TENTH EDITION

GLOBAL MARKETING

PART ONE

INTRODUCTION

1 Introduction to Global Marketing

LEARNING OBJECTIVES

1-1 Use the product/market growth matrix to explain the various ways a company can expand globally.

1-2 Describe how companies in global industries pursue competitive advantage.

1-3 Compare and contrast a single-country marketing strategy with a global marketing strategy (GMS).

1-4 Identify the companies at the top of the Global 500 rankings.

1-5 Explain the stages a company goes through as its management orientation evolves from domestic and ethnocentric to global and geocentric.

1-6 Discuss the driving and restraining forces affecting global integration today.

CASE 1-1

The Global Marketplace Is Also Local

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

Now consider a second proposition: *We live in a world in which markets are local.* In China, for example, Yum! Brands' East Dawning fast-food chain competes with local restaurants such as New Asia Snack and Haidi Lao. Likewise, the best-selling smartphone in China isn't marketed by Samsung or Apple. In fact, the top four smartphone brands in China—Huawei, Vivo, Oppo, and Xiaomi—are all from domestic producers.

In India, Dunkin' Donuts goes head-to-head with local chain Mad Over Doughnuts. In Poland, many consumers frequent small, family-owned shops rather than huge stores operated by France's Carrefour and U.K.–based Tesco.[1] In Southeast Asia, Uber jockeys for position with ride-hailing service Grab. Similarly, Brazilian companies such as Natura Cosméticos and O Boticário compete with Avon for direct-sale customers. Across Latin America, e-commerce giants eBay and Amazon compete with local market leader MercadoLibre.

Exhibit 1-1 Salvatore Ferragamo, based in Florence, Italy, is one of the world's leading fashion brands. Ferragamo and other companies in the luxury sector face challenges as consumer habits change. Historically, the luxury shopper was brand loyal and had an eye for classic designs. Now, many shoppers pursue the "next big thing" via online retail channels.
Source: Roussel Bernard/Alamy Stock Photo.

The "global marketplace versus local markets" paradox lies at the heart of this textbook. In later chapters, we will investigate the nature of local markets in more detail. For now, however, we will focus on the first part of the paradox. Think for a moment about brands and products that are found throughout the world. Ask the average consumer where this global "horn of plenty" comes from, and you'll likely hear a variety of answers. It's certainly true that some brands—McDonald's, Dos Equis, Swatch, Waterford, Ferragamo, Volkswagen, and Burberry, for instance—are strongly identified with a specific country. In much of the world, Coca-Cola and McDonald's are recognized as iconic American brands, just as Ferragamo and Versace are synonymous with classic Italian style (see Exhibit 1-1).

However, for many other products, brands, and companies, the sense of identity with a specific country is becoming blurred. Which brands are Japanese? American? Korean? German? Indian? Can you name the corporate owner of the Nokia smartphone brand? When is a Japanese car *not* a Japanese car? Even U.S. President Donald Trump appeared to be unaware of the global nature of the automobile business when, in 2017, he threatened to slap tariffs on German cars sold in the United States. Consider:

- In 2016, BMW produced 411,000 vehicles at its plant in South Carolina. More than two-thirds of the plant's production is exported, making BMW America's top auto exporter.
- A Mercedes-Benz plant in Alabama produces 300,000 cars annually.
- For several years, the top-selling "American" car (assembled in the United States with at least 75 percent domestic content) was the Toyota Camry.

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

1-1 Introduction and Overview

◀ **1-1** Use the product/market growth matrix to explain the various ways a company can expand globally.

As the preceding examples illustrate, the global marketplace finds expression in many ways. Some are quite subtle; others are not. While shopping, you may have noticed more multilanguage labeling on your favorite products and brands. Chances are you were one of the millions of people around the world who tuned in to television coverage of the World Cup Soccer championship in 2018. On the highway, you may have seen a semitrailer truck from FedEx's Global Supply Chain Services fleet. Or perhaps you are one of the hundreds of millions of Apple iTunes customers who got a free download of U2's 2014 album *Songs of Innocence*—whether you wanted it or not! When you pick up a pound of Central American coffee at your favorite café, you will find that some beans are labeled Fair Trade Certified.

