

Recall that we used Figure 15.1 to introduce the various modes and means by which a company can pursue its international objectives and strategy. Among those means we included functions, and here we focus on one of the most important of those functions: *marketing*.



CONCEPT CHECK

In Chapter 7 (page 227), we explain that commodity prices generally rise less than manufacturers' prices, partially because of differentiation difficulty. Here, we demonstrate success in differentiation.

Commodity Sales Companies sell many undifferentiated commodities primarily on the basis of price because of universal demand. However, even for commodities, companies have sometimes had positive international sales results through differentiation that builds favorable consumer perceptions, such as with the Chiquita brand of bananas. In addition, oil producers, such as Saudi Aramco and Motiva, have bought branded gasoline refiners and distributors to extend operations in their value chains and help them sell an otherwise undifferentiated product. Commodity producers also put effort into business-to-business marketing by providing innovative financing and ensuring timely, high-quality supplies.

Passive Exports Many companies export passively by filling unsolicited foreign requests and adapting their products very little, if at all. This suffices for companies that view foreign sales simply as a means to dispose of excess inventory they can't reasonably sell domestically. In fact, if they cover fixed costs through domestic sales, they can quote lower export prices to liquidate inventories without disrupting their domestic markets.

Passive sales also occur when foreign buyers seek new products.

Serving niche markets abroad may forgo the need to be nationally responsive.

Foreign-Market Segments or Niches A company may aim a product at a large share of its domestic market and then find a few consumers abroad who will also buy it. Inca Kola, a major soft drink brand in Peru, has only niche markets abroad, primarily among people who consumed it in Peru. However, a niche market abroad may become a mass market, as is the case with Mexico's Corona beer.

Similarly, a company may sell in countries with minimal market potential and little competition from firms that adapt to local market preferences, particularly in small developing nations. In effect, the market size does not justify the alteration expense—for instance, not changing plugs on electrical products to fit local sockets, which local purchasers must convert.

The unaltered product may have appeal at home and abroad because of

- globally similar demand,
- spillover in product information from its home country,
- foreign and domestic input in development.

Sales Orientation In a sales orientation, a company sells abroad what it sells domestically by assuming that consumers are sufficiently similar. Hilfiger launches much of its children's collection simultaneously in multiple countries this way.[3] Similarly, some products need no international adaptation, such as razor blades, aircraft, and cat food. For others, however, a company may succeed best with a sales orientation by selling to culturally similar countries with a great deal of spillover in product information, such as between the United States and Canada.[4]

CONCEPT CHECK

In Chapter 2 (page 75), we discuss that companies may gain competitive advantages by nurturing cultural diversity, such as within teams.

This orientation differs from the production orientation because of its active rather than passive approach to promoting sales. However, failures may occur because of a mismatch between managers' perception and the reality of what will be accepted abroad.[5] To help alleviate this mismatch, product development teams composed of different nationalities can create customer solutions that apply globally from the start.[6] Additionally, a strong information exchange between foreign subsidiaries and headquarters can help develop products that can be sufficiently standardized and still fit the needs of consumers in different countries.[7]

A customer orientation takes geographic areas as given and seeks products to sell there.

Customer Orientation In a *sales orientation*, management is usually guided by answers to such questions as: Should the company send some exports abroad? Where can it sell more of product X? That is, the product is held constant and the sales location is varied.

In contrast, management in a *customer orientation* asks: What and how can the company sell in country A or to a particular type of consumer? In this case, the country or type of consumer is held constant and the product and marketing method vary. An MNE may most likely take this approach because the country's size and growth potential or the consumer type is attractive. In an extreme case, it would move to completely different products—an uncommon strategy. For instance, Compañía Chilena de Fósforos, a Chilean match producer, wanted to tap the Japanese market because of its growth and size. However, because its matches were too expensive in Japan, it successfully entered the market by making chopsticks, a product that used its forest resources and wood-processing capabilities.[8]

Business-to-business suppliers may be concerned primarily with promoting their production capabilities, prices, and delivery reliability rather than determining what will sell in foreign markets. Instead, they depend on other companies to give them product specifications. For example, Hong Kong's Yue Yuen Industrial is the world's largest branded-footwear manufacturer, making athletic shoes to the specifications of companies such as Nike, New Balance, and Adidas.

The most common product strategy is to adapt by degree.

Strategic Marketing Orientation Companies committed to continual foreign sales usually adopt a strategy that combines production, sales, and customer orientations. They customize to accommodate foreign customers so as not to lose too many sales to aggressive competitors while, at the same time, considering their own competencies so as not to deviate too much from what they do well. Thus, they rely on product variations. Hermès, known for its luxury silk products, has introduced limited edition luxury silk saris for the Indian market.[9] Thus, Hermès uses its competency in prestige design clothing to produce something that fits the unique Indian market. Such personal care firms as Procter & Gamble and Henkel have altered their cosmetics' content by eliminating pork derivatives and alcohol on sales to the Islamic (Halal) market.[10]

Companies consider the effects on all stakeholders when producing and selling their products.

Social Marketing Orientation Companies with social marketing orientations pay close attention to the potential environmental, health, social, and work-related problems that may arise when selling or making their products. Such groups as consumer associations, political parties, labor unions, and NGOs are becoming more globally aware—and vocal. Because they can quell demand when they believe a product somehow violates their concept of social responsibility, companies must consider how a product is made, purchased, used, and discarded. Such considerations led Coca-Cola to use returnable glass containers for Argentina and Brazil.

CONCEPT CHECK

Chapter 5 (page 172) illustrated the problem in trading off the interests of diverse stakeholders.

SEGMENTING AND TARGETING MARKETS

Companies must decide on their target markets, which may include segments that exist in more than one country.

Seldom can a company convince virtually an entire population to consume its product. Thus, based on the orientations just discussed, companies must segment markets for their products and services and then decide which to target and how. The most common way to do this is through demographics, such as income, age, gender, ethnicity, religion, or a combination of factors. Companies may further refine these segments by adding psychographics (attitudes, values, lifestyles). Internationally, segmentation and targeting may take place at a global or country level.[11]

By Global Segment A firm may identify some global segments that transcend countries.[12] For instance, Red Bull targets a global, athletically minded, young-adult market.[13] Ferrari targets high-net-worth individuals who want exclusivity.[14] Thus, each country may have some people within the same segment, but the proportional and actual size of the segment will vary by country.

CONCEPT CHECK

Chapter 13 (page 372) describes the importance of demographics in selecting countries for operations, and much of these data are valid in marketing decisions.

By Country Let's say a company decides to go to the Canadian market. It may modify its global segmentation to fit Canadian nuances, for example by including regional ethnic differences such as Quebec's and British Columbia's French and Chinese speakers, respectively. It must decide whether to target one or multiple segments there, whether to use the same marketing mix to sell to all segments, whether to tailor the products separately to each segment, and whether to vary the promotion and distribution separately as well. The company may also compare these Canadian segments with those in other countries in order to gain possible economies through standardization that serves market segments that cut across countries.

Mixing the Marketing Mix A company may hold one or more elements of its marketing functions—prices, promotion, branding, and distribution— constant while altering the others. For instance, Chanel aims its cosmetics sales at a segment that transcends national boundaries. It uses branding, promotion, pricing, and distribution globally, but adapts the cosmetics to local ethnic and climatic norms.[15]

Mass Markets Versus Niche Markets At the same time, most companies have multiple products and product variations that appeal to different segments; thus, they must decide which to introduce abroad and whether to target them to mass markets or niche segments. For example, General Motors aims at most income levels in the United States with models ranging in price from its Chevrolet Spark through its Cadillac Escalade SUV, but it entered China by aiming only at a high-income segment—first with Buicks and later with Cadillacs.

Because the percentage of people who fall into any segment varies among countries, a niche market in one country may be a mass market in another. An MNE may be content to accept a combination of mass and niche markets; however, if it wishes to appeal to mass markets everywhere, it may need to change elements in its marketing program.

PRODUCT POLICIES: COUNTRY ADAPTATION VERSUS GLOBAL STANDARDIZATION

17-2 Discuss the pros and cons of country adaptation versus global standardization of products

Although cost is a compelling reason to globally standardize any part of a company's marketing mix, product standardization generally gains the biggest savings.[16] Nevertheless, product adaptations are common.

WHY FIRMS ADAPT PRODUCTS

Companies have legal, cultural, and economic reasons for adapting their products to fit the customers' needs in different countries.

Direct and indirect legal factors are usually related to safety, health, and environmental protection.

Legal Considerations Obviously, explicit legal requirements, usually meant to protect consumers, cause companies to customize products for foreign markets. If they don't comply with the law, they won't be allowed to sell. Pharmaceuticals and foods are particularly subject to regulations concerning purity, testing, and labeling, while automobiles must conform to diverse safety, pollution, and fuel-economy standards.

When standards (such as for safety) differ among countries, firms may either conform to the minimum standards of each country or make and sell products fabricated to the highest country standard everywhere. Managers must consider cost along with public opinion by having lower standards in some countries. Critics have complained, for example, about companies' sales—especially in developing countries—of such products as toys, automobiles, contraceptives, and pharmaceuticals that did not meet safety or quality standards elsewhere.

Labeling Requirements One of the more cumbersome product alterations concerns laws on labeling, such as for origin, ingredients, and warnings. Labeling differences on food products include their bioengineered content and whether they are organic or fair traded. Countries have varying warning requirements and methods, such as for cigarettes; Australia requires all companies to put them in the same drab dark brown packs and to use standardized lettering for their brand names.[17]

Environmental-Protection Regulations Another problem concerns laws that protect the environment, such as Denmark's requirement for a refundable deposit on certain metal, glass, and plastic containers. Other countries restrict the volume of packaging materials to save resources and decrease trash. There are also differences in national requirements as to whether packaging materials must be recycled, incinerated, or composted.

Indirect Legal Considerations Indirect legal requirements also affect product content or demand. In some nations, companies cannot easily import certain raw materials or components, forcing them to construct a product with local substitutes that may modify the final result. Laws, such as high taxes on heavy automobiles, also shift companies' sales to smaller models, thus indirectly altering demand for tire sizes and grades of gasoline.

Although some global product standardization would eliminate wasteful alterations, there is resistance because

- a changeover would be costly,
- people are familiar with the "old."

