PART 4 Managing International Business Operations

CHAPTER 16

International Marketing

SAJJAD HUSSAIN/AFP/Getty Images/Newscom

AFTER STUDYING THIS CHAPTER, YOU SHOULD BE ABLE TO:

1. Characterize the nature of marketing management in international business.
2. Discuss the basic kinds of product policies and decisions made in international business.
3. Identify pricing issues and evaluate pricing decisions in international business.
4. Identify promotion issues and evaluate promotion decisions in international business.
5. Discuss the basic kinds of distribution issues and decisions in international business.

CONQUERING WITH STALLS

Unilever is one of the world's largest consumer-products companies. The firm has over 170,000 employees and raked up sales of around $60 billion in 2012. It markets a range of products including personal care brands such as Axe, Degree, and Dove; hair care products like Alberto VO5 and TRESemme; ice cream and beverages such as Breyer's, Ben & Jerry's, and Lipton Tea; Close-up toothpaste, and the list goes on…and on. All told Unilever has more than a hundred recognizable brand names, dozens of market-leading products, and sells its wares in over 180 countries.

The firm is more than 100 years old, tracing its roots back as far as 1885 when two English brothers, William and James Lever, introduced the world's first packaged and branded laundry soap called Sunlight. In 1930 Lever Brothers, as the firm was named, merged with a Dutch company call Margarine Union and took the new name Unilever. For tax purposes, though, the company maintained separate legal entities, Unilever PLC in London and Unilever N.V. in Rotterdam. For all practical and operational purposes, though, it is a single multinational company.

Over the last several decades Unilever has bought dozens of new businesses (and shed a few as well). Its primary competitors (varying across different product groups) include Procter & Gamble, L'Oréal, Nestlé, Coca-Cola, Colgate-Palmolive, Johnson & Johnson, and Tata Group. In recent years, Unilever has established itself as the clear number-two firm in the $7 trillion consumer-products industry (behind only Procter & Gamble [P&G]) but is also growing at a rapid clip. Indeed, Unilever's sales are increasing at twice the rate of P&G's. Interestingly, much of Unilever's success comes from its ability to penetrate emerging markets. For instance, in 1990 the firm got 20 percent of its revenues from emerging markets but now gets about 55 percent of its revenues from those same markets. This compares with about 40 percent for Nestlé, 38 percent for P&G, and 35 percent for L'Oréal.

Unilever's success in these markets, in turn, has come from aggressive and close relationships with local merchants and vendors. Take Jakarta, the capital of Indonesia, for example. Most retailers in this bustling city are small mom-and-pop merchants catering to low-income customers by selling products in small stalls in various open-air markets. Unilever packages its products in small containers that can then be sold cheaply. For instance, it offers creams and lotions that can be sold for as little as 35 cents. It then offers merchants a hefty discount if they will display Unilever brands in the front of the stall and move competitors' products to the back of the store. As customers walk through the markets where these stores thrive, Unilever's products are often all that they see. Only if a customer asks for a competing product will the merchant direct them toward the back of the dusty, poorly lit stall.

Unilever has taken an equally aggressive approach in Brazil. The firm bought Alberto Culver in 2010 for $3.7 billion and developed plans to market TRESemme shampoo acquired as part of that deal as an alternative to Pantene, P&G's market-leading shampoo, starting in Brazil. Executives from Unilever got support from Brazil's 40 biggest retailers, nurtured Brazilian fashion bloggers and opinion leaders, and distributed 10 million free samples. And when TRESemme was actually introduced, it went from literally zero market share to becoming the market leader (surpassing Pantene) in less than one year. Total sales from Brazil for TRESemme top $200 million a year. The firm is now planning to roll out the same sort of campaign in India.

In a sense, what Unilever is doing is taking a two-pronged approach to international marketing. First, it is using its capabilities for innovation and its marketing clout to push major new products into emerging markets. Next, it is using local knowledge gained from decades of operating in those markets to attract local shoppers to its products—Unilever has been selling in Indonesia since 1933, India since 1888, and Brazil since 1920. Unilever has also gone to great efforts to streamline its communication and reporting processes so that decisions can be made faster and products developed and launched more quickly than ever before. For example, 20 years ago decision makers at Unilever used 20,000 different kinds of financial reports. Now, that number has been cut to 90. In 2005 Unilever had 5,000 new product-projects in its pipeline, but knew it would take years to get them to more than just a few markets. Now, however, the firm has a pipeline of only about 600 products but knows it can launch at least 90 percent of those globally within a year of introduction. In short, the firm is focusing on fewer products, but products with great potential, and then rolling them out with the full force of Unilever behind them.[1] ■

The success of Unilever underscores the importance and the value of marketing in international business. Identifying the right products, matching those products with the right customers, promoting the products to those customers, and then developing an effective distribution mechanism for getting products to customers can lead to a successful enterprise regardless of where it might be located.

Marketing is "the process of planning and executing the conception, pricing, promotion, and distribution of ideas, goods, and services to create exchanges that satisfy individual and organizational objectives."[2] **International marketing** is the extension of these activities across national boundaries. Firms expanding into new markets in foreign countries must deal with different political, cultural, and legal systems, as well as unfamiliar economic conditions, advertising media, and distribution channels. An international firm accustomed to promoting its products on television will have to alter its approach when entering a less-developed market in which relatively few people have televisions. Advertising regulations also vary by country. French law, for instance, discourages advertisements that disparage competing products; comparative advertisements must contain at least two significant, objective, and verifiable differences between products.[3] New Zealand regulators may ban ads for a variety of reasons. A Nike ad was banned for being too violent, and a Coca-Cola ad featuring aboriginal dancers was banned for being "culturally insensitive."[4]

In addition to dealing with national differences, international marketing managers confront two tasks their domestic counterparts do not face: capturing synergies among various national markets and coordinating marketing activities among those markets. Synergies are important because they provide opportunities for additional revenues and for growth and cross-fertilization. Coordination is important because it can help lower marketing costs and create a unified marketing effort.

International Marketing Management

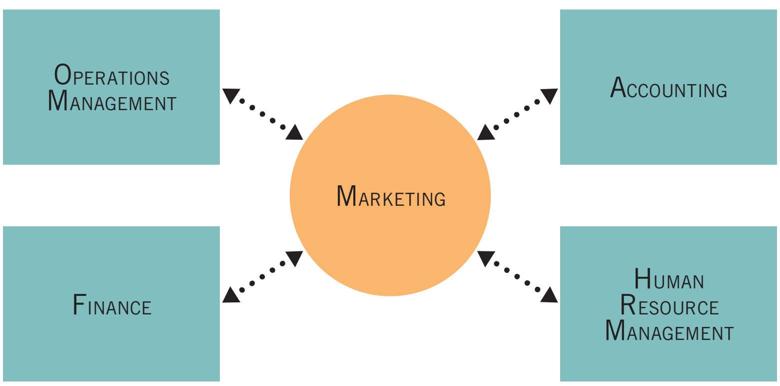
An international firm's marketing activities often are organized as a separate and self-contained function within the firm. Yet that function both affects and is affected by virtually every other organizational activity, as shown in Figure 16.1. These interrelationships make international marketing management a critical component of international business success. International marketing management encompasses a firm's efforts to ensure that its international marketing activities mesh with the firm's corporate strategy, business strategy, and other functional strategies.

International Marketing and Business Strategies

A key challenge for a firm's marketing managers is to adopt an international marketing strategy that supports the firm's overall business strategy.[5] As we discussed in Chapter 11, business strategy can take one of three forms: differentiation, cost leadership, or focus.

A differentiation strategy requires marketing managers to develop products as well as pricing, promotional, and distribution tactics that differentiate the firm's products or services from those of its competitors in the eyes of customers. Differentiation can be based on perceived quality, fashion, reliability, or other salient characteristics, as the marketing managers of such products as Rolex watches, BMW automobiles, and Montblanc pens successfully have shown. Assuming the differentiation can be communicated effectively to customers, the firm will be able to charge higher prices for its product or insulate itself from price competition from lesser brands. For example, Rolex, which has successfully implemented a differentiation strategy, does not need to cut the price for its diamond-faced $15,000 watches just because Target advertises Timex quartz watches for $39.95.

FIGURE 16.1
International Marketing as an Integrated Functional Area



inexpensive line of watches to young, fashion-oriented consumers in Europe, North America, and Asia. "Emerging Opportunities" demonstrates how one Chinese entrepreneur used the Internet as a key ingredient in implementing his focus strategy.

