SEVENTH EDITION

GLOBAL MARKETING

SVEND HOLLENSEN

'The world today truly is flat, and a sound global perspective is an absolute must for all students. Svend Hollensen's *Global Marketing* provides a thorough and comprehensive treatment that delivers on this need.'

Michael R. Solomon, Professor of Marketing, Haub School of Business, Saint Joseph's University, USA, and Professor of Consumer Behaviour, University of Manchester, UK

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PEARSON EDUCATION LIMITED
Edinburgh Gate
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United Kingdom
Tel: +44 (0)1279 623623
Web: www.pearson.com/uk

First published 1998 by Prentice Hall (print)
Second edition published 2001 by Pearson Education Limited (print)
Third edition published 2004 (print)
Fourth edition published 2007 (print)
Fifth edition published 2011 (print)
Sixth edition published 2014 (print and electronic)
Seventh edition published 2017 (print and electronic)

ISBN: 978-1-292-10011-1 (print)
978-1-292-10014-2 (PDF)
978-1-292-14421-4 (ePub)

British Library Cataloguing-in-Publication Data
A catalogue record for this book is available from the British Library

Library of Congress Cataloging-in-Publication Data
A catalog record for this book is available from the Library of Congress

10 9 8 7 6 5 4 3 2 1
20 19 18 17 16

Cover image © Thomas Vogel/Getty Images

Print edition typeset in 10/12 Basic Commercial LT Com by Spi Global
Print edition printed in Slovakia by Neografia

NOTE THAT ANY PAGE CROSS REFERENCES REFER TO THE PRINT EDITION

BRIEF CONTENTS

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Companion Website

For open-access **student resources** specifically written to complement this textbook and support your learning, please visit **www.pearsoned.co.uk/hollensen**

ON THE WEBSITE

Lecturer Resources

For password-protected online resources tailored to support the use of this textbook in teaching, please visit **www.pearsoned.co.uk/hollensen**

PREFACE

Globalization is the growing interdependence of national economies – involving primarily customers, producers, suppliers and governments in different markets. Global marketing therefore reflects the trend of firms selling and distributing products and services in many countries around the world. It is associated with governments reducing trade and investment barriers, firms manufacturing in multiple countries and foreign firms increasingly competing in domestic markets.

For many years, the globalization of markets, caused by the convergence of tastes across borders, was thought to result in very large multinational enterprises that could use their advantages in scale economies to introduce world-standardized products successfully.

In his famous 1994 book, *The Global Paradox,* John Naisbitt has contradicted this myth, especially the last part:[1]

> The mindset that in a huge global economy the multinationals dominate world business couldn't have been more wrong. The bigger and more open the world economy becomes, the more small and middle sized companies will dominate. In one of the major turn-arounds in my lifetime, we have moved from 'economies of scale' to 'diseconomies of scale'; from bigger is better to bigger is inefficient, costly and wastefully bureaucratic, inflexible and, now, disastrous. And the paradox that has occurred is, as we move to the global context: The smaller and speedier players will prevail on a much expanded field.

When the largest corporations (e.g. IBM, ABB) downsize, they are seeking to emulate the entrepreneurial behaviour of successful SMEs (small and medium-sized enterprises) where the implementation phase plays a more important role than in large companies. Since the behaviours of smaller and (divisions of) larger firms (according to the above quotation) are convergent, the differences in the global marketing behaviour between SMEs and LSEs (large-scale enterprises) are slowly disappearing. What is happening is that the LSEs are downsizing and decentralizing their decision-making process. The result will be a more decision- and action-oriented approach to global marketing. This approach will also characterize this book.

In light of their smaller size, most SMEs lack the capabilities, market power and other resources of traditional multinational LSEs. Compared with the resource-rich LSEs, the complexities of operating under globalization are considerably more difficult for the SME. The success of SMEs under globalization depends in large part on the decision and implementation of the right international marketing strategy.

The primary role of marketing management, in any organization, is to design and execute effective marketing programmes that will pay off. Companies can do this in their home market or they can do it in one or more international markets. Going international is an enormously expensive exercise, in terms of both money and, especially, top management time and commitment. Due to the high cost, going international must generate added value for the company beyond extra sales. In other words, the company needs to gain a competitive advantage by going international. So, unless the company gains by going international, it should probably stay at home.

The task of global marketing management is complex enough when the company operates in one foreign national market. It is much more complex when the company starts

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[1] Naisbitt, J. (1994) *The Global Paradox,* Nicholas Brealey Publishing, London, p. 17.

operations in several countries. Marketing programmes must, in these situations, adapt to the needs and preferences of customers that have different levels of purchasing power as well as different climates, languages and cultures. Moreover, patterns of com-petition and methods of doing business differ between nations and sometimes also within regions of the same nation. In spite of the many differences, however, it is important to hold on to similarities across borders. Some coordination of international activities will be required, but at the same time the company will gain some synergy across borders, in the way that experience and learning acquired in one country can be transferred to another.

Objectives

This book's value chain offers the reader an analytic decision-oriented framework for the development and implementation of global marketing programmes. Consequently, the reader should be able to analyse, select and evaluate the appropriate conceptual frameworks for approaching the five main management decisions connected with the global marketing process: (1) whether to internationalize; (2) deciding which markets to enter; (3) deciding how to enter the foreign market; (4) designing the global marketing programme; and (5) implementing and coordinating the global marketing programme.

Having studied this book, the reader should be better equipped to understand how the firm can achieve global competitiveness through the design and implementation of market-responsive programmes.

Target audience

This book is written for people who want to develop effective and decision-oriented global marketing programmes. It can be used as a textbook for undergraduate or graduate courses in global/international marketing. A second audience is the large group of people joining 'global marketing' or 'export' courses on non-university programmes. Finally, this book is of special interest to the manager who wishes to keep abreast of the most recent developments in the global marketing field.

Prerequisites

An introductory course in marketing.

Special features

This book has been written from the perspective of the firm competing in international markets, irrespective of its country of origin. It has the following key features:

- a focus on SMEs as global marketing players;
- a decision/action-oriented approach;
- a value chain approach (both the traditional product value chain and the service value chain);
- a value network approach (including different actors vertically and horizontally);
- a social media marketing approach is integrated throughout the book;

- coverage of global buyer–seller relationships;
- extensive coverage of born globals and global account management (GAM), as an extension of the traditional key account management (KAM);
- presents new interesting theories in marketing, for example, service value chain, value innovation, blue ocean strategy, social marketing, corporate social responsibility (CSR), global account management, viral branding and sensory and celebrity branding;
- aims to be a 'true' global marketing book, with cases and exhibits from all parts of the world, including Europe, the Middle East, Africa, the Far East, North and South America;
- provides a complete and concentrated overview of the total international marketing planning process;
- many new up-to-date exhibits and cases illustrate the theory by showing practical applications.

Outline

As the book has a clear decision-oriented approach, it is structured according to the five main decisions that marketing people in companies face in connection with the global marketing process. The 20 chapters are divided into five parts. The schematic outline of the book in Figure 1 shows how the different parts fit together. Global marketing research is considered to be an integral part of the decision-making process, therefore it is included in the book (Chapter 5), so as to use it as an important input to the decision about which markets to enter (the beginning of Part II). Examples of the practice of global marketing by actual companies are used throughout the book, in the form of exhibits. Furthermore, each chapter and part ends with cases, which include questions for students.

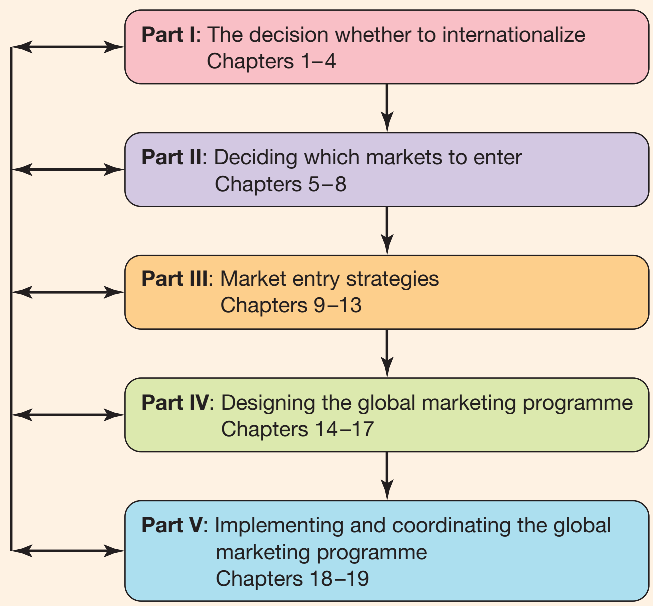


Figure 1 Structure of the book

What's new in the seventh edition?

The new seventh edition is concentrated around two major themes: 'glocalization' and the 'internet of everything'. The glocalization concept which runs throughout this new edition enables international marketers to utilize the synergies arising from being both 'local' and 'global' at the same time. An important aspect of this new edition is its emphasis on the so-called 'internet of everything', which is becoming incorporated in all parts of the daily communication and buying behaviour of consumers around the world. Consequently, this increasing ubiquity of the internet is reflected in its inclusion in every chapter and in most of the cases and exhibits. The book is still structured around the well-known stages that SMEs go through when they internationalize as shown in Figure 1.

The book's chapters and cases are totally updated with newest journal articles and company information. Besides that, the following new issues are introduced in the individual chapters:

- Chapter 1 – the concept of providing customer value through the product value chain and the service value chain is now extended by adding 'customer experiences' as value generator. Augmented reality (AR) can be seen as a form of experiential marketing because it focuses not only on a single product/service, but also on an entire experience created for the customers. AR technology enhances the customer's current perception of reality.
- Chapter 2 – the 'inverted U-shaped curve' is introduced as a means of identifying, in terms of internationalization, the optimum point that results in the maximum number of countries that should be served. Internationalization incurs costs for the expanding company which explains why further internationalization can have a negative influence on profitability and why over-internationalized companies may reduce their degree of internationalization.
- Chapter 4 – introduces the concept of the 'sharing economy', where individuals are able to lease assets (products or services) owned by someone else, typically through an online marketplace. There are several ways of selling use of a product rather than ownership. Hilti is introduced as a company which provides products, systems and services to the global construction industry, but which focuses not only on selling the hand-held power tools but also on selling the use of the products. This chapter also introduces Barney's VRIO analysis in order to determine the competitive potential of a given firm's resource.
- Chapter 5 – here Amazon is used as an example of how companies can use big data and analytics in order to create competitive advantage. Amazon is now offering and selling their algorithm services to other companies, e.g. through Amazon Web Services (AWS).
- Chapter 6 – shows how a company like Google is confronted with political risks. In China, the company experienced political risks, and the chapter shows how they coped with it. Google's involvement in an EU antitrust case is also examined.
- Chapter 8 – introduces the GLOBE model, which is an updated extension of Hofstede's original work. This chapter also discusses the effects of cultural dimensions on ethical decision-making.
- Chapter 12 – presents a framework for analysing the cultural interaction between organizations in different countries, i.e. between HQ and the specific subsidiary/the host country.
- Chapter 14 – introduces e-services through 'cloud computing'. Furthermore, 3-D printing is introduced as a possible new industrial revolution in customization. In the last part, global mobile app marketing is discussed as the new global marketing tool – one which is attracting increasing attention due to the global roll out of 3G and 4G mobile services, together with the increasing penetration of smartphones and tablets. Mobile value-added services (MVAS) represent a special case where the app offers services that are not directly tied to sales but are designed to help customers solve problems or make decisions. Such an app enriches the total customer experience of a product/service offering.

- Chapter 15 – introduces the Freemium (Free + Premium = Freemium) pricing strategy, a pricing strategy by which a product or service is provided free of charge (Free), but changes are introduced afterwards for more advanced features or functionality (Premium).
- Chapter 16 – in connection with the introduction of the omnichannel retailing (or multichannel retailing) approach, a 2×2 matrix is introduced, based on two basic dimensions: information delivery and transaction fulfilment.
- Chapter 17 – now contains the transition from the traditional one-way market communication – playing 'bowling' – to playing 'pinball'. In a social media marketing world, the bowling metaphor no longer fits. In this new arena, marketing can be better described as playing 'pinball': companies serve up a 'marketing ball' (the brand) into a dynamic and chaotic market environment.
- Several new exhibits with real updated company examples are added to vaiours chapters.
- Many completely new and exciting chapter case studies are now available:
  - Case 4.2: **DJI Technology Co. Ltd** – a Chinese 'born global' is dominating the world market for drones with its Phantom
  - Video case 5.3: **BMW i3** – the electric car
  - Video case 7.3: **Allergan** – the maker of Botox and breast implants
  - Video case 8.3: **Oreo Mondelēz**
  - Video case 13.3: **Kone elevators and escalators**
  - Video case 14.3: **Burberry** branding
- Two new part introduction video case studies are now available:
  - Part I Video case study: **Uber**
  - Part II Video case study: **HondaJets**
- Furthermore, completely new part cases have been added:
  - Case II.1: **SodaStream** – managing profitable growth in an increasingly competitive global environment
  - Case II.3: **Zalando** – how can the online apparel retailer turn financial losses into positive profits?
  - Case II.4: **Ferrari** – international market selection (IMS) for the exclusive sports car brand
  - Case III.2: **Netflix Inc.** – the US internet subscription service company is dominating the television and movies and streaming world
  - Case IV.3: **Dyson** – the iconic vacuum cleaner manufacturer launches the robotic version
- In total **6** (chapter cases) + **2** (part video cases) + **5** (part cases) = **13 new cases** have been added to the book, making a total of:
- **38** chapter case studies (two per chapter) + **5** part video case studies (one per part) + **19** chapter video case studies (one per chapter) + **25** part case studies (five per part) = **87** case studies in all.
- Furthermore **16 completely new exhibits** have been added to the book. The total number of exhibits is now **72.**

Pedagogical/learning aids

One of the strengths of *Global Marketing* is its strong pedagogical features:

- Chapter objectives tell readers what they should be able to do after completing each chapter.
- Real-world examples and exhibits enliven the text and enable readers to relate to marketing models.

- End-of-chapter summaries recap the main concepts.
- Each chapter contains two case studies, which help the student relate the models presented in the chapter to a specific business situation.
- Questions for discussion allow students to probe further into important topics.
- Part cases studies – for each part there are five comprehensive case studies covering the themes met in the part. To reinforce learning, all case studies are accompanied by questions. Case studies are based on real-life companies. Further information about these companies can be found on the internet. Company cases are derived from many different countries representing all parts of the world. Tables 1 and 2 present the chapter and part case studies.
- Multiple choice questions.
- Part video case studies: each part is introduced by a video case which highlights a general decision problem from the part.

Table 1 Chapter case studies: overview (the video case studies can be viewed at www.pearsoned.co.uk/hollensen)

Chapter	Case study title, subtitle and related websites	Country/area of company headquarters	Geographical target area	Target market	
				B2B	B2C
Chapter 1 Global marketing in the firm	Case study 1.1 **Green Toys, Inc.** A manufacturer of eco-friendly toys is going international www.greentoys.com	US	US, World	✓	✓
	Case study 1.2 **Hunter Boot Ltd** The iconic British brand is moving into exclusive fashion www.hunterboots.com	UK	World		✓
	Video case study 1.3 **Nivea** (8.56) www.nivea.com	Germany	World		✓
Chapter 2 Initiation of internationalization	Case study 2.1 **LifeStraw** Vestergaard-Frandsen transforms dirty water into clean drinking water www.vestergaard.com	Switzerland	World (developing countries)	✓	✓
	Case study 2.2 **Elvis Presley Enterprises Inc. (EPE)** Internationalization of a cult icon www.elvis.com	US	World		✓
	Video case study 2.3 **TOMS Shoes** www.toms.com	US	World (developing countries)		✓
Chapter 3 Internationalization theories	Case study 3.1 **Zumba** A dance phenomenon is going global www.zumba.com	US	World	✓	✓
	Case study 3.2 **DreamWorks Classics** Internationalization of Postman Pat http://classics.dreamworksanimation.com	UK	World		✓

Table 1 *Continued*

Chapter	Case study title, subtitle and related websites	Country/area of company headquarters	Geographical target area	Target market	
				B2B	B2C
	Video case study 3.3 **Reebok** (9.09) www.reebok.com www.adidas-group.com	US	World	✓	✓
Chapter 4 Development of the firm's international competitiveness	Case study 4.1 **Nintendo Wii** Nintendo's Wii took first place in the world market – but it didn't last www.nintendo.com	Japan	World	✓	✓
	Case study 4.2 **DJI Technology Co. Ltd** A Chinese 'born global' is dominating the world market for drones with its Phantom www.dji.com	China	World	✓	✓
	Video case study 4.3 **Nike** (14.03) www.nike.com	US	World		✓
Chapter 5 Global marketing research	Case study 5.1 **Teepack Spezialmaschinen GmbH** Organizing a global survey of customer satisfaction www.teepack.com	Germany	World	✓	
	Case study 5.2 **LEGO Friends** One of the world's largest toy manufacturers moves into the girl's domain www.lego.com	Denmark	World		✓
	Video case 5.3 **BMW i3** The electric car www.bmw.com	Germany	World		✓
Chapter 6 The political and economic environment	Case study 6.1 **G-20 and the economic and financial crises** What on earth is globalization about? Protests during a meeting in Brisbane, Australia, November 2014 www.theguardian.com/world/g20-brisbane-2014	US	World	✓	✓
	Case study 6.2 **Danfoss Power Solutions** Which political/economic factors would affect a manufacturer of hydraulic components? www.powersolutions.danfoss.com	Denmark, US, Germany	World	✓	

Table 1 *Continued*

Chapter	Case study title, subtitle and related websites	Country/area of company headquarters	Geographical target area	Target market	
				B2B	B2C
	Video case study 6.3 **Debate on globalization** No website available	US	US	✓	✓
Chapter 7 The sociocultural environment	Case study 7.1 **Cirque du Soleil Inc.** The show that revolutionized the circus arts is expanding its global scope www.cirquedusoleil.com	Canada	World		✓
	Case study 7.2 **IKEA catalogue** Are there any cultural differences? www.ikea.com	Sweden, Holland	World		✓
	Video case study 7.3 **Allergan** The maker of Botox and breast implants www.allergan.com			✓	✓
Chapter 8 The international market selection process	Case study 8.1 **Tata Nano** International market selection with the world's cheapest car www.tatamotors.com	India	World (emerging countries)	✓	✓
	Case study 8.2 **Philips Lighting** Screening markets in the Middle East www.philips.com	Holland	World		✓
	Video case study 8.3 **Oreo (Mondelēz)** www.oreo.com	US	World		✓
Chapter 9 Some approaches to the choice of entry mode	Case study 9.1 **Jarlsberg** The king of Norwegian cheeses is deciding on entry modes into new markets www.jarlsberg.com	Norway	World	✓	✓
	Case study 9.2 **Ansell condoms** Is acquisition the right way to gain market shares in the European condom market? www.anselleurope.com www.lifestyles.com	Australia, Belgium	Europe, World		✓
	Video case study 9.3 **Understanding entry modes into the Chinese market** No website available	World	China	✓	