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

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

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

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

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

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

Market development: Starbucks entered Italy in 2018, starting with a 25,000-square-foot flagship Reserve Roastery in Milan. Walking distance from the landmark Duomo, the Roastery will offer pastries by local bakery Princi as well as the aperitivo beverages that are so popular throughout Italy.[3]

Product development: Starbucks created a new instant-coffee brand, Via, to enable its customers to enjoy coffee at the office and other locations where brewed coffee is not available. After a successful launch in the United States, Starbucks rolled out Via in Great

TABLE 1-1 Product/Market Growth Matrix

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

Britain, Japan, South Korea, and several other Asian countries. Starbucks also recently introduced its first coffee machine. The Versimo allows Starbucks' customers to "prepare their favorite beverages at home."

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

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

Companies that engage in global marketing frequently encounter unique or unfamiliar features in specific countries or regions of the world. In some regions of the world, bribery and corruption are deeply entrenched. A successful global marketer understands specific concepts and has a broad and deep understanding of the world's varied business environments.

The global marketer also must understand the strategies that, when skillfully implemented in conjunction with universal marketing fundamentals, increase the likelihood of market success. And, as John Quelch and Katherine Jocz assert, "The best global brands are also the best local brands." That is, managers at global companies understand the importance of local excellence.[5] This book concentrates on the major dimensions of global marketing. A brief overview of marketing is presented next, although the authors assume that the reader has completed an introductory marketing course or has equivalent experience.

1-2 Principles of Marketing: A Review

1-2 Describe how companies in global industries pursue competitive advantage.

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

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

Value = Benefits / Price (money, time, effort, etc.)

The marketing mix is integral to the value equation because benefits are a combination of the product, the promotion, and the distribution. As a general rule, value, as the customer perceives it, can be increased in these ways. Markets can offer customers an improved bundle of benefits or lower prices (or both!). Marketers may strive to improve the product itself, to design new channels of distribution, to create better communications strategies, or a combination of all three.

Marketers may also seek to increase value by finding ways to cut costs and prices. Nonmonetary costs are also a factor, and marketers may be able to decrease the time and effort that customers must expend to learn about or seek out the product.[6] Companies that use price as a competitive weapon may scour the globe to ensure an ample supply of low-wage labor or access to cheap raw materials. Companies can also reduce prices if costs are low because of process efficiencies in manufacturing or because of economies of scale associated with high production volumes.

Recall the definition of a market: *people or organizations that are both able and willing to buy*. To achieve market success, a product or brand must measure up to a threshold of acceptable quality and be consistent with buyer behavior, expectations, and preferences. If a company is able to offer a combination of superior product, distribution, or promotion benefits *and* lower prices than the competition does, it should enjoy an extremely advantageous position. Toyota, Nissan, and other Japanese automakers made significant gains in the American market in the 1980s by creating a superior value proposition: They offered cars with higher quality, better mileage, and lower prices than those made by General Motors, Ford, and Chrysler.

Today, the auto industry is shifting its attention to emerging markets such as India and Africa. Renault and its rivals are racing to offer middle-class consumers a new value proposition: high-quality vehicles that sell for the equivalent of $10,000 or less. On the heels of Renault's success with the Dacia Logan have come the $2,500 Nano from India's Tata Motors and a $3,000 Datsun from Nissan (see Case 7-1).

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

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

Competitive Advantage, Globalization, and Global Industries

When a company succeeds in creating more value for customers than its competitors do, that company is said to enjoy **competitive advantage** in an industry.[9] Competitive advantage is measured relative to rivals in specific industry sectors. For example, your local laundromat is in a local industry; its competitors are local. In a national industry, competitors are national. In a global industry—consumer electronics, apparel, automobiles, steel, pharmaceuticals, furniture, and dozens of other sectors—the competition is, likewise, global (and, in many industries, local as well). Global marketing is essential if a company competes in a global industry or one that is globalizing.