A critical element for a firm's success is the congruency of its international marketing efforts with its overall business strategy. Timex, Rolex, and SMH—all watchmakers—have chosen different strategies, yet all are successful internationally because they match their international marketing efforts to their business strategies. Timex's cost leadership strategy implies that the firm must seek out low-cost suppliers globally and sell its watches in discount stores such as Walmart and Target, rather than in fashionable department stores such as Saks Fifth Avenue and Harrod's. Rolex's differentiation strategy, based on the firm's carefully nurtured worldwide image, might collapse if Rolex distributed its watches through armies of street vendors stationed in front of subway stations throughout the world, rather than through a handful of chic and expensive horologists located on the most fashionable avenues of the world's most glamorous cities. Similarly, SMH does not advertise Swatch watches to the upper-class, middle-aged audiences of *Town and Country* and *Architectural Digest* or to the predominantly male readership of *Field and Stream* and *Popular Electronics.* It does advertise its wares in the U.S., Chinese, and French editions of *Elle*, which are read by demographically similar young, trendy female consumers—the target of its focus strategy.

Having adopted an overall international business strategy, a firm must assess where it wants to do business. Decisions about whether to enter a particular foreign market are derived from and must be consistent with the firm's overall business strategy. For example, the steady economic growth of such low-to-middle-income countries as Costa Rica, Namibia, Poland, and Turkey offers exciting new business opportunities for Timex but less so for Rolex. But in relatively newer affluent markets such as Dubai and Beijing Rolex has enjoyed considerable success.

Because of budget and resource limitations, international firms must carefully assess countries and rank them according to their potential for the firms' products. Influencing this ranking may be factors such as culture, levels of competition, channels of distribution, and availability of infrastructure. Depending on the nature of the product and other circumstances, a firm may choose to enter simultaneously all markets that meet certain acceptability criteria. For example, consumer goods marketers such as Nike and Coca-Cola often introduce new products broadly throughout North America or Europe to maximize the impact of their mass media advertising campaigns. Alternatively, a firm may choose to enter markets one by one, in an order based on their potential to the firm. Caterpillar, for example, uses this approach because its marketing strategy is based on the painstaking development of strong local dealerships, not glitzy TV campaigns highlighting the endorsements of the latest music and sports stars.

The Marketing Mix

After an international firm has decided to enter a particular foreign market, further marketing decisions must be made.[6] In particular, international marketing managers must address four issues:

1. How to develop the firm's product(s)
2. How to price those products
3. How to sell those products
4. How to distribute those products to the firm's customers.

These elements are collectively known as the **marketing mix** and colloquially referred to as the *four Ps of marketing*: product, pricing, promotion, and place (or distribution). The role of the four Ps in international marketing is illustrated in Figure 16.2.

International marketing-mix issues and decisions parallel those of domestic marketing in many ways, although they are more complex. The array of variables international marketing managers must consider is far broader, and the interrelationships among those variables far more intricate, than is the case for domestic marketing managers. Before we discuss these complexities, however, we need to focus on another important issue in international marketing—the extent to which an international firm should standardize its marketing mix in all the countries it enters.

EMERGING OPPORTUNITIES

PRETTY GARLIC

When Yafod International was founded it sold a single product: garlic. John Huang, at the time the managing director of the small exporting company based in China's Shandong province, faced an interesting challenge: how to convince the world's food-processing companies and vegetable wholesalers to order his garlic, despite his lack of a marketing budget.

Huang's solution was to use the Internet to build worldwide recognition of his company and its simple product line. He developed a clever brand name—Pretty Garlic—and designed an attractive website—www.prettygarlic.com—that provides much of the information a prospective buyer of garlic needs—varieties, prices, ordering information, payment terms, shipping arrangements, and packaging details. The website also provides information of use to garlic retailers, such as the plant's health benefits. It is probably the first site on the Internet that features color photos showcasing the different sizes and types of Chinese garlic. Although most Web surfers have no need to see a photo of a 5.5-centimeter pure-white Jinxiang garlic bulb, buyers for the world's food processors and grocery chains do. More than half of Huang's orders are generated by the Internet, and the company now ships more than 15,000 tons of garlic a year.

Needless to say, the Internet provided a perfect means for Huang to reach his small-but-focused target market. Boosted by its imaginative Internet-driven marketing strategy, Yafod has broadened its product line to include other fruits, vegetables, beans, and spices. It now has offices in Canada, Colombia, Iran, India, Poland, and the United Kingdom. Although not as big or as well-known as Amazon or eBay, Pretty Garlic's success similarly demonstrates the power of the Internet to reach customers worldwide. In reflecting on his company's growth, Huang notes the "Internet has played a major role in our development. We continuously develop our online e-business platform and promote our products on leading search engines . . . Daily we receive new inquiries from various countries in the world." Creative use of the Internet, coupled with a commitment to quality and customer service, are the foundations of the young company's achievements. Indeed, *Fortune* magazine recently described Pretty Garlic as the "industry's equivalent of Nike or Coca-Cola."

Sources: Correspondence with John Huang, August 23, 2011 and March 25, 2010; "Inside China's garlic bubble," *Fortune*, March 23, 2010 (online); "The Web @ Work," *Wall Street Journal*, August 7, 2000, p. B4; www.prettygarlic.com website.

Standardization versus Customization

A firm's marketers usually choose from three basic approaches in deciding whether to standardize or customize their firm's marketing mix:

1. Should the firm adopt an *ethnocentric approach*, that is, simply market its goods internationally the same way it does domestically?
2. Should it adopt a *polycentric approach*, that is, customize the marketing mix to meet the specific needs of each foreign market it serves?
3. Should it adopt a *geocentric approach*, that is, analyze the needs of customers worldwide and then adopt a standardized marketing mix for all the markets it serves?[7]

The **ethnocentric approach** is relatively easy to adopt. The firm simply markets its goods in international markets using the same marketing mix it uses domestically, thereby avoiding the expense of developing new marketing techniques to serve foreign customers.

FIGURE 16.2

The Elements of the Marketing Mix for International Firms

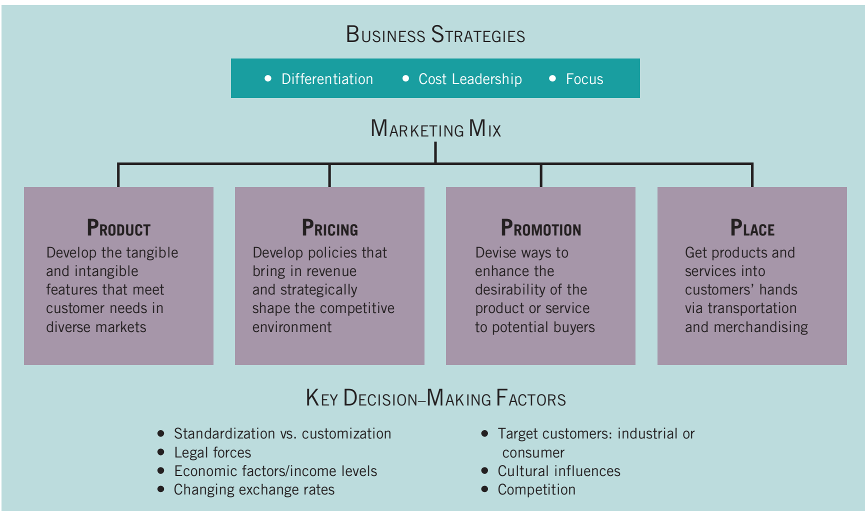


TABLE 16.1 Advantages and Disadvantages of Standardized and Customized International Marketing

Standardized International Marketing	
Advantages	**Disadvantages**
1. Reduces marketing costs	1. Ignores different conditions of product use
2. Facilitates centralized control of marketing	2. Ignores local legal differences
3. Promotes efficiency in research and development	3. Ignores differences in buyer behavior patterns
4. Results in economies of scale in production	4. Inhibits local marketing initiatives
5. Reflects the trend toward a single global marketplace	5. Ignores other differences in individual markets
Customized International Marketing	
Advantages	**Disadvantages**
1. Reflects different conditions of product use	1. Increases marketing costs
2. Acknowledges local legal differences	2. Inhibits centralized control of marketing
3. Accounts for differences in buyer behavior patterns	3. Creates inefficiency in research and development
4. Promotes local marketing initiatives	4. Reduces economies of scale in production
5. Accounts for other differences in individual markets	5. Ignores the trend toward a single global marketplace

Product Policy

The first *P* of the international marketing mix is the product itself. Here, **product** comprises both the set of tangible factors that the consumer can see or touch (the physical product and its packaging) and numerous intangible factors such as image, installation, warranties, and credit terms. Critical to a firm's ability to compete internationally is its success in developing products with tangible and intangible features that meet the wants and needs of customers in diverse national markets.[15] For instance, Toyota's success in selling its automobiles in Europe, Asia, and the Americas reflects its product-related achievements in designing and producing mechanically reliable vehicles, offering competitive warranties, building a solid brand name for its products, providing spare parts and repair manuals, and furnishing financing to its dealers and retail customers.