Table 1 *Continued*

Chapter	Case study title, subtitle and related websites	Country/area of company headquarters	Geographical target area	Target market	
				B2B	B2C
Chapter 10 Export modes	Case study 10.1 **Lysholm Linie Aquavit** International marketing of the Norwegian Aquavit brand www.linie.com	Norway	Germany, the rest of the world	✓	✓
	Case study 10.2 **Parle Products** An Indian biscuit manufacturer is seeking agents and cooperation partners in new export markets www.parleproducts.com	India	World	✓	✓
	Video case study 10.3 **Honest Tea** www.honesttea.com	US	World, US		✓
Chapter 11 Intermediate entry modes	Case study 11.1 **Hello Kitty** Can the cartoon cat survive the buzz across the world? www.sanrio.com	Japan	World	✓	✓
	Case study 11.2 **Kabooki** Licensing in the LEGO brand www.legowear.dk	Denmark	World	✓	✓
	Video case study 11.3 **Marriott** (9.36) www.marriott.com	US	World	✓	✓
Chapter 12 Hierarchical modes	Case study 12.1 **Polo Ralph Lauren** Polo moves distribution for South-east Asia in-house www.ralphlauren.com	US	World, Asia	✓	✓
	Case study 12.2 **Durex Condoms** SSL will sell Durex condoms in the Japanese market through its own organization www.durex.com	UK	World	✓	✓
	Video case study 12.3 **Starbucks** www.starbucks.com	US	World	✓	✓
Chapter 13 International sourcing decisions and the role of the subsupplier	Case study 13.1 **ARM** Challenging Intel in the world market of computer chips www.arm.com	UK	World	✓	

Table 1 *Continued*

Chapter	Case study title, subtitle and related websites	Country/area of company headquarters	Geographical target area	Target market B2B	Target market B2C
	Case study 13.2 **Bosch Indego** How to build B2B and B2C relationships in a new global product market – robotic lawnmowers www.bosch.com	Germany	World	✓	✓
	Video case study 13.3 **Kone elevators and escalators** www.kone.com	Finland	World	✓	
Chapter 14 Product decisions	Case study 14.1 **Danish Klassic** Launch of a cream cheese in Saudi Arabia www.arla.com (regarding the Puck brand)	Denmark	Saudi Arabia Middle East	✓	✓
	Case study 14.2 **Zippo Manufacturing Company** Has product diversification beyond the lighter gone too far? www.zippo.com	US	World	✓	✓
	Video case study 14.3 **Burburry branding** www.burberry.com	UK	World		✓
Chapter 15 Pricing decisions and terms of doing business	Case study 15.1 **Harley-Davidson** Does the image justify the price level? www.harley-davidson.com	US	US, Europe		✓
	Case study 15.2 **Gillette Co.** Is price standardization possible for razor blades? www.gillette.com	US	World	✓	✓
	Video case study 15.3 **Vaseline pricing strategy** www.vaseline.com	US	US, World		✓
Chapter 16 Distribution decisions	Case study 16.1 **De Beers** Forward integration into the diamond industry value chain www.debeers.com	South Africa, UK, Luxembourg	Europe, World	✓	✓
	Case study 16.2 **Tupperware** The global direct distribution model is still working www.tupperware.com	US	World	✓	✓
	Video case study 16.3 **DHL** www.dhl.com	Germany	World	✓	

Table 1 *Continued*

Chapter	Case study title, subtitle and related websites	Country/area of company headquarters	Geographical target area	Target market	
				B2B	B2C
Chapter 17 Communication decisions	Case study 17.1 **Helly Hansen** Sponsoring fashion clothes in the US market www.hellyhansen.com	Norway	US	✓	✓
	Case study 17.2 **Morgan Motor Company** Can the British retro sports car brand still be successful after 100 years? www.morgan-motor.co.uk	UK	World (Europe and US)	✓	✓
	Video case study 17.3 **BMW Motorcycles** www.bmwmotorcycles.com www.bmw.com	Germany	US, World	✓	✓
Chapter 18 Cross-cultural sales negotiations	Case study 18.1 **ZamZam Cola** Marketing of a 'Muslim' cola from Iran to the European market www.zamzamrefreshment.com	Iran	Europe, Middle East	✓	✓
	Case study 18.2 **TOTO** The Japanese toilet manufacturer seeks export opportunities for its high-tech brands in the US www.toto.co.jp/en/				
	Video case study 18.3 **Dunkin' Donuts** www.DunkinDonuts.com www.dunkinbrands.com				
Chapter 19 Organization and control of the global marketing programme	Case study 19.1 **Mars Inc.** Merger of the European food, pet care and confectionery divisions www.mars.com	US	World	✓	✓
	Case study 19.2 **Henkel** Should Henkel shift to a more customer-centric organization? www.henkel.com	Germany	World	✓	✓
	Video case study 19.3 **McDonald's** www.mcdonalds.com	US	World	✓	

Table 2 Part case studies: overview

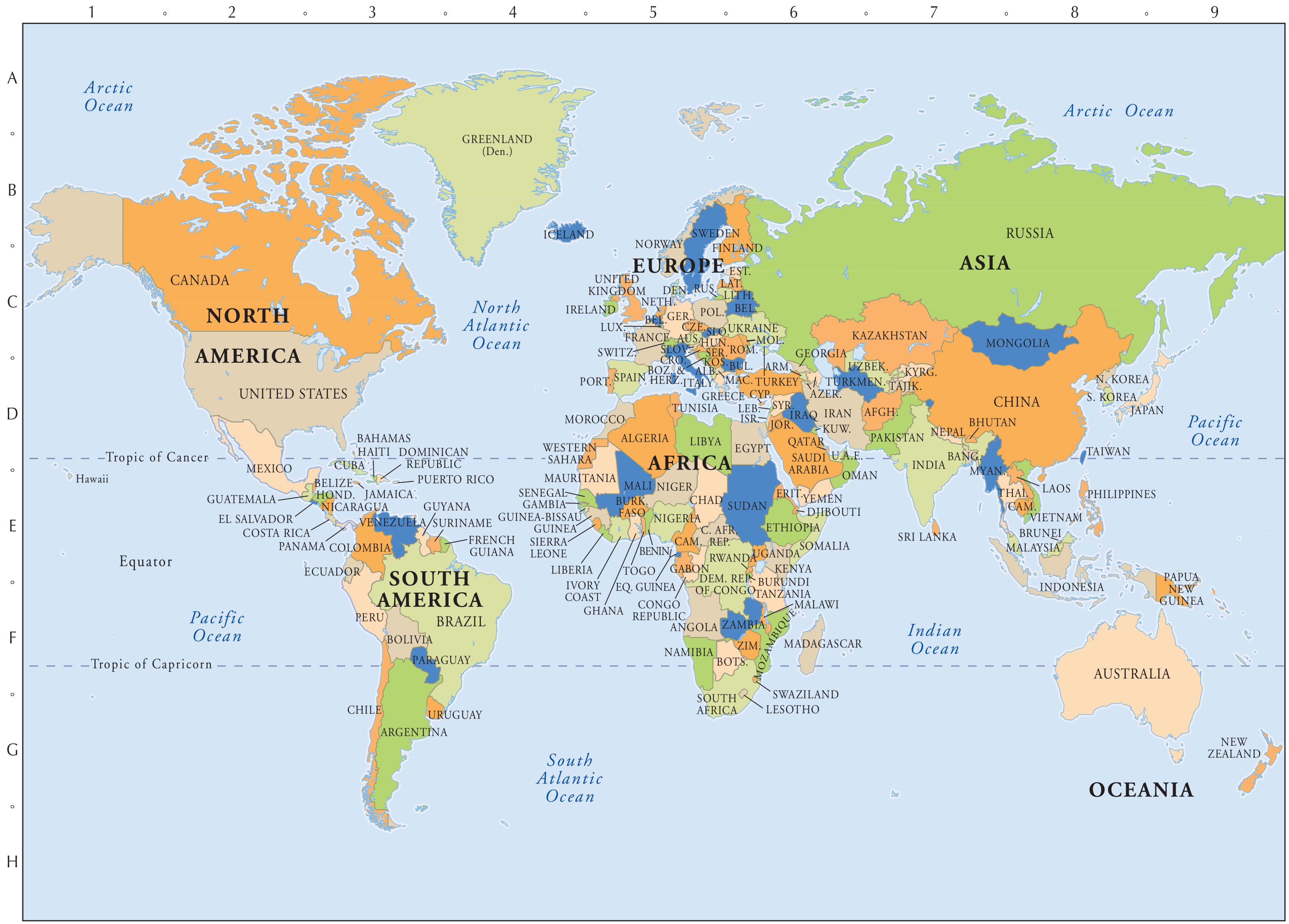
Part	Case study title, subtitle and related websites	Country/area of company headquarters	Geographical target area	Target market B2B	Target market B2C
Part I The decision whether to internationalize	Part video case study **Uber** www.uber.com	US	World		✓
	Case study I.1 **Zara** The Spanish retailer goes to the top of world fashion www.inditex.com/en	Spain	World	✓	✓
	Case study I.2 **Manchester United** Still trying to establish a global brand www.manutd.com	UK	World, US	✓	✓
	Case study I.3 **Adidas** The No. 2 in the global sportswear market is challenging the No. 1, Nike www.adidas.com	Germany	World	✓	✓
	Case study I.4 **Cereal Partners Worldwide (CPW)** The no. 2 world player is challenging the no. 1, Kellogg www.generalmills.com/en/Company/Businesses/international/joint-ventures www.nestle.com/asset-library/documents/media/news-and-features/2011-february/cpw-brochure.pdf	Switzerland, US	World	✓	✓
Part II Deciding which markets to enter	Part video case study **HondaJets** Honda enters the small-sized business jet market http://www.hondajet.com/	Japan	World	✓	
	Case study II.1 **SodaStream** Managing profitable growth in an increasingly competitive global environment www.sodastream.com	Israel	World	✓	✓
	Case study II.2 **The female Health Company (FHC)** The Female condom is seeking a foothold in the world market for contraceptive products www.femalehealth.com	US	World (governmental organizations)	✓	✓
	Case study II.3 **Zalando** How can the online apparel retailer turn financial losses into positive profits? www.zalando.com	Spain	World		✓

Table 2 *Continued*

Part	Case study title, subtitle and related websites	Country/area of company headquarters	Geographical target area	Target market	
				B2B	B2C
	Case study II.4 **Ferrari** International market selection (IMS) for the exclusive sports car brand	Italy	World		✓
Part III Market entry strategies	Part video case study **Müller Yogurts** www.muellergroup.com	Germany	US	✓	✓
	Case study III.1 **Raleigh Bicycles** Does the iconic bicycle brand still have a chance on the world market? www.raleigh.co.uk	UK	World	✓	✓
	Case study III.2 **Netflix Inc.** The US internet subscription service company is dominating the television and movies and streaming world www.Netflix.com	US	World		✓
	Case study III.3 **Autoliv Airbags** Transforming Autoliv into a global company www.autoliv.com	Sweden, US	World	✓	
	Case study III.4 **IMAX Corporation** Globalization of the film business www.imax.com	Canada	World	✓	✓
Part IV Designing the global marketing programme	Part video case study **Tequila Avión** www.tequilaavion.com	US	World	✓	
	Case study IV.1 **Absolut Vodka** Defending and attacking for a better position in the global vodka market www.pernod-ricard.com www.pernod-ricard.com/525/brands/see-all-brands/strategic-brands/absolut-vodka	France, Sweden	World, Eastern Europe		✓
	Case study IV.2 **Guinness** How can the iconic Irish beer brand compensate for declining sales in the home market? www.diageo.com www.guinness.com	UK, Ireland	World	✓	✓
	Case study IV.3 **Dyson** The iconic vacuum cleaner manufacturer launches the robotic version www.dyson.co.uk	UK	US, the rest of the world	✓	✓

Table 2 *Continued*

Part	Case study title, subtitle and related websites	Country/area of company headquarters	Geographical target area	Target market	
				B2B	B2C
	Case study IV.4 **Triumph Motorcycles Ltd** Rising from the ashes in the international motorcycle business www.triumph.co.uk	UK	World		✓
Part V Implementing and coordinating the global marketing programme	Part video case study **Stella & Dot** www.stelladot.com	US	World	✓	✓
	Case study V.1 **Sony Music Entertainment** New worldwide organizational structure and the marketing, planning and budgeting of Pink's new album www.sonymusic.com	US, Japan	World	✓	✓
	Case study V.2 **Red Bull** The global market leader in energy drinks is considering further market expansion www.redbull.com	Austria	World	✓	✓
	Case study V.3 **Tetra Pak** How to create B2B relationships with the food industry on a global level www.tetrapak.com	Holland	World	✓	
	Case study V.4 **Polaroid Eyewear** Can the iconic brand achieve a comeback in the global sunglasses industry? www.polaroideyewear.com	Switzerland, Italy	World		✓



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ACKNOWLEDGEMENTS

Writing any book is a long-term commitment and involves time-consuming effort. The successful completion of a book depends on the support and generosity of many people and the realization of this book is certainly no exception.

I wish to thank the many scholars whose articles, books and other materials I have cited or quoted. However, it is not possible to acknowledge everyone by name. In particular, I am deeply indebted to the following individuals and organizations. I thank you all for your help and contributions:

University of Southern Denmark

- Management at University of Southern Denmark provided the best possible environment for writing and completing this project. I would especially like to thank the Head of the Department of Border Region Studies, Elisabeth Vestergaard, for her support during the writing process.
- Colleagues provided encouragement and support during the writing process. I would especially like to thank the Secretaries, Charlotte Lund Hansen, Angela Hansen and Janne Øe Hobson, and the Project Coordinator, Simon Kleinschmidt Salling, at the University of Southern Denmark, Campus Sønderborg for their helpfulness and support during the writing process.
- The library at the University of Southern Denmark provided articles and books from different worldwide sources.

Reviewers

- Reviewers provided suggestions which were useful in improving many parts of the text.
- In the development of this text, a number of reviewers have been involved, whom I would like to thank for their important and valuable contribution.

Endorsers

I would like to thank the users of the book who have endorsed my *Global Marketing* on Amazon, on my LinkedIn profile or on other social media. I am especially grateful to the front- and backcover endorsers of this edition:

- Professor Philip Kotler, Northwestern University, USA
- Professor Michael R. Solomon, Saint Joseph's University, USA
- Dr Elisabeth Götze, Vienna University of Economics and Business, Austria
- Giovanna Battiston, Sheffield Hallam University, UK

Case contributors

- Wim Wils, Fontys Eindhoven, for Case 8.2: Philips Lighting.
- Vlad Stefan Wulff, for Case 19.2 Henkel.

I also wish to acknowledge the help from the following firms whose managers have provided valuable material that has enabled me to write the cases mentioned. I have been in direct personal contact with most of the case companies and thank the managers involved for their very useful comments. In particular, I would like to thank:

Chapter cases

- The founders of Green Toys, Inc. for Case 1.1 on Green Toys.
- Family Vestergaard-Frandsen for Case 2.1 on LifeStraw.
- Elvis Presley Enterprises, Inc. for Case 2.2 on EPE.
- Zumba Fitness, Florida, for Case 3.1 on Zumba.
- Teepack Spezialmaschinen GmbH, Düsseldorf, Germany for Case 5.1 on Teepack Spezialmaschinen.
- LEGO, Billund, Denmark on Case 5.2 on LEGO Friends.
- Danfoss Power Solutions for Case 6.2 on Danfoss Power Solutions.
- IKEA, Sweden for Case 7.2 on the IKEA Catalogue.
- Jarlsberg, Norway for Case 9.1 on Jarlsberg.
- Arcus AS, Oslo, Norway for Case 10.1 on Lysholm Linie Aquavit.
- Sanrio, Europe for Case 11.1 on Hello Kitty.
- Kabooki, Ikast, Denmark for Case 11.2 on Kabooki.
- Polo Ralph Lauren, USA for Case 12.1 on Polo Ralph Lauren.
- ARM, Cambridge, UK for Case 13.1 on ARM.
- Vaseline, UK for Case 15.3 on Vaseline pricing strategy.
- Morgan Motor Company, UK for Case 17.2 on the Morgan Motor Company.
- Henkel, Germany for Case 19.2 on Henkel.

Part cases

- Inditex, Spain for Case I.1: Zara.
- Raleigh Bicycles, UK for Case III.1: Raleigh Bicycles.
- Autoliv AB, Stockholm, Sweden for Case III.3: Autoliv airbags.
- IMAX Corporation, Toronto, Canada for Case III.4: Imax Corporation.
- The Absolut Company, a division of Pernod Ricard for Case IV.1: Absolut Vodka.
- Sony Music Entertainment, New York, USA for Case V.1: Sony Music Entertainment.
- Red Bull, Austria for Case V.2: Red Bull.

I would like to thank The Tussauds Group for their contribution to Exhibit 14.4.

I would also like to thank Husqvarna AB (Sweden), especially Vice President for Brand and Marketing, Torsten Bollweg, for his permission to show the 'Husqvarna consumer wheel' in Exhibit 17.2.

I am also grateful to the following international advertising agencies, which have provided me with examples of standardized and/or localized advertising campaigns:

- Walter Thompson (JWT Europe), London, who contributed with a European ad for LUX soap.
- Hindustan Thompson (HTA), Bombay, India, who contributed with an ad for Kellogg's Basmati Flakes in India and an ad for LUX soap in India.

I would also like to thank LEGO and Danfoss for their contributions to different examples in the book.

I am grateful to my publisher, Pearson Education. I would like to thank Donna Goddard, Rachel Gear, Rufus Curnow and Anita Atkinson for their commitment to this book project.

I also extend my greatest gratitude to my colleagues at the University of Southern Denmark for their constant help and inspiration.

Finally, I thank my family for their support through the revision process. I am pleased to dedicate this version to Jonna, Nanna and Julie.