Issues of Standardization Countries' legal differences require firms to incur costly product adjustments. Although governments have reached agreements to standardize some product characteristics (technical standards on mobile phones, bar codes to identify products), other products (railroad gauges, power supplies) continue to vary. A global standard has usually resulted from companies wanting to emulate a dominant producer, such as making blades to fit Gillette razors.

In reality, there is both consumer and economic resistance to global standardization—such as the U.S. reluctance to adapt to the metric system. Economically, a changeover would be costlier than simply educating people and relabeling. Containers would have to be redesigned and production retooled so that sizes would be in even numbers. Even for new products or those still under development, companies and countries are slow to reach agreement because they want to protect the investments they've already made. At best, international standards will come very slowly.

Examination of cultural differences may pinpoint possible product problems.

Cultural Considerations Religious differences obviously limit the standardization of product offerings globally, such as the limitation of pork product sales by food franchises in Islamic countries. These franchises, such as McDonald's and Burger King, also add items to fit local tastes, such as squid oil on buns in Japan.[18] However, cultural differences affecting product demand may not be so easily discerned. Toyota failed to sell enough pickup trucks in the United States until it redesigned the interior with enough headroom for drivers to wear cowboy hats. Home Depot left the Chinese market after it could not overcome consumers' preference for hiring people to do jobs rather than embracing the do-it-yourself concept.[19] International food marketers substantially alter ingredients (especially fat, sodium, and sugar) to fit local tastes and requirements, such as Kellogg's All-Bran bar having more salt in the United States than in Mexico.

Economic Considerations

Personal incomes and infrastructures affect product demand, thus firms may

- aim product variations at different income levels,
- tailor products to compensate for infrastructure differences.

Income Level and Distribution In countries with many low income consumers, companies may sell to them differently. For instance, in Peru, Unilever sells deodorants in aerosol cans to more affluent consumers, and it sells cream sachet in small containers to those with lower incomes.[20] Diageo and SABMiller have lowered beer prices to low-income consumers in several African countries by brewing with local ingredients, such as yams, and convincing governmental authorities to remove excise taxes because of the agricultural jobs created by the ingredient change.[21] When segmenting sales by economic levels, a company may need to distinguish its products by giving them different brand names, such as what Procter & Gamble does in China with both a Duracell and a Nanfu brand of batteries.[22]

Infrastructure Poor infrastructure may also require product alterations, such as making them to withstand rough terrain and utility outages. Whirlpool sells washing machine models in remote areas of India with rat guards to protect hoses, extra-strong parts to survive transportation on potholed roads, and heavy-duty wiring to cope with electrical ebbs and surges.[23] Japan has adapted its excellent infrastructure to crowded conditions and high land prices, which limits sales of some large foreign automobile models (i.e., they are too wide to fit into elevators that carry cars to parking areas on upper floors or to make narrow turns on back streets).

ALTERATION COSTS

The cost of product alterations should be compared with their expected sales generation.

Some product alterations, such as the labeling of packages, are cheaper than others, such as designing a different car model. Further, some will increase sales more than others, thus potential costs versus sales generation should be evaluated for each type of change.[24] However, even packaging changes may necessitate costly research if the aim is to help build a certain product image. For example, packaging can partially sway consumers' purchase decisions, but the image needed to do this may differ by target market.[25]

MNEs can compromise between products' uniformity and diversity by standardizing them a great deal while altering some characteristics. Whirlpool does this by putting the same basic mechanical parts in all its refrigerators while changing such features as doors and shelves for different countries.[26]

THE PRODUCT LINE: EXTENT AND MIX

Broadening the product line may gain distribution economies, but not all of a company's line has sales appeal everywhere.

When a firm introduces multiple products abroad, the percentage share of sales for each commonly differs from the shares in its home country. For instance, a tire manufacturer may sell all its car tire sizes everywhere, but the share for each size depends on sales of different automobile models in each market. Cultural factors may also be important. Most of Nike's specialty sports shoes have sold well in China, but its running shoes have not. Why not? Running in China has been associated with unpopular school exercise programs and with people being chased.[27]

In many cases, not all of an MNE's multiple products can generate sufficient sales to justify the cost of penetrating each market with each product. Even if they can, the company might offer only a portion of its product line, perhaps as an entry strategy or because distributors have limited space and high inventory costs when handling a very broad product line. Walmart's Canadian stores, for instance, have only 20 percent of the merchandise variety available in its U.S. stores.[28]

Sales and Cost Considerations In reaching product-line decisions, managers should consider the sales and cost of having a large versus a small family of products. Sometimes a firm must produce and sell a wide variety of products to gain distribution with large retailers. Further, if the sales per retailer are small, fixed distribution costs may cause delivery costs per sales unit to be high. In such a case, the company can broaden the product line it distributes, either by introducing a larger family of its products or by grouping sales of several manufacturers.

INTERNATIONAL PRICING COMPLEXITIES

17-3 Describe pricing complexities when selling in foreign markets

A price must be low enough to gain sales but high enough to guarantee the flow of funds required to cover expenses and make sufficient profits to achieve long-term competitive viability.

POTENTIAL OBSTACLES IN INTERNATIONAL PRICING

Pricing is more complex internationally than domestically, and we'll now examine the major reasons.

Government Intervention Every country has laws that affect prices. Minimum prices are usually set to prevent companies from eliminating competitors and gaining monopoly positions. Maximum prices are usually set so that poor consumers can buy products and services.

Some nationalities simply like certain products more and are willing to pay more for them.

Market Diversity Country-to-country variations in demand and competition create natural segments and differences in pricing possibilities. In terms of culture, a seafood company would sell few sea urchins or tuna eyeballs in the United States at any price, but it can export them to Japan at a high price, where they are considered delicacies. In terms of competition, the more there is, the less discretion a firm has in setting its prices.

Country-of-origin stereotypes also affect pricing possibilities. For example, exporters in developing economies are characterized by limited resources that negatively affect their ability to market in developed countries.[29] Further, they must often compete primarily through low prices because of negative perceptions about some of their products' quality. The danger is that a lower price may weaken the product image even further.

Diversity in buying on credit affects sales, especially through impulse buying.[30] For example, the average consumers in some countries, such as Japan, are less willing to undertake debt (e.g., they have a feeling of insecurity when incurring debt) than consumers in other countries, such as the United States. In the former, it is harder to generate sales by offering credit.

CONCEPT CHECK

In Chapter 14 (pages 416–419), we discuss the importance of export intermediaries and the process of indirect selling (page 404) through independent companies that facilitate international trade.

Export Price Escalation If standard markups occur within distribution channels, lengthening the channels or adding expenses somewhere in the system will further raise the price to the consumer by more than incremental transport and duty costs—a situation known as *export price escalation.* Figure 17.2 shows price escalation in export sales.

There are two main implications of price escalation. Seemingly exportable products may turn out to be noncompetitive abroad if companies in the value chain use cost-plus pricing—which many do. To become competitive in exporting, a company may have to sell its product to intermediaries at a lower price or convince intermediaries to lower their margins to lessen the amount of escalation.

Export prices generally rise by more than incremental transport and duty costs, thus exporters may have to lower margins to make sales.

Fluctuations in Currency Value For companies accustomed to operating with one relatively stable currency, pricing in highly volatile currencies can be extremely troublesome. Managers should price to ensure the company enough funds to replenish its inventory and still make a profit. Otherwise, it may be making a "paper profit" while liquidating itself—that is, what shows on paper as a profit may result from the failure to adjust for inflation while the merchandise is in stock.

Two other pricing problems occur because of inflationary conditions:

1. The receipt of funds in a foreign currency that, when converted, buy less of the company's own currency than had been expected
2. The frequent readjustment of prices necessary to compensate for continual cost increases

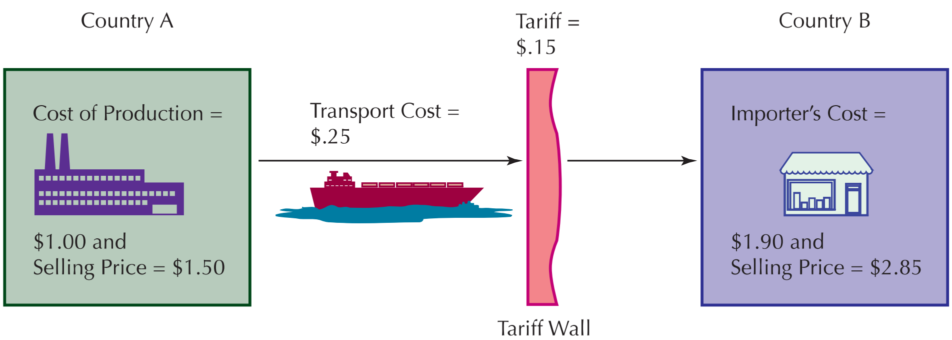
CONCEPT CHECK

In Chapter 10 (pages 294–295), we point out why foreign-exchange values fluctuate, and in Chapter 13 (page 375), we describe how fluctuations affect companies' operations either positively or negatively.

In the first case, the company sometimes can specify within sales contracts an equivalency in some hard currency. For example, a U.S. firm's sale to a company in Argentina may specify that payment be made in dollars or in pesos at an equivalent price in terms of dollars at the time payment is made.

FIGURE 17.2 Why Cost-Plus Pricing Pushes Up Prices

Let's say that a product is being exported from Country A and imported into Country B. Let's also say that both the producer/exporter and the importer/distributor tack on 50 percent markups to the prices they pay for the product. If you add in the costs of transport and tariffs, the product is substantially more expensive in Country B than in Country A—perhaps too expensive to be sold competitively.



In the second case, frequent price increases may hamper the ability to quote prices very far in advance in the currency that is losing value. Further, it would be difficult to make vending-machine sales because of having to recalibrate machines and come up with coins or tokens that correspond to the new prices. Another alternative is to change the product's quality, which few firms are willing to do, or its size, which is what Coca-Cola did to its canned soft-drinks in Hong Kong when aluminum prices rose.[31]

Currency-value changes also affect pricing decisions for any product that has potential foreign competition. For example, when the U.S. dollar is strong, companies can sell non-U.S.-made goods more cheaply in the United States because their prices in dollars decrease. In such a situation, U.S. producers may have to accept a lower profit margin to be competitive. When the dollar is weak, however, producers in foreign countries may have to adjust their margins downward.