Many firms use a combination of product standardization and customization. Automakers, for example, can use the same basic seat designs, control buttons, and brake systems in many different parts of the world. But they also have to adapt to right-hand versus left-hand driving conditions and metric versus non-metric distance, speed, and fuel indicators.

Izel Photography/Alamy

Standardized Products or Customized Products?

A vital product policy decision facing international marketers is the extent to which their firms' products should be standardized across markets or customized within individual markets. For example, Toyota, like many international firms, has adopted a blend of customization and standardization. It has standardized its corporate commitment to building high-quality, mechanically reliable automobiles and to maintaining the prestige of the Toyota brand name. Yet it customizes its products and product mix to meet the needs of local markets. It sells right-hand-drive motor vehicles in Japan, Australia, South Africa, and the United Kingdom and left-hand-drive vehicles in the Americas and continental Europe. It also adjusts its warranties from country to country based on the warranties offered by its competitors. The name under which a business sells a product also may vary by country. Frito-Lay, for example, sells potato chips under the name Lay's in the United States, Walkers in the United Kingdom, Sabritas in Mexico, and Smith's in Australia.

Sometimes firms learn they have customized their products not by design but by accident. For example, a few years ago managers at Unilever realized that for no apparent reason the firm was using 85 different recipes for its chicken soups and 15 different cone shapes for its Cornetto ice creams in Europe. Once this problem was identified, Unilever quickly standardized its ice cream cone design and slashed the number of chicken soup flavors it offered European customers, thereby reducing its production and inventory costs and simplifying its distribution requirements.[16]

The extent to which products should be customized to meet local needs varies according to several factors. One is the nature of the product's target customers—are they industrial users or are they individual consumers? Although some industrial products are customized and some consumer products are standardized, generally speaking, industrial products are more likely to be standardized than consumer products. For example, Caterpillar's bulldozers and front-end loaders are sold throughout the world with only minor modifications to meet local operating and regulatory requirements. Products sold as commodities also are typically standardized across different markets; examples include agricultural products, petroleum, digital memory chips, and chemicals. A general rule of thumb is that the closer to the body a product is consumed, the more likely it will need to be customized. For example, to boost its sales in Japan, Eddie Bauer altered the styles of clothing it sells there, adding to its store shelves stretchy shirts and straight-legged pants that the Japanese prefer.[17] The Big Boy burger chain added pork omelets and fried rice to its menus in Thailand to attract local consumers.[18]

Legal Forces

The laws and regulations of host countries also may affect the product policies adopted by international firms. Some countries, for instance, have imposed detailed labeling requirements and health standards on consumer products that firms, both foreign and domestic, must follow strictly. International firms must adjust the packaging and even the products themselves to meet these consumer protection regulations. For example, Grupo Modelo SA, the brewer of Corona beer, had to reduce the nitrosamine levels of the beer it sells in Germany, Austria, and Switzerland to meet those countries' health standards.[19] Countries also may regulate the design of consumer products to simplify purchase and replacement decisions. Saudi Arabia, for instance, requires electrical connecting cords on consumer appliances to be 2 meters long. GE suffered the embarrassment (and a loss of profits) of having its goods turned back at a Saudi port when an inspector determined GE's connecting cords were only 2 yards long.[20] Widely varying technical standards adopted by countries for such products as electrical appliances and broadcasting and telecommunications equipment also force firms to customize their products. For example, the electrical plugs of home appliances sold in Europe must be modified on a country-by-country basis to fit the array of electrical outlets found there.

Cultural Influences

International firms often must adapt their products to meet the cultural needs of local markets. One typical adaptation is to change the labeling on the product's package into the primary language of the host country. However, in some cases a foreign language may be used to connote quality or fashion. For instance, after the fall of communism, P&G added

German words to the labels of detergents sold in the Czech Republic. Market researchers had determined that products in packages labeled in English or German were viewed by Czechs as being of higher quality than products labeled in Czech.[21] Often the ingredients of food products are modified to better please local palates. Gerber, for example, customizes its baby food to meet the requirements of the local culture. The company found that Polish mothers refused to purchase its mashed bananas for their infants because the fruit was viewed as an expensive luxury. Instead, Polish mothers favor such Gerber flavors as Vegetable and Rabbit Meat to help nurture their infants; Japanese mothers choose Gerber's Freeze Dried Sardines and Rice for their children.[22] Pepsi's Frito-Lay division also has modified its snack foods to better meet the needs of foreign consumers, offering, for example, paprika-flavored chips to Poles and Hungarians and shrimp-flavored chips to Koreans.[23] Its food scientists also are busily working on a squid-peanut snack food Frito-Lay believes will be successful among Southeast Asians. Presumably for cultural reasons, neither Gerber nor Frito-Lay has yet made plans to market these items in North America.

Culture may affect product policy in other ways. For example, foreign automobile makers have learned that Japanese consumers are extremely quality conscious. For many Japanese consumers an automobile is more a status symbol than a mode of transportation—the average car in Japan is driven only 5,000 miles per year, about one-third the U.S. average. Thus, the way the car looks is often more important than the way it drives. A Japanese customer may reject a car if the paint underneath the hood is uneven or the gas tank cover fits loosely.[24] Many German consumers are environmentally conscious. As a result, firms often must redesign products they sell in Germany to allow for easier disposal and recycling.

In a similar vein, firms may also find it necessary to adjust or modify their packaging in different countries. For instance, when German grocery retailer Metro entered the market in Southeast Asia it initially used the same methods for packaging fresh fruits and vegetables as it used elsewhere—corrugated containers of shrink-wrapped food. But consumers in Vietnam insisted on ripping such packages open, wanting to ensure there were no rotten items on the bottom. They also indicated a strong need to touch, feel, and smell their food. So Metro altered its methods and simply stacked its fruits and vegetables just as they are in street market stalls.[25]

At other times culture may force changes in a foreign product. For example, although U.S. films are popular in Asia, HBO often has to edit its movies before they can be broadcast in Asia's culturally conservative countries. HBO could not show *Schindler's List* or *Amistad* in Malaysia because both films contained brief nudity, and their director, Steven Spielberg, refuses to allow others to cut scenes from his movies. Similarly, musicians embarking on international tours may have to adjust to local sensibilities. Artists Gwen Stefani, Adam Lambert, and Beyoncé Knowles all changed their costuming and other artistic elements of their shows when performing in Malaysia.[26]

Both Nike and Adidas have been experimenting with ways to make their normal "Americanized" products blend more readily into foreign cultures. For instance, each has been launching new products in China with standard designs embellished with local cultural touches. Adidas has introduced a line of sportswear that follows normal western design (polo-type shirts, for instance) decorated with ancient Chinese swirling "lucky cloud" patterns. Nike, meanwhile, has been marketing its products using various Chinese slogans and traditional sayings.[27]

Economic Factors

A country's level of economic development may affect the desired attributes of a product. Consumers in richer countries often favor products loaded with extra performance features; more price-sensitive consumers in poorer countries typically opt for stripped-down versions of the same products. Sometimes a firm may have to adjust package size or design to meet local conditions. For example, firms selling toothpaste or shampoo in poorer countries often package their goods in single-use sizes to make the products more affordable to local citizens. The quality of a country's infrastructure also may affect the customization decision; thus, manufacturers may reinforce the suspension systems of motor vehicles sold in countries where road maintenance is poor. The availability and cost of repair services also can affect product design. Automobiles sold in poorer countries often use simpler technology, which allows more repairs to be done by backyard mechanics.

Brand Names

One element international firms often like to standardize is the brand name of a product. A firm that does this can reduce its packaging, design, and advertising production costs. It also can capture spillovers of its advertising messages from one market to the next. For example, Avon's entry into the China market was made easier by the fact that millions of consumers had seen its products advertised on Hong Kong television.[28] Mars, Inc., sought to capture the benefits of standardization by dropping its successful local brand names for the Marathon bar in the British market and the Raider chocolate biscuit on the European continent in favor of the more universally known Snickers and Twix brands.[29] However, sometimes legal or cultural factors force a firm to alter the brand names under which it sells its products. For example, Grupo Modelo SA markets Corona beer in Spain as Coronita because a Spanish vineyard owns the Corona brand name.[30] Coca-Cola calls its low-calorie soft drink Diet Coke in weight-conscious North America but Coca-Cola Light in other markets.