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May 2016
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ABBREVIATIONS

ACs	advanced countries
APEC	Asia-Pacific Economic Cooperation
AR	augmented reality
ASEAN	Association of South East Asian Nations
B2B	business to business
B2C	business to consumer
BATNA	best alternative to a negotiated agreement
BDA	before–during–after
BERI	Business Environment Risk Index
BMI	Business Monitor International
BOP	bottom of the pyramid
BRIC	Brazil, Russia, India and China
BT	British Telecommunications
C2C	consumer to consumer
CAGR	compound annual growth rate
CATI	computer-aided telephone interviews
CDB	China Development Bank
CEO	chief executive officer
CFR	cost and freight
CIF	cost, insurance and freight
CIP	carriage and insurance paid to
CMM-SEI	Carnegie Mellon University's Software Engineering Institute
COO	country of origin
CPM	cost per thousand
CPT	carriage paid to
CPV	customer perceived value
CRM	customer relationship management
CSR	corporate social responsibility
DAF	delivered at frontier
DAP	delivered at place
DAT	delivered at terminal
DDP	delivered duty paid
DDU	delivered duty unpaid
DEQ	delivered ex-quay
DES	delivered ex-ship
DMR	digital remastering
DSS	decision support system
EBIT	earnings before interest and taxes
ECB	European Central Bank
ECSC	European Coal and Steel Community
EEA	European Economic Area
EEC	European Economic Community
EFTA	European Free Trade Area
EMC	export management company
EMEA	Europe, Middle East and Africa
EMU	European Economic and Monetary Union

EPAC	electronically power-assisted cycles
EPRG	ethnocentric, polycentric, regiocentric, geocentric
EU	European Union: title for the former EEC used since the ratification of the Maastricht Treaty in 1992
EURATOM	European Atomic Energy Community
EXW	ex-works
FAB	flavoured alcoholic beverages
FAS	free alongside ship
FCA	free carrier
FDA	Food and Drug Administration (US)
FDI	foreign direct investment: a market entry strategy in which a company in vests in a subsidiary or partnership in a foreign market (joint venture)
FHI	Family Health International
FMCG	fast-moving consumer goods
FOB	free on board: the seller quotes a price covering all expenses up to the point of shipment
FSC	Foreign Sales Corporation
G-D	goods dominant
GA	global account
GAM	global account management
GATT	General Agreement on Tariffs and Trade
GDP	gross domestic product
GEL	General Electric Lighting
GNI	gross national income
GNP	gross national product: the total 'gross value' of all goods and services produced in the economy in one year
GPC	global pricing contract
GRP	gross rating point
GSM	global system for mobile communications (wireless mobile)
GWD	guinea worm disease
HHP	household penetration
HLL	Hindustan Latex Ltd
HOG	Harley Owners Group
ICC	International Chamber of Commerce
IDR	intermediation–disintermediation–reintermediation
IMC	integrated marketing communications
IMF	International Monetary Fund
IMS	international market selection
IMUSA	Independent Manchester United Supporters Association
IP	intellectual property
IPLC	international product life cycle
ISO	International Standards Organization
ISP	internet service provider
IT	information technology
KAM	key account management
KSF	key success factor
L/C	letter of credit
LCC	low-cost car
LDCs	less developed countries
LSEs	large-scale enterprises
LTO	long-term orientation
M&A	merger and acquisition

MACS	market attractiveness/competitive strengths
MFN	most-favoured nation
MIS	marketing information system
MNCs	multinational corporations
MNE	multinational enterprise
MS	market share
MSRP	manufacturer's suggested retail price
MVAS	mobile value-added services
NAFTA	North American Free Trade Agreement: a free trade agreement to establish an open market between the US, Canada and Mexico
NASSCOM	National Association of Software and Service Companies
NGO	non-governmental organization
NICs	newly industrialized countries
NPD	new product development
NSB	National Standards Board
OE	operational effectiveness
OECD	Organization for Economic Cooperation and Development: a multinational forum that allows the major industrialized nations to discuss economic policies and events
OEM	original equipment manufacturer (outsourcer)
OLI	ownership-location-internalization
OPEC	Organization of Petroleum Exporting Countries
OTC	over the counter
OTS	opportunity to see
PEST	political/legal, economic, social/cultural, technological
PLB	private-label brand
PLC	product life cycle: a theory that characterizes the sales history of products as passing through four stages: introduction, growth, maturity, decline
PPP	purchasing-power parity
PR	public relations
QDF	quality deployment function
R&D	research and development
RM	relationship marketing
RMC	regional management centre
ROA	return on assets
ROI	return on investment
RTD	ready to drink
S-D	service-dominant
SaaS	software-as-a-service
SBU	strategic business unit: a single business or a collection of related businesses that can be planned separately from the rest of the company
SEM	search-engine marketing
SGVC	sustainable global value chain
SMEs	small and medium-sized enterprises
SMS	short message service
SRC	self-reference criterion
STD	sexually transmitted disease
STP	software technology park
SWOT	strengths, weaknesses, opportunities, threats
TC	transaction cost
TCA	transaction cost analysis

TF	trade fair
TLC	technological life cycle
TQM	total quality management
TTM	time to market
ULCC	ultra low-cost car
UNAIDS	Joint United Nations Programme on AIDS
UNFPA	United Nations Population Fund
USAID	United States Agency for International Development
USP	unique selling proposition
VAT	value added tax
VER	voluntary export restraint
VRIO	value, rarity, imitability, organization
WHO	World Health Organization
WoM	word-of-mouth
WTO	World Trade Organization (successor to GATT)

ABOUT THE AUTHOR

Svend Hollensen is an Associate Professor of International Marketing at the University of Southern Denmark. He holds an MSc (Business Administration) from Aarhus Business School. He has practical experience working as an International Marketing Coordinator in a large Danish multinational enterprise and as an International Marketing Manager in a company producing agricultural machinery.

After working in industry, Svend received his PhD in 1992 from Copenhagen Business School.

With Pearson Education he has published *Marketing Management – A Relationship Approach* (the third edition was published in 2015) as well as *Marketing Research – An International Approach* (2006), together with Marcus Schmidt. *Essentials of Global Marketing* was published in 2008 with a second edition in 2012. *Global Marketing* has been translated into Russian and Chinese. An Indian edition (co-authored with Madhumita Banerjee) was published in September 2009 and a Spanish edition (co-authored with Jesus Arteaga) was published in May 2010.

Furthermore, Svend has published in internationally well-recognized journals, like *California Management Review*, *Journal of Family Business Strategy*, *Journal of Brand Strategy* and *Marketing Intelligence & Planning*.

Svend has also worked as a business consultant for several multinational companies, as well as global organizations such as the World Bank.

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Part I Contents

Part I Case studies

PART I

The decision whether to internationalize

Introduction to Part I

It is often the case that a firm going into an export adventure should have stayed in the home market because it did not have the necessary competences to start exporting. Chapter 1 discusses competences and global marketing strategies from the value chain perspective. Chapter 2 discusses the major motivations of the firm to internationalize. Chapter 3 concentrates on some central theories that explain firms' internationalization processes. Chapter 4 discusses the concept of international competitiveness from a macro level to a micro level.

PART I VIDEO CASE STUDY Uber

download from **www.pearsoned.co.uk/hollensen**

Uber Technologies Inc. (www.uber.com) is an American international transportation network company headquartered in San Francisco, California. The company develops, markets and operates the Uber mobile app, which allows consumers with smartphones to submit a trip request which is then routed to Uber drivers who use their own cars. Uber now operates in 311 cities in 58 countries, providing more than 1 million rides each day. On 1st August 2015, Uber's market value was around US$51 billion with expected revenues for 2015 around US$2 billion. However, since it began operation in 2012, Uber's net income has been negative.

Consumers appreciate Uber, and rival services like Lyft in the US, Didi Kuaidi in China and GrabTaxi in South-east Asia, because they are cheaper than conventional taxis, clean and reliable. Uber's freelance drivers (who typically pay Uber around 20 per cent of their fares) enjoy flexible working hours and are spared the formalities of qualifying as a conventional cabbie.

Uber is a case study in how to construct a 'platform', a digital service on top of which other businesses can be built. As it arrives in a city, it launches a vigorous recruiting programme for drivers, offering them incentives to sign up. Its fares are 'dynamic'– they undercut conventional taxis most of the time, but go up when it rains, or when there is some other reason why demand for rides is high.

This encourages more of its drivers onto the roads when they are most needed. This in turn means that customers can always get a car quickly, even if it sometimes costs a bit more. This encourages them to keep using Uber, in turn providing lots of work for its drivers. Uber has now begun experimenting with local delivery services, with the aim of becoming as disruptive in logistics as it has been in the taxi business.

Source: Bloomberg/Getty Images.

Uber's presence in cities has provoked a reaction among regulators. Taxi drivers have also taken on the company with protest and violence against Uber drivers. For example, Uber took the decision to suspend its service in France after 65 of its taxi drivers were attacked in the latter half of June 2015. French taxi drivers, who have to pay up to €240,000 for a traditional licence, held demonstrations across the country protesting against the Uber service.

Questions

1. What are the basic principles in the 'sharing economy'?
2. Explain the competitive advantage of Uber.
3. Why is it so important for Uber to get into so many countries so fast?

Source: based on different public sources.

Please look at the video links at **www.pearsoned.co.uk/hollensen**

CHAPTER 1

Global marketing in the firm

Contents

Case studies

Learning objectives

After studying this chapter you should be able to:

- Characterize and compare the management style in SMEs (small and medium-sized enterprises) and LSEs (large-scale enterprises)
- Identify drivers of global integration and market responsiveness
- Explain the role of global marketing in the firm from a holistic perspective
- Describe and understand the concept of the value chain
- Identify and discuss different ways of internationalizing the value chain
- Explain the difference between the 'product value chain' and the 'service value chain'
- Understand how 'customer experience' can extend the traditional value perspective.

1.1 Introduction to globalization

After two years (2008–10) in economic crisis mode, business executives are again looking to the future. As they are re-engaging in global marketing strategy thinking, many executives are wondering if the turmoil was merely another turn of the business cycle or a restructuring of the global economic order. However, although growth in the globalization of goods and services has stalled for a period, because international trade has declined along with demand, the overall globalization trend is unlikely to reverse (Beinhocker *et al.*, 2009).

In 2005 Thomas L. Friedman published his international bestselling book *The World is Flat* (Freidman, 2005). It analyses globalization, primarily in the early twenty-first century, and the picture has changed dramatically. The title is a metaphor for viewing the world as a level playing field in terms of commerce, where all players and competitors have an equal opportunity. Companies from every part of the world will be competing with each other in every corner of the world's markets – for customers, resources, talent and intellectual capital. Products and services will flow from many locations to many destinations. Friedman mentions that many companies in, for example, the Ukraine, India and China provide human-based subsupplies for multinational companies. In this way, these companies in emerging and developing countries are becoming integral parts of complex global supply chains for large multinational companies, like Dell, SAP, IBM and Microsoft.

Pankaj Ghemawat has contradicted Friedman's view of the world being flat (Ghemawat, 2008). In his latest book, Ghemawat introduces World 3.0, a world that is neither a set of distinct nation-states (World 1.0) nor the stateless ideal (World 2.0) that seems implicit in the 'The world is flat' strategies of so many companies. In such a World 3.0 (Ghemawat, 2011a), home matters, but so do countries abroad. Ghemawat argues that when distances (geographic, cultural, administrative/political and economic) increase, cross-border trade tends to decrease (Ghemawat, 2011b). Ghemawat thinks that it is certainly possible to have a global strategy and a global organization in such a world. But the global strategy must be based not on the elimination of differences and distances among people, cultures and places, but on an understanding of them.

1.2 The process of developing the global marketing plan

As the book has a clear decision-oriented approach, it is structured according to the five main decisions that marketing people in companies face in connection with the global marketing process. The 15 chapters are divided into five parts (Figure 1.1).

In the end, the firm's global competitiveness is mainly dependent on the end-result of the global marketing stages: *the global marketing plan* (see Figure 1.2). The purpose of the marketing plan is to create sustainable competitive advantages in the global marketplace. Generally, firms go through some kind of mental process in developing global marketing plans. In small and medium-sized enterprises (SMEs) this process is normally informal; in larger organizations it is often more systematized. Figure 1.2 offers a systematized approach to developing a global marketing plan – the stages are illustrated using the most important models and concepts, which are explained and discussed throughout the chapters. Readers are advised to return to this figure throughout the book.

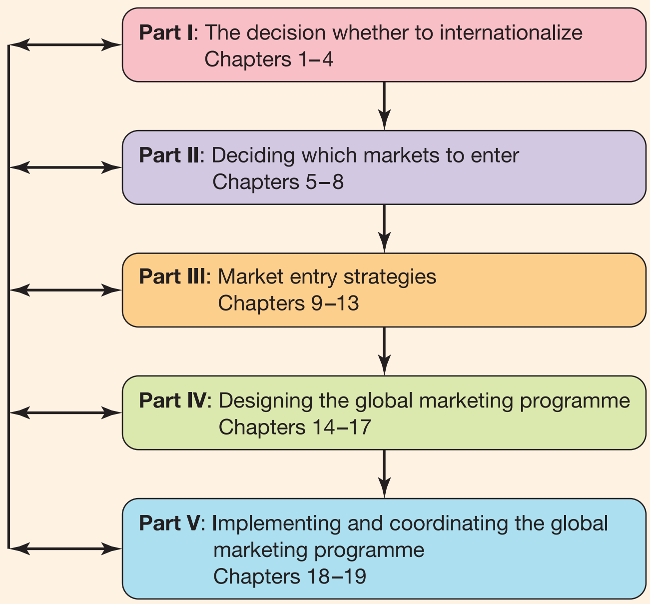


Figure 1.1 The five-stage decision model in global marketing

1.3 Comparison of the global marketing and management style of SMEs and LSEs

LSEs
According to the EU definition, LSEs (large-scale enterprises) are firms with more than 250 employees. Although LSEs account for less than 1 per cent of companies, almost one-third of all jobs in the EU are provided by LSEs.

SMEs
SMEs (small and medium-sized enterprises) occur commonly in the EU and in international organizations. The EU categorizes companies with fewer than 50 employees as 'small', and those with fewer than 250 as 'medium'. In the EU, SMEs (250 employees and less) comprise approximately 99 per cent of all firms.

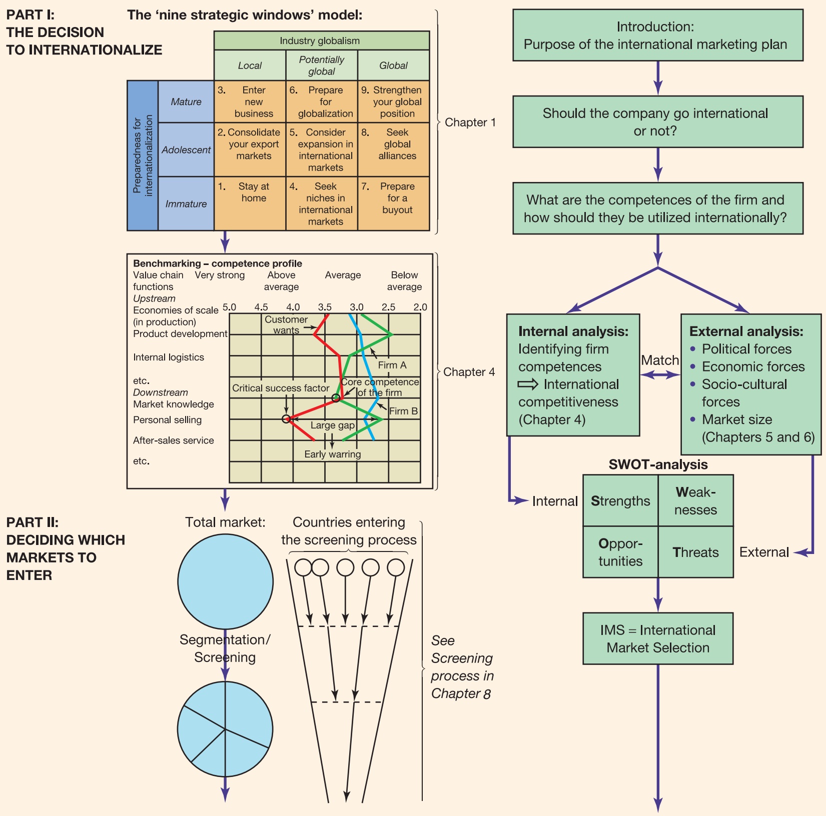
The reason underlying this 'convergence' is that many large multinationals (such as IBM, Philips, GM and ABB) have begun downsizing operations, so in reality many **LSEs** act like a confederation of small, autonomous, entrepreneurial and action-oriented companies. One can always question the change in orientation of **SMEs**. Some studies (e.g. Bonaccorsi, 1992) have rejected the widely accepted proposition that firm size is positively related to export intensity. Furthermore, many researchers (e.g. Julien *et al.*, 1997) have found that SMEs as exporters do not behave as a homogeneous group.

Table 1.1 gives an overview of the main qualitative differences between management and marketing styles in SMEs and LSEs. We will discuss each of the headings in turn.

Resources

- *Financial*. A well-documented characteristic of SMEs is the lack of financial resources due to a limited equity base. The owners put only a limited amount of capital into the business, which quickly becomes exhausted.
- *Business education/specialist expertise*. In contrast to LSEs, a characteristic of SME managers is their limited formal business education. Traditionally, the SME owner/manager is a technical or craft expert and is unlikely to be trained in any of the major business disciplines. Therefore specialist expertise is often a constraint because managers in small businesses tend to be generalists rather than specialists. In addition, global marketing expertise is often the last of the business disciplines to be acquired by an expanding SME; finance and production experts usually precede the acquisition of a marketing counterpart. Therefore it is not unusual to see owners of SMEs closely involved in sales, distribution, price setting and, especially, product development.

Tools used in different stages (references to the book) | **Process stages** | **Description**



Introduction:
The international marketing plan is based on a firm's mission (purpose of the business) and vision (where do we want to go). Developing an international marketing plan is the systematic process involving the assessment of market opportunities combined with the internal resources, the determination of marketing objectives, and the plan for implementation of the international marketing mix. The plan describes all the marketing activities that the firm should perform during a specified time period (usually one to three years).

The 'nine strategic windows' model:
This model uses industry globalism and the firm's preparedness as criteria for deciding if the firm should go abroad or rather stay at home.

Benchmarking – competence profile:
The customer-perceived value of the different competitor offerings along the value chain provides the necessary input for determining where the firm has got its core competence and where further capabilities should be developed.

SWOT-analysis:
Strengths and Weaknesses (inside your company)
Identify internal strengths and weaknesses of your company. For example education-level, international experience and reputation in your area of expertise are most likely strengths.

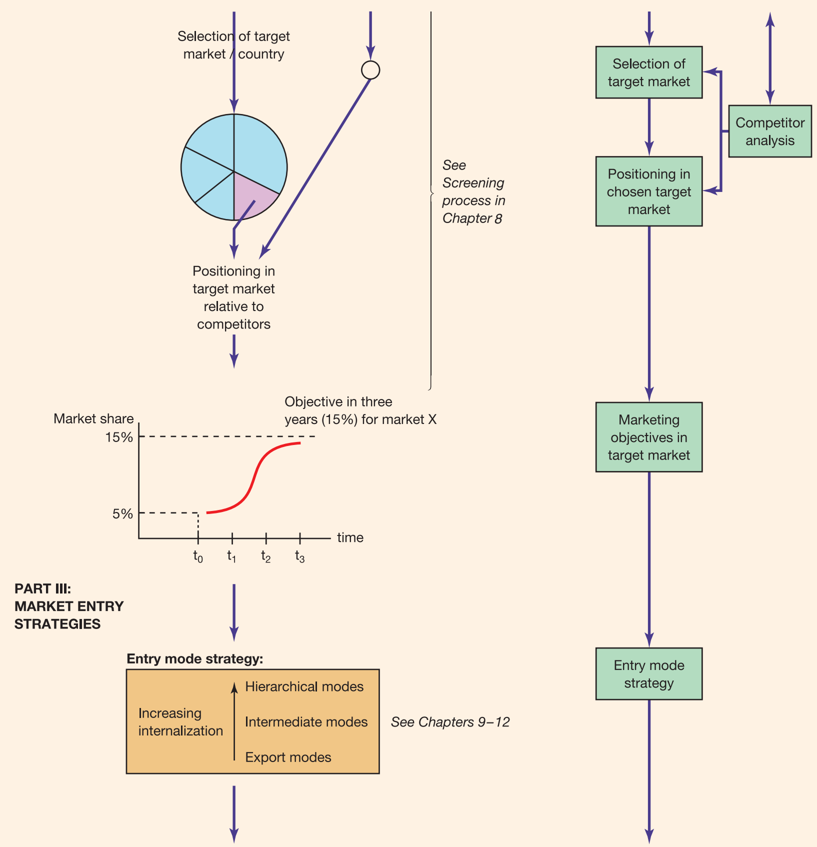
Opportunities and Threats (from outside)
Identify, and rank by order of importance, any threats or opportunities your business may face from outside influences.

The whole issue is to find the right match between the internal and external analysis, i.e. where in the global market can we use our special firm competences?

Estimation of total market: Numbers of buyers × average consumption per year.