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

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

From a marketing point of view, globalization presents companies with tantalizing opportunities—and challenges—as executives decide whether to offer their products and services everywhere. At the same time, globalization presents companies with unprecedented opportunities to reconfigure themselves. As John Micklethwait and Adrian Wooldridge put it, the same global bazaar that allows consumers to buy the best that the world can offer also enables producers to find the best partners.[11]

For example, globalization is presenting significant marketing opportunities for professional sports organizations such as the National Basketball Association, the National Football League, and Major League Soccer (see Exhibit 1-2). As Major League Soccer commissioner Don Garber noted, "In the global culture the universal language is soccer. That's the sweet spot. If it weren't for the shrinking world caused by globalization, we wouldn't have the opportunity we have today."[12]

Exhibit 1-2 The National Football League (NFL) promotes American football globally. The NFL is focusing on a handful of key markets, including Canada, China, Germany, Japan, Mexico, and the United Kingdom. Every fall, banners are draped over London's Regent Street to create awareness of the International Series games played before sellout crowds at Wembley Stadium and Twickenham.
Source: Alena Kravchenko/Shutterstock.

Is there more to a global industry than simply "global competition"? Definitely. As defined by management guru Michael Porter, a **global industry** is one in which competitive advantage can be achieved by integrating and leveraging operations on a worldwide scale. Put another way, an industry is global to the extent that a company's industry position in one country is interdependent with its industry position in other countries. Indicators of globalization include the ratio of cross-border trade to total worldwide production, the ratio of cross-border investment to total capital investment, and the proportion of industry revenue generated by companies that compete in all key world regions.[14] One way to determine the degree of globalization in an industry sector is to calculate the ratio of the annual value of global trade in the sector—including the value of components shipped to various countries during the production process—to the annual value of industry sales. In terms of these metrics, the consumer electronics, apparel, automobile, and steel industries are highly globalized.[15]

"We believe a company can only think in one set of terms. If you are premium, you have to focus on it."[13]

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

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

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

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

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

Exhibit 1-3 The Dragon Bridge in Da Nang is a major tourist attraction. The LED lighting is provided by Philips.
Source: Huu Dai Trinh/Alamy Stock Photo.

Examples abound of corporate executives addressing the issue of focus, often in response to changes in the global business environment. In recent years, Bertelsmann, Colgate, Danone, Electrolux, Fiat, Ford, Fortune Brands, General Motors, Harley-Davidson, Henkel, LEGO, McDonald's, Royal Philips, Toshiba, Vivendi, and many other companies have stepped up their efforts to sharpen their strategic focus on core businesses and brands.

Specific actions can take a number of different forms; in addition to alliances, these can include mergers, acquisitions, divestitures, and folding some businesses into other company divisions (see Table 1-2). At Royal Philips, CEO Frans van Houten has shed the electronics and engineering units; instead of marketing TV sets and VCRs, today's Philips is focused on three sectors: health care, lighting, and consumer lifestyle (see Exhibit 1-3). Major changes in the organizational structure such as these must also be accompanied by changes in corporate culture.[18]

Value, competitive advantage, and the focus required to achieve them are universal in their relevance, and they should guide marketing efforts in any part of the world. Global marketing requires attention to these issues on a worldwide basis and utilization of a business intelligence system capable of monitoring the globe for opportunities and threats. A fundamental premise of this book can be stated as follows: Companies that understand and engage in global marketing can offer more overall value to customers than companies that do not have such understanding. Many business managers and pundits share this conviction. In the mid-1990s, for example, C. Samuel Craig and Susan P. Douglas noted:

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

Companies in a range of industries are "going global." For example, three Italian furniture companies have joined together to increase sales outside of Italy and ward off increased competition from Asia. Luxury goods purveyors such as LVMH and Prada Group provided the model for the new business entity, which unites Poltrona Frau, Cassina, and Cappellini.[20]

TABLE 1-2 Strategic Focus

Company/Headquarters	Divestiture/Buyer
General Electric (United States)	Appliance division, sold to Haier (China) for $5.4 billion (2016); NBC Universal, sold to Comcast for $30 billion (2009).
Vivendi (France)	Activision Blizzard videogame unit, management buyout for $8.2 billion (2013).
Unilever (United Kingdom/Netherlands)	American pasta sauce business, sold to Mizkan Group (Japan) for $2.15 billion (2014).
IBM (United States)	Microelectronics division, sold to Global Foundries for $1.5 billion (2014).