Marvel Comics has recently undertaken an interesting approach to customizing a brand name to local markets. Its popular character Spider-Man was already well-known in India, and Spider-Man comics had reasonable sales levels. But Marvel decided to introduce a new version of Spider-Man in that country. The "new" Spider-Man's alter ego is Pavitr Prabhakar (not Peter Parker), he got his powers from a yogi (instead of a radioactive spider), and he wears a loincloth into battle (instead of the famous spider suit). As a result, sales of Spider-Man comics and Spider-Man licensed merchandise in India have skyrocketed. Certain characters from Disney, Sesame Street, and the Powerpuff Girls have also been modified to better fit the Indian market.[31]

In Practice

- International managers must be cognizant of the legal, cultural, and economic factors in different countries that may influence marketing in those countries.
- The power and significance of brand names in different countries is an important consideration in international marketing.

For further consideration: Can you identify examples of non-U.S. movies or products that have been modified for marketing in the United States?

Pricing Issues and Decisions

The second *P* of the international marketing mix is **pricing**. Developing effective pricing policies is a critical determinant of any firm's success.[32] Pricing policies directly affect the size of the revenues earned by a firm. The policies also serve as an important strategic weapon by allowing the firm to shape the competitive environment in which it does business. For example, Toys 'R' Us has achieved success in Germany, Japan, the United States, and other countries by selling low-priced toys in low-cost warehouse-like settings. Its low prices have placed enormous pressure on its competitors to slash their costs, alter their distribution systems, and shrink their profit margins. The firm's aggressive pricing strategy has effectively forced its competitors to fight the battle for Asian, European, and North American consumers on terms dictated by Toys 'R' Us. Walmart is doing much the same in foreign markets where it competes.

Both domestic and international firms must strive to develop pricing strategies that will produce profitable operations, but the task facing an international firm is more complex than that facing a purely domestic firm. To begin with, a firm's costs of doing business vary widely by country. Differences in transportation charges and tariffs cause the landed price of goods to vary by country. Differences in distribution practices also affect the final price the end customer pays. For example, intense competition among distributors in the United States minimizes the margin between retail prices and manufacturers' prices. In contrast, Japan's inefficient multilayered distribution system, which relies on a chain of distributors to get goods into the hands of consumers, often inflates the prices Japanese consumers pay for goods.

Exchange rate fluctuations also can create pricing problems. If an exporter's home currency rises in value, the exporter must choose between maintaining its prices in the home currency (which makes its goods more expensive in the importing country) and maintaining its prices in the host currency (which cuts its profit margins by lowering the amount of home country currency it receives for each unit sold).

International firms must consider these factors in developing their pricing policies for each national market the firms serve. They must decide whether they want to apply consistent prices across all those markets or customize prices to meet the needs of each. In reaching this decision, the firms must remember that competition, culture, distribution channels, income levels, legal requirements, and exchange rate stability may vary widely by country.

Pricing Policies

International firms generally adopt one of three pricing policies:[33]

1. Standard price policy
2. Two-tiered pricing
3. Market pricing

An international firm following a geocentric approach to international marketing will adopt a **standard price policy**, whereby the firm charges the same price for its products and services regardless of where they are sold or the nationality of the customer. Firms selling goods that are easily tradable and transportable often adopt this pricing approach out of necessity. For example, if a firm manufacturing DRAM memory chips charged different customers vastly different prices, some of its favored customers might begin to resell the chips to less-favored customers—an easy task, given the small size and high value of the chips. Similarly, firms that sell commodity goods in competitive markets often use this pricing policy. Producers of crude oil, such as Aramco, Kuwait Oil, and Pemex, sell their products to any and all customers at prices determined by supply and demand in the world crude oil market. Other commodities produced and traded worldwide, such as coal and agricultural goods, also are sold at competitive prices with suitable adjustments for quality differentials and transportation costs and little regard to the purchaser's nationality.

An international firm that follows an ethnocentric marketing approach will use a **two-tiered pricing policy**, whereby the firm sets one price for all its domestic sales and a second price for all its international sales. A firm that adopts a two-tiered pricing policy commonly allocates to domestic sales all accounting charges associated with research and development, administrative overhead, capital depreciation, and so on. The firm then can establish a uniform foreign sales price without having to worry about covering these costs. Indeed, the only costs that need to be covered by the foreign sales price are the marginal costs associated with foreign sales, such as the product's unit manufacturing costs, shipping costs, tariffs, and foreign distribution costs.

Two-tiered pricing often is used by domestic firms just beginning to internationalize. In the short run charging foreign customers a price that covers only marginal costs may be an appropriate approach for such firms. Although Apple is already a multinational firm, of course, the firm is trying to boost its market presence in India through bargain pricing for local customers who pay with an Indian credit card.[34] However, the strong ethnocentric bias of two-tiered pricing suggests it is not a suitable long-run pricing strategy. A firm that views foreign customers as marginal—rather than integral—to its business is unlikely to develop the international skills, expertise, and outlook necessary to compete successfully in the international marketplace.

Firms that adopt a two-tiered pricing policy also are vulnerable to charges of dumping. Recall from Chapter 9 that dumping is the selling of a firm's products in a foreign market for a price lower than that charged in the firm's domestic market—an outcome that easily can result from a two-tiered pricing system. Most major trading countries have issued regulations intended to protect domestic firms from dumping by foreign competitors. For example, Toyota and Mazda were charged with dumping minivans in the U.S. market. Although the Japanese automakers were not penalized in this case, both subsequently raised their minivan prices to avoid future dumping complaints.

Market Pricing

An international firm that follows a polycentric approach to international marketing will use a **market pricing policy**. Market pricing is the most complex of the three pricing policies and the one most commonly adopted. A firm using market pricing customizes its prices on a market-by-market basis to maximize its profits in each market.

As you may remember from your microeconomics class, the profit-maximizing output (the quantity the firm must produce to maximize its profit) occurs at the intersection of the firm's marginal revenue curve and its marginal cost curve. The profit-maximizing price is found by reading across from the point on the firm's demand curve where the profit-maximizing output occurs. In Figure 16.3(a) the intersection of the marginal revenue curve (*MR*) and the marginal cost curve (*MC*) occurs at *Q*, which is the profit-maximizing output. If you read straight up from *Q* until you reach the demand curve (*D*), then move left to the *y*-axis, you find the profit-maximizing price, *P*, the maximum price at which quantity *Q* of the good can be sold. With market pricing the firm calculates and charges the profit-maximizing price in each market it serves. Figure 16.3(b) shows two markets in which a firm has identical demand and marginal revenue curves but faces different marginal cost curves. The firm faces higher marginal costs in country 1 (MC_1) than in country 2 (MC_2). Accordingly, its profit-maximizing price in country 1 (P_1) is higher than that in country 2 (P_2).

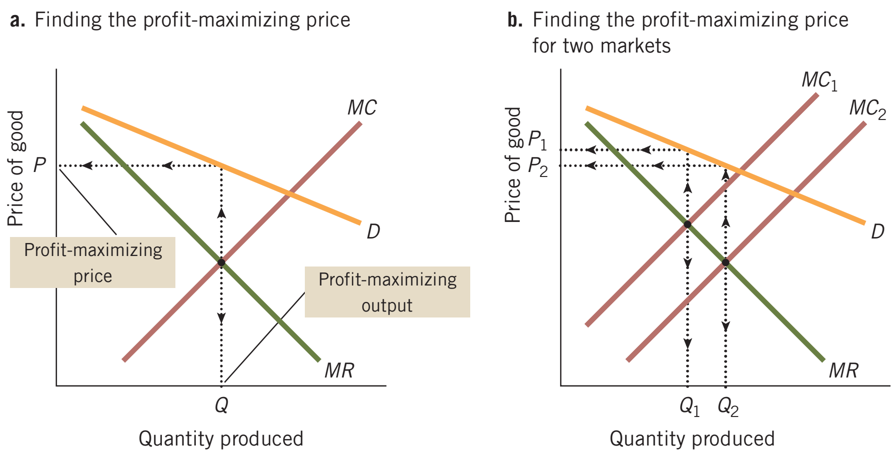
Two conditions must be met if a firm is to successfully practice market pricing:

1. The firm must face different demand or cost conditions in the countries in which it sells its products. This condition usually is met because taxes, tariffs, standards of living, levels of competition, infrastructure costs and availability, and numerous other factors vary by country.
2. The firm must be able to prevent arbitrage, a concept discussed in Chapter 8. The firm's market pricing policy will unravel if customers are able to buy the firm's products in a low-price country and resell them profitably in a high-price country. Because of tariffs, transportation costs, and other transaction costs, arbitrage is usually not a problem if country-to-country price variations are small. If prices vary widely by country, however, arbitrage can upset the firm's market pricing strategy.