Segmentation: Relevant segmentation/screening criteria
B2C markets: Demographic: age, income, occupation
Psychographic: lifestyle, preferences, etc.
Geographic: Countries, regions
Behavioural: heavy, medium, light users

B2B markets: Demographic: size of firm, type of industry
Economic: Buying power of customers



- Geographical market: region (Western Europe, Eastern Europe, Far East, North America etc.) country or area in a country
- Customer type: end-customer, middlemen, OEMs, Global Accounts (GAs)

Competitor analysis:
You'll discover your company's competitive advantage – the reason customers do business with you instead of your competition. By observing the actions of your competitors, you might learn more about your market. For example, does a successful competitor offer reduced prices in a specific market? If so, what might that tell you about the market's spending habits? If you find that your market is saturated with capable competitors ('red ocean'), you can avoid the costly mistake of selecting a target market without adequate demand for your offer. You can then redirect your efforts toward something that will generate more profit with the existing resources base in your company ('blue-ocean strategy').

Marketing objectives:

Meeting marketing objectives should lead to sales. (If not, you need to set different marketing objectives.) They should be clear, measurable, and have a stated time frame for achievement.

In other words the objectives should follow the SMART-concept: **S**pecific, **M**easurable, **A**chievable, **R**ealistic. **T**imeable

Setting your marketing objectives and finalizing the remaining components of your marketing plan may serve as a reality check: do you have the resources and competences necessary to accomplish your objectives?

Example: Increase market share in target market from now (t_0) 5% to 15% in three years (t_3) – Is that realistic?

Entry mode strategy:
Once the firm has set its target objectives in target markets the next step is to choose the best way to enter the market. The chosen entry mode can be regarded as the first decision level in the vertical chain that will provide distribution to the next actors in the vertical chain at the national level.

The following characteristics are connected to the three types of entry modes (seen from the manufacturer's perspective):

- Export modes (agent, distributor): Low control, low risk, high flexibility
- Intermediate mode (joint venture, strategic alliance): shared control and risk, split ownership
- Hierarchical modes (Own subsidiary): High control, high risk, low flexibility

Figure 1.2 Development of an international marketing plan

PART IV: DESIGNING THE GLOBAL MARKETING PROGRAMME

Marketing mix plan (per country and overall)

Marketing mix (activities)	Year 1 (t_1)	Year 2 (t_2)	Year 3 (t_3)
Product Features, quality, name, guarantees, packaging, support services	New variant	New product line and services	Develop new technology / product
Price List price, additional services prices, credit facilities, terms/conditions, allowances	Keep skimming price	Lower price	Stabilize price
Place Distributors, wholesalers, retailers, locations, transport	Selective dist.	Expand distr. with new partners	New int. markets
Promotion Advertising, direct mail, email, publicity, sales promotion, personal selling, company literature, Internet	Keep current advertising media	Development of social media campaign	Personal selling

See Chapters 14–17

Developing the international marketing mix (the 4 Ps)

PART V: IMPLEMENTING AND COORDINATING THE GLOBAL MARKETING PROGRAMME

Implementation of marketing activities	Year 1				Year 2				Year 3				Responsible
(Q = Quarter)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Advertising													XX
Emails													XY
Demonstrations													YX
Personal selling													YY
. . .													

See Chapter 18

Implementation and Cross-border negotiation

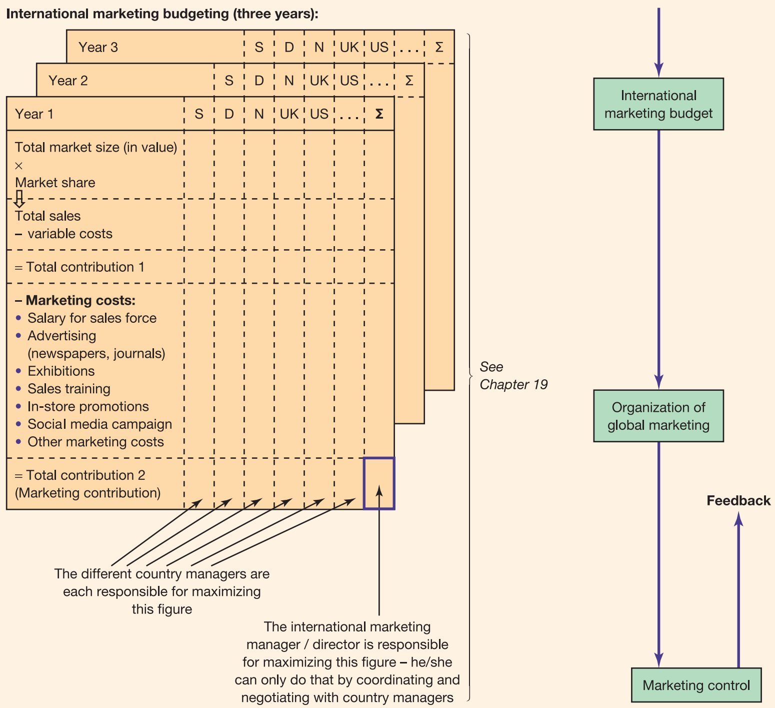
Development of the marketing mix:
The international marketing mix section of your plan (the 4 Ps or alternatively the 7 Ps) outlines your game plan to achieve your marketing objectives internationally. It is, essentially, the heart of the marketing plan. The marketing mix section should include information about:

- Product – your offering: product(s) and services
- Price – what you'll charge customers for delivered products and services
- Promotion – how you will promote or create awareness and interest for your product in the marketplace
- Place (distribution) – how you will bring your product(s)/services together with your customers through different channels? How can you create extra value by developing relationships with your customer?

Implementation:
To translate the strategy into action (organizing):

- Assemble the 4P-mix for each product/service (SBU)
- Organize the marketing effort
- *Who* is responsible for the implementation of the activities?
- *When* will the activities take place?
- Internal marketing plan: Sell the the marketing plan inside the organization before going outside. Are there any internal barriers that should be considered?

Cross-border negotiation:
The most fundamental gap influencing the negotiation climate between buyer and seller is the *cultural distance*, represented by differences in communication and negotiation behaviour, the concepts of time, space and work patterns, and the nature of social norms. The cultural distance can be reduced by cultural training and market research.



Marketing budget:
A marketing budget derived from a tactical marketing strategy must have adequate resources allocated to meet the performance objectives of the strategic market plan. An estimate of market and profit performance is made for each year of a 3 year strategic market planning horizon.

Concerning the figure at the left, the international marketing manager / director is responsible for maximizing the total 'Marketing contribution' for the whole world (**Σ**). In order to optimize this total marketing contribution (**Σ**), this person has the right to coordinate and transfer marketing resources across borders, by cooperation and negotiation with country managers, who are responsible for maximizing the 'Marketing contribution' for their single countries.

Organization of global marketing activities:
Different options for organizing these activities:

- Ad hoc exporting
- Functional structure
- International division structure
- Product structure
- Geographical (customer) structure
- Matrix structure
- Global Account Management (GAM)

Marketing control:
Planning and budgeting are the main formal control methods. The budget spells out the objectives and necessary marketing costs to achieve these objectives. Control consists of measuring actual figures against budget figures. If there is tolerable variance then no action is usually taken.

Performance is evaluated by measuring actual against planned performance. The problem is setting a performance standard. Usually it is based on historical performance with some kind of industry average.

Problems of international comparison inevitably occur, like how budgets in different countries are affected by currency fluctuations during the budget period.

Figure 1.2 *Continued*

Source: Hollensen, S. (2008) *Essentials of Global Marketing*, FT/Prentice Hall, pp. 6–9. Copyright © Pearson Education Limited.

Table 1.1 The characteristics of LSEs and SMEs

	LSEs	SMEs
Resources	Many resources Internalization of resources Coordination of: – personnel – financing – market knowledge, etc.	Limited resources Externalization of resources (outsourcing of resources)
Formation of strategy/ decision-making processes	Deliberate strategy formation (Mintzberg, 1987; Mintzberg and Waters, 1985) (see Figure 1.3) Adaptive decision-making mode in small incremental steps (logical incrementalism) (e.g. each new product: small innovation for the LSE) (see Figure 1.4)	Emergent strategy formation (Mintzberg, 1987; Mintzberg and Waters, 1985) (see Figure 1.3) The entrepreneurial decision-making model (e.g. each new product: considerable innovation for the SME) (see Figure 1.5) The owner/manager is directly and personally involved and will dominate all decision-making throughout the enterprise
Organization	Formal/hierarchical Independent of one person	Informal The owner/entrepreneur usually has the power/charisma to inspire/control a total organization
Risk-taking	Mainly risk-averse Focus on long-term opportunities	Sometimes risk-taking/sometimes risk-averse Focus on short-term opportunities
Flexibility	Low	High
Take advantage of economies of scale and economies of scope	Yes	Only limited
Use of information sources	Use of advanced techniques: – databases – external consultancy – internet	Information gathering in an informal manner and an inexpensive way: – internal sources – face-to-face communication

Formation of strategy/decision-making processes

As is seen in Figure 1.3, the realized strategy (the observable output of an organization's activity) is a result of the mix between the intended ('planned') strategy and the emergent ('not planned') strategy. No companies form a purely deliberate or intended strategy. In practice, all enterprises will have some elements of both intended and emergent strategy.

In the case of the deliberate (planned) strategy (mainly LSEs), managers try to formulate their intentions as precisely as possible and then strive to implement these with a minimum of distortion.

This planning approach 'assumes a progressive series of steps of goal setting, analysis, evaluation, selection and planning of implementation to achieve an optimal long-term direction for the organization' (Johnson, 1988). Another approach for the process of strategic management is so-called *logical incrementalism* (Quinn, 1980), where continual adjustments

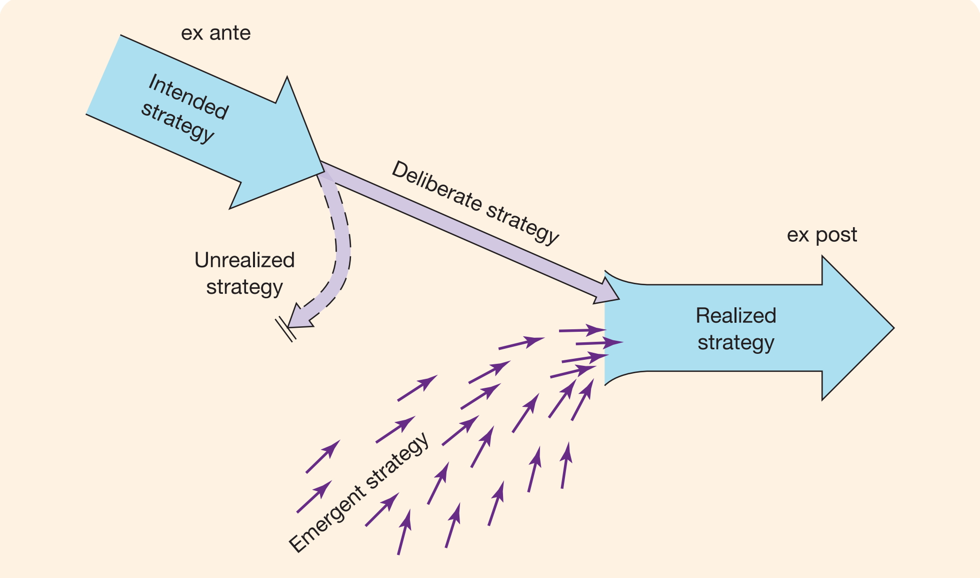


Figure 1.3 The intended and emergent strategy

Source: Mintzberg (1987, p. 14). Copyright © 1987, by The Regents of the University of California. Reprinted from the *California Management Review,* Vol. 30, No. 1.

in strategy proceed flexibly and experimentally. If such small movements in strategy prove successful then further development of the strategy can take place. According to Johnson (1988) managers may well see themselves as managing incrementally, but this does not mean that they succeed in keeping pace with environmental change. Sometimes the incrementally adjusted strategic changes and the environmental market changes move apart and a *strategic drift* arises (see Figure 1.4).

Exhibit 1.1 gives an example of strategic drift.

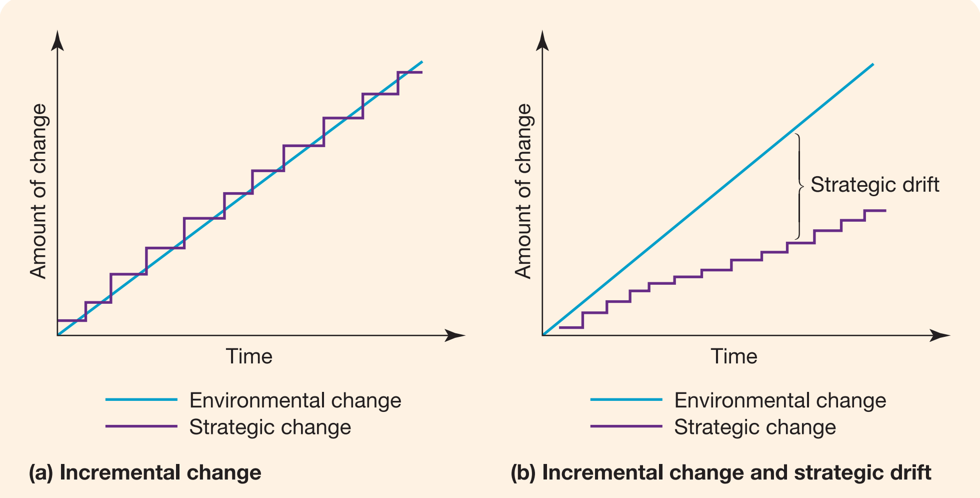


Figure 1.4 Incremental change and strategic drift

Source: Johnson, G. (1988) 'Rethinking incrementalism', *Strategic Management Journal*, 9. pp. 75–91. Copyright 1988 © of John Wiley & Sons Ltd. Reproduced with permission.

EXHIBIT 1.1 LEGO's strategic drift

Source: A W Photography/Alamy Images.

Today (the beginning of 2013), the Danish family-owned LEGO group (www.lego.com) is the world's third largest toy producer after Mattel (known for the Barbie doll) and Hasbro (known for Trivial Pursuit). Lego has about 8 per cent market share of the global toy market. For the financial year 2011, LEGO reported (compared with 2010) that revenues were up 17 per cent to nearly US$3.50 billion and operating profits were up nearly 20 per cent to US$1.06 billion.

But things have not always been so rosy. In 2003, the firm suffered a net loss of approximately US$3.19 billion. LEGO strongly believed that its unique concept was superior to other products, but the company was under pressure in the competition for children's time. The famous LEGO bricks were under increasing competition from TV, videos, CD-ROM games and the internet. It seemed that in LEGO's case there was a 'strategic drift' around 2003 – the LEGO management's blind faith in its unique and pedagogical toys was not in harmony with the way in which the world was developing. Many working parents had less and less time to 'control' their children's play habits, and spectacular computer games were displacing the 'healthy' and pedagogical toys produced by LEGO. These fast-moving developments forced LEGO to re-evaluate its strategy regarding product programmes and marketing.

LEGO had been trying to extend its traditional concepts and values into media products for children aged 2–16 years. These new categories – including PC and console software, books, magazines, TV, film and music – aimed to replicate the feelings of confidence and trust already long established among children and their parents. It also went high-tech with products such as Mindstorms, and its Bionicles toys appeared in a full-length animated feature film.

After the huge loss in 2003, LEGO returned to its former core concept. In order to ensure increased focus on the core business, in the autumn of 2004 the LEGO Group decided to sell off the LEGOLAND Parks. It would focus more on building bricks as its main product, concentrating on small kids' eagerness to assemble.

Focusing on the re-establishment of a strong core business with classic construction toys, the LEGO Group expects to maintain its market position in 2015 and the coming years as a financially stronger and more competitive toy company.

Source: adapted from different public media.

On the other hand, the SME is characterized by the entrepreneurial decision-making model (Figure 1.5). Here more drastic changes in strategy are possible because decision-making is intuitive, loose and unstructured. In Figure 1.5 the range of possible realized strategies is determined by an interval of possible outcomes. SME entrepreneurs are noted for their propensity to seek new opportunities, and this natural propensity for change, inherent in entrepreneurs, can lead to considerable changes in the enterprise's growth direction. Because the entrepreneur changes focus, this growth is not planned or coordinated and can therefore be characterized by sporadic decisions that have an impact on the overall direction in which the enterprise is going.

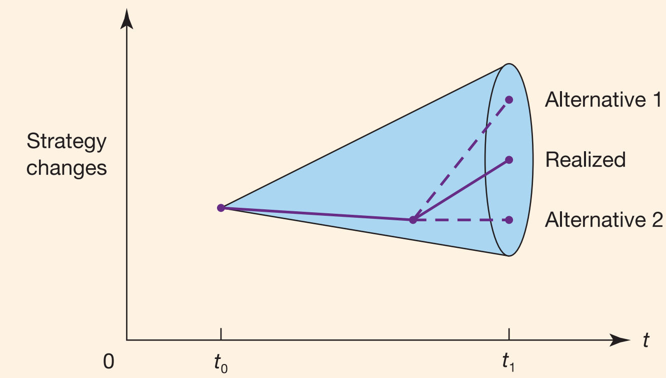


Figure 1.5 The entrepreneurial decision-making model

Organization

Compared with LSEs, the employees in SMEs are usually closer to the entrepreneur and, because of the entrepreneur's influence, these employees must conform to his or her personality and style if they are to remain employees.

Risk-taking

There are, of course, different degrees of risk. Normally the LSEs will be risk-averse because of their use of a decision-making model that emphasizes small incremental steps with a focus on long-term opportunities.

In SMEs, risk-taking depends on the circumstances. It can occur in situations where the survival of the enterprise may be under threat, or where a major competitor is undermining the activities of the enterprise. Entrepreneurs may also be taking risks when they have not gathered all the relevant information, and thus may have ignored some important facts in the decision-making process.

On the other hand, there are, of course, some circumstances in which an SME will be risk-averse. This often occurs when an enterprise has been damaged by previous risk-taking and the entrepreneur is reluctant to take any kind of risk until confidence returns.

Flexibility

Because of the shorter communication lines between the enterprise and its customers, SMEs can react in a quicker and more flexible way to customer enquiries.

Economies of scale and economies of scope

Economies of scale

Economies of scale
Accumulated volume in production, resulting in lower cost price per unit.

Accumulated volume in production and sales will result in lower cost price per unit due to 'experience curve effects' and increased efficiency in production, marketing, etc. Building a global presence automatically expands a firm's scale of operations, giving it larger production capacity and a larger asset base. However, larger scale will create a competitive advantage only if the company systematically converts scale into **economies of scale**.

EXHIBIT 1.2 Economies of scale with Nintendo Game Boy

Source: Ian Leonard/Alamy Images.

Having sold more than 300 million Game Boys (and its successor Nintendo DS: 'Developers' System' – Nintendo hoped that the system would inspire innovative game design from developers; DS also stands for 'dual screen', the system's most obvious and distinctive feature) from 1989 to the end of 2012, Nintendo dominates the hand-held game market, even as it is losing market share in console systems to Sony and Microsoft. Over the past 15 years, such companies as Sega, NEC, SNK and even cellphone manufacturer Nokia have launched several competing portable game systems without much success.

The economies of scale primarily relate to the manufacturing of the hardware. In the software market, economies of scale are limited. Many different types of game have to be offered and the popularity of most of them is short-lived. This is especially so in the case of software linked to a film: the popularity of the game diminishes as the film ceases to be shown in cinemas.

Source: based on various public sources.

In principle, the benefits of economies of scale can appear in different ways (Gupta and Govindarajan, 2001):

- Reducing operating costs per unit and spreading fixed costs over a larger volume due to experience curve effects.
- Pooling global purchasing gives the opportunity to concentrate global purchasing power over suppliers. This generally leads to volume discounts and lower transaction costs.
- A larger scale gives the global player the opportunity to build centres of excellence for the development of specific technologies or products. In order to do this, a company needs to focus a critical mass of talent in one location.