China's Hong Kong's Tai Ping Carpets International is also globalizing. Top managers have been dispersed to different parts of the world; while the finance and technology functions are still in Hong Kong, the marketing chief is based in New York City and the head of operations is in Singapore. As company director John Ying noted, "We're trying to create a minimultinational."[21]

Many gains can be ascribed to globalization. Hundreds of millions of people have been lifted from poverty and have joined the middle class. In countries where globalization has raised wages, living standards have improved. Even so, popular sentiment has been shifting, and a note of caution is in order. A mounting body of evidence indicates that the gains from globalization have not been evenly distributed. A disproportionate amount of wealth has flowed to the "have lots" and "have yachts," with not enough going to the "have nots." U.S. President Donald Trump's "America First" agenda is just one example of the way some nations are retreating into protectionism and isolation. Some industry observers have noted that we are entering a new era of "globalization in reverse."

1-3 Global Marketing: What it is and What it isn't

1-3 Compare and contrast a single-country marketing strategy with a global marketing strategy (GMS).

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

The way a company addresses this task is a manifestation of its **global marketing strategy (GMS)**. In single-country marketing, strategy development addresses two fundamental issues: choosing a target market and developing a marketing mix. The same two issues are at the heart of a firm's GMS, although they are viewed from a somewhat different perspective (see Table 1-3). *Global market participation* is the extent to which a company has operations in major world markets. *Standardization versus adaptation* is the extent to which each marketing mix element is standardized (i.e., executed the same way) or adapted (i.e., executed in different ways) in various country markets. For example, Nike recently adopted the slogan "Here I am" for its pan-European clothing advertising targeting women. The decision to drop the famous "Just do it" tagline in the region was based on research indicating that college-age women in Europe are not as competitive about sports as men are.[22]

GMS has three additional dimensions that pertain to marketing management. First, *concentration of marketing activities* is the extent to which activities related to the marketing mix (e.g., promotional campaigns or pricing decisions) are performed in one or a few country

TABLE 1-3 Comparison of Single-Country Marketing Strategy and Global Marketing Strategy

Single-Country Marketing Strategy	Global Marketing Strategy
Target market strategy	Global market participation
Marketing mix development	Marketing mix development
Product	Product adaptation or standardization
Price	Price adaptation or standardization
Promotion	Promotion adaptation or standardization
Place	Place adaptation or standardization
	Concentration of marketing activities
	Coordination of marketing activities
	Integration of competitive moves

THE CULTURAL CONTEXT

"*1-2-3-4!*" 40 Years of Punk Rock, 1976–2016

Rock music has often served as a cultural manifestation of youth movements. In 1960's "swinging London," for example, the Beatles, the Rolling Stones, and other British Invasion bands set new trends in sound and style. On the other side of the Atlantic Ocean, American rock groups such as the Grateful Dead and the Jefferson Airplane gave voice to the era's political and social turmoil during the "Summer of Love."

In 1976, a new sound emerged. Punk rock was both a musical and a cultural movement. On the musical side, it represented a visceral reaction to, and repudiation of, the prevailing musical styles and tastes of the time. Giant stadium concerts by English progressive rock bands such as Genesis, Pink Floyd, and Yes had become overblown spectacles. Southern California soft-rock, a genre popularized by the Eagles, Linda Ronstadt, and singer-songwriter Jackson Browne, was equally distasteful to the punks.

Punk also offered an outlet for the voices of disenfranchised young people and an opportunity to rebel against the establishment. In the United Kingdom in the mid-1970s, the country's economic stagnation meant there were few job opportunities for young people—as well as their elders. The government's decision to conserve coal supplies resulted in power shortages and mandatory three-day working weeks. During the same time period, New York City was in social and economic decline. In the summer of 1976, a serial killer known as the Son of Sam was terrorizing the area. Across America, the energy crisis meant rising prices for gasoline and shortages.

It was in this musical and economic context that young people in both the United States and the United Kingdom discovered that it was relatively easy to learn to play two or three guitar chords. Even better, punk's "DIY" ethos meant that musicianship was often beside the point. Who needs technique? Who cares what the notes are?