Assuming these conditions are met, the advantages of this polycentric approach are obvious. The firm can set higher prices where markets will tolerate them and lower prices where necessary to remain competitive. It also can directly allocate relevant local costs against local sales within each foreign market, thereby allowing corporate strategists and planners to better allocate the firm's resources across markets. Such flexibility comes with a cost, however. To capture the benefits of market pricing, local managers must closely monitor sales and competitive conditions within their markets so that appropriate and timely adjustments can be made. Also, corporate headquarters must be willing to delegate authority to local managers to allow them to adjust prices within their markets.

FIGURE 16.3

Determining the Profit-Maximizing Price



In Practice

- International firms need to decide whether to use a standard price policy, a two-tiered price policy, or a market price policy.
- Managers need to know the extent to which their products are affected by gray markets and, if so, how to respond.

For further consideration: Suppose you notice that the price of a product you buy regularly is much less (or more) expensive in another country. How does this affect your impressions of the company that makes the product?

Promotion Issues and Decisions

Promotion, the third *P* of the international marketing mix, encompasses all efforts by an international firm to enhance the desirability of its products among potential buyers. Although many promotional activities are specifically targeted at buyers, successful firms recognize they also must communicate with their distributors and the general public to ensure favorable sentiment toward the firms themselves and their products. Because promotion relies on communication with audiences in the host country, it is the most culture bound of the four Ps. Thus, a firm must take special care to ensure that the message host-country audiences receive is in fact the message the firm intended to send. International marketing managers must therefore effectively blend and use the four elements of the **promotion mix**—advertising, personal selling, sales promotion, and public relations—to motivate potential customers to buy their firms' products.

Advertising

For most international firms, especially those selling consumer products and services, advertising is the most important element in the promotion mix. As a firm develops its advertising strategy, it must consider three factors:

1. The message it wants to convey
2. The media available for conveying the message
3. The extent to which the firm wants to globalize its advertising effort

At the same time the firm must take into account relevant cultural, linguistic, and legal constraints found in various national markets.

MESSAGE The **message** of an advertisement is the facts or impressions the advertiser wants to convey to potential customers. An automaker may want to convey a message of value (low price), reliability (quality), or style (image and prestige). The choice of message is an important reflection of the way the firm sees its products and services and the way it wants them to be seen by customers. Coca-Cola, for example, believes its products help consumers enjoy life, and its advertising messages consistently stress this theme worldwide. Products that are used for different purposes in different areas will need to be marketed differently. For instance, in the United States motorcycles are seen primarily as recreational products, but in many other countries they are seen mainly as a means of transportation. Thus, Honda and Kawasaki's ads in the United States stress the fun and excitement of riding. In poorer countries they stress the reliability and functionalism of motorcycles as a mode of inexpensive transportation.[39]

A product's country of origin often serves as an important part of the advertising message.[40] Among fashion-conscious teenagers and young adults in Europe and Japan, U.S. goods often are viewed as being trendy. Thus, Harley-Davidson, Apple products, Gibson guitars, Stetson hats, and the National Basketball Association, among others, highlight the U.S. origins of their products. The engineering of German products is often perceived to be of very high quality, so international marketers emphasize the German origins of such products as BMW and Mercedes-Benz automobiles.

VENTURING ABROAD

PUTTING THE GREEK INTO YOGURT

Hamdi Ulukaya was born and raised in Turkey. He helped work in the family dairy, and loved eating the thick, tangy yogurt that his mother prepared from an old family recipe. As he traveled through Europe as a young man, he found similar kinds of yogurt all along the way and became a real aficionado. He later learned that European yogurt has generally always been made using the so-called Greek process that removes the whey from the final product (water left after the milk has been cultured) resulting in a thick, creamy yogurt.

Ulukaya moved to the United States in 1994 to study English. Although he loved his new country, he detested the yogurt varieties marketed in this country by Dannon, Yoplait, and other companies. These manufacturers produced yogurt using a different process that left the whey in the yogurt—harmless, but resulting in a thinner, less creamy product. He thought it tasted poorly in comparison to the yogurt he grew up with. Meanwhile, Ulukaya started a small business producing feta cheese for restaurants, built it into a successful operation, and accumulated some savings.

One day in 2004 Ulukaya read an article about an old yogurt plant that Kraft Foods was closing. The next day he drove to upstate New York, inspected the plant, and then quickly, with the help of a loan from the U.S. Small Business Association, bought the old plant for a song. But then he needed some equipment. He found a used machine called a separator in Wisconsin and bought it for $50,000. He also wanted to create some unique packaging. U.S. suppliers wanted $250,000 just to create a mold for the new yogurt container, but Ulukaya found a company in Colombia that would do the job for half that amount.

Finally, after a couple of years of trying and testing recipes and getting his business plan finalized, Ulukaya launched his new yogurt in 2007. He named it Chobani—Turkish for shepherd. And to say it has been successful would be an understatement. For example, the business plan called for eventually selling 20,000 cases of Chobani a week. By mid-2009, they found they could add a zero to that—200,000 cases a week were going out the door. And now Ulukaya is a billionaire. Chobani is made and sold in Europe and Australia, but, not surprisingly, Dannon and Yoplait have aggressively introduced their own versions of Greek yogurt. But for the time being, at least, Chobani still hasn't found its ceiling and is now shipping 1.2 million cases a week, and sales are still growing. Not bad for a Turkish immigrant just looking to learn a foreign language![41]

MEDIUM The **medium** is the communication channel used by the advertiser to convey a message. A firm's international marketing manager must alter the media used to convey its message from market to market based on availability, legal restrictions, standards of living, literacy rates, the cultural homogeneity of the national market, and other factors. In bilingual or multilingual countries such as Belgium, Switzerland, and Canada, international firms must adjust their mix of media outlets to reach each of the country's cultural groups. For example, Nestlé communicates to its French-speaking Swiss audience by advertising in French-language newspapers and to its German-speaking Swiss audience via ads in German-language newspapers.

A country's level of economic development also may affect the media firms use. In many less-developed countries television ownership may be limited and literacy rates low. This eliminates television, newspapers, and magazines as useful advertising media but raises the importance of radio. Some firms have developed innovative solutions to communicate with potential consumers. For example, Colgate-Palmolive wished to increase its sales in rural India. Unfortunately, only one-third of rural Indians own television sets, and more than half are illiterate. To reach these customers, the company's marketers outfitted "video vans" to tour the rural countryside. After showing rural villagers a half-hour infomercial extolling the virtues of the company's oral hygiene products, sales representatives handed out samples of Colgate toothpaste and toothbrushes. This technique has proved successful, doubling toothpaste consumption in rural areas during the past decade.[42]

Legal restrictions also may prompt the use of certain media. Most national governments limit the number of TV stations as well as the amount of broadcast time sold to advertisers. Countries often outlaw the use of certain media for advertising products that may be harmful to their societies. For example, South Korea, Malaysia, Hong Kong, China, and Singapore ban cigarette advertising on television. South Korea has broadened the ban to magazines read primarily by women and by persons under the age of 20; Hong Kong has extended it to radio; China to radio, newspapers, and magazines; and Singapore to all other media.[43] As in the United States, however, this ban has prompted tobacco firms to sponsor athletic events and to purchase display ads at stadiums that will be picked up by TV cameras.[44] Legal restrictions on the advertising of alcoholic products also are common throughout the world.

GLOBAL VERSUS LOCAL ADVERTISING A firm also must decide whether advertising for its product or service can be the same everywhere or must be tailored to each local market the firm serves.[45] Some products, such as Coca-Cola soft drinks, Bic pens, Levi jeans, and McDonald's hamburgers, have almost universal appeal. Such companies frequently advertise globally, using the same advertising campaign in all of the markets they serve. For example, Coca-Cola introduced a series of ads shown globally that featured its "Always Coca-Cola" slogan.[46]

Sometimes international businesses may choose to make subtle adaptations to meet the needs of the local market. Unilever applied this approach to an advertising campaign for Dove soap. The company's TV commercials were identical in each market, but the actors were not. On the same stage and set, U.S., Italian, German, French, and Australian models were filmed in succession, each stating in her own language, "Dove has one-quarter cleansing cream."[47] Nestlé used a single theme in promoting Kit Kat candy to its European customers—"Have a break, have a Kit Kat"—but changed the backgrounds to better appeal to customers across national markets.