Because of size (bigger market share) and accumulated experience, the LSEs will normally take advantage of these factors (see Exhibit 1.2 about Nintendo's Game Boy). SMEs tend to concentrate on lucrative, small, market segments. Such market segments are often too insignificant for LSEs to target, but can be substantial and viable in respect of the SME. However, they will only result in a very limited market share of a given industry.

Economies of scope

Synergy effects and global scope can occur when the firm is serving several international markets: global scope is not taking place if an international marketer is serving a customer that operates in just one country. The customer should purchase a bundle of identical products and services across a number of countries. This global customer could source these products and services either from a horde of local suppliers or from a single global supplier (international marketer) that is present in all of its markets. Compared with a horde of local suppliers, a single global supplier (marketer) can provide value for the global customer through greater consistency in the quality and features of products and services across countries, faster and smoother coordination across countries and lower transaction costs.

Economies of scope
Reusing a resource from one business/country in additional businesses/countries.

The challenge in capturing the **economies of scope** at a global level lies in being responsive to the tension between two conflicting needs: the need for central coordination of most marketing mix elements, and the need for local autonomy in the actual delivery of products and services (Gupta and Govindarajan, 2001).

The LSEs often serve many different markets (countries) on more continents and are thereby able to transfer experience acquired in one country to another. Typically, SMEs serve only a very limited number of international markets outside their home market. Sometimes the SME can make use of economies of scope when it enters into an alliance or a joint venture with a partner who has what the particular SME is missing in the international market in question: a complementary product programme or local market knowledge.

Another example of economies of scale and scope can be found in the world car industry. Most car companies use similar engines and gearboxes across their entire product range so that the same engines or gearboxes can be installed in different models of cars. This generates enormous potential cost savings for companies such as Ford or Volkswagen. It provides both economies of scale (decreased cost per unit of output), by producing a larger absolute volume of engines or gearboxes, and economies of scope (reusing a resource from one business/country in additional businesses/countries). It is not surprising that the car industry has experienced a wave of mergers and acquisitions aimed at creating larger global car companies of sufficient size to benefit from these factors.

Use of information sources

Typically, LSEs rely on commissioned market reports produced by reputable (and well-paid!) international consultancy firms as their source of vital global marketing information. SMEs usually gather information in an informal manner through the use of face-to-face communication. The entrepreneur is able to synthesize this information unconsciously and use it to make decisions. The acquired information is mostly incomplete and fragmented, and evaluations are based on intuition and often guesswork. The whole process is dominated by the desire to find a circumstance that is ripe for exploitation.

Furthermore, the demand for complex information grows as the SME selects a more and more explicit orientation towards the international market and as the firm evolves from a production-oriented ('upstream') to a more marketing-oriented ('downstream') firm (Cafferata and Mensi, 1995).

As a reaction to pressures from international markets, both LSEs and SMEs evolve towards a globally integrated but market-responsive strategy. However, the starting points of the two firm types are different (see Figure 1.3). The huge global companies have traditionally based their strategy on taking advantage of economies of scale by launching standardized products on a worldwide basis. These companies have realized that a higher degree of market responsiveness is necessary to maintain competitiveness in national markets. On the other hand, SMEs have traditionally regarded national markets as independent of each other. However, as international competences have evolved, they have begun to realize that there is interconnectedness between their different international markets. They now recognize the benefits of coordinating the different national marketing strategies in order to utilize economies of scale in research and development (R&D), production and marketing.

Exhibit 1.3 shows that LSEs (illustrated here by the recent Ford Focus case) still try to focus on 'economies of scale' by reducing the number of variations among cars in different countries ('One Ford').

EXHIBIT 1.3 Ford Focus Global Marketing Plan

The global marketing campaign for the 2012 Ford Focus compact car, including that for the US launch, was developed by a European team, a move that runs counter to the conventional wisdom that marketing is best developed locally. Ten years earlier ago, Ford's marketing leaders for North America, Europe and Asia did not collaborate on how many websites to use for a model launch, how to unify public relations or how best to use auto shows before a launch. Ford's marketing departments in 110 countries had the authority to create their own programmes. Ford used up to 15 advertising campaigns for individual countries when it launched the Focus globally.

The Focus 2012 global marketing plan approach was thus the latest iteration of the drive for 'One Ford' – a company free of regional barriers that can create global products sharing design, parts and engineering for a single Ford brand. The Focus is in many ways a logical car for a global marketing campaign. It was developed globally for markets around the world. The US and European versions, for example, share 80 per cent of their parts, setting a new high for transatlantic cooperation.

The task of developing a global marketing campaign for Focus was given to the European Ford headquarters because of their expertise in marketing cars of a similar size, which are the heart of the European market. In a multinational company like Ford it is also a question of realizing where the main competences are for developing the marketing plan. For trucks it might be in North America, but for this type of car it is in Europe.

Ford did not intend limiting global marketing strategy to the Focus, saying rather that all future vehicle launches would follow a similar approach. There would be one central group in a chosen region heading the marketing effort around the world for that vehicle. Marketing managers in a country or region would choose which of one or two main campaigns to use, but they could not start from scratch and make their own.

The Ford Focus global marketing theme

The Ford Focus is normally perceived as a compact-car brand. Car buyers normally look at smaller cars like the Ford Focus as a commodity, but the global Ford Focus team wanted to make customers see these cars as premium brands. The Focus TV spots therefore had to convey a premium message despite its compact-car status.

Source: GoBOb/Shutterstock.com.

In developing the overall global marketing campaign, the global Ford Focus team was inspired by European luxury car companies, e.g. BMW's over-all campaign theme 'ultimate driving machine'. The BMW commercial on its own is premium, as is its portrayal of the product. BMW makes the engine look beautiful – when people see it, they immediately think it is very expensive. One example of Ford's premium approach is an ad developed in Europe for the 2012 Focus global campaign, which highlights the sedan's self-parking system.

The global Ford Focus team worked for two years on the Focus global marketing approach. The resulting 50 Focus TV spots featured the same technology and message no matter where they were aired around the world.

A global approach saves money

The economic downturn pushed marketers to embrace any strategy that saves money, and going global should do this. In the past, a host of TV commercials, photographic sessions and motor show displays were produced locally for global launches. Now, Ford insists that global departments work together to share resources and reduce costs.

Consider photographs. Typically, each region and operating group – including design, marketing and public relations – took their own set of photographs to support a vehicle launch. For the Focus, Ford's management insisted that all picture requests be handled by a single photo shoot. Ford received 800 photo requests for the global Focus launch from different countries. A few differed, asking for a city street scene, say, rather than a country road backdrop. But the Ford Focus global marketing team realized that there was a lot of overlap between the different photo requests.

The global advertising launch budget for a car such as the Focus would typically be about US$100 million. Production costs, which cover photographs, printing and so on, make up 5–10 per cent of the usual ad budget for a vehicle launch. By eliminating the duplication and overlap, Ford cut those costs by 70 per cent, which could mean cost savings of around US$5 million.

Source: based on various public media sources, among others www.ford.com.

1.4 Should the company internationalize at all?

Globalization
Reflects the trend of firms buying, developing, producing and selling products and services in most countries and regions of the world.

Internationalization
Doing business in many countries of the world, but often limited to a certain region (e.g. Europe).

In the face of **globalization** and an increasingly interconnected world, many firms attempt to expand their sales into foreign markets. International expansion provides new and potentially more profitable markets, helps to increase the firm's competitiveness, and facilitates access to new product ideas, manufacturing innovations and the latest technology. However, **internationalization** is unlikely to be successful unless the firm prepares in advance. Advance planning has often been regarded as important to the success of new international ventures (Knight, 2000).

Solberg (1997) discusses the conditions under which the company should 'stay at home' or further 'strengthen the global position' as two extremes (see Figure 1.6). The frame-work in Figure 1.3 is based on the dimensions industry globalism and preparedness for internationalization.

Industry globalism

In principle, the firm cannot influence the degree of industry globalism, as it is mainly determined by the international marketing environment. Here the strategic behaviour of firms depends on the international competitive structure within an industry. In the case of a high degree of industry globalism there are many interdependencies between markets, customers and suppliers, and the industry is dominated by a few large, powerful players (*global*), whereas the other end (*local*) represents a multidomestic market environment, where markets exist independently of one another. Examples of very global industries are those making PCs, IT (software), CDs, films and aircraft (the two dominant players being Boeing and Airbus). Examples of more local industries are those that are more culture-bounded, such as hairdressing, foods and dairies (e.g. brown cheese in Norway).

Preparedness for internationalization

This dimension is mainly determined by the firm. The degree of preparedness is dependent on the firm's ability to carry out strategies in the international marketplace, i.e. the actual skills in international business operations. These skills or organizational capabilities may consist of personal characteristics (e.g. language, cultural sensitivity), managers' international experience or financial resources. The well-prepared company (*mature*) has a good basis for dominating the international markets and consequently it would gain higher market share.

		Industry globalism		
		Local	*Potentially global*	*Global*
Preparedness for internationalization	*Mature*	3. Enter new business	6. Prepare for globalization	9. Strengthen your global position
	Adolescent	2. Consolidate your export markets	5. Consider expansion in international markets	8. Seek global alliances
	Immature	1. Stay at home	4. Seek niches in international markets	7. Prepare for a buyout

Figure 1.6 The nine strategic windows

Source: Solberg (1997, p. 11). Reprinted with kind permission. In the original article Solberg has used the concept 'globality' rather than 'globalism'.

In the global/international marketing literature the 'staying at home' alternative is not discussed thoroughly. However, Solberg (1997) argues that with limited international experience and a weak position in the home market there is little reason for a firm to engage in international markets. Instead the firm should try to improve its performance in its home market. This alternative is window number 1 in Figure 1.6.

If the firm finds itself in a global industry as a dwarf among large multinational firms, Solberg (1997) argues that it may seek ways to increase its net worth so as to attract partners for a future buyout bid. This alternative (window number 7 in Figure 1.6) may be relevant to SMEs selling advanced high-tech components (as subsuppliers) to large industrial companies with a global network. In situations with fluctuations in the global demand, the SME (with limited financial resources) will often be financially vulnerable. If the firm has already acquired some competence in international business operations, it can overcome some of its competitive disadvantage by going into alliances with firms that have complementary competences (window number 8). The other windows in Figure 1.6 are further discussed by Solberg (1997).

1.5 Development of the 'global marketing' concept

Basically 'global marketing' consists of finding and satisfying global customer needs better than the competition, and coordinating marketing activities within the constraints of the global environment. The nature of the firm's response to global market opportunities depends greatly on the management's assumptions or beliefs, both conscious and unconscious, about doing business around the world. This world view of a firm's business activities can be described according to the EPRG framework (Perlmutter, 1969; Chakravarthy and Perlmutter, 1985), the four orientations of which are summarized as follows:

1. *Ethnocentric*: the home country is superior and the needs of the home country are most relevant. Essentially the headquarters extends its ways of doing business to its foreign

affiliates. Controls are highly centralized and the organization and technology implemented in foreign locations will be largely the same as in the home country.

2. *Polycentric* (multidomestic): each country is unique and should therefore be targeted in a different way. The polycentric enterprise recognizes that there are different conditions for production and marketing in different locations and tries to adapt to those different conditions in order to maximize profits in each location. The control is highly decentralized among affiliates, and communication between headquarters and affiliates is limited.
3. *Regiocentric*: the world consists of regions (e.g. Europe, Asia, the Middle East). The firm tries to integrate and coordinate its marketing programme within regions, but not across them.
4. *Geocentric* (global): the world is getting smaller and smaller. The firm may offer global product concepts but with local adaptation ('think global, act local').

The regio- and geocentric firm (in contrast to the ethnocentric and polycentric) seeks to organize and integrate production and marketing on a regional or global scale. Each international unit is an essential part of the overall multinational network, and communications and controls between headquarters and affiliates are less top-down than in the case of the ethnocentric firm.

Many international markets are converging, as communication and logistic networks are integrated on a global scale. At the same time, other international markets are becoming more diverse as company managers are encountering economic and cultural heterogeneity. This means that firms need to balance tensions in adapting to different demands from customers in divergent markets, which require different skills and resources while attempting to transfer knowledge and learning between the established markets and these new markets (Douglas and Craig, 2011).

This leads us to a definition of global marketing:

Global marketing is defined as the firm's commitment to coordinate its marketing activities across national boundaries in order to find and satisfy global customer needs better than the competition. This implies that the firm is able to:

- develop a global marketing strategy, based on similarities and differences between markets;
- exploit the knowledge of the headquarters (home organization) through worldwide diffusion (learning) and adaptations;
- transfer knowledge and 'best practices' from any of its markets and use them in other international markets.

There follows an explanation of some key terms:

- *Coordinate its marketing activities*: coordinating and integrating marketing strategies and implementing them across global markets, which involves centralization, delegation, standardization and local responsiveness.
- *Find global customer needs*: this involves carrying out international marketing research and analysing market segments, as well as seeking to understand similarities and differences in customer groups across countries.
- *Satisfy global customers*: adapting products, services and elements of the marketing mix to satisfy different customer needs across countries and regions.
- *Being better than the competition*: assessing, monitoring and responding to global competition by offering better value, lower prices, higher quality, superior distribution, great advertising strategies or superior brand image.

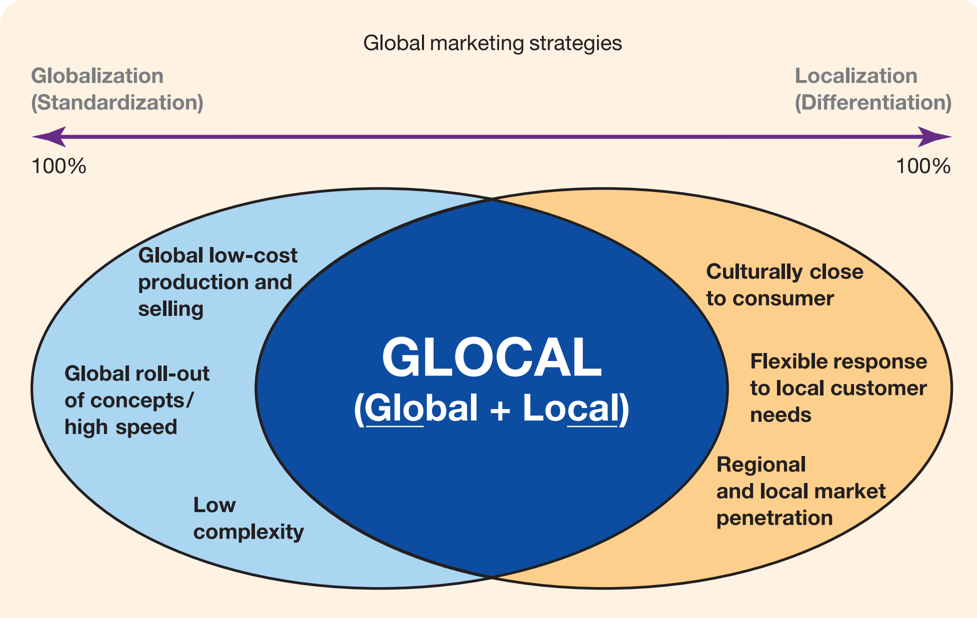


Figure 1.7 The glocalization framework

Glocalization
The development and selling of products or services intended for the global market, but adapted to suit local culture and behaviour. (Think globally, act locally.)

The second part of the global marketing definition is also illustrated in Figure 1.7 and further commented on in the following.

This global marketing strategy strives to achieve the slogan 'think globally but act locally' (the so-called '**glocalization**' framework) through dynamic interdependence between headquarters and subsidiaries. Organizations following such a strategy coordinate their efforts, ensuring local flexibility while exploiting the benefits of global integration and efficiencies, as well as ensuring worldwide diffusion of innovation (see Exhibit 1.5).

Principally, the value chain function should be carried out where there is the highest competence (and the greatest cost-effectiveness), and this is not necessarily at head office (Bellin and Pham, 2007).

The two extremes in global marketing, globalization and localization, can be combined into the 'glocalization' framework, as shown in Figure 1.7.

A key element in knowledge management is the continuous learning from experiences. In practical terms, the aim of knowledge management as a learning-focused activity across borders is to keep track of valuable capabilities used in one market that could be used elsewhere (in other geographic markets), so that firms can continually update their knowledge. This is also illustrated in Figure 1.8 with the transfer of knowledge and 'best practices' from market to market. However, knowledge developed and used in one cultural context is not always easily transferred to another. The lack of personal relationships, the absence of trust and 'cultural distance' all conspire to create resistance, frictions and misunderstandings in cross-cultural knowledge management.

With globalization becoming a centrepiece in the business strategy of many firms – be they engaged in product development or providing services – the ability to manage the 'global knowledge engine' to achieve a competitive edge in today's knowledge-intensive economy is one of the keys to sustainable competitiveness. However, in the context of global marketing the management of knowledge is *de facto* a cross-cultural activity, whose key task is to foster and continually upgrade collaborative cross-cultural learning (this will be further discussed in Chapter 14). Of course, the kind and/or type of knowledge that is strategic for an organization and which needs to be managed for competitiveness varies depending on the business context and the value of different types of knowledge associated with it.

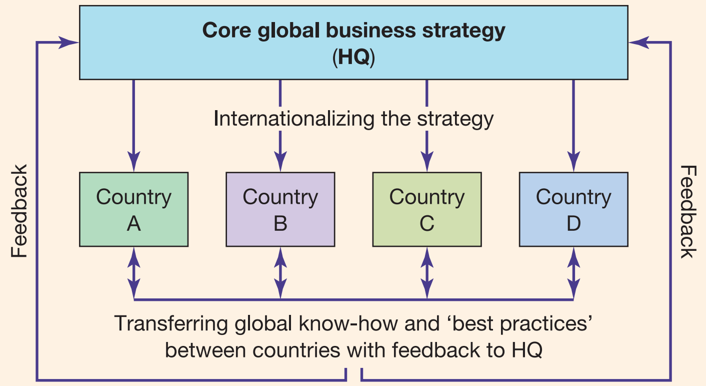


Figure 1.8 The principle of transferring knowledge and learning across borders

EXHIBIT 1.4 Helly Hansen is using 'localization' through geo-targeting technology

Brands are increasingly seeking to fine-tune their localization strategies by using the newest technology. In June 2015, outdoor apparel maker Helly Hansen from Norway revealed that it had grown sales in some countries by using geo-targeting technology to locate potential customers and lead them to the right Helly Hansen website.

The company pairs local weather forecasts with specific on-site experiences. When rain was forecasted over a five-day period in Germany, for example, the brand used geotargeting to present a rainwear banner on the homepage, rather than promoting winter skiwear. This resulted in a 52 per cent uplift in conversions from awareness of the brand to actual purchase.

Source: Convery flowers/Alamy Images.

Source: based on Bacon (2015).

EXHIBIT 1.5 Persil Black & Persil Abaya = glocalization (same product, but different packaging and market communication)

Founded in 1876, Henkel holds globally leading market positions in both the consumer and industrial businesses with well-known brands such as Persil, Schwarzkopf and Loctite.

With headquarters in Düsseldorf, Germany, Henkel has some 47,000 employees worldwide. In 2011, Henkel generated revenues of €15.6 billion and net profits of €1.2 billion. In 2011, Henkel reinforced its position in the emerging markets, where 42 per cent of its sales are generated and 54 per cent of its people are employed. Persil Abaya is a liquid detergent that Henkel introduced to the Saudi Arabian market in 2007 and later to the rest of the Gulf Cooperation Council markets. Henkel markets this liquid as a detergent specialized for black abayas and dark apparel. The abaya is the predominantly black overgarment worn by most Arab women. The liquid detergent combines true cleaning power with special colour protection for black and dark garments – particularly important if these are washed frequently.