When companies' prices are significantly different among countries, consumers are tempted to buy in the cheapest country.

The Gray Market The **gray market**, or **product diversion**, is the selling and handling of goods through unofficial distributors, thus enabling the unofficial ones to import cheaper supplies from abroad to compete against official ones. Such unauthorized selling can undermine the longer-term viability of the distributorship system, induce a company's operations in different countries to compete with each other, and prevent companies from charging what the market will bear in each country. However, transport costs as a percentage of product costs are important in determining whether product diversion is feasible. When they are high, such as for ice cream, large-scale movements across borders are impractical. But for many other products, the movements are practical. Traditionally, for example, publishers sold texts at substantially different prices in different countries, but the U.S. Supreme Court ruled on the legality of buying lower-priced textbooks abroad to resell in the United States. In essence, maintaining large price differences among countries has become more difficult as consumers have gained access to more global price information and more access to buying abroad because of lower trade barriers.

Fixed Versus Variable Pricing MNEs often negotiate their prices with producers and distributors in other countries. Small firms, especially those from developing countries, frequently give price concessions too quickly, limiting their ability to negotiate on a range of marketing factors that affect their costs:

There are country-to-country differences in

- whether prices are fixed or bargained,
- where bargaining occurs,
- what products' prices are bargained.

- Discounts for quantity or repeat orders
- Deadlines that increase production or transportation costs
- Credit and payment terms
- Service
- Supply of promotional materials
- Training of sales personnel or customers

Some people, regardless of culture, avoid price negotiation even when they know they may gain economically by doing so.[32] In essence, many people fear being perceived as too aggressive or too poor. Or, they may not want to take the time, preferring to develop long-term relationships that bargaining might upset. Regardless of cause, there is a substantial variation among countries in whether, where, and for what products consumers bargain in order to settle on an agreed price. In the United States, consumers commonly bargain for automobiles, real estate, and large orders of industrial supplies but not for grocery items. However, some auto dealerships sell only on a fixed-price basis, while bargaining for smaller items is growing as buyers more easily obtain alternative prices through the Internet. In contrast, consumers in most developing countries commonly bargain for both large and small items, but more routinely in traditional markets than in retail stores.[33]

Markets' dominant companies have strong negotiating power.

Supplier Relations Dominant companies with clout can get suppliers to offer lower prices, thereby gaining cost advantages over competitors. But they may lack this ability when entering foreign markets because of not dominating the market there. Walmart, Tesco, and Carrefour have such clout in their respective domestic markets (U.S, UK, and France), but they have been hard pressed to gain the same advantage when entering the others' home markets.

The Internet is also causing more companies to compete for the same business, especially for sales of largely undifferentiated products. Thus, many industrial buyers are claiming large price decreases through Internet buying. However, sellers can improve their positions by negotiating and by combining the Internet with face-to-face interaction.[34]

SHOULD PROMOTION DIFFER AMONG COUNTRIES?

17-4 Recognize the pros and cons of using uniform promotional marketing practices among countries

Promotion is the presentation of messages intended to help sell a product or service. The types and direction of messages and the methods of presentation may be extremely diverse, depending on the company, product, and country of operation.

THE PUSH–PULL MIX

Promotion may be **push**, which uses direct selling techniques, or **pull**, which relies on mass media. Most companies use combinations of both. For each product in each country, a company must determine the mix between push and pull within its total promotional budget.

Factors in Push–Pull Decisions Several factors help determine the mix of push and pull:

Push is more likely when
- self-service is not predominant,
- advertising is restricted,
- product price is a high portion of income.

- Type of distribution system
- Cost and availability of media to reach target markets
- Consumer attitudes toward sources of information
- Price of the product compared to incomes

Generally, the more tightly controlled the distribution system, the more likely a company is to emphasize a push strategy to distributors because a greater effort is needed to get them to handle a product. This is true where most distributors can carry few brands because they are small, thereby forcing companies to concentrate on making their goods available.

Also affecting the push–pull mix is the amount of contact between salespeople and consumers. In a self-service situation, in which customers have few or no salespeople to turn to for opinions on products, it is more important for the company to use a pull strategy by advertising through mass media or at the point of purchase.

CONCEPT CHECK

In Chapter 2 (page 85), we discuss the cultural concept of uncertainty avoidance.

Finally, consumers react to word-of-mouth opinions, especially where uncertainty avoidance is high.[35] To enhance word-of-mouth opinions, companies need to persuade existing customers that their purchases have been of high quality and at reasonable prices, such as by providing after-sales support and service. Social media platforms are rapidly becoming more important in conveying independent experiences for products and services because they allow users to interact, such as by rating their recent hotel stays and sharing information about their experiences.

SOME PROBLEMS IN INTERNATIONAL PROMOTION

Diverse national environments create varied promotional challenges. For example, over half of China's population is rural, many are poor, and many lack access to traditional media to view advertisements. Thus, PC makers such as Lenovo and Hewlett Packard have promoted in rural areas, such as in local markets, by providing variety shows and films to demonstrate their products.[36] In rural Nigeria, Kuwait's Mobile Telecommunications Company first tried direct marketing, but found its salespeople facing too many dangers. The company then turned successfully to small shop owners—tailors, retailers, etc.—and established a mini-franchise system with them.[37]

In many areas, government regulations pose additional barriers, such as in Scandinavia where television cannot broadcast commercials aimed at children. In China, ads cannot interrupt dramas, thus they are all bunched together between shows, which companies claim make the ads less effective. Other countries may put legal constraints on what a company says. For instance, the United States allows pharmaceutical firms to advertise prescription drugs for physical symptoms, such as erectile dysfunction, in television ads and tell viewers to ask their physicians about a particular brand, such as Viagra or Cialis. However, Pfizer's and Eli Lilly's European ads simply tell TV viewers, without mentioning their brands, to talk with their physicians about their problems.[38]

Finally, when a product's price compared to consumer income is high, consumers usually want more time and information before making a decision. In these situations, information is best conveyed in a personal selling situation that fosters two-way communication. Thus, in developing economies MNEs will often use push strategies for more products because of lower incomes.

Advantages of standardized advertising include

- some cost savings,
- better quality at the country level,
- a common image globally,
- rapid entry into different countries.

Advertising Standardization: Pro and Con Standardizing advertising among countries reduces costs by avoiding duplication of preparation, may improve the quality at the local level (because local agencies may lack expertise), prevents internationally mobile consumers from being confused by different images, and speeds the entry of products into different countries.

However, globally standardized advertising usually refers to *similarity* among markets rather than being *identical*. For example, Red Bull's ad campaigns are similar in that they focus on sports, but the sports differ among countries.[39] Standardization typically involves using the same ad agency globally. By doing this, MNEs such as Colgate and Tambrands can quickly introduce good ideas from one market into others without legal and ethical problems that could arise over agency copying. Other companies, like Procter & Gamble, prefer to use more than one agency to promote competition and to cover one agency's weak spots by drawing on another's strong points.

Finally, the issue of standardization in advertising raises problems in a few other areas—namely, *translation, legality,* and *message needs.*

CONCEPT CHECK

In Chapter 2 (pages 87–88), we emphasize the problems in translating messages and the role of nonverbal communications (pages 88–89) in conveying messages.

Translation Selling in a country with a different language necessitates translation unless the advertiser tries to communicate an aura of foreignness. Because voice dubbing of TV ads creates sound tracks that never quite correspond to lip movements, companies usually turn to voice or print overlays of commercials in which actors do not speak.

Another type of advertisement dubbing involves product and brand placement in books, movies, and television shows, especially those that are widely distributed internationally. First, some countries limit product placement of certain products, such as India of cigarettes. Second, some brands may not be available everywhere. In the latter case, technology may reduce the problem. For instance, *Spider-Man 2* had Cadbury Schweppes's Dr. Pepper logo on a refrigerator for U.S. screenings and PepsiCo's Mirinda logo in Europe.[40]

On the surface, translating a message would seem easy. However, some messages, particularly plays on words, don't translate—even between countries that have the same language. Sometimes an acceptable word or direct translation in one place has a nuance that is offensive, misleading, or meaningless in another. An additional issue lies in choosing the language when a country has more than one. For instance, many companies use Creole in Haiti to reach the general population but French to reach the upper class.

Differences in nations' values have led to advertising differences among them.

Legality The legality of advertisements varies mainly because of diverse national views on consumer and competitive protection, civil rights promotion, standards of morality and behavior, and nationalism. For example, there are products that some societies view as being in such bad taste that restricting their advertising is necessary.[41]

Effective promotional messages may be different among countries because of

- cultural factors,
- economic levels of target markets,
- stages of products in their life cycles.

In terms of consumer protection, policies differ on the amount of deception permitted and what can be advertised to children. Mexico, for example, limits using TV advertisement of products high in sugar content directed at children.[42] The United Kingdom and the United States allow direct comparisons with competitive brands, while the Philippines prohibits them. Only a few countries regulate sexism in advertising. Elsewhere, governments restrict ads that might prompt misbehavior or law-breaking (such as promoting automobile speeds that exceed the speed limit), as well as those that show barely clad women.[43]

Message Needs An advertising theme may not be appropriate everywhere because of country differences in consumers' product awareness and perception, the people who make the purchasing decision, and what appeals are most important. At one time fewer Italians owned dishwashers than would be expected from Italian income levels because of a belief that buying for the sake of convenience reduces cleanliness; hence, a group of dishwasher manufacturers teamed up to advertise that dishwashers clean better because they use hotter water.[44] Because of economic differences, Home Depot promotes its U.S. stores by appealing to hobbyists, whereas in Mexico it promotes the cost savings for do-it-yourselfers.[45]

The reaction to messages may also vary. Leo Burnett Worldwide produced a public service ad to promote breast exams that showed an attractive woman being admired in a low-cut sundress. The voice-over message said, "If only women paid as much attention to their breasts as men do." Japanese viewers found this a humorous way to draw attention to breast cancer, whereas French viewers found it offensive because cancer should not be viewed humorously.[46] Given the increase in television and Internet transmissions that reach audiences in multiple countries, advertisers must find common themes and messages that will appeal to potential consumers everywhere their ads are viewed.