In the United States, punk scenes sprang up on both coasts. Forest Hills, New York, was the breeding ground for the Ramones. Seymour Stein, the Sire Records chief who signed the band to his label, says simply, "New York City needed an infusion." At the legendary CBGB ("Country Bluegrass Blues") music club in New York's East Village, the Ramones shared the stage with the Talking Heads, Blondie, and other new bands that were part of the local art-rock scene.

Key to the Ramones' sound was concise pop songwriting; many songs ranged in length from a mere two minutes (or less) to under three minutes. The look was important, too; the band members carefully cultivated an outcast image by wearing black leather biker jackets and ripped jeans. None of the four was actually named Ramone. Even so, the band was often referred to as "Da Brudders."

On the U.S. West Coast, a punk scene took shape when bands such as X and Black Flag were formed in Los Angeles. As John Doe, bassist and vocalist for X, recalls, "Rock and roll needed to be hit upside the head!" Despite being dismissed by the mainstream rock world, punk flourished in L.A. as a minority movement in clubs such as the Mask.

In the United Kingdom, the Sex Pistols burst onto the scene in 1976. The Clash, X-Ray Spex and a host of others followed and quickly gained fame and notoriety (see Exhibit 1-4). In July 1976, the Ramones played a landmark show at the Roundhouse in London that some observers credit with sparking the U.K. punk movement. In November 1976, the Sex Pistols released their debut single, "Anarchy in the UK," on the EMI label.

The following month, the Sex Pistols caused a national furor by swearing on-camera during a live interview with Thames Television presenter Bill Grundy. When Grundy asked what the band had done with its £40,000 advance from EMI, guitarist Steve Jones replied, "We f**kin' spent it, didn't we?" The following day, the headline in *The Daily Mirror* trumpeted, "The Filth and the Fury!" Grundy was fired. (The entire spectacle can viewed on YouTube.)

Vivian Goldman, a former features editor who covered punk for *Sounds*, a weekly British music paper, notes that punk's relevance and impact continue today. "In Indonesia, Russia, South Africa, and elsewhere, people use punk to rage against the system," she said recently. "Punk's rebel consciousness represents a flag for a new way of thinking."

Sources: Peter Aspden, "Infamy in the UK," *Financial Times* (June 11–12, 2016), p. 14; Anna Russell, "Punk Takes London by Storm, Again," *The Wall Street Journal* (March 25, 2016), p. D6; "Musical Milestones: Celebrating 40 Years of the Ramones," Conference Presentation, SXSW Music, Film, and Interactive, March 17, 2016; "No Future: 1976 and the Birth of Punk in the UK," Conference Presentation, SXSW Music, Film, and Interactive, March 16, 2016; Mikal Gilmore, "The Curse of the Ramones: How a Band of Misfits Launched Punk Rock," *Rolling Stone* (April 21, 2016), pp. 42–48+; Tom DeSavia and John Doe, *Under the Big Black Sun: A Personal History of L.A. Punk* (Boston, MA: Da Capo Press, 2016); Tim Jackson, *Virgin King: Inside Richard Branson's Business Empire* (London, UK: Harper Collins Publishers, 1995), Chapter 3, "Broken Bottles."

Exhibit 1-4 Among punk's positive social effects was the empowerment of women. For example, Exene Cervenka fronted L.A. punk band X, and Poly Styrene (shown here) was the singer for London's X-Ray Spex.
Source: Pictorial Press Ltd/Alamy Stock Photo.

locations. Second, *coordination of marketing activities* refers to the extent to which marketing activities related to the marketing mix are planned and executed interdependently around the globe. Third, *integration of competitive moves* is the extent to which a firm's competitive marketing tactics in different parts of the world are interdependent. The GMS should enhance the firm's performance on a worldwide basis.[23]

The decision to enter one or more particular markets outside the home country depends on a company's resources, its managerial mind-set, and the nature of opportunities and threats. Today, most observers agree that Brazil, Russia, India, China, and South Africa—five emerging markets known collectively as BRICS—represent significant growth opportunities. Mexico, Indonesia, Nigeria, and Turkey—the so-called MINTs—also hold great potential. Throughout this text, marketing issues in these countries are highlighted in "Emerging Markets Briefing Book" boxes.