While black is the traditional shade for women in the Africa/Middle East region, the popularity of black and dark clothing has also steadily risen in western European markets over recent years. Therefore in June 2011, Persil Black was also introduced in Germany, Austria and Switzerland – catching the crest of this fashion wave.

Persil Black and Persil Abaya provide a good example of how the mix of common global technology and scale (low-cost production) can be combined with local market. The two Persil brands have similar product formulations, but regionally tailored product marketing, in the form of different packaging and market communication.

Source: Henkel AG & Co KGaA.

Persil Abaya was launched in the Gulf States through a mix of TV commercials and a very successful viral online marketing campaign. An interactive website was set up and Henkel also sponsored a reality TV designer competition, in order to show that the abaya has transcended from traditional garment to individual fashion statement. In the western European markets, the consumer campaign for Persil Black relied mainly on classic TV advertising, complemented by social media activities such as a game on Facebook.

Sources: based on Henkel Annual Report 2011–2015 (*www.henkel.com*); Hollensen and Schimmelpfennig (2015).

1.6 Forces for global integration and market responsiveness

In Figure 1.9 it is assumed that SMEs and LSEs are learning from each other. The consequence of both movements may be an action-oriented approach, where firms use the strengths of both orientations. The following section will discuss the differences in the starting points of LSEs and SMEs in Figure 1.9. The result of the convergence movement of LSEs and SMEs into the upper-right corner can be illustrated by Figure 1.9.

An example of a LSE's movement from 'left' to 'right' is given in Exhibit 1.6, where McDonald's has adapted its menus to the local food cultures. SMEs have traditionally been strong on 'high degree of responsiveness', but their tendency to decentralization and local decision-making has made them more vulnerable to a low degree of coordination across borders (which, by contrast, is the strength of LSEs).

Global integration
Recognizing the similarities between international markets and integrating them into the overall global strategy.

Market responsiveness
Responding to each market's needs and wants.

The terms 'glocal strategy' and 'glocalization' have been introduced to reflect and combine the two dimensions in Figure 1.9: globalization (y-axis) and localization (x-axis). The glocal strategy approach reflects the aspirations of a global integrated strategy, while recognizing the importance of local adaptations/market responsiveness. In this way, glocalization tries to optimize the balance between standardization and adaptation of the firm's international marketing activities (Svensson, 2001, 2002; Bailey *et al.*, 2015).

First let us try to explain the underlying forces for global coordination/**global integration** and **market responsiveness** in Figure 1.9.

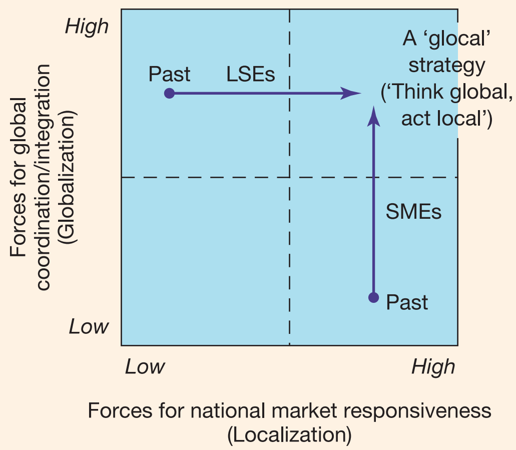


Figure 1.9 The global integration/market responsiveness grid: the future orientation of LSEs and SMEs

Forces for 'global coordination/integration'

In the shift towards integrated global marketing, greater importance will be attached to transnational similarities for target markets across national borders and less on cross-national differences. The major drivers for this shift are as follows (Sheth and Parvatiyar, 2001; Segal-Horn, 2002):

- *Removal of trade barriers (deregulation)*. Removal of historic barriers, both tariff (such as import taxes) and non-tariff (such as safety regulations), which have constituted barriers to trade across national boundaries. Deregulation has occurred at all levels: national, regional (within national trading blocs) and international. Thus deregulation has an impact on globalization, as it reduces the time, costs and complexity involved in trading across boundaries.
- *Global accounts/customers*. As customers become global and rationalize their procurement activities, they demand that suppliers provide them with global services to meet their unique global needs. Often this may consist of global delivery of products, assured supply and service systems, uniform characteristics and global pricing. Several LSEs, such as IBM, Boeing, IKEA, Siemens and ABB, make such 'global' demands on their smaller suppliers, typical SMEs. For these SMEs, managing such global accounts requires cross-functional customer teams, in order to deploy quality consistency across all functional units.
- *Relationship management/network organization*. As we move towards global markets it is becoming increasingly necessary to rely on a network of relationships with external organizations, for example, customer and supplier relationships to pre-empt competition. Firms may also have to work with internal units (e.g. sales subsidiaries) located in many and various parts of the world. Business alliances and network relationships help to reduce market uncertainties, particularly in the context of rapidly converging technologies and the need for higher amounts of resources to cover global markets. However, networked organizations need more coordination and communication.
- *Standardized worldwide technology*. Earlier differences in world market demand were due to the fact that advanced technological products were primarily developed for the defence and government sectors before being scaled down for consumer applications. However, today the desire for gaining scale and scope in production is so high that worldwide availability of products and services should escalate. As a consequence we may witness more homogeneity in the demand and usage of consumer

electronics across nations. Today 'plug-and-play' modules are combined to create products very similar across markets. Examples of that are smartphones, that can be produced at good quality, not only by Apple and Samsung, but also by a Chinese manufacturer, like Xiaomi, which in 2014 captured no. 1 position in the Chinese smartphone market, and is now expanding to other international markets (Santos and Williamson, 2015).

- *Worldwide markets*. The concept of 'diffusions of innovations' from the home country to the rest of the world tends to be replaced by the concept of worldwide markets. Worldwide markets are likely to develop because they can rely on world demographics. For example, if a marketer targets its products or services to the teenagers of the world, it is relatively easy to develop a worldwide strategy for that segment and draw up operational plans to provide target market coverage on a global basis. This is becoming increasingly evident in soft drinks, clothing and sports shoes, especially in the internet economy.
- *'Global village'*. The term 'global village' refers to the phenomenon in which the world's population shares commonly recognized cultural symbols. The business consequence of this is that similar products and services can be sold to similar groups of customers in almost any country in the world. Cultural homogenization therefore implies the potential for the worldwide convergence of markets and the emergence of a global marketplace, in which brands such as Coke, Nike and Levi's are universally desired.
- *Worldwide communication*. New internet-based 'low-cost' communication methods (e.g. e-mailing, e-commerce) ease communication and trade across different parts of the world. As a result, customers within national markets are able to buy similar products and similar services across parts of the world.
- *Global cost drivers*. These are categorized as 'economies of scale' and 'economies of scope'. In the drive to reduce costs, many established multinationals have focused increasingly on activities with the highest returns. This means that lower-value activities are outsourced to emerging and developing countries with lower labour costs. The result is that once-closed value chains have been opened up, enabling local players to source 'plug-and-play' modular designs to big multinationals, or even to develop local brands themselves (Santos and Williamson, 2015).

Forces for 'market responsiveness'

These are as follows:

- *Cultural differences*. Despite the advent of the 'global village', cultural diversity clearly continues to exist. Cultural differences often pose major difficulties in international negotiations and marketing management. These cultural differences reflect differences in personal values and in the assumptions people make about how business is organized. Every culture has its opposing values. Markets are people, not products. There may be global products, but there are not global people.
- *Regionalism/protectionism*. Regionalism is the grouping of countries into regional clusters based on geographic proximity. These clusters (such as the European Union or the North American Free Trade Agreement) have formed regional trading blocs, which may represent a significant barrier to globalization, since regional trade is often seen as incompatible with global trade. In this case, trade barriers that are removed from individual countries are simply reproduced for a region and a set of countries. Thus all trading blocs create outsiders as well as insiders. Therefore one may argue that regionalism results in a situation where protectionism reappears around regions rather than individual countries.

Deglobalization
Moving away from the globalization trends and regarding each market as special, with its own economy, culture and religion.

- **Deglobalization** *trend*. More than 2,500 years ago the Greek historian Herodotus (based on observations) claimed that everyone believes their native customs and religion are the best. Current movements in Arab countries, the big demonstrations accompanying conferences such as the World Economic Forum in Davos or the World Trade Organization (WTO) meetings show that there could be a return to old values, promoting barriers to the further success of globalization. Rhetorical words such as 'McDonaldization' and 'Coca-Colonization' describe in a simple way fears of US cultural imperialism.

Exhibit 2.4 presents an example of British Telecommunications' experience with de-internationalization of their American and Asian strategy (Turner and Gardiner, 2007).

EXHIBIT 1.6 McDonald's is moving towards a higher degree of market responsiveness

McDonald's (www.mcdonalds.com) has now expanded to about 30,000 restaurants in over 100 countries. Executives at the headquarters of McDonald's Corp. in Oak Brook, Illinois, have learned that despite the cost savings inherent in standardization, success is often about being able to adapt to the local environment. Here are some examples.

Japan

McDonald's first restaurant in Japan opened during 1971. At that time fast food in Japan consisted of either a bowl of noodles or miso soup.

With its first-mover advantage, McDonald's kept its lead in Japan. By 1997, it had over 1,000 outlets there, selling more food in Japan than any other restaurant company, including 500 million burgers a year.

Among the offerings of McDonald's Co. (Japan) Ltd are chicken tatsuta, teriyaki chicken and the Teriyaki McBurger. Burgers are garnished with a fried egg. Beverages include iced coffee and corn soup.

McDonald's in Japan imports about 70 per cent of its food needs, including pickles from the US and beef patties from Australia. High volumes facilitate bargaining with suppliers, in order to guarantee sourcing at a low cost.

India

McDonald's, now with seven restaurants in India, was launched there in 1996. It has had to deal with a market that is 40 per cent vegetarian; meat eaters who dislike beef or pork; consumers with a hostility to frozen meat and fish; and a general Indian fondness for spice with everything.

The Big Mac was replaced by the Maharaja Mac, made from mutton, and the outlets also offer vegetarian rice-patties flavoured with vegetables and spice.

Other countries

In tropical markets, guava juice was added to the McDonald's product line. In Germany, McDonald's did well selling beer as well as McCroissants. Banana fruit pies became popular in Latin America and McSpaghetti noodles became a favourite in the Philippines. In Thailand, McDonald's introduced the Samurai Pork Burger with sweet sauce. Meanwhile, McDonald's in New Zealand launched the Kiwiburger served with beetroot sauce and optional apricot pie.

In Singapore, where fries came to be served with chilli sauce, the Kiasuburger chicken breakfast became a bestseller. Singapore was among the first markets in which McDonald's introduced a delivery service.

As indicated, McDonald's has achieved economies of scale and cost savings through standardization and in its packaging. In 2003, McDonald's announced that all its restaurants would soon be adopting the same brand packaging for menu items. According to a company press release, the new packaging would feature photographs of real people doing things they enjoy, such as listening to music, playing soccer and reading to their children. McDonald's global chief marketing officer was quoted as saying, 'It is the first time in our history that a single set of brand packaging, with a single brand message, will be used concurrently around the world.' Two years later, in 2005, the company had to pull back when it announced plans to *localize* its packages (Frost, 2006).

Sources: adapted from a variety of public media.

1.7 The value chain as a framework for identifying international competitive advantage

The concept of the value chain

Value chain
A categorization of the firm's activities providing value for the customers and profit for the company.

The **value chain** shown in Figure 1.10 provides a systematic means of displaying and categorizing activities. The activities performed by a firm in any industry can be grouped into the nine generic categories shown.

At each stage of the value chain there exists an opportunity to contribute positively to the firm's competitive strategy by performing some activity or process in a way that is

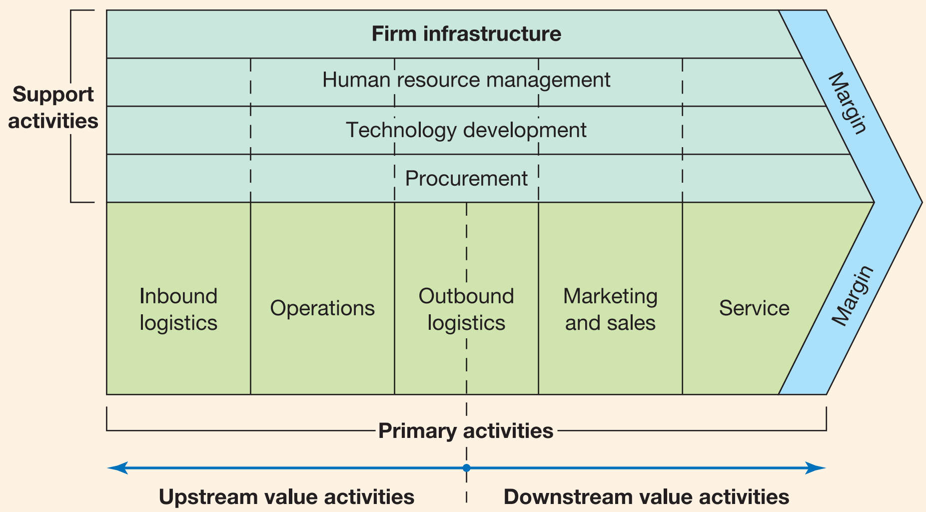


Figure 1.10 The value chain

Source: adapted with the permission of The Free Press, a Division of Simon & Schuster, Inc. from *Competitive Advantage: Creating and Sustaining Superior Performance* by Michael E. Porter. Copyright © 1985, 1998 Michael E. Porter. All rights reserved.

better than and/or different from the competitors' offer, and so provide some uniqueness or advantage. If a firm attains such a competitive advantage, which is sustainable, defensible, profitable and valued by the market, then it may earn high rates of return, even though the industry structure may be unfavourable and the average profitability of the industry modest.

In competitive terms, value is the amount that buyers are willing to pay for what a firm provides them with (perceived value). The value chain includes both cost and value drivers. Drivers are the underlying structural factors that explain why the cost/value generated by a firm's activities differs from that of its rivals. Basically, a firm is profitable if the value it commands exceeds the costs involved in creating the product. Creating value for buyers that exceeds the cost of doing so is the goal of any generic strategy. Sometimes value, instead of cost, must be used in analysing competitive position, since firms often deliberately raise their costs in order to command a premium price via differentiation. The concept of buyers' perceived value will be discussed further in Section 4.4.

Before going into the details of the various value chain activities, it is important to realize that the firm's value chain is embedded in a larger stream of network activities in the total supply chain. Suppliers, the firm itself and business customers all have their *own* value chain, starting from the basic raw materials and going right through to those engaged in the delivery of the final product and service to the final customer.

The Porter concept of the value chain

Porter's (1986) original value chain displays total value and consists of value activities and margin. Value activities are the physically and technologically distinct activities that a firm performs. These are the building blocks with which a firm creates a product valuable to its buyers. Margin is the difference between total value (price) and the collective cost of performing the value activities.

Competitive advantage is a function of either providing comparable buyer value more efficiently than competitors (lower cost), or performing activities at comparable cost but in unique ways that create more customer value than the competitors are able to offer and, hence, command a premium price (differentiation). The firm might be able to identify elements of the value chain that are not worth the costs. These can then be unbundled and produced outside the firm (outsourced) at a lower price.

Value activities can be divided into two broad types, primary activities and support activities. *Primary activities,* listed along the bottom of Figure 1.10, are the activities involved in the physical creation of the product, its sale and transfer to the buyer, as well as after-sales assistance. In any firm, primary activities can be divided into the five generic categories shown in the figure. *Support activities* support the primary activities and each other by providing purchased inputs, technology, human resources and various firm-wide functions. The dotted lines reflect the fact that procurement, technology development and human resource management can be associated with specific primary activities as well as supporting the entire chain. Firm infrastructure is not associated with particular primary activities, but supports the entire chain.

Primary activities

The primary activities of the organization are grouped into five main areas, as follows:

1. *Inbound logistics*. The activities concerned with receiving, storing and distributing the inputs to the product/service. These include materials, handling, stock control and transport.

2. *Operations*. The transformation of these various inputs into the final product or service, e.g. machining, packaging, assembly, testing.
3. *Outbound logistics*. The collection, storage and distribution of the product to customers. For tangible products this would involve warehousing, material handling and transport; in the case of services it may be more concerned with arrangements for bringing customers to the service if it is in a fixed location (e.g. sports events).
4. *Marketing and sales*. These provide the means whereby consumers/users are made aware of the product/service and are able to purchase it. This would include sales administration, advertising and selling. In public services, communication networks that help users access a particular service are often important.
5. *Service*. These are all the activities that enhance or maintain the value of a product/service. Asugman *et al*. (1997) have defined after-sales service as 'those activities in which a firm engages after purchase of its product that minimize potential problems related to product use, and maximize the value of the consumption experience'. After-sales service consists of the following: the installation and start-up of the purchased product, the provision of spare parts for products, the provision of repair services, technical advice regarding the product, and the provision and support of warranties.

Each of these groups of primary activities is linked to support activities.

Support activities

These can be divided into four areas:

1. *Procurement*. This refers to the process of acquiring the various resource inputs to the primary activities (not to the resources themselves). As such, it occurs in many parts of the organization.
2. *Technology development*. All value activities have a 'technology', even if it is simply 'know-how'. The key technologies may be concerned directly with the product (e.g. R&D, product design), with processes (e.g. process development) or with a particular resource (e.g. raw material improvements).
3. *Human resource management*. This is a particularly important area that transcends all primary activities. It is concerned with the activities involved in recruiting, training, developing and rewarding people within the organization.
4. *Infrastructure*. The systems of planning, finance, quality control, etc. are crucially important to an organization's strategic capability in all primary activities. Infrastructure also consists of the structures and routines of the organization that sustain its culture.

As indicated in Figure 1.10, a distinction is also made between the production-oriented, 'upstream' activities and the more marketing-oriented, 'downstream' activities.

Figure 1.11 shows a simplified version of the value chain in Figure 1.10. This simplified version, characterized by the fact that it contains only the primary activities of the firm, will be used in most parts of this book.

Although value activities are the building blocks of competitive advantage, the value chain is not a collection of independent activities, but a system of interdependent activities. Value activity is related by horizontal linkages within the value chain. Linkages are relationships between the way in which one value activity is dependent on the performance of another.

Furthermore, the chronological order of the activities in the value chain is not always as illustrated in Figure 1.11. In companies where orders are placed before production of the final product (build-to-order), the sales and marketing function takes place before production.