Countries may differ in either the shape or the length of a product's life cycle. Thus, a product facing declining sales in one country may have growing or sustained sales in another. Consider cars: They are a mature product in Western Europe, in the late growth stage in South Korea, and in the early growth stage in India. At the mature stage, automobile companies must emphasize characteristics that encourage people to replace their still-functional cars, such as lifestyle, speed, and accessories. In the early growth stage, they need to appeal to first-time buyers who worry more about cost, so they emphasize fuel consumption and price.[47]

The growth in products' online availability through the Internet creates promotional and distributional opportunities and challenges.

The Internet Estimates vary widely on the current and future number of worldwide online households and the electronic commerce generated through online sales, but Internet ads may now account for about a quarter of advertising business.[48] The Internet has done more in recent years than any other innovation to alter international promotion. Through e-commerce, customers worldwide can quickly compare prices from different distributors, which drives prices down. Through the growing use of social media, they can obtain better information to compare the quality and reliability of products and distributors.

Opportunities There are certainly many international e-commerce success stories. These include promotion for direct sales as well as information to pre-sell and inform shoppers where they may buy the products. One such success story is the New Zealand prefab housing company Tristyle International, for which about 95 percent of sales are export and 40 percent are through the Internet.[49] Another is Lee Hung Fat Garment Factory of Hong Kong and Bangladesh. It flashes pictures of merchandise samples to apparel companies abroad that tinker with and return them so that it produces exactly what they want. For some products and services, such as airline tickets, hotel space, and music, the Internet has largely replaced traditional sales methods. But even here, companies may need to adapt to country differences, such as providing access through various languages.[50]

Problems Global Internet sales are not without glitches. A company wanting to reach global markets may need to supplement its Internet sales with other means of promotion and distribution, which can be very expensive. Further, a switch to Internet sales may risk upsetting existing distributors and, if unsuccessful, hamper future sales.[51]

On the Internet, an MNE cannot as easily differentiate its marketing program for each country in which it sells even if it channels customers to local sites. In many instances, the same web ads and prices reach customers everywhere, even though different appeals and prices for different countries might yield more sales and profits. Making direct sales over the Internet requires expeditious delivery, which may require warehouses and service facilities abroad. Finally, the MNE's Internet ads and prices must comply with the laws of each country of sales. This is problematic because of the web's global reach. Clearly, although the Internet creates opportunities for companies to sell internationally, it also creates challenges for them.

INTERNATIONAL BRANDING STRATEGIES

17-5 Explain the different branding strategies companies may employ internationally

A *brand* is an identifying mark for products or services. If it is legally registered, it is a trademark. A brand gives a product or service instant recognition and may save promotional costs. Because companies have spent heavily in the past to create brand awareness, many brands are worth billions of dollars and are the most valuable assets firms possess.[52] (The photo below demonstrates the preponderance of branded trademarks that come from all over the world.) From a consumer standpoint, a brand conveys a perception of whether firms will deliver what they promise; however, the importance is more crucial in countries with strong cultural characteristics of uncertainty avoidance.[53]

Keep in mind that a company may use the same brand globally while altering the brand image for different markets. For example, individualistic cultures offer greater advantages in creating an image of innovativeness than collectivist cultures. However, within the latter, images of social responsibility apparently contribute more to brand commitment than in the former.[54]

GLOBAL BRAND VERSUS LOCAL BRANDS

International marketers must decide whether to adopt a global brand or use different brands for different countries.

Using the same brand name globally

- helps develop a common image,
- may increase consumers' demand if they think global products are better,
- is hampered by language differences,
- has a drawback in the case of acquisitions.

Advantages of a Global Brand Some companies, such as Apple, use the same brands and logos for most of their products around the world. This helps develop a global image, especially for customers who travel internationally. In addition, there is evidence that the use of global brands helps identify companies as global players, which many consumers view more favorably.[55] Other companies, such as Nestlé, associate many of their products under the same family of brands, such as Nestea and Nescafé, to share the positive perception of the Nestlé name.

Some Problems with Global Brands A number of problems are inherent in using global brands.

Language A brand name may carry a different association in another language. GM renamed its Buick LaCrosse to Allure in Canada after discovering, through a pre-entry focus group, that the word was slang in Quebec for masturbation.[56] Coca-Cola uses global

You probably recognize most of this sample of trademarks.

Source: Onurhazar/Shutterstock

branding wherever possible, but given that the word *diet* in Diet Coke had a connotation of illness in Germany and Italy, the brand became Coca-Cola Light outside the United States.

Pronunciation presents other problems, since a foreign language may lack some of the sounds of a brand name, or give it a different meaning. Marcel Bich dropped the *h* from his name when branding Bic pens because of fearing mispronunciation in English. Microsoft's search engine Bing became Biying in China so that it sounded like the word for "seek and ye shall find" instead of "illness."

When alphabets use pictograms, such as in China, brands should both look and sound appealing. Thus, MNEs should ensure not only that the translation of their names is pronounced roughly the same in Mandarin or Cantonese Chinese as elsewhere but also that the brand name is meaningful in pictograms. Tide became Tai-zi in Mandarin, which means "gets rid of dirt."[57] Companies seek names and prices using symbols considered lucky in China, such as one with eight strokes in it and displayed in red rather than blue.[58]

Brand Acquisition Much international expansion is through acquisitions of companies with established brands, such as Bimbo's Sara Lee of various Brazilian coffee roasters. Although Sara Lee became the coffee-market leader in Brazil, stretching the promotional budget over many brands has been challenging.[59] Overall, the proportion of local to global brands is declining; however, companies lose the recognition and goodwill of strong local brands if they displace them.[60] Similarly, having a combination of global and local brands that appeal to different segments can sometimes be advantageous, such as those used for Anheuser-Busch InBev's beers.[61]

Images of products are affected by where they are made.

Country-of-Origin Images Consumers have limited knowledge of the nationality of most brands, and they often misclassify the production origins.[62] Such confusion is compounded with the increased mixed source of the components that make up products. In addition, both the country of origin and the brand images interact so that a positive brand image can help overcome a negative country-of-origin image.[63] Nevertheless, many consumers are influenced by their emotional affinity toward certain countries; their affinity affects their images of certain countries and buying decisions based on where products are made.[64]

When the country of origin affects consumers' opinion of a product,

- a positive brand image may help overcome a negative country-of-origin image,
- these opinions can change over time.

But purchase decisions based on product origins are complex, depending on such factors as type of product, the economic level of and nearness of the producing country, consumers' national culture (such as effects of individualism versus collectivism), and consumers personalities (such as how materialistic they are).[65] Despite the complexity, companies may play up positive and play down negative country-of-origin images. For example, because many Japanese believe that clothing made abroad is superior to clothing made in Japan, Burberry has created separate labels for its products made in Japan and the United Kingdom. South African wineries, La Motte and Leopard's Leap, have a wine brand, L'Huguenot, for the Chinese market because the French-sounding name is perceived positively by Chinese consumers.[66]

Still, images can change. For many years various Korean firms sold abroad only under private labels or in contract with foreign companies. On the one hand, some of these, such as Samsung, now emphasize their own trade names and Korean product quality. On the other hand, the Korean LG Group, best known for its Gold Star brand, has introduced a line of high-end appliances with a European-sounding name, LG Tromm.[67]

Locational Origin of Names One ongoing international legal debate concerns product names associated with location. The EU protects the names of many European products based on location names, such as Roquefort and Feta cheeses, Parma ham, and Chianti wine.[68] It has also pushed for protection against the foreign use of regulated names associated with wines, such as *clos, chateau, tawny, noble, ruby,* and *vintage*.[69]

If a brand name is used for a class of product, a company may lose its trademark.

Generic and Near-Generic Names Companies want their brands to become household words, but not so much that they become *generic* (commonly used for a class of product), in which case competitors can use the names to call their products. In the United States, the brand names Xerox and Kleenex are nearly synonymous with copiers and facial tissue, but they have nevertheless remained proprietary brands. Some other names that were once proprietary—cellophane, linoleum, Cornish hens—are now generic.

In this context, companies sometimes face differences among countries that may either stimulate or frustrate their sales. For example, *aspirin* and *Swiss Army knives* are proprietary names in Europe but generic in the United States—a situation that impairs European export sales of those products to the United States, since U.S. companies can produce them.

POINT

Should Home Governments Regulate Their Companies' Marketing in Developing Countries?

YES MNEs advertise, promote, and sell products in developing markets that their home countries have banned. If they've made a decision not to sell these products domestically because of their dangers or ethical implications, they have a moral obligation to prevent the same consequences abroad. This statement may smack of extraterritoriality, but let's face it: Too many consumers in developing countries lack the education and reliable information to make intelligent decisions about products, and/or they are saddled with corrupt political leaders who don't look after their interests. We must ensure that they spend on upright needs rather than on wants engendered by MNEs' clever promotion programs. If developed countries don't regulate to protect consumers in developing countries, who will?

Companies also export or market products that don't meet quality standards at home or that are potentially dangerous. Take DDT: It's so dangerous to the environment that all developed countries banned its use, but some developed country firms continue to market DDT that is produced in countries that have not banned it. Or consider battery recycling: Developed countries have pretty strict and expensive antipollution requirements to prevent lead poisoning, which shows up only after slow, cumulative ingestion through the years. So now companies export the batteries to developing countries that have either weak or weakly enforced pollution laws.[70]

With the World Health Organization (WHO) estimating that tobacco is the leading cause of preventable death in the world, we have also attempted to limit tobacco use through warning labels and ads, restrictions on sales to minors, and smoking bans in certain public areas. While tobacco use has been declining in developed countries, it is burgeoning in developing ones, especially those in Africa, where tobacco companies have increased their promotions.[71] Similarly, as publicity has caused a decrease in U.S. sales of sugary drinks, such as Tang, companies have upped their marketing and sales in developing countries.[72]

MNEs also pay too little attention to the needs of consumers in developing markets. Instead, they primarily create products suitable to the wants of wealthier consumers who can afford them, but these products are

COUNTERPOINT

Should Home Governments Regulate Their Companies' Marketing in Developing Countries?