Other firms have opted for a regionalization strategy. IBM, for instance, began advertising its products in European markets by creating a pan-European advertising campaign. Instead of customizing its ads by country, IBM featured the same text and visual images in all its European ads, altering only the language used for its broadcast and print ads. IBM determined that this approach saved $22 to $30 million in creative and production expenses (of a total advertising budget of $150 million). However, maintaining uniformity of the product's image was of paramount concern. The campaign was designed specifically to ensure that IBM's European clients, regardless of the country in which they were located, received the same message about its product.[48] Similarly, Levi Strauss used the same TV ad to sell its 501 jeans in six European markets. Because each of its commercials costs about $500,000 to shoot, Levi Strauss would have spent about $3 million on six ads and thus saved $2.5 million in production costs alone by choosing this regional strategy.[49]

Whether to choose a standardized or a specialized advertising campaign also is a function of the message the firm wants to convey. Standardized advertisements tend to contain less concrete information than do more specialized advertisements. Ads for products such as candy and soft drinks often can be standardized because the ads stress the warm, emotional aspects of consuming the good, whereas ads for products such as credit cards, automobiles, and airline services tend to be customized to meet the needs of local consumers.[50]

E-WORLD

¿QUÉ PASA IN THE AD AGENCY?

- *A recent Toyota television ad in the United States:* A father is explaining Toyota's hybrid engine to his son. "[The car] runs on gas and electricity," he says. "*Mira. Mira aquí.* [Look. Look here.] It uses both." The son replies, "Like you, with English and Spanish." "*Sí*," replies the father.

As the makeup of U.S. society changes, foreign businesses that advertise in the U.S. have realized that they need to change the ways in which they communicate with diverse customer bases. It might come as something of a surprise, but this Toyota TV spot reflects a revolutionary change in the way companies address potential buyers from different cultures. Once, for example, Toyota assumed that Hispanics living in the United States were immigrants, spoke no English, and clung to old-world values. Today, however, they're well aware of the fact that more than half of the country's 50 million Hispanics were born in this country. Like the father and son in Toyota's depiction of Hispanic life, most Spanish speakers know English and mix elements not only of both languages but of both U.S. and Latino culture. "This group is not about nostalgia for the home country," says Jaime Fortuño, managing partner of Azafrán, a New York–based ad agency.

There was also a time when advertisers relied on mainstream ads—ads aimed at the center of the market where they expected to find the "typical" consumer. But as the purchasing power of minorities has increased, companies have put more energy into developing targeted ads—ads aimed at specific groups of consumers and often delivered through language-targeted media. Today, for example, a corporation thinks nothing of budgeting $100 million a year for Hispanic-themed ads. Since 2004, about one-third of ads targeted to Hispanics have been presented in Spanish, and that proportion is growing—for good reason. The buying power of Hispanics grew from $490 billion in 2000 to $1 trillion in 2010—a rate of 108 percent over the decade (compared to a 49 percent rate for the majority market). By 2015, Hispanic buying power will hit $1.5 trillion and will account for 11 percent of the national total.

In similar fashion, of course, all international marketers need to understand the cultural nuances of foreign markets where they promote their products and services. South Africa, for example, has 12 "official" languages. Although many residents there speak and understand English, honing in on traditional tribal languages also offers opportunities. Similarly, many different dialects are spoken in China and so marketers can't simply translate to "Chinese."[51]

Personal Selling

The second element of the promotion mix is **personal selling**—making sales on the basis of personal contacts. The use of sales representatives, who call on potential customers and attempt to sell them a firm's products or services, is the most common approach to personal selling.[52] Because of the close contact between the salesperson and the potential customer, sellers are likely to rely on host-country nationals to serve as their representatives. A firm just starting international operations often will subcontract personal selling to local sales organizations that handle product lines from several firms. As the firm grows and develops a sales base in new markets, it may establish its own sales force. Colgate-Palmolive, for example, made effective use of personal selling to gain market share in Central Europe. The firm opened a sales office in Warsaw after the Iron Curtain fell and used it to develop a well-trained professional sales staff. That staff has made Colgate-Palmolive the consumer products market leader in Poland.[53]

The importance of personal selling as an element of the promotion mix differs for industrial products and for consumer products. For industrial products (such as complex machinery, electronic equipment, and customized computer software) customers often need technical information about product characteristics, usage, maintenance requirements, and availability of after-sales support. Well-trained sales representatives often are better able to convey information about the intricacies of such products to customers than are print or broadcast media. For consumer products, personal selling normally is confined to selling to wholesalers and to retail chains. Most consumer products firms find that advertising, particularly in print and broadcast media, is a more efficient means of communicating with consumers than is personal selling. However, personal selling can be used to market some goods. Avon and Amway, for example, have successfully exported to the Asian and European markets the personal selling techniques they developed in the United States. Similarly, American International Group (AIG) carefully built its 5,000-person sales force in Shanghai over a four-year period; today AIG is the leading foreign-owned insurance company in the country.[54]

In Amway's case, personal selling and the ethnic ties of its existing distributors have played a critical role in the firm's internationalization strategy. When Amway decided to enter the Philippines in 1997, it encouraged distributors of Philippine heritage from the United States, New Zealand, and Australia to act as ambassadors, recruiting new distributors there. Because the ambassadors receive a percentage of the sales generated by the persons they recruit, more than 100 existing distributors eagerly traveled to the Philippines at their own expense to develop Amway's sales force. The company has used a similar approach to break into the Korean and Chinese markets.[55]

Personal selling has several advantages for an international firm:

- Firms that hire local sales representatives can be reasonably confident that those individuals understand the local culture, norms, and customs. For example, a native of India selling products in that country will be better informed about local conditions than will someone sent from Spain to sell products in India.
- Personal selling promotes close, personal contact with customers. Customers see real people and come to associate that personal contact with the firm.
- Personal selling makes it easier for the firm to obtain valuable market information. Knowledgeable local sales representatives are an excellent source of information that can be used to develop new products or to improve existing products for the local market.

On the other hand, personal selling is a relatively high-cost strategy. Each sales representative must be adequately compensated even though each may reach relatively few customers. An industrial products sales representative, for example, may need a full day or more to see just one potential customer. After a sale is closed, the sales representative may still find it necessary to spend large blocks of time with the customer explaining how things work and trying to generate new business. Most larger international firms also find it necessary to establish regional sales offices staffed by sales managers and other support personnel, which add more sales-related costs.

Sales Promotion

Sales promotion comprises specialized marketing efforts such as coupons, in-store promotions, sampling, direct-mail campaigns, cooperative advertising, and trade fair attendance. Sales promotion activities focused on wholesalers and retailers are designed to increase the number and commitment of these intermediaries working with the firm. Many international firms participate in international trade shows such as the Paris Air Show or the Tokyo Auto Mart to generate interest among existing and potential distributors for the firms' products. Participation in international trade shows often is recommended as a first step for firms wanting to internationalize their sales. The U.S. Department of Commerce often will help small U.S. firms participate in overseas trade shows as part of its export promotion efforts. Agencies with a similar mission exist in the governments of most major trading nations. Firms also may develop cooperative advertising campaigns or provide advertising allowances to encourage retailers to promote the firms' products.

Sales promotion activities may be narrowly targeted to consumers or offered for only a short time before being dropped or replaced with more permanent efforts. This flexible nature of sales promotions makes them ideal for a marketing campaign tailored to fit local customs and circumstances. For example, British American Tobacco, Philip Morris, and R. J. Reynolds competed in the Taiwanese market by handing out free cigarettes, a practice not used in the U.S. market. Philip Morris and R. J. Reynolds built market share by offering Korean consumers free cigarette lighters and desk diaries emblazoned with the firms' logos in return for cigarette purchases.[56] U.S. airlines have effectively used direct mail and e-mail to lure international travelers away from foreign airlines.

Public Relations

Public relations consists of efforts aimed at enhancing a firm's reputation and image with the general public, as opposed to touting the specific advantages of an individual product or service. The consequence of effective public relations is a general belief that the firm is a good "corporate citizen," that it is reputable, and that it can be trusted.

Savvy international firms recognize that money spent on public relations is money well spent because it earns them political allies and makes it easier to communicate the firms' needs to the general public. They also recognize that, as "foreigners," they often are appealing political targets; thus, the firms attempt to reduce their exposure to political attacks. Toyota provides a case in point. The company received large financial incentives from the state of Kentucky to build its first wholly owned U.S. auto assembly plant in Georgetown. During the first few years it operated that plant, Toyota received a fair amount of criticism for its lack of community concern—Japanese firms, unlike their U.S. counterparts, do not have a tradition of corporate philanthropy. The firm eventually realized it had to adapt its corporate attitudes to local customs if it wanted to maintain the goodwill of local politicians. Toyota subsequently became a model corporate citizen, providing grants to local charities, funding college scholarships to graduating high school students, and sponsoring local youth sports teams.