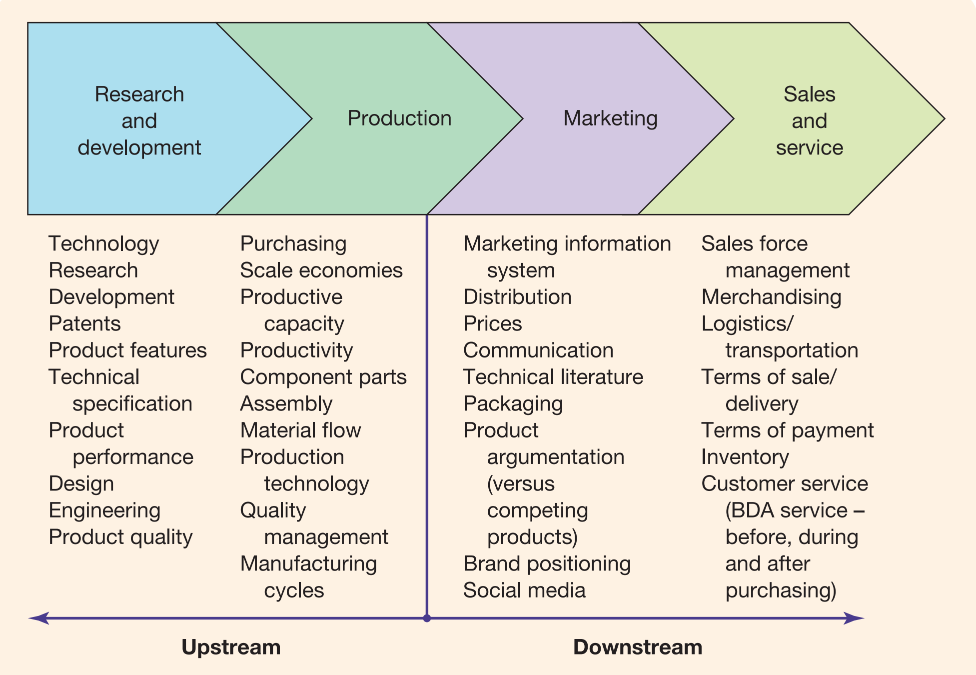


Figure 1.11 A simplified version of the value chain

In understanding the competitive advantage of an organization, the strategic importance of the following types of linkage should be analysed in order to assess how they contribute to cost reduction or value added. There are two kinds of linkage:

1. *internal linkages* between activities within the same value chain, but perhaps on different planning levels within the firm;
2. *external linkages* between different value chains 'owned' by the different actors in the total value system.

Internal linkages

There may be important links between the primary activities. In particular, choices will have been made about these relationships and how they influence value creation and strategic capability. For example, a decision to hold high levels of finished stock might ease production scheduling problems and provide a faster response time to the customer. However, it will probably add to the overall cost of operations. An assessment needs to be made of whether the added value of 'stocking' is greater than the added cost. Suboptimization of the single value chain activities should be avoided. It is easy to miss this point in an analysis if, for example, the marketing activities and operations are assessed separately. The operations may look good because they are geared to high-volume, low-variety, low-unit-cost production. However, at the same time the marketing team may be selling quickness, flexibility and variety to the customers. When put together these two potential strengths are weaknesses because they are not in harmony, which is what a value chain requires. The link between a primary activity and a support activity may be the basis of competitive advantage. For example, an organization may have a unique system for procuring materials. Many international hotels and travel companies use their computer systems to provide immediate 'real time' quotations and bookings worldwide from local access points.

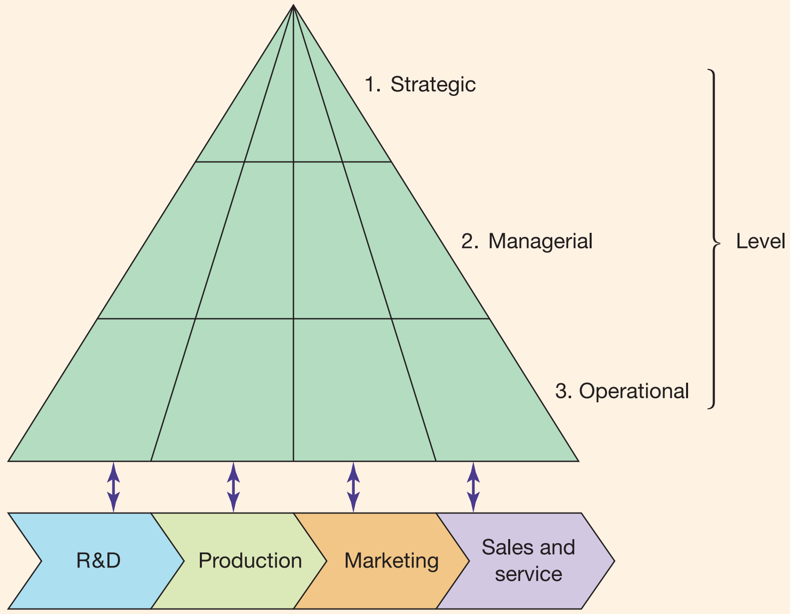


Figure 1.12 The value chain in relation to the strategic pyramid

As a supplement to comments about the linkages between the different activities, it is also relevant to regard the value chain (illustrated in Figure 1.11 in a simplified form) as a thorough-going model on all three planning levels in the organization.

In purely conceptual terms, a firm can be described as a pyramid as illustrated in Figure 1.12. It consists of an intricate conglomeration of decision and activity levels, having three distinct levels, but the main value chain activities are connected to all three strategic levels in the firm:

1. The *strategic level* is responsible for formulation of the firm's mission statement, determining objectives, identifying the resources that will be required if the firm is to attain its objectives, and selecting the most appropriate corporate strategy for the firm to pursue.
2. The *managerial level* has the task of translating corporate objectives into functional and/or unit objectives and ensuring that resources placed at its disposal (e.g. in the marketing department) are used effectively in the pursuit of those activities that will make the achievement of the firm's goals possible.
3. The *operational level* is responsible for the effective performance of the tasks that underlie the achievement of unit/functional objectives. The achievement of operational objectives is what enables the firm to achieve its managerial and strategic aims. All three levels are interdependent, and clarity of purpose from the top enables everybody in the firm to work in an integrated fashion towards a common aim.

External linkages

One of the key features of most industries is that a single organization rarely undertakes all value activities from product design to distribution to the final consumer. There is usually a specialization of roles, and any single organization usually participates in the wider value system that creates a product or service. In understanding how value is created it is not enough to look at the firm's internal value chain alone. Much of the value creation will occur in the supply and distribution chains, and this whole process needs to be analysed and understood.

Suppliers have value chains that create and deliver the purchased inputs used in a firm's chain (the upstream part of the value chain). Suppliers not only deliver a product, but can also influence a firm's performance in many other ways. For example, Benetton, the Italian fashion company, managed to sustain an elaborate network of suppliers, agents and independent retail outlets as the basis of its rapid and successful international development during the 1970s and 1980s.

In addition, products pass through the value chain channels on their way to the buyer. Channels perform additional activities that affect the buyer and influence the firm's own activities. A firm's product eventually becomes part of its buyer's value chain. The ultimate basis for differentiation is a firm and its product's role in the buyer's value chain, which is determined by buyer needs. Gaining and sustaining competitive advantage depend on understanding not only a firm's value chain, but also how the firm fits into the overall value system.

There are often circumstances where the overall cost can be reduced (or the value increased) by collaborative arrangements between different organizations in the value system. It will be seen elsewhere (Chapter 10) that this is often the rationale behind downstream collaborative arrangements, such as joint ventures, subcontracting and outsourcing between different organizations (e.g. sharing technology in the international motor manufacture and electronics industries).

Internationalizing the value chain

All internationally oriented firms must consider an eventual internationalization of the value chain's functions. The firm must decide whether the responsibility for the single value chain function is to be moved to the export markets or is best handled centrally from head office. Principally, the value chain function should be carried out where there is the highest competence (and the most cost-effectiveness), and this is not necessarily at head office.

A distinction immediately arises between the activities labelled downstream in Figure 1.11 and those labelled upstream activities. The location of downstream activities, those more related to the buyer, is usually tied to where the buyer is located. If a firm is going to sell in Australia, for example, it must usually provide services in Australia, and it must have salespeople stationed there. In some industries it is possible to have a single sales force that travels to the buyer's country and back again; other specific downstream activities, such as the production of advertising copy, can sometimes also be performed centrally. More typically, however, the firm must locate the capability to perform downstream activities in each of the countries in which it operates. By contrast, upstream activities and support activities are more independent of where the buyer is located (Figure 1.13). However, if the export

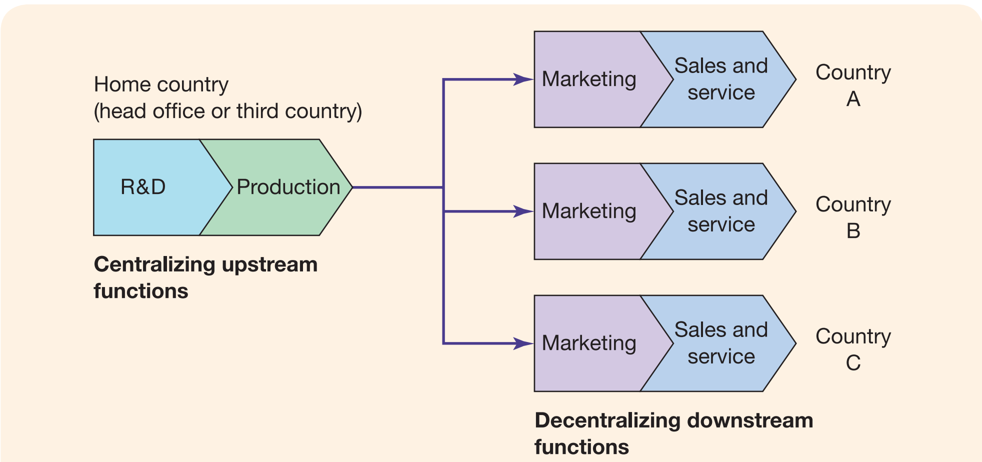


Figure 1.13 Centralizing the upstream activities and decentralizing the downstream activities

Source: Hollensen, S. (2008) *Essentials of Global Marketing,* FT/Prentice Hall, p. 17. Copyright © Pearson Education Limited.

markets are culturally close to the home market, it may be relevant to control the entire value chain from head office (home market).

This distinction carries some interesting implications. First, downstream activities create competitive advantages that are largely country-specific: a firm's reputation, brand name and service network in a country grow largely out of its activities and create entry/mobility barriers largely in that country alone. Competitive advantage in upstream and support activities often grows more out of the entire system of countries in which a firm competes than from its position in any single country.

Secondly, in industries where downstream activities or other buyer-tied activities are vital to competitive advantage, there tends to be a more multidomestic pattern of international competition. In many service industries, for example, not only downstream activities but frequently upstream activities are tied to buyer location, and global strategies are comparatively less common. In industries where upstream and support activities such as technology development and operations are crucial to competitive advantage, global competition is more common. For example, there may be a large need in firms to centralize and coordinate the production function worldwide to be able to create rational production units that are able to exploit economies of scale. Today it is very popular among companies to outsource production to the Far East, e.g. China.

Furthermore, as customers increasingly join regional cooperative buying organizations, it is becoming more and more difficult to sustain a price differentiation across markets. This will put pressure on the firm to coordinate a European price policy. This will be discussed further in Chapter 11.

The distinctive issues of international strategies, in contrast to domestic, can be summarized in two key dimensions of how a firm competes internationally. The first is called the *configuration* of a firm's worldwide activities, or the location in the world where each activity in the value chain is performed, including the number of places. For example, a company can locate different parts of its value chain in different places – for instance, factories in China, call centres in India and retail shops in Europe. IBM is an example of a company that exploits wage differentials by increasing the number of employees in India from 9,000 in 2004 to 50,000 by mid-2007 and by planning for massive additional growth. Most of these employees are in IBM Global Services, the part of the company that is growing fastest but has the lowest margins – which the Indian employees are supposed to improve, by reducing (wage) costs rather than raising prices (Ghemawat, 2007).

The second dimension is called *coordination,* which refers to how identical or linked activities performed in different countries are coordinated with each other (Porter, 1986).

1.8 Value shop and the 'service value chain'

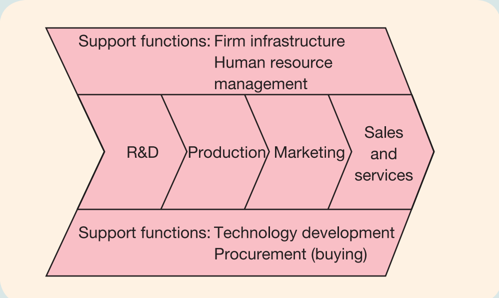
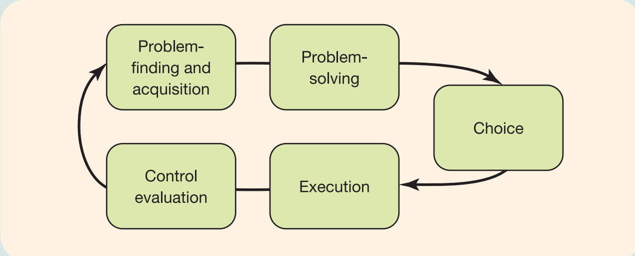
Value shops
A model for solving problems in a service environment, similar to workshops. Value is created by mobilizing resources and deploying them to solve a specific customer problem.

Value networks
The formation of several firms' value chains into a network, where each company contributes a small part to the total value chain.

Michael Porter's value chain model claims to identify the sequence of key generic activities that businesses perform in order to generate value for customers. Since its introduction in 1985, this model has dominated the thinking of business executives. Yet a growing number of service businesses, including banks, hospitals, insurance companies, business consulting services and telecommunications companies, have found that the traditional value chain model does not fit the reality of their service industry sectors. Stabell and Fjeldstad (1998) identified two new models of value creation – **value shops** and **value networks**. Fjeldstad and Stabell argue that the value chain is a model for making products, while the value shop is a model for solving customer or client problems in a service environment. The value network is a model for mediating exchanges between customers. Each model utilizes a different set of core activities to create and deliver distinct forms of value to customers.

The main differences between the two types of value chains are illustrated in Table 1.2.

Table 1.2 The traditional value chain versus the service value chain

Traditional value chain model	Service value chain ('value shop') model
Value creation through transformation of inputs (raw material and components) to products.	Value creation through customer problem-solving. Value is created by mobilizing resources and activities to resolve a particular and unique customer problem. Customer value is not related to the solution itself but to the value of solving the problem.
Sequential process ('first we develop the product, then we produce it, and finally we sell it') 	Cyclical and iterative process. 
The traditional value chain consists of primary and support activities. **Primary activities** are directly involved in creating and bringing value to customers: upstream (product development and production) and downstream activities (marketing and sales and service). **Support activities** enable and improve the performance of the primary activities, e.g. procurement, technology development, human resource management and firm infrastructure.	The **primary activities** of a value shop are: 1. ***Problem-finding***: activities associated with the recording, reviewing and formulating of the problem to be solved and choosing the overall approach to solving the problem. 2. ***Problem-solving***: activities associated with generating and evaluating alternative solutions. 3. ***Choice***: activities associated with choosing among alternative problem solutions. 4. ***Execution***: activities associated with communicating, organizing and implementing the chosen solution. 5. ***Control and evaluation***: activities associated with measuring and evaluating to what extent implementation has solved the initial statement.
Examples: production and sales of furniture, consumer food products, electronic products and other mass products.	*Examples*: banks, hospitals, insurance companies, business consulting services and telecommunications companies.

Source: based on Stabell and Fjeldstad (1998).

Value shops (as in workshops, not retail stores) create value by mobilizing resources (e.g. people, knowledge and skills) and deploying them to solve specific problems such as curing an illness, delivering airline services to the passengers or delivering a solution to a business problem. Shops are organized around making and executing decisions – identifying and assessing problems or opportunities, developing alternative solutions or approaches, choosing one, executing it and evaluating the results. This model applies to most service-oriented organizations such as building contractors, consultancies and legal organizations. However, it also applies to organizations that are primarily configured to identify and exploit specific market opportunities, such as developing a new drug, drilling a potential oilfield or designing a new aircraft.

Different parts of a typical business may exhibit characteristics of different configurations. For example, production and distribution may resemble a value chain; research and development a value shop.

Value shops make use of specialized knowledge-based systems to support the task of creating solutions to problems. However, the challenge is to provide an integrated set of applications that enable seamless execution across the entire problem-solving or opportunity–exploitation process. Several key technologies and applications are emerging in value shops – many focus on utilizing people and knowledge better. Groupware, intranets, desktop videoconferencing and shared electronic workspaces enhance communication and collaboration between people, essential to mobilizing people and knowledge across value shops. Integrating project planning with execution is proving crucial, for example, in pharmaceutical development, where bringing a new drug through the long, complex approval process a few months early can mean millions of dollars in revenue. Technologies such as inference engines and neural networks can help to make knowledge about problems and the process for solving them explicit and accessible.

The term 'value network' is widely used but imprecisely defined. It often refers to a group of companies, each specializing in one piece of the value chain, and linked together in some virtual way to create and deliver products and services. Stabell and Fjelstad (1998) define value networks quite differently – not as networks of affiliated companies, but as a business model for a single company that mediates interactions and exchanges across a network of its customers. This model clearly applies best to telecommunications companies, but also to insurance companies and banks, whose business, essentially, is mediating between customers with different financial needs – some saving, some borrowing, for example. Key activities include operating the customer-connecting infrastructure, promoting the network, managing contracts and relationships, and providing services.

Some of the most IT-intensive businesses in the world are value networks – banks, airlines and telecommunications companies, for instance. Most of their technology provides the basic infrastructure of the 'network' to mediate exchanges between customers. But the competitive landscape is now shifting beyond automation and efficient transaction processing to monitoring and exploiting information about customer behaviour.

The aim is to add more value to customer exchanges through better understanding of usage patterns, exchange opportunities, shared interests and so on. Data mining and visualization tools, for example, can be used to identify both positive and negative connections between customers.

Competitive success often depends on more than simply performing your primary model well. It may also require the delivery of additional kinds of complementary value. Adopting attributes of a second value configuration model can be a powerful way to differentiate your value proposition or defend it against competitors pursuing a value model different to your own. It is essential, however, to pursue another model only in ways that leverage the primary model. For example, Harley-Davidson's primary model is the chain – it makes and sells products. Forming the Harley Owners Group (HOG) – a network of customers – added value to the primary model by reinforcing the brand identity, building loyalty and providing valuable information and feedback about customers' behaviours and preferences. Amazon.com is a value chain like other book distributors, and initially used technology to make the process vastly more efficient. Now, with its book recommendations and special interest groups, it is adding the characteristics of a value network. Our research suggests that the value network, in particular, offers opportunities for many existing businesses to add more value to their customers, and for new entrants to capture market share from those who offer less value to their customers.

Combining the product value chain and the service value chain

Blomstermo *et al*. (2006) make a distinction between *hard* and *soft services*. Hard services are those where production and consumption can be decoupled. For example, software services can be transferred into a CD or some other tangible medium, which can be mass-produced, making standardization possible. With soft services, where production and consumption occur simultaneously, the customer acts as a co-producer, and decoupling is not viable. The soft-service provider must be present abroad from its first day of foreign operations.