NO The answer here is education rather than limiting people's choices by regulating MNEs. In fact, there are many examples of behavior change in both consumers and governments when they learn the facts. For example, antismoking radio and television ads in a three-country African study showed a decrease in propensity to smoke.[76]

Your argument that products banned at home should not be sold abroad assumes that the home government knows best. For example, much of the research on the effects of pesticides and herbicides is conducted by the companies producing them, thus their results may be highly selective.[77] Further, there are different scientific opinions. For example, the EU produces many pesticides and chemicals that are banned for EU usage, but are allowed to be used in the United States.[78] Further, differences may reflect variations in a difference in what is considered moral rather than a problem of creating physical danger. For instance, some countries have banned the sale of the morning-after pill RU-486 on moral grounds. But to ban sales in other countries that accept a different morality would smack of cultural imperialism.

Conditions between rich and poor countries are sometimes so different that they need different regulations. Take your example of DDT sales. Developing countries are aware of DDT's adverse long-term effect on the environment, but in the short term many of them face mosquito crises that cause Zika, dengue, chikungunya, and malaria.[79] When South Africa was persuaded to ban the use of DDT and turned instead to a different pesticide, the number of new malaria cases tripled in four years; renewing DDT spraying brought that number down again.[80] Until there is a better solution for mosquito controls, DDT bans may do more harm than good. Certainly, if one government has found a product dangerous, it should pass on this information to other governments; in terms of DDT and toxic materials exports, this is already being done.

Yes, tobacco companies are promoting more heavily in developing countries. Keep in mind, though, that a good part of that promotion is for smokeless tobacco products, which are safer than cigarettes and can help smokers stop.[81] In fact, Philip Morris is developing a product that will produce an aerosol without the combustion that causes most harm.[82] Nevertheless, if MNEs' home governments were to limit their companies' sales or promotion often superfluous for low-income consumers, to whom MNEs introduce and promote them heavily. Thus, the poor end up buying products they don't need instead of spending their money on nutritional and health items. Bottled water, sold mainly in plastic bottles by such companies as Nestlé, Danone, Coca-Cola, and PepsiCo, is an example. It is often no better than tap water (in fact, it often is tap water), but it sells for 10,000 times more in bottles that are thrown out and take 1,000 years to biodegrade.

Finally, MNEs spend little to create products to fit the needs of developing countries. Consider that little of the global health research budget is spent on diseases that account for most of the global disease burden—mainly those that largely bypass developed countries.[73] Instead of spending heavily on life-threatening illnesses like malaria, Chagas disease, and sleeping sickness, they spend on lifestyle treatments, such as penile erectile dysfunction and baldness. Although Ebola had long plagued African countries, pharmaceutical companies spent little to develop a vaccine until there was danger of its spread to developed countries.[74] The U.S. Food and Drug Administration (FDA) did institute an incentive—faster approval of potential "blockbuster drugs"—for pharmaceutical companies that research previously neglected diseases. However, there is skepticism about whether faster approval is enough of an incentive.[75] Surely we can find the regulatory means to force companies to meet real needs in the developing world rather than concentrating on selling dangerous and superfluous products there.

of tobacco abroad, developing countries' citizens would still be able to buy cigarettes. Many developing countries have indigenous tobacco companies, some of which are even government-owned, such as in Thailand. How far can we go to try to protect people? Obesity, considered a growing health problem in the developed world, is being attacked through education—the same way we should attack problems in developing countries. I can't imagine a widespread rationing or banning of sugars, fats, and carbohydrates. Certainly, products such as soft drinks and bottled water seem superfluous when people are ill-nourished and in poor health. But the lack of access to sanitary water is one of the world's biggest health problems, which the sale of soft drinks and bottled water are helping in the short term. In a longer term, Coca-Cola is working to distribute small-scale purifying systems to mitigate the problem.[83] Moreover, there is no clear-cut means of drawing a line between people who can and can't afford these so-called superfluous products.

Companies do alter products to fit the needs of poor people—everything from less expensive packages to less expensive products. The pharmaceutical firms you criticized for not attacking low-income health needs spend heavily to find solutions to diseases that attack all people regardless of their locations, such as cancer, diabetes, and the COVID-19 virus. In fact, they have seen, and expect to see, huge prescription drug growth in emerging markets.[84] However, they must recoup their expenses if they are to survive, so they concentrate on drugs for which they can be paid. Governmental research centers and nonprofit foundations are better candidates for solving the developing countries' health problems. Some are working jointly with pharmaceutical firms to find solutions, while the National Institutes of Health (NIH) in the United States has instituted a program to find treatments for some of the 6,800 diseases for which there is likely insufficient revenue to recoup research expenditures.[85]

DISTRIBUTION PRACTICES AND COMPLICATIONS

17-6 Discern major practices and complications of international distribution

A company will not likely reach its sales potential unless its products are conveniently available. **Distribution** is the course—physical path or legal title—that goods take between production and consumption. This section discusses distributional differences and conditions within foreign countries.

DECIDING WHETHER TO STANDARDIZE

Distribution is difficult to standardize globally. Each country has its own distribution system, which is difficult to modify because of its intertwinement with the country's cultural, economic, and legal environments. In fact, most companies take a country's distribution system as a given and try to adapt to it. Although there are some large multinational distributors, such as Arrow and Grainger, wholesalers and retailers have generally lagged manufacturers' and

Because distribution reflects different country environments,

- it may vary substantially among countries,
- it is difficult to change.

service companies' entries into foreign markets because of difficulty in breaking into these systems. Nevertheless, many retailers have more recently moved successfully abroad.

Some factors that influence countries' retail distribution include citizens' attitudes toward owning their own store, the cost of paying retail workers, legislation restricting store sizes and operating hours, laws on chain stores and individually owned stores, the trust owners have in employees, the efficacy of delivery systems, the quality of the infrastructure system, and the financial ability to carry large inventories. An example should illustrate how widespread differences are. Compare grocery distribution in Hong Kong with the United States: the average Hong Kong food stores carry a higher proportion of fresh goods, are smaller, sell less per customer, and are closer to each other, which means that companies selling canned, boxed, or frozen foods in Hong Kong encounter less demand per store, have to make smaller deliveries, and have a harder time fighting for shelf space.

At the same time, a company's system of distribution may give it strategic advantages not easily copied by competitors, such as Avon's direct sales through independent reps and Amazon.com's through the Internet. Even these companies have had to adjust to national nuances. For instance, Avon does a thriving mail-order business in Japan because of the popularity of that distribution, has beauty counters in China because of regulations on house-to-house sales, has franchise centers in the Philippines because of infrastructure inefficiencies, and has beauty centers in Argentina because many customers want services when they purchase cosmetics.

INTERNALIZATION OR NOT?

Should companies handle their own distribution? Or should they contract other companies to do it for them?

Sales Volume and Cost When sales volume is low, a company usually must rely on external distributors to be more economical. As sales grow, it may handle some distribution itself to gain more control. However, such internalization may still be difficult for small firms that lack necessary resources.

A company may enter a market gradually by limiting geographic coverage.

Nevertheless, companies may limit early distribution costs if they are able to sell regionally before moving nationally. Many products and markets lend themselves to this sort of gradual development. For example, many foreign companies enter the Chinese market by first going to Beijing, Shanghai, and Guanghou, then to provincial capitals, then to other large cities, and finally to smaller cities. Often, geographic barriers and poor internal transportation systems divide countries into very distinct markets. In fact, within developing countries most wealth and potential sales may lie in a few large metropolitan areas.

Factors Favoring Internalization Circumstances conducive to internalization include not only high sales volume but also the following factors:

- When a product has the characteristic of high price, high technology, or the need for complex after-sales servicing (such as aircraft), the company will probably have to deal directly with the buyer, but may simultaneously use a distributor to identify sales leads.
- When the company deals with global customers, especially business-to-business (such as an auto-parts manufacturer selling original equipment to the same automakers in multiple countries), sales may go directly to the global customer.
- When the company's main competitive advantage is its distribution methods, it may control distribution abroad, such as Avon's direct selling through independent representatives.

DISTRIBUTION PARTNERSHIP

If a company wishes to use a distributor abroad, it can usually compare a number of potential alternatives. While trying to find the best distributors, it must also convince them to handle its products.

Which Distributors Are Best Qualified? The choice of international distributor depends on the same criteria as for domestic options. These criteria include the distributor's financial strength, its good connections, the extent of its other business commitments, its current situation (e.g., personnel, facilities, and equipment), and its reputation as an honest performer.

Distributors choose which companies and products to handle. Companies
- may need to give incentives,
- may use successful products as bait for new ones,
- must convince distributors that product and company are viable.

Promoting to Potential Distributors Companies must evaluate potential distributors, but distributors must choose which companies and products to represent and emphasize. Wholesalers and retailers alike have limited storage facilities, display space, money for inventories, and transportation and personnel to move and sell merchandise, so they try to carry only those products with the greatest profit potential.

In seeking to enter a foreign market, a company may find that distributors there are tied into exclusive arrangements with manufacturers that impede new competitive entries. For example, in Japan many manufacturers have arrangements with thousands of distributors to sell only their products. Even if arrangements are not exclusive, existing distributors may already be handling similar products, thus being reluctant to deal with a new company. In such a situation, an entering company may need to offer effective handling incentives (higher profit margins, after-sales servicing, promotional support, and so on). In the end, however, incentives will be of little use unless the distributors believe the company is reliable and its products viable.

DISTRIBUTION CHALLENGES AND OPPORTUNITIES

Although international distribution involves many challenges and opportunities, the following discussion highlights two: the need for after-sales service, and some often overlooked cost advantages and disadvantages.

Confidence in securing replacement parts and service are important for sales, especially for imported products.

How Reliable Is After-Sales Service? Consumers are reluctant to buy products that may require future replacement parts and service unless they feel confident that these will be readily available in good quality and at reasonable prices. This reluctance is especially keen for imported products because of concerns that distance and customs clearance will delay needed replacement parts. For fairly mature products, there are usually multiple service companies locally to which consumers can turn in case of problems. However, for products encompassing new technology, especially complex and expensive products, producers may face the downside of having to invest in or develop service centers. Nevertheless, the upside is that earnings from sales of parts and after-sales service may sometimes exceed those of the original product.

The question of after-sales service is especially important for the growing number of technologically oriented entrepreneurial companies from developing countries. Many face multiple problems in selling abroad because they are young, small, fairly unknown, perhaps suffering negative country-of-origin effects, and often assumed to be laggards in technological development.[86]

Hidden Distribution Costs and Gains Several factors often contribute to country differences in distribution costs.