The impact of good public relations is hard to quantify, but over time an international firm's positive image and reputation are likely to benefit the firm in a host country. Consumers are more likely to resist "buy local" pitches when the foreign firm also is perceived to be a good guy. Good public relations also can help the firm when it has to negotiate with a host country government for a zoning permit or an operating license or when it encounters a crisis or unfavorable publicity. On the other hand, it can take a company a long time to overcome botched public relations efforts. For instance, following the BP oil spill in the Gulf of Mexico in 2010, the firm's top managers committed one gaffe after another in trying to contain the bad press they were getting. Only after the firm's CEO stepped down did BP manage to adjust its message and present a more conciliatory position. And three years later the firm is still running television commercials promoting their efforts to help those affected by the environmental disaster.

In Practice

- International advertising must consider the message to be conveyed, the medium for conveying it, and the degree of standardization that can be achieved.
- International marketing managers need to remember that the effectiveness of personal selling and sales promotion and the importance of public relations varies from one country to another.

For further consideration: Will public relations efforts likely be more effective in a developed country like Spain or a less developed country like Zambia? Why?

Distribution Issues and Decisions

The fourth *P* of the international marketing mix is place—more commonly referred to as distribution. **Distribution** is the process of getting products and services from the firm into the hands of customers. (As we discuss in Chapter 17, distribution is also one component of international logistics management.) An international firm faces two important sets of distribution issues:

1. Physically transporting its goods and services from where they are created to the various markets in which they are to be sold
2. Selecting the means by which to merchandise its goods in the markets it wants to serve

International Distribution

The most obvious issue an international firm's distribution managers must address is the selection of a mode (or modes) of transportation for shipping the firm's goods from their point of origin to their destination. This choice entails a clear trade-off between time and money, as Table 16.2 indicates. Faster modes of transportation, such as air freight and motor carrier, are more expensive than slower modes, such as ocean shipping, railroad, pipeline, and barge. However, the transportation mode selected affects the firm's inventory costs and customer service levels, as well as the product's useful shelf life, exposure to damage, and packaging requirements. International air freight, for example, scores high on each of these dimensions, whereas ocean shipping ranks low.

Consider the impact of transportation mode on the firm's inventory expenses and the level of customer service. If the firm relies on slower modes of transportation, it can maintain a given level of inventory at the point of sale only by maintaining higher levels of inventory in transit. If the firm selects unreliable modes that make it difficult to predict when shipments will actually arrive, the firm will have to increase buffer stocks in its inventory to avoid stock-outs that will lead to disappointed customers. Slower modes of transportation also increase the firm's **international order cycle time**—the time between the placement of an order and its receipt by the customer—for any given level of inventories. Longer order cycle times lower the firm's customer service levels and may induce its customers to seek alternative supply sources.

The product's shelf life affects the selection of transportation mode. Goods that are highly perishable because of physical or cultural forces—such as cut flowers or fashionable dresses—are typically shipped by air freight because of their short shelf life. Less perishable products, such as coal, crude oil, or men's socks, are shipped using less expensive modes. In some cases the transportation mode may affect the product's packaging requirements. For example, goods sent on long ocean voyages may need special packaging to protect them from humidity and damage resulting from rough seas; the firm could avoid the extra costs of packaging if it chose a faster mode such as air freight. Of course, a simple solution is sometimes available: When Calpis, a Colorado-based agricultural goods processor, entered the Japanese orange juice market, the firm switched its packaging from glass bottles to cans to reduce breakage.[57]

TABLE 16.2 Advantages and Disadvantages of Different Modes of Transportation for Exports

Transportation Mode	Advantages	Disadvantages	Sample Products
Train	Safe Reliable Inexpensive	Limited to rail routes Slow	Automobiles Grains
Airplane	Safe Reliable	Expensive Limited access	Jewelry Medicine
Truck	Versatile Inexpensive	Small size	Consumer goods
Ship	Inexpensive Good for large products	Slow Indirect	Automobiles Furniture
Digital media	Fast	Unusable for many products	Information

Channels of Distribution

An international firm's marketing managers also must determine which distribution channels to use to merchandise the firm's products in each national market it serves. Figure 16.4 shows the basic channel options used by most international manufacturing firms. Note that a distribution channel can consist of as many as four basic parts:

1. The manufacturer that creates the product or service
2. A wholesaler that buys products and services from the manufacturer and then resells them to retailers
3. The retailer that buys from wholesalers and then sells to customers
4. The actual customer, who buys the product or service for final consumption

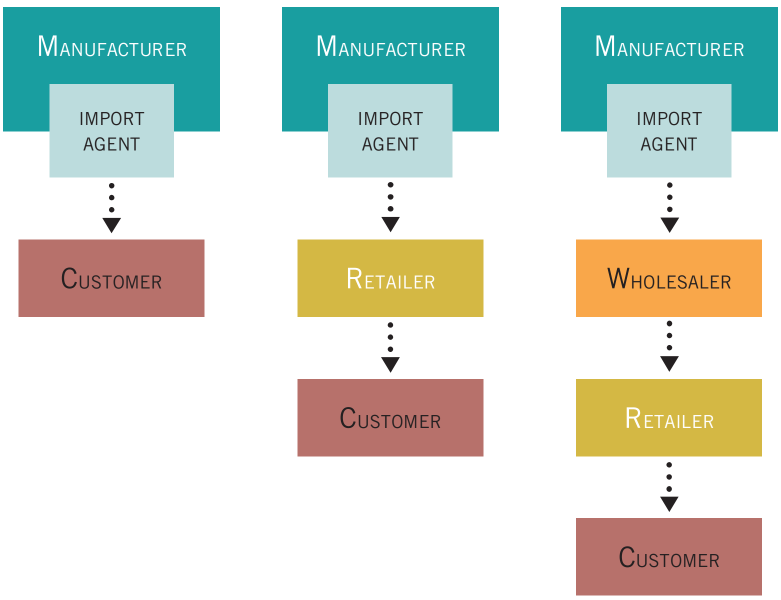
Import agents (discussed in Chapter 11) also may be used as intermediaries, especially by smaller firms.

One important factor illustrated by Figure 16.4 is **channel length**, the number of stages in the distribution channel. A firm that sells directly to its customers, which then pay the business directly, bypasses wholesalers and retailers and therefore has a short distribution channel. This approach is called **direct sales** because the firm is dealing directly with its final consumer. Dell Computer started out as a direct-sales business, taking customer orders over toll-free, 24-hour telephone lines. The advantage of this approach is that the firm maintains control over retail distribution of its products and retains any retailing profits it earns. Unfortunately, the firm also bears the costs and risks of retailing its products.

A slightly longer channel of distribution involves selling to retailers, which then market and sell the products to customers. This is easiest to do when retailers in a given market are heavily concentrated. When there are relatively few large retailers, selling directly to each is easier for manufacturers; when a larger number of smaller retailers are present, selling to each is more complex. For example, huge supermarkets with vast selections of foods and toiletries exist throughout the United States. In Europe, however, many consumers still buy food from small neighborhood stores, and few of these carry toiletries. A consumer products firm therefore will have to use different approaches to distributing its products in the two markets. For example, in the United States P&G may sell directly to Kroger or Safeway, which will routinely stock several hundred tubes of toothpaste of various sizes on its shelves and store cartons of inventory in its warehouses. A European retailer, however, may have retail space for only a few tubes and little storage space for backup inventory, thereby making it more difficult for P&G to sell directly to such outlets.

The longest distribution channel involves the use of wholesalers. Wholesalers are separate businesses that buy from manufacturers and then resell to retailers or, in some cases, to other wholesalers. For example, small farmers cannot easily sell their produce to large grocery

FIGURE 16.4
Distribution Channel Options



CHAPTER REVIEW

Summary

International marketing is the process of planning and executing the conception, pricing, promotion, and distribution of ideas, goods, and services across national boundaries to create exchanges that satisfy individual and organizational objectives.

International marketing management is a critical organizational operation that should be integrated with other basic functions such as operations and human resource management. International marketing is generally based on one of three business strategies: differentiation, cost leadership, or focus. Determining the firm's marketing mix involves making decisions about product, pricing, promotion, and place (distribution). A related basic issue that marketing managers must address is the extent to which the marketing mix will be standardized or customized for different markets. A variety of factors must be considered in making this decision.

Product policy focuses on the tangible and intangible factors that characterize the product itself. Standardization versus customization is again a consideration. Industrial products and consumer products usually require different types of product policies. Legal, cultural, and economic forces also affect product policy and must be carefully evaluated.

Pricing issues and decisions constitute the second element of the marketing mix. The three basic pricing philosophies are standard pricing, two-tiered pricing, and market pricing. Market pricing, the most widely used and complex policy, involves setting different prices for each market. Basic economic analyses are used to arrive at the prices. Concerns related to gray markets, dumping, and potential consumer resentment must be addressed by firms that use this approach. Otherwise, serious problems may result.