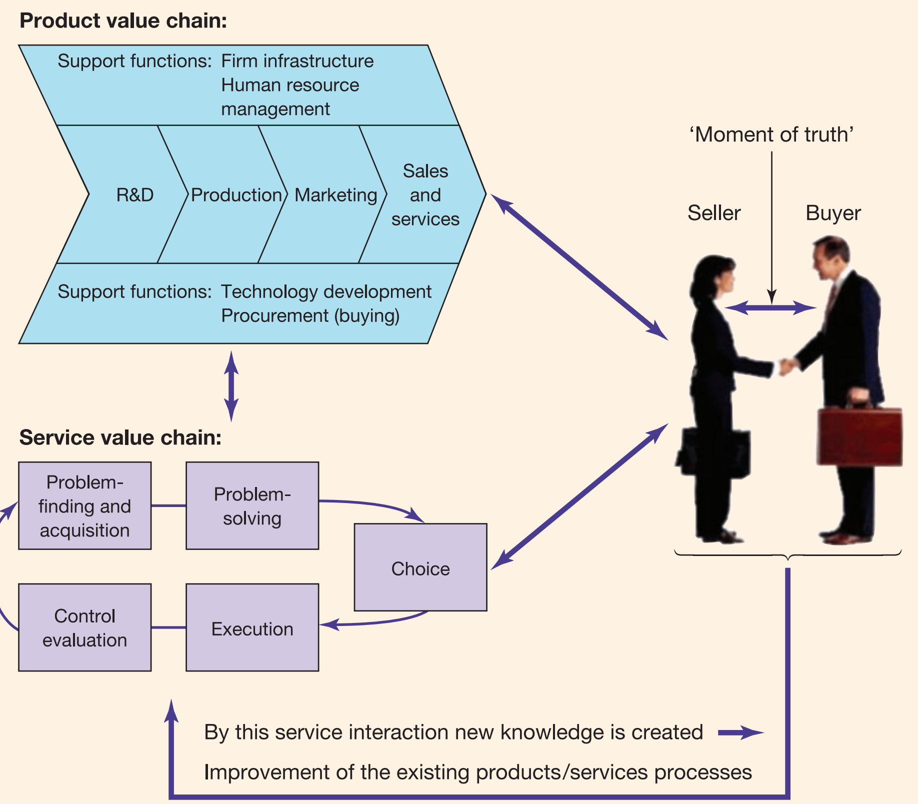


Figure 1.14 Combining the product value chain and the service value chain

Figure 1.14, showing the combination of the product and service value chains, is mainly valid for soft services, but at the same time in more and more industries we see that physical products and services are combined.

Most product companies offer services to protect or enhance the value of their product businesses. Cisco, for instance, built its installation, maintenance and network-design service business to ensure high-quality product support and to strengthen relationships with enterprise and telecom customers. A company may also find itself drawn into services when it realizes that competitors use its products to offer services of value. If it does nothing, it risks not only the commoditization of its own products – something that is occurring in most product markets, irrespective of the services on offer – but also the loss of customer relationships. To make existing service groups profitable – or to succeed in launching a new embedded service business – executives of product companies must decide whether the primary focus of service units should be to support existing product businesses or to grow as a new and independent platform.

When a company chooses a business design for delivering embedded *services* to customers, it should remember that its strategic intent affects which elements of the delivery life cycle are most important. If the aim is to protect or enhance the *value* of a product, the company should integrate the system for delivering it and the associated *services* in order to promote the development of product designs that simplify the task of *service* (e.g. by using fewer subsystems or integrating diagnostic software). This approach involves minimizing the footprint of *service* delivery and incorporating support into the product whenever possible. If the company wants the *service* business to be an independent growth platform, however, it should focus most of its delivery efforts on constantly reducing unit costs and making the *services* more productive (Auguste *et al.*, 2006).

In the 'moment of truth' (e.g. in a consultancy service situation), the seller represents all the functions of the focal company's product and service value chain – at the same time. The seller (the product and service provider) and the buyer create a service in an interaction process: 'The service is being created and consumed as it is produced.' Good representatives on the seller's side are vital to service brands' successes, being ultimately responsible for delivering the seller's promise. As such, a shared understanding of the service brand's values needs to be anchored in their hearts and minds to encourage brand-supporting behaviour. This internal brand-building process becomes more challenging as service brands expand internationally, drawing on workers from different global domains.

Figure 1.14 also shows the cyclic nature of the service interaction ('moment of truth') where the post-evaluation of the service value chain gives input for the possible redesign of the 'product value chain'. The interaction shown in Figure 1.14 could also be an illustration or a snapshot of a negotiation process between seller and buyer, where the seller represents a branded company, which is selling its projects as a combination of 'hardware' (physical products) and 'software' (services).

One of the purposes of the 'learning nature' of the overall decision cycle in Figure 1.14 is to pick up the best practices among different kinds of international buyer–seller interactions. This would lead to a better set-up of:

- the service value chain (value shop);
- the product value chain;
- the combination of the service and product value chain.

Johansson and Jonsson (2012) emphasized the knowledge transfer between the product value chain and the value shop, by looking at value creation and utilizing the synergies between them. This is especially relevant to consider in business to business (B2B) project selling.

1.9 Global experimental marketing

The previous section describes and explains value creation as a result of both the product and service offerings. However, as services increasingly become commoditized – think of smartphone services sold solely on price – 'experiences' have emerged as the next step in providing 'customer value'. This process of generating customer value from a product solution, services and finally customer experiences is shown in Figure 1.15. A **customer experience** occurs when a company intentionally uses products in combination with services to engage individual customers in a way that creates a *memorable* event (Pine and Gilmore, 1998).

Customer experience
The use of products in combination with services to engage the individual customer in a way that creates a memorable event. This can be characterized into one of four groups: entertainment, educational, aesthetic or escapist.

Experiential marketing is a growing trend worldwide, evident in most sectors of the global economy. The term essentially describes marketing initiatives that give customers in-depth, tangible experiences in order to provide them with sufficient information to make a purchasing decision. It has evolved as a response to a perceived transition from a service economy to one personified by the experiences in which consumers participate.

Unless companies want to be in a commoditized business, they will be compelled to upgrade their offerings to the next stage of customer value creation: customer experience. This applies to both B2C (business to consumer) and B2B businesses.

B2C businesses

It is increasingly the case that consumers are involved in the processes of both defining and creating value, and the co-created experience of consumers through the holistic brand value structure becomes the very basis of marketing.

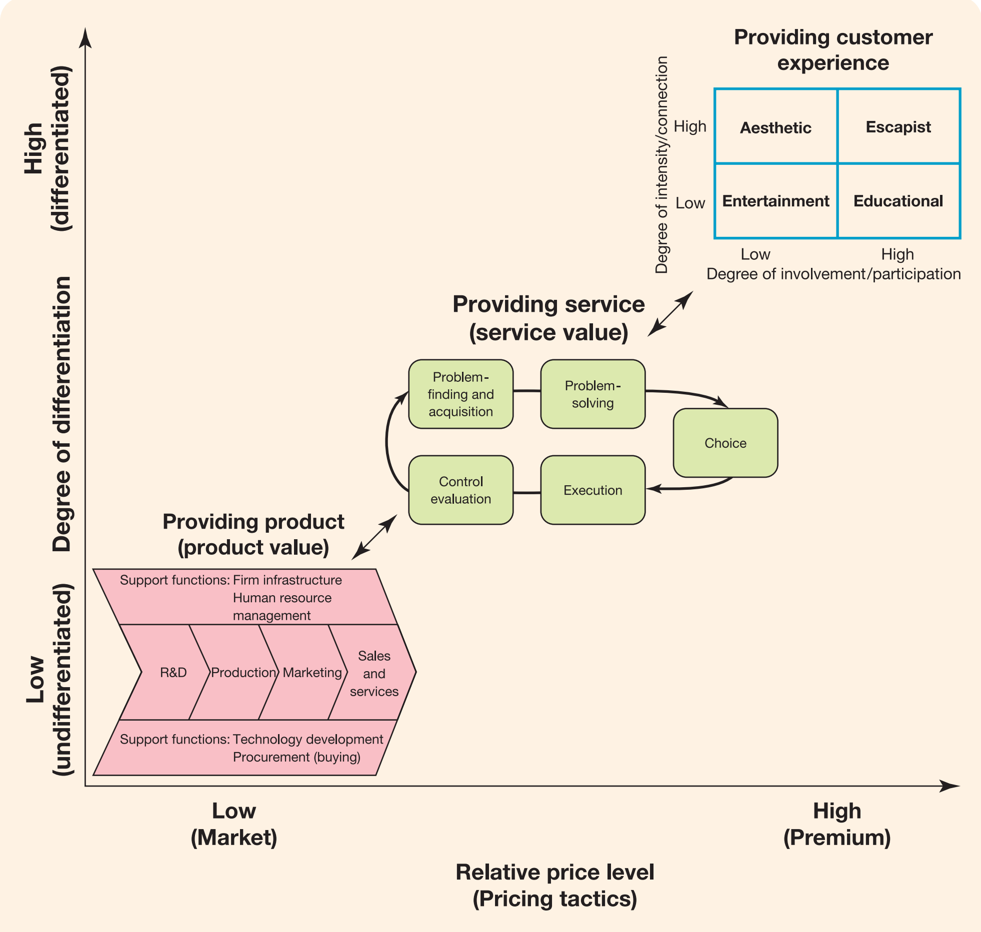


Figure 1.15 Providing customer value – also through customer experience

Sources: based on Pine and Gilmore (1998); Atwal and Williams (2009).

Pine and Gilmore (1998) suggest that we think about experiences across two bi-polar constructs:

- *Involvement/participation*. This dimension refers to the level of interactivity between the supplier and the customer. At 'low degree' there is passive participation, where the participants experience the event as observers or listeners, e.g. classical symphony-goers. At the other end of the spectrum lies 'active participation' in which customers play key roles in creating the performance or event, e.g. going to a rock concert.
- *Intensity/connection*. This dimension refers to the strength of feeling towards the interaction. Watching a film in the cinema (e.g. an IMAX theatre) with an audience, 3D screen and advanced sound is associated with a 'high degree' of intensity/connection compared with watching the same film at home on a DVD.

We can sort experiences into four broad categories according to where they fall along the spectra of the two dimensions:

Entertainment

Entertainment can be defined as something that amuses, pleases or diverts (especially a performance or show), or as the pleasure afforded by being entertained and amused. For example, fashion shows in designer boutiques and upmarket department stores, involving a low degree of customer involvement and intensity, would qualify as 'entertainment'.

Educational

Activities in the *educational* zone involve those in which participants are more actively involved, but the level of intensity is still low. In this zone, participants acquire new skills or increase those they already have. Many company offerings include educational dimensions. For example, cruise ships often employ well-known authorities to provide semi-formal lectures as part of their itineraries, a concept commonly referred to as 'edutainment'. Likewise, the Ferrari Driving Experience is a two-day precision driving school designed to narrow the gap between driving ability and a Ferrari's performance capability (Atwal and Williams, 2009).

This type of experience typically involves active participation by the consumer in educational activities of a stimulating nature, thus ensuring that the event provides an experience.

Aesthetic

When the element of activity is reduced to a more passive involvement, the event becomes *aesthetic*. Admiring the architectural or interior design of designer boutiques, for example, involves high degree of intensity but it has little effect on its environment.

In this category customers are involved in very intense experiences (e.g. a tourist viewing the Grand Canyon from its rim), but they are not personally involved in the event (such as climbing down the Grand Canyon as they might in the escapism category). Luxury brand activity is of an aesthetic nature, with customers immersing themselves in the experience but with little active participation. Watching a Cirque du Soleil show (see case 7.1) is a customer experience of this kind.

Escapism

Escapism can be defined as a tendency to escape from daily realities or routines by indulging in daydreams, fantasies or entertainment that provide a break from reality. *Escapist* activities are those that involve a high degree of both involvement and intensity, and are clearly a central feature of much of luxury consumption and lifestyle experiences, often connected to the fitness trend. This is clearly evident in the luxury tourism and hospitality sector, with the growth of specialized holiday offerings, in which customers are closely involved in co-creating their experiences. Joining a Zumba dance course (see case 3.1) is similar to this kind of customer experience.

B2B businesses

Like B2C companies, B2B businesses also need to continuously innovate how they attract, engage and excite customers by finding new possibilities for creating value. Leading industrial equipment suppliers, for instance, are learning that creation of customer value needs to be based on how customers experience the job they need to do now or how they prepare to transform themselves to succeed in the future.

Mass customization

One of the best ways to create customer value is to engage customers and create experience by mass customizing goods and services for them. One of the benefits of digital technology is that B2B companies can mass customize offerings, efficiently serving customers uniquely, differentiating offerings from any competition and locking customers in. This is

Mass customization
Mass customization can be viewed as collaborative efforts between customers and manufacturers to jointly search for solutions that best match customers' individual specific needs with manufacturers' customization capabilities. This combines the low unit costs of mass production processes with the flexibility of individual customization.

because mass customizing a product automatically turns it into a service. An integrated part of the **mass customization** process is the intangible service of helping customers figure out exactly what it is they want. So when B2B companies mass customize a product, they compete in the service business of helping their individual business customers define their needs, and then make and deliver customized products to meet those needs for each of their customers.

Furthermore, mass customizing a service turns it into an experience because, when businesses design a custom service that is just right for a particular customer at a particular point in time, the result is an inherently personal, and memorable, interaction.

More and more customers seek out suppliers that want to become partners in their customers' success, that help customers help their customers and that think beyond the value of the equipment they sell to the far greater value that accrues from helping customers use that equipment effectively. B2B businesses need to realize that customers don't really want just products, systems or even solutions. They want a better business. Customers that are growing and adapting to their markets do not just buy industrial equipment today because they want the equipment; it is always a means to create a better and more profitable business. The 'Case Construction' exhibit (Exhibit 1.7) illustrates this point.

EXHIBIT 1.7 Case Construction Equipment is using experiential marketing

In 1999, CNH (Case New Holland) was established as a result of a merger between Case and New Holland. CNH manufactures its products (agricultural and construction equipment and machines) in 37 facilities throughout the world and distributes its products in approximately 170 countries through approximately 11,500 full line dealers and distributors.

One of the brands under CNH is Case Construction Equipment (www.casece.com).

In North America, Case Construction Equipment operates its Tomahawk Experience Center in Northern Wisconsin so potential business customers can try out its excavators, loaders, forklifts, backhoes and other equipment in a multi-day experience. It lets construction company owners and managers who grew up in the business get back in touch with their inner operator again, provides the opportunity for Case's experts to answer whatever questions they have and enables dealers to form close relationships with these customers.

The Tomahawk Customer Center has been serving customers for more than 60 years.

The facility stands on the site of the Drott Manufacturing proving grounds, which date back to the early 1900s. After acquiring Drott in 1968, Case transformed the property into a world-class facility dedicated to serving Case customers.

Source: CNH Industrial America LLC.

Source: CNH Industrial America LLC.

Today's Tomahawk Customer Center features state-of-the-art training, a line-up of more than 60 pieces of new equipment to operate, log cabin-style lodges for comfortable accommodation and memorable hospitality.

The outcome?

Case has experienced that when a normal potential customer heads to a dealer it has about a 20 per cent chance of getting the business, but when the dealer brings the customer to Tomahawk, the close rate goes up to 80 per cent.

Sources: based on www.cnh.com, www.casese.com; Pine (2015).

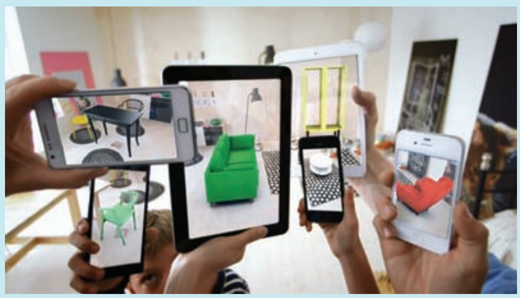
Augmented Reality (AR)
Argmented Reality is a live view of a physical, real-world environment whose elements are augmented (or supplemented) by computer-generated sensory input such as sound, video, graphics or GPS data. AR technology allows consumers to virtually interact with three-dimensional product visualizations displayed on users' screens.

Augmented Reality (AR)

The way in which **Augmented Reality (AR)** has been used in marketing campaigns can be seen as a form of experiential marketing because it focuses not only on a single product/service, but also on an entire experience created for the customers. The technology enhances the customer's current perception of reality. By contrast, virtual reality replaces the real world with a simulated one. With the help of advanced AR, information about the surrounding real world of the user becomes interactive and digitally manipulable.

EXHIBIT 1.8 IKEA's use of AR

In the 2014 catalogue, IKEA has produced an interactive online catalogue based on AR, in which viewers can actually see a piece of furniture in their home before buying it. Viewers can accelerate their decision-making by easily dragging an item from the catalogue and placing it anywhere in the simulated space on their smartphone or tablet screen, and then immediately taking a screenshot of that selection. Such technology allows for more personally interactive catalogues and enhances playfulness and convenience, as well as stimulating consumers buying intentions and impressions of a brand.



Source: used with the permission of Inter IKEA Systems B.V.

See also: http://www.youtube.com/watch?v=vDNzTasuYEw

Source: based on Lung-Huang and Liu (2014).

Experiential marketing is recognized as an important means of creating value for the end consumer, who will be motivated to make faster and more positive purchasing decisions. Consequently AR experiential marketing is considered as mainly affecting the pre-purchase stage due to the fact that AR has the most impact at the pre-purchase stage. At this stage the consumer is evaluating their choices before taking the final purchase decision and AR has the power to 'put the product in the hand of the users' giving them the opportunity to test the product as if they already own it. Furthermore, AR has the potential to provide customers with an experience they appreciate and that they will tell their friends about.

In conclusion, whereas traditional marketing frameworks view consumers as rational decision-makers focused on the functional features and benefits of products, experiential marketing views consumers as emotional beings, focused on achieving memorable experiences. In this connection the use of new technologies, such as social media, has also increased the potential for experiential marketing. This is of particular relevance given the increasing significance of the internet as a communication and distribution channel within the luxury sector.

Finally, the more a company engages all five senses in the creation of a customer experience, the more effective and memorable it can be.

1.10 Information business and the virtual value chain

Most business managers would agree that we have recently entered a new era, 'the information age', which differs markedly from the industrial age. What have been the driving forces for these changes?

The consensus has shifted over time. To begin with, it was thought to be the automation power of computers and computation; then it was the ability to collapse time and space through telecommunications. More recently it has been seen as the value-creating power of information, a resource that can be reused, shared, distributed or exchanged without any inevitable loss of value; indeed, value is sometimes multiplied. Today's fascination with competing on invisible assets means that people now see knowledge and its relationship with intellectual capital as the critical resource, because it underpins innovation and renewal.

Virtual value chain
An extension of the conventional value chain, where the information processing itself can create value for customers.

One way of understanding the strategic opportunities and threats of information is to consider the **virtual value chain** as a supplement to the physical value chain (Figure 1.16).

By introducing the *virtual value chain*, Rayport and Sviokla (1996) have made an extension to the conventional value chain model, which treats information as a supporting element in the value-adding process. Rayport and Sviokla (1996) show how information in itself can be used to create value.

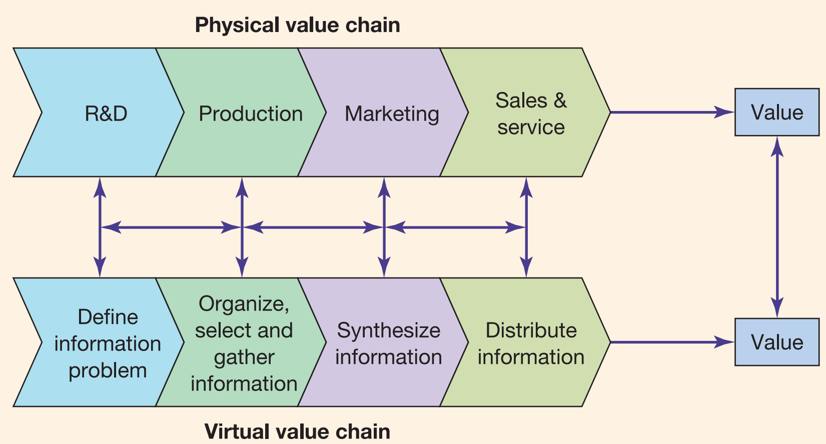


Figure 1.16 The virtual value chain as a supplement to the physical chain

Source: based on Rayport and Sviokla (1996).