CONCEPT CHECK

In Chapter 13 (page 373), we illustrate how poor infrastructure hampers distribution.

Infrastructure Conditions Where roads and warehousing facilities are in bad condition, getting goods to consumers quickly, cheaply, and with minimum damage or loss is challenging. For example, Nigeria has no rail links to its ports, has fallen behind in road construction, and has poor connections between big and small cities.[87]

Distribution costs increase when there is
- poor infrastructure,
- many levels in the distribution system,
- inefficient retail distribution,
- inadequate carrying of inventory by retailers.

Levels in the Distribution System Where there are multitiered wholesalers that sell to each other (e.g., national wholesalers sell to regional ones, which sell to local ones, and so on) before the product reaches the retail level, each intermediary adds a markup and prices escalate. For example, Japan, though changing rapidly, has many more levels of distribution than, say, France and the United States.

Retail Inefficiencies Where low labor costs and owners' distrust of nonfamily members cause counter- rather than self-service displays, there is less productivity in serving customers. (In fact, some retailers require payment to a cashier before customers receive the merchandise.) On the one hand, the additional personnel add to retailing costs, and the added time people must be in the store means fewer people served in the given space. On the other hand, if clients spend more time in one store, they have less time to compare offerings in other stores.[88] In addition, many retailers (mainly in developing economies) lack equipment that improves the efficiency of handling customers and controls, such as electronic scanners and payment systems linked to inventory-control records and to credit-card companies.

CONCEPT CHECK

In Chapter 2 (pages 82 and 85), we describe societies in which people tend to distrust people outside their families.

Man bringing eggs on a bicycle to markets in Kathmandu, Nepal.

Source: ImageBROKER/Alamy Stock Photo

Costs rise where governments restrict retailers from using more productive distribution practices. For example, France, Germany, and Japan have laws protecting small retailers, effectively limiting the efficiencies that large retail establishments can bring to sales. Most countries have patchwork systems that limit days or hours of operations because of religious and national commemoration observances or protection of employees from having to work late at night or on weekends. Although these systems serve social purposes, they limit retailers from covering the fixed cost of their space over more hours, and they usually pass costs on to consumers.

Inventory Stock Outs Where most retail establishments are small, there is little space to store inventory. Wholesalers must incur the cost of making small deliveries to many more establishments, sometimes visiting each retailer more frequently to avoid stock outages. However, these latter costs may be diminished through labor and transport cost savings that result from low-paid delivery personnel who may carry small quantities of merchandise on bicycles or by foot. (The preceding photo shows delivery by bicycle in Nepal.) Further, the retailers themselves incur lower costs because their inventory-carrying costs are low compared to sales.[89]

GAP ANALYSIS: A TOOL FOR HELPING TO MANAGE THE INTERNATIONAL MARKETING MIX

17-7 Illustrate how gap analysis can help in managing the international marketing mix

Emphasis in the marketing mix

- should be on the functions that account for major lost sales,
- may differ by country,
- may combine needs from different countries.

Although every element in the marketing mix—product, price, promotion, brand, and distribution—is important, the relative importance of one versus another may vary from product to product, place to place, and over time.

A company should calculate how well it is doing in each country, how it might do better, and how to gain synergy among marketing activities in different countries. One such tool is **gap analysis**, whereby a company estimates potential sales for a given type of product and compares how emphasis on different marketing mix elements can better help it serve prospective customers.[90]

The difference between total market potential and a company's sales is due to several types of gaps:

- *Usage*—collectively, all competitors sell less than the market potential
- *Product line*—the company lacks some product variations
- *Distribution*—the company misses coverage by geography or type of outlet
- *Competitive*—competitors' sales are not explained by product-line and distribution gaps

FIGURE 17.3 Gap Analysis

Why aren't sales as high as they could be? That's the question managers ask when they undertake gap analysis. The arrow at the top represents total sales potential for all competitors during a given period. The arrow at A indicates actual sales. Notice that there's a gap between the product's potential and actual sales—the so-called usage gap. But there are other gaps as well. The arrow bracketing points A and B, for example, designates all sales lost by the company to its competitors—the gap, that is, between what the company did sell and what it could have sold if, for a variety of reasons, it hadn't lost so many sales to competitors. Finally, remember that in the real world, gap sizes will fluctuate.

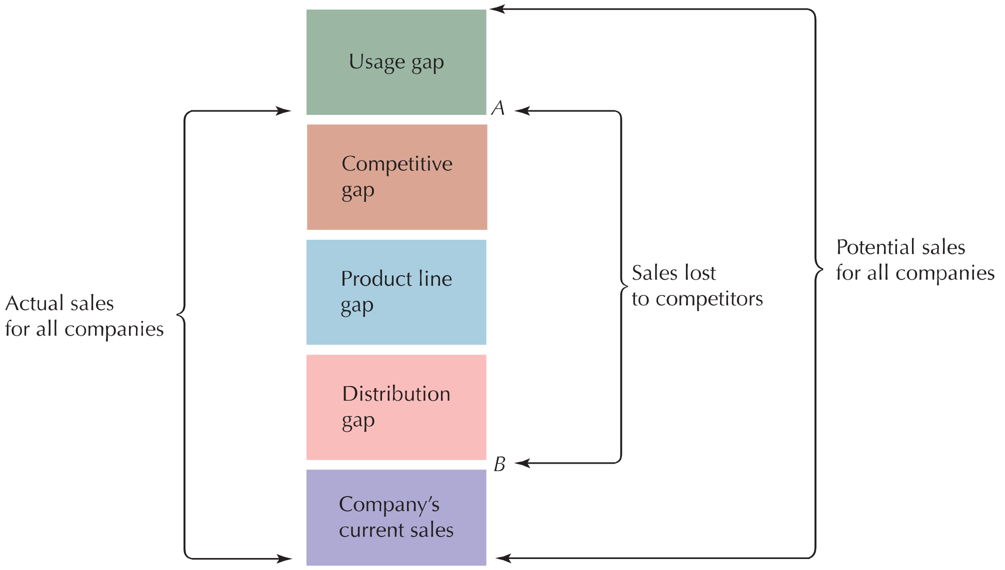


Figure 17.3 is a bar showing these four types of gaps. To construct such a bar, a company first needs to estimate the potential demand for all competitors in the country for a relevant period—say, for the next year or the next five years. This figure gives the height of the bar. Second, a company needs to estimate current sales by all competitors, which is point A. The space between point A and the top of the bar is a *usage gap,* meaning that this is the growth potential for all competitors in the market for the relevant period. Third, a company needs to plot its own current sales of the product, point B.

Finally, the company divides the difference between points A and B into types of gaps—distribution, product line, and competitive—based on its estimate of why sales are lost to competitors.

USAGE GAPS

Companies may have different-sized gaps in different markets. Large chocolate companies, for instance, have altered their marketing programs among countries because of this. In some markets, they have found less chocolate being consumed than expected on the basis of population and income levels. This has been the case in India, which has per capita consumption of less than one percent of that in Germany, although low incomes and the inability to use certain animal fats (thus affecting taste) contribute to India's low consumption. But it has been the world's fastest growth market in recent years. Why? Chocolate companies have developed small affordable chocolates to reach the masses, and they have promoted chocolate as a more hygienic and longer-lasting confection than alternative sweets.[91] Industry specialists estimate that in many developing economies, much of the population has never even tasted chocolate, leading companies to promote sales in those areas for chocolate in general rather than for their particular products.[92]

The U.S. market shows another type of usage gap. Nearly everyone in this market has tried most chocolate products, but per capita consumption has fallen because of concern about weight. Further, U.S. per capita consumption is much lower than in most European countries. Mars has concluded that the main reason for the different consumption is cultural (i.e., U.S. consumers usually take wine or flowers to dinner hosts, whereas Europeans usually take chocolates). To counter this, Mars has a U.S. campaign of "Share your favorites with your favorites" to promote taking chocolate to friends and joining with them to eat chocolate at movies. Earlier, Nestlé promoted chocolate as an energy source for the sports-minded to build U.S. demand for chocolate. However, building general consumption is most useful to the market leader. With Nestlé's U.S. chocolate sales below those of Mars and Hershey, it actually benefited its competitors during the short-lived campaign.

PRODUCT-LINE GAPS

Chocolate companies have also found that they have product-line gaps. Several have recently added sugar-free, high cocoa content, and fair-traded chocolate products to their repertoire. In addition, they have added such ingredients as bacon, chia, green tea, and quinoa to some of their offerings.[93] Godiva has introduced specialty products in China to compete with local companies that sell theme products for the Chinese Zodiac year and for the Mid-Autumn Festival.[94]

DISTRIBUTION AND COMPETITIVE GAPS

A company's products may be sold in too few places, creating a gap in distribution. To combat this, Ferrero Rocher has emphasized product placement in more mainstream outlets. There also may be competitive gaps—sales by competitors that cannot be explained by differences between product lines and distribution. That is, competitors are selling more because of their prices, advertising campaigns, goodwill, or any of a host of other factors. In markets where per capita chocolate consumption is high, companies exert most of their efforts in gaining sales at the expense of competitors. For instance, Switzerland has the world's highest per capita consumption of chocolate. In that market, such competitors as Migros, Lindt, and Nestlé's Cailler go head to head in creating images of better quality.[95]

AGGREGATING COUNTRIES' PROGRAMS

Although gap analysis prioritizes elements in the marketing mix within countries, it is also possible to use the tool by aggregating needs among countries. Let's say the product-line gap is too small in a single country to justify the expense of developing a specific new product, such as a low-calorie chocolate bar. Nevertheless, the combined market potential among several countries for this product may justify the product- and promotional-development costs. Thus, comparing the importance of the different elements within the marketing mix may help managers improve country-level performance along with enhancing synergy among the countries where they operate.

LOOKING TO THE FUTURE How Might International Market Segmentation Evolve?

Recall the discussion on how both demographics and psychographics affect market segmentation. How both of these will unfold in future years will likely affect international marketing. There are, of course, many more global trends that may affect future international marketing than we can possibly highlight (e.g., aging population, growing obesity, increasing use of social media); thus, the following discussion highlights only one key demographic and one key psychographic area.