Promotion issues and decisions generally concern the use of advertising and other forms of promotion. The promotion mix is a blend of advertising, personal selling, sales promotion, and public relations. Each of these elements is usually carefully tailored for the market in which it will be used and implemented accordingly.

Finally, international marketing managers also must plan for distribution—getting products and services from the firm to customers. International distribution may involve a variety of transportation modes, each with its own unique set of advantages and disadvantages. A firm must also develop appropriate distribution channels, which may involve wholesalers and retailers in addition to the firm and its customers. Effective distribution can have a significant impact on a firm's profitability.

Review Questions

16-1. What are the basic factors involved in deciding whether to use standardization or customization?

16-2. How do legal, cultural, and economic factors influence product policy?

16-3. Why are brand names an important marketing tool for international business?

16-4. What are the three basic pricing policies?

16-5. What are the dangers in attempting to set prices globally?

16-6. What are some of the fundamental issues that must be addressed in international advertising?

16-7. How can international marketing managers find the optimal distribution channel, and develop a comprehensive distribution strategy for goods and services they intend to sell in foreign markets?

Questions for Discussion

16-8. What are the similarities and differences between domestic and international marketing?

16-9. Identify several products you think could be marketed in a variety of foreign markets with little customization. Identify other products that clearly would require customization.

16-10. How do legal, cultural, and economic factors in your home country affect product policy for foreign firms?

16-11. International marketing managers need to remember that the effectiveness of personal selling, sales promotions, advertisements and the importance of public relations varies from one country to another. Discuss with examples.

16-12. What are the advantages and disadvantages of each pricing policy? Why do most international firms use market pricing?

16-13. EPG is a framework used to identify strategic profiles for international business strategy. What 'orientations' or approaches are associated with stages in the evolution of international operations.

16-14. What are some basic differences you might expect to see in TV ads broadcast in France, Japan, Saudi Arabia, and the United States?

Building Global Skills

Ajax Alarms is a medium-sized U.S. firm that sells alarm clocks. It subcontracts the production of its clocks to a Korean firm, which manufactures them based on Ajax designs and specifications and then ships the clocks directly to the Ajax warehouse in Kansas. Ajax markets and distributes the clocks throughout the United States and Canada. The clocks themselves are brightly colored novelty items. For example, one of the firm's biggest sellers is a plastic rooster that crows in the morning. Last year Ajax reported profits of $5 million on total revenues of slightly more than $50 million.

Ajax managers have determined that the firm has few growth opportunities in the United States and Canada and so must enter new markets if it is to continue to expand. The managers have decided to start by selling in Mexico. They have hired you, an internationally famous marketing consultant, to advise them.

Your assignment is to outline a marketing plan for Ajax. Ajax wants you to consider product policy, pricing, promotion, and distribution issues. In developing your marketing plan, be sure to consider the factors discussed in this chapter, including standardization versus customization, legal forces, cultural influences, economic factors, and brand name questions. Note specific areas in which you can make recommendations to your client. For example, if you believe a certain advertising medium will be beneficial to Ajax, make that recommendation (be sure to provide some rationale or justification). If you feel you lack sufficient information to make a recommendation in some area, identify the factors that must be addressed by Ajax in that particular area. For example, if you cannot recommend a pricing policy, describe the information Ajax needs to acquire and evaluate when making that decision.

CLOSING CASE Novica Opens Doors Across National Boundaries

One of the longest-surviving online businesses in the world recently celebrated its 16th anniversary. This business provides a unique online experience, and, at the same time, is attempting to change the world. No, the company is not Google, Facebook, eBay, or Amazon. It's Novica, an online retailer of beautiful handmade items from Brazil, Ghana, India, Indonesia, Mexico, Peru, and Thailand. Novica's founders were Armenia Nercessian de Oliveira, a Brazilian and longtime United Nations human rights worker; Roberto Milk, her 23-year-old son-in-law; and Roberto's brother, Andy. Roberto and Andy are sons of a Peace Corps volunteer.

Their business plan, launched in 1997, was based on direct sales between artisans in developing countries and customers in the United States. Together, the founders had lived in or traveled to dozens of countries, spoke a number of languages, and had strong management and financial experience. But despite their obvious qualifications, "everyone said it couldn't be done: simultaneously establish offices in countries all over the world, pay artists more than they have ever made before, and ship purchases directly to customers worldwide from countries all over the world with no U.S. warehousing," says de Oliveira. "But we did it! Novica.com [is now] the leading online world style marketplace."

Although some companies choose globalization to reduce costs or to respond to competitive pressure, Novica is more concerned about building global communities that share products and ideas. The main goal of Novica is not "merely selling products," de Oliveira emphasizes. "We are actively working to disseminate cultures and restore the importance and appreciation of traditional cultures and skills." Moreover, it is important for the company that both cultures benefit and are not harmed by the exchange. "Novica has broken down the traditional international barriers to direct trade between individuals," says Catherine Ryan, Novica's Vice President for Communications. "Our goal is to help usher in a second, positive era of globalization that moves away from both the consolidation of the marketplace and the homogenization of culture."

Novica's business model shows a close fit with the cultural characteristics of both the United States and developing nations. Americans tend to want to buy luxury goods for themselves and their homes. They often prefer objects that are unique and handcrafted to ones that are mass produced. In parallel fashion, individuals from developing nations and traditional cultures often like to work with family and friends, typically from home or in a small organization. All of these preferences are supported by Novica.

Although Novica was already succeeding, the firm gained new financial strength and marketing support when National Geographic bought a minority stake in the company in 2001. Today more than 11,500 artists are featured and thousands of others are employed. "Novica is all about promoting artisans as individuals and increasing appreciation of all cultures—on a tremendous scale," notes Ryan. Her employer provides an online marketplace to connect artists in developing countries with buyers in the United States. Novica is unique among sellers of international art in sustaining global culture by opening direct lines of communication and trade among a diverse group of individuals. The company's website gives clues to the diverse characteristics, motivations, and values of the artisans and buyers.

Artist biographies and detailed product information encourage cultural awareness. Pravakar Das, from Puri in India, explains his traditional Hindu temple paintings. "*Patachitra* painting originated thousands of years ago to adorn the temple of Lord Jagarnath, another name for Krishna. . . . [They are used in] the *Jagarnath Mandir* festival, where thousands of devotees offer their prayers."

Neide Ambrosio crochets soda can tops she finds discarded on Brazil's beaches into purses and belts. "Novica encouraged my creativity," she says. "I realized myself as a person. My quality of life improved . . . I now offer employment to ten young girls from *favelas*. . . . It's also a good way for me to keep Brazil clean and unpolluted." Ambrosio adds, "I feel so glad every time I read what my clients tell me. It is so motivating!"

A letter from customer Jeane Vogel tells about her bond with the artist who created the jewelry she purchased from Novica. "Rajan made me feel as if I were his cherished friend. . . . He included a hand-written note—in two languages. I felt quite beloved.... He connects in a very personal way with the recipient of his art."

Many Novica artisans can now afford to own their own homes, buy computers, or send children to college, unheard-of luxuries for much of the population in developing regions. Even more important than financial gain, according to de Oliveira, are the social benefits. "Beyond business and the economic improvement of artisans, we are also and mainly talking about dignity, about pride, about the international recognition of extraordinary work.... We're succeeding in transmitting human energy along with each item that is sold through us."

Case Questions

16-15. What is the difference between international marketing and international community building? In what ways, if any, do these differences matter?

16-16. Could other businesses follow the basic model employed by Novica? Why or why not?

16-17. Visit novica.com and unilever.com. Compare and contrast the two sites in terms of their marketing effectiveness.

16-18. What does this case illustrate about the trade-offs between economic and social benefits in international business?

Sources: "Novica CEO Roberto Milk is announced as 2010 Young Global Leader," *World Economic Forum*, 2011; "An interview with Novica co-founder Armenia Nercessian de Oliveira," "Who is the wander woman?" Novica website, www.novica.com on April 18, 2013; "A cornucopia of crafts from seven nations," *Businessweek*, May 17, 2008; David Harris, "Novica's marketplace transforms the lives of global artists and their authenticity-starved Western patrons," *Whole Life Times*, December 1, 2004; "Telling their stories, changing their lives," *BCG ePanorama*, July 1, 2007, April 18, 2013; novica.com, 2013.

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Go to **mymanagementlab.com** for the following Assisted-graded writing questions:

16-19. Discuss how international marketing relates to international strategy.

16-20. Why do you think that sophisticated and effective multinational firms still occasionally make mistakes in their international marketing efforts?

16-21. Mymanagementlab Only—comprehensive writing assignment for this chapter.

Endnotes

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