We can use Burberry as a case study in global marketing strategy. This U.K.-based luxury brand is available in scores of countries, and Burberry's recent expansion plans emphasize several geographical areas (see Exhibit 1-5). First are the BRICS nations, where growing numbers of middle-class consumers are developing a taste for luxury brands. Second is the United States, which is dotted with shopping malls whose managers are anxious to entice crowd-pulling luxury goods retailers by sharing fit-out costs and offering attractive, rent-free periods. Under former CEO Angela Ahrendts, Burberry's marketing mix strategy included the following elements:

Product: Intensify focus on accessories. Boost sales of handbags, belts, and accessories—products whose sales are less cyclical than sales of clothing. Burberry Bespoke allows customers to design their own coats.

Price: "Affordable luxury" is central to the value proposition: more expensive than Coach, less expensive than Prada.

Place: Burberry is opening more independent stores in key U.S. cities, including flagship stores in Los Angeles, San Francisco, and New York; it is also expanding in London and Hong Kong. Such locations generate more than half the company's revenue and profit.[24]

Promotion: Encourage advocacy and sharing via social media and online channels such as Twitter, Instagram, and www.artofthetrench.com. Launch Burberry Acoustic to enhance brand relevance and to provide exposure for emerging music talent via www.burberry.com/acoustic.

As you can see in Table 1-3, the next part of the GMS involves the concentration and coordination of marketing activities. At Burberry, haphazard growth had led to a federation of individual operations. Company units in some parts of the world didn't talk to each other. In some cases, they

Exhibit 1-5 Thomas Burberry is credited with inventing gabardine fabric in the 1850s, paving the way for creation of the trench coat. England's Burberry Group celebrated its 160th anniversary in 2016. The Burberry trademark is registered in more than 90 countries.
Source: Oli Scarff/Getty Images.

competed *against* each other, and sometimes designed their own products for their own markets and wouldn't share ideas with other parts of the business. During her tenure as CEO, Angela Ahrendts was very clear in articulating her core strategic vision: Leverage the Franchise. In other words: "One company, one brand."[25]

When Christopher Bailey became CEO in 2014, he set about refining and updating Ahrendts' strategies with an approach he called "Inspire with the Brand." Bailey used data analytics to leverage consumer insights gleaned from Burberry's strong digital presence and its worldwide network of brick-and-mortar stores to project a consistent brand voice.[26] Collaborations with musicians also became integral to Bailey's strategy; he even designed the sequined gown global superstar Adele wore on her 2016 world tour! Bailey also embraced multichannel marketing, adding more mobile marketing to the existing mix of retail and wholesale channels.

An Italian businessman, Marco Gobetti, took over as Burberry's CEO in 2017. He faces a number of new challenges to the company's global marketing strategy, including the declining popularity of department store shopping in the United States and slowing sales of luxury goods in China.[27]

The issue of standardization versus adaptation in global marketing has been at the center of a long-standing controversy among both academicians and business practitioners. Much of the controversy dates back to Professor Theodore Levitt's 1983 article "The Globalization of Markets" in the *Harvard Business Review*. Levitt argued that marketers were confronted with a "homogeneous global village." He advised organizations to develop standardized, high-quality world products and market them around the globe by using standardized advertising, pricing, and distribution. Some well-publicized failures by Parker Pen and other companies that had tried to follow Levitt's advice brought his proposals into question. The business press frequently quoted industry observers who disputed Levitt's views. As Carl Spielvogel, chairman and CEO of the Backer Spielvogel Bates Worldwide advertising agency, told *The Wall Street Journal* in the late 1980s, "Theodore Levitt's comment about the world becoming homogenized is bunk. There are about two products that lend themselves to global marketing—and one of them is Coca-Cola."[28]

Global marketing is the key to Coke's worldwide success—but that success was *not* based on a total standardization of marketing mix elements. For example, Coca-Cola achieved success in Japan by spending a great deal of time and money to become an insider; the company built a complete local infrastructure with its sales force and vending machine operations. Coke's success in Japan is a function of its ability to achieve global localization, by being as much of an insider as a local company, yet still reaping the benefits that result from world-scale operations. Although the Coca-Cola Company has experienced a recent sales decline in Japan, that country remains a key market that accounts for about 20 percent of total worldwide operating revenues.[29]