Income Demographics

Most projections show growing disparities between the "haves" and "have-nots" in the foreseeable future, both within and among countries. Furthermore, because haves will be more educated and more connected to the Internet, they will be better able to search globally for lower prices. Therefore, globally, the disparate purchasing power of the affluent segment will be even more than indicated by incomes.[96]

As discretionary income increases, some luxury products will become more commonplace (partly because it will take less work time to purchase them), and seemingly dissimilar products and services (such as cars, travel, jewelry, and art) will compete with each other for the same discretionary spending. How does this affect demand? For example, Japan was the premier importer of luxury clothing during the 1980s and early 1990s, but competition from an array of other luxury services, such as spas and expensive restaurants, eroded those imports.[97] In addition, many Japanese consumers have moved down-market during Japan's stagnated economic growth, and there is speculation that they may not move up-market again when their economy becomes more robust. Nevertheless, because of better communications and rising educational levels of the haves, they will want more choices. However, market segments may not fall primarily along national lines. Rather, companies may depend more on identifying consumer niches that cut across country lines.

At the other extreme, because of the large number of poor people with little disposable income, companies will have opportunities to develop low-cost standardized products to fit the needs of the have-nots. In reality, low-income households collectively have considerable purchasing power and will likely spend mainly on basic housing, food, health care, education, communications, finance charges, and consumer goods.[98] Thus, companies will have conflicting opportunities: develop luxury to serve the haves and cut costs to serve the have-nots. Some producers are already responding to this market dichotomy. Frito-Lay calls it the "bifurcation" of the snack market and is emphasizing new products for the high and low ends, but not the middle.[99] The president of the Wine Academy of Spain pointed out this market split for wine sales in China. He indicated that there is no middle market; rather there is a high-end where people spend thousands of dollars per bottle as an investment or as an ostentatious drink and a low-end where people spend no more than the equivalent of a few dollars per bottle while buying in large containers.[100] Despite the growing proportions of haves and have-nots, demographers project that the actual numbers of people moving out of poverty levels and into middle-income levels will increase. This is largely because of population and income growth in a few low-income countries, especially in Asia. Such a shift raises questions: Will sales growth in poorer countries mainly be for products that are mature in industrial countries, such as many consumer electronics and household appliances? Or, will consumers in poorer countries leapfrog to newer products as they have done by bypassing landline phones and going directly to cellular ones?

Will National Markets Become Passé?

In addition to demographic differences in income, attitudinal differences affect demand in general as well as for particular types of products and services. Although global communications are reaching far-flung populations, different people react differently to them. At least three—not mutually exclusive—types of personality traits interact and affect how potential consumers react.[101] They exist in all countries (thus creating a segment that cuts across the globe), but the portion of people who are strongly influenced by one versus the other presently varies by country. How these factors evolve will likely have a profound influence on the future of international marketing.

The first of the traits is **materialism**, which refers to the importance of acquiring possessions as a means of self-satisfaction and happiness, as well as for the appearance of success. There is evidence of this trait's growth and spread. However, there is also evidence that people who have always been affluent may exhibit lower materialistic behaviors than those who have recently become affluent, the so-called *nouveau riche*. The second of these traits is **cosmopolitanism**, which refers to openness to the world. While there is debate on whether this is a learned or an inborn trait, some of the characteristics include comparing oneself with what is in the whole world rather than with what is local. Cosmopolitanists may actually seek out foreign products and services. The third of these traits is **consumer ethnocentrism**, which refers to a preference for local over global, such as seeking out local alternatives when buying products and services.

CASE

Grameen Danone Foods in Bangladesh[102]

—Professors Jon Jungbien Moon and John D. Daniels

In 1932, U.S. President Franklin D. Roosevelt referred to an impoverished person as "the forgotten man at the bottom [base] of the economic pyramid." Later, the term—shortened to "BoP"—became business jargon after publication in 2010 of *The Fortune at the Bottom of the Pyramid*.

Few places have more impoverished people than Bangladesh, even though the country has been one of the fastest growing in the world since 2004, with the average annual GDP growth rate of 6.5 percent. With 169 million people in 2019, its per capita GDP at PPP was $4753, with 22 percent of the population below the international poverty line of $1.90 per day.

Thus, Bangladesh has conditions that correlate closely with poverty: an adult illiteracy rate of 26 percent in 2018, a high incidence of infectious diseases, a poor infrastructure, high underemployment, crowded conditions (imagine half the U.S. population squeezed into the state of Iowa), and more than its share of natural disasters—especially periodic flooding—that impede development. In the face of these ominous conditions, two companies—the Grameen Foundation from Bangladesh and Groupe Danone from France—formed a joint venture (JV) social business to serve Bangladesh's BoP.

What Is a Social Business?

Mohammad Yunus, founder of the Grameen Bank in 1974 and winner of the Nobel Peace Prize in 2006, originated the social business concept, which aims to generate social benefit by creating sustainable businesses. The Grameen Danone Foods JV was established to make a profit but pay no dividends. All earnings are reinvested, except that investors may recoup their original capital input. Unlike NGOs, charities, and not-for-profit organizations, a social business must sustain itself by generating revenue competitively rather than receiving charitable contributions to carry on.

The Grameen Bank and Foundation

The Grameen Bank (GB) began when Yunus lent $27 to a group of indigent villagers who repaid the money even though he had required no collateral from them. This small beginning, contrary to Bangladeshi bank practices, led to GB's microfinancing program. It has competed primarily with usurious money lenders who charge as much as 10 percent interest per day. GB's typical rate of 20 percent per year may sound high, but Bangladesh has had an inflation rate of up to 8 percent, and GB supports many noninterest loans as well. Some banks outside Bangladesh, such as Citigroup and Deutsche Bank, have since used GB's example as a model.

Before GB, hardly any Bangladeshi loans went to women, and Yunus had to convince religious opposition that the Prophet Muhammad would have supported what he was doing. Today, about 97 percent of GB's loans go to women, and audits show a repayment rate of 98 percent. (Borrowers must repay a loan in order to get a new one.) GB uses repayments and interest to make additional loans and to support the Grameen Foundation's poverty-fighting projects. Its loans, which in 2017 came to almost $1.75 billion, have included initial financing for street vendors and construction of more than 700,000 houses. It provides more than 50,000 student loans and 27,000 scholarships per year. It has given noninterest loans to more than 77,000 beggars so they can sell trinkets during their house-to-house begging. The Foundation's activities have expanded into a variety of businesses, such as telephone service, solar power generation, and health care.

Groupe Danone

France's largest food company, Groupe Danone (spelled "Dannon" for the U.S. market), operates in four product divisions: dairy (world's largest, with Danone being almost a generic word for yogurt); bottled water (ranked second globally, including such brands as Evian and Volvic); baby food (second globally under the Blédine brand); and medical nutrition (largest in Europe). It operates worldwide and had 2018 sales of €24.6 billion ($28 billion). Before its JV with Grameen, it had no Bangladeshi operations. In fact, it aimed most of its products, such as its Activia and Actimel brands of yogurt, at higher-end consumers.

Why Invest in a Social Business?

Why would Danone, or anyone, want to invest in an operation that yields them no dividends or capital gains? Yunus contends that people are multidimensional and thus may desire more than economic gains for themselves. He points to business leaders (e.g., Carnegie, Gates, Rockefeller) who turned their attention to philanthropy after amassing large fortunes. Danone's JV participation fits this multidimensional vision. In fact, it has a history of socially responsible behavior, with a corporate mission "to bring health through food to as many people as possible." Nevertheless, Danone must generate profits, and its management must answer to shareholders. The Bangladeshi JV could offer several potential economic advantages.

Maturing of Traditional Markets

The demand for Danone's products has been maturing in wealthier countries, which have been Danone's traditional markets. Hence, its management has been shifting more emphasis to poorer countries. Between 1999 and 2010, the share of its sales coming from LDCs increased from 6 percent to 47 percent. Yet, even there its sales centered on affluent segments, about which its chairman, Frank Riboud, said, "It would be crazy to think only about the peak of the pyramid." Thus, Bangladesh could serve as a laboratory for learning about customers and ways of operating at the BoP.

Promoting LDC Growth

Critics complain that MNEs contribute to economic underdevelopment by pushing poor consumers to purchase superfluous products instead of nutritious food. In contrast, Danone's products are all healthful and sanitary. Although one company's successful marketing of such products is not likely to have a significant impact on development, it is a potential catalyst, which perhaps also leads to favorable publicity. Further, as BoP consumers move upward economically, they will have more to spend on other Danone products and may favor them because of their earlier experience. Riboud said, "When poverty is on the rise, my own growth prospects shrink. [This] means that combating poverty is good for my business."

Building Sales and Loyalty Abroad

Being perceived as socially responsible may improve business performance in various ways. However, there are an almost infinite number of competing ways to be socially responsible. The initial amount Danone invested in the JV was $500,000, a small outlay for a company of that size, and Danone stood to get the money back if the operation became sufficiently profitable. Moreover, the fact that it would become one of the first major corporations to invest in a social business could generate free positive publicity globally.

Preceding the Bangladeshi JV

At a 2005 lunch in Paris, Riboud asked Yunus what Danone might do to help the poor. When Yunus explained the social business concept, Riboud immediately said, "Let's do it," and the two shook hands on setting up their JV. Although this JV is one of the first social businesses established in partnership with a major MNE, Roosevelt's "forgotten man" was not completely forgotten in the interim. Many organizations have marketed to the BoP (most notably in India during the 1970s' heyday of the appropriate technology movement) with such devices as dung-powered stoves.

These experiences offer the following lessons for companies wishing to tap the BoP, especially with a nutritious product:

- **Price**—Low and stable prices help create and sustain sales, so companies gain an advantage by finding new means to cut and stabilize their own costs, which they then pass on to customers.

- **Product compatibility—**High nutrition at a low price alone is insufficient. Products must be compatible with the target markets' accustomed habits and visually appealing and flavorful to them. So it is vital to pick the right products and adapt them to local markets.
- **Education—**Within some countries the BoP is largely illiterate, has low access to popular media, and is unconvinced about cause-and-effect scientific relationships. Hence, it may be important to reach people in this segment by nontraditional means, convince them that changes from nutrition are important and take time, and convey information that they will believe.
- **Promotion—**Publicity prior to the start of sales is quite valuable, so the use of opinion leaders (those that the target market group accepts) is essential in developing credibility.
- **Competition—**Given efforts to help the poor, competition may come from government programs, not-for-profit organizations, and charities. Thus, companies need to outperform this competition or find means of working cooperatively with it.

Strategic Thrust and Orientation

After their 2005 Paris handshake, the JV began production in less than two years. The partners started with a small rural factory to serve only its surrounding poverty-stricken area. Given the JV's social objective, the partners agreed that product and production would be as green as possible. Even though the factory is the size of only one percent of Danone's standard factories elsewhere, it has the latest equipment, treatment of both incoming and outgoing water, and solar panels to generate renewable energy.

Product Policies

The introductory plant and two more built by 2015 make only yogurt, a product of high nutritional value for children. It relies on efficient small-scale production and nearby supplies of the main ingredient (milk).

Through market testing, Danone decided to sell a sweeter and thinner yogurt, drinkable directly from the container (subsequent market feedback led the JV to include spoons as well). It fortifies the yogurt with 30 percent of the daily need for vitamin A, zinc, and iodine, and it uses biodegradable technology so that containers can be converted to fertilizer.

Pricing

To keep costs and prices low, the plant uses mostly local ingredients, mainly from small suppliers such as farmers with only one or two cows, who collect and deliver milk in jugs (thus saving refrigeration and transportation costs). Because of fluctuating milk prices, the JV negotiated longer-term contracts with farmers to better stabilize prices; hence, the JV pays higher than market price sometimes and less at other times. Fixed sales costs are kept low by selling only on commission (about 20 percent to saleswomen and 80 percent to small local stores). To minimize saleswomen's commissions, the company successfully suggested their selling additional products during house-to-house visits. Personnel costs have been kept low since completion of its start-up phase by employing only Bangladeshis. Although the yogurt plant lacks scale economies, its unit costs are equivalent to Danone's larger plants elsewhere.

Promotion

Most promotion is word of mouth; however, one promotional event was noteworthy. Riboud arranged for the

Zidane, Riboud, and Yunus entering the national soccer stadium in Dhaka, Bangladesh.

best-known Frenchman in Bangladesh, the soccer star Zinédine Zidane (Zizou), to visit the plant's opening, an event that made major headlines in newspapers throughout the country. While in Bangladesh, Zizou played with youth in the national stadium, signed the cornerstone of the plant, and contributed to instant national recognition for the new JV and its yogurt. (See the preceding photo showing the stadium entry of Zinedine Zidane, Franck Riboud, and Mouhammad Yunus.)

Branding

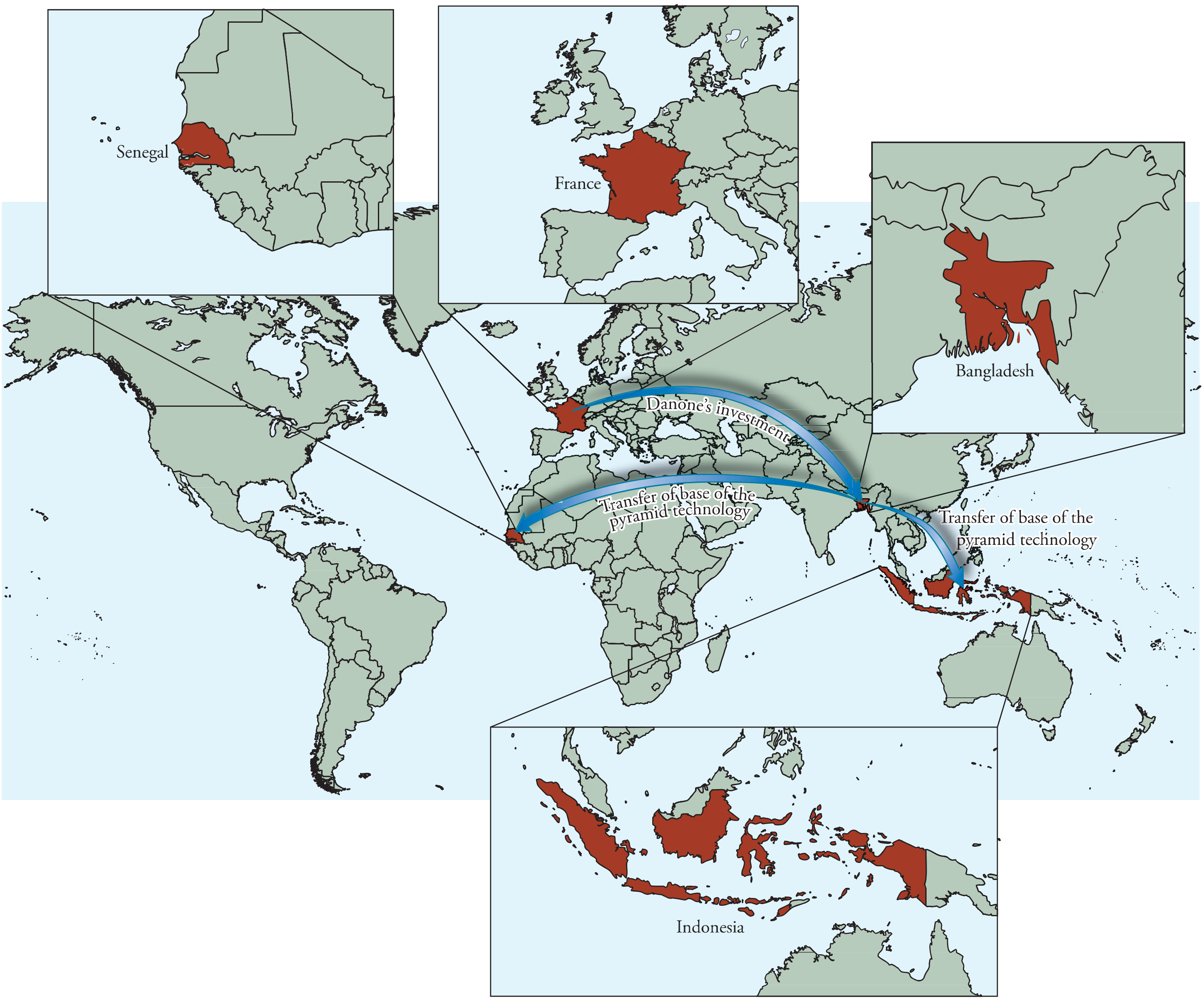
The JV name put Grameen first because of its high recognition. The yogurt brand is Shokti Doi, meaning "yogurt for power," and its symbol is a muscled lion that appears on the product and in ads. Lion-dressed mascots also visit youth areas to describe the value of eating yogurt.

Distribution

Bangladesh's high underemployment attracted more than enough women—mainly poor mothers from the target sales market—to work part time selling yogurt. However, the JV had to overcome a backlash similar to the one GB faced when lending to women; the complaint this time was about the impropriety of women going house-to-house. The next big task was to train the saleswomen on (1) the significance of selling yogurt other than to earn a commission and (2) the essentiality of the yogurt's quality and how to maintain it.

MAP 17.1 Grameen Danone Foods Joint Venture

Groupe Danone from France joined the Grameen Foundation to form a social business joint venture in Bangladesh. Subsequently, Group Danone learned about serving the base of the pyramid and has transformed this knowledge to help it operate in Indonesia and Senegal.



First, the significance for selling was primarily nourishment. The company engaged doctors who explained that children could regain any physical loss from previously deprived nutrition within 9 to 10 months by consuming only two cups of yogurt per week. Second, selling would help improve the economy by using suppliers who would then hire more people and spend within the community.

Maintaining yogurt quality was essential because few homes had refrigeration, and eating a spoiled product could cause illness and future sales losses. The company demonstrated to saleswomen how it makes yogurt, provided them with insulated bags, showed them how to use the bags properly, and stressed the need for them to carry only a minimum inventory to lessen the chance of spoilage.

Evaluation

Evaluating the JV's financial performance is straightforward; however, assessing its social effects is challenging. For this, the JV has hired a Swiss-based nutrition organization (GAIN) to develop, test, and validate its performance in terms of meeting the objectives for poor people. Preliminary findings compared children who consumed yogurt with and without micronutrient fortification and concluded that the former grew more in height. In addition, psychometric tests show that the former are significantly better at important mental functions such as planning, concentration, problem solving, and conceptual flexibility.

The Future

Grameen Danone Foods' sales increased steadily, from 150,000 cups in 2008 to 35.2 million cups in 2013. The number of employees at the end of 2013 was 976, including 697 saleswomen. Further, Danone learned much in Bangladesh about running small-scale production efficiently and is transferring this knowledge to help with its operations in Indonesia and Senegal. (Map 17.1 illustrates the international connections.) Inspired by this new model of collaboration, other major MNEs have been establishing social businesses with the Grameen Foundation (e.g., Intel developed software applications on handheld devices that test soil and provide fertilizer recommendations; Uniqlo designed and produced clothing lines in Bangladesh and opened 15 outlets; Veolia invested to make clean and safe water accessible to residents in the poorest parts of the country). Despite the publicity and promise of these high-profile collaborative ventures, however, Danone will need to evaluate how brand recognition and goodwill at the BoP can be harnessed for sales farther up the pyramid in order to expand to more affluent market segments.

QUESTIONS

17-3 What advantages might Danone receive from the Grameen Danone joint venture?

17-4 How much do you think Danone's decision to set up a social business was motivated by wanting to be socially responsible versus believing the move would help its performance? Does the answer to this make any difference?

17-5 If Danone were to add products to sell to the BoP, which of its products would be the best candidates? Why?

17-6 Since establishment of the Grameen Danone Foods social business, the number of social businesses worldwide has grown so much that there is now an annual global summit in Wolfsburg, Germany. Are there types of companies that might not be good candidates to establish social businesses? If so, what are they and why?

17-7 Can you think of any other MNEs that can collaborate successfully with the Grameen Foundation and help solve specific problems in Bangladesh? How can they do this?

17-8 Initially, Grameen Danone Foods JV was expected to make a profit by 2012. Although no official numbers are published, it seems that they had not reached that point by 2018. Should Danone continue to invest in this JV? If so, what can be done to improve the financial outlook of the JV going forward?