What does the phrase *global localization* really mean? In a nutshell, it means that a successful global marketer must have the ability to "think globally and act locally." Kenichi Ohmae summed up this paradox as follows:

> The essence of being a global company is to maintain a kind of tension within the organization without being undone by it. Some companies say the new world requires homogeneous products—"one size fits all"—everywhere. Others say the world requires endless customization—special products for every region. The best global companies understand it's neither and it's both. They keep the two perspectives in mind simultaneously.[30]

"The more things globalize, the more people want to affiliate with everything that is local. This has led to unbelievable fragmentation."[31]

Peter Ter Kulve, Chief Transformation Officer, Unilever

"One of the top-level lessons is that we have done much more local market customization in India than we did in China."[33]

Jeff Bezos, CEO, Amazon

As we will see many times in this book, *global* marketing may include a combination of standard (e.g., the actual product itself) and nonstandard (e.g., distribution or packaging) approaches. A global product may be the same product everywhere and yet different. Global marketing requires marketers to think and act in a way that is both global *and* local by responding to similarities and differences in world markets.

But it is important to bear in mind that "global localization" is a two-way street, and that there is more to the story than "think globally, act locally." Many companies are learning that it is equally important to *think locally and act globally.* In practice, this means that companies are discovering the value of leveraging innovations that occur far from headquarters and transporting them back home. For example, McDonald's restaurants in France don't look like McDonald's restaurants elsewhere. Décor colors are muted, and the golden arches are displayed more subtly. After seeing the sales increases posted in France, some American franchisees began undertaking similar renovations. As *Burger Business* newsletter editor Scott Hume has noted, "Most of the

TABLE 1-4 Think Locally/Act Globally

Company/Headquarters Country	Product
Cinnabon/USA	Cinnabon customers in Central and South America prefer dulce de leche. Products developed for those regions are being introduced in the United States, where the Hispanic population is a key segment.[35]
Starbucks/USA	Starbucks opened an experimental store in Amsterdam that serves as a testing ground for new design concepts such as locally sourced and recycled building materials. The best concepts will be extended to other parts of Europe. *Fast Company* magazine included Liz Muller, Director of Creative Design at Starbucks, in its "Most Creative People 2013" ranking.
Kraft Foods/USA	Tang drink powder became a $1 billion brand as regional managers in Latin America and the Middle East moved beyond orange (the top-seller) into popular local flavors such as mango and pineapple. Kraft plans to reboot Tang in the U.S. market using lessons learned abroad.[36]

interesting ideas of McDonald's are coming from *outside* the U.S. McDonald's is becoming a European chain with stores in the U.S."[32] (see Case 1-2).

These reverse flows of innovation are not occurring just between developed regions such as Western Europe and North America. The growing economic power of China, India, and other emerging markets means that many innovations originate there (see Table 1-4). For example, Nestlé, Procter & Gamble, Unilever, and other consumer products companies are learning that low-cost products with less packaging developed for low-income consumers also appeal to cost-conscious consumers in, say, Spain and Greece (see Exhibit 1-6).[34]

The Coca-Cola Company supports its Coke, Fanta, and Powerade brands with marketing mix elements that are both global and local. Dozens of other companies also have successfully pursued global marketing by creating strong global brands, in various ways. In consumer electronics, Apple is synonymous with hardware and software integration, ease of use, cutting-edge innovation, and high-tech design. In appliances, Germany's reputation for engineering and manufacturing excellence is a source of competitive advantage for Bosch (see Exhibit 1-7). Italy's Benetton utilizes a sophisticated distribution system to quickly deliver the latest fashions to its worldwide network of stores. The backbone of Caterpillar's global success is a network of dealers who

Exhibit 1-6 For Nestlé, innovation is the key to its expanded presence in emerging markets such as Thailand, Sri Lanka, and Mali. Recently, Nestlé introduced mobile coffee carts from which vendors sell single servings of Nescafé brand coffee. Some of these innovations are being transferred to high-income countries in Europe and elsewhere.
Source: adrian arbib/Alamy.

Exhibit 1-7 MILAN - ITALY - APRIL 2012: Salone internazionale del mobile 2012, furniture fair, Bosch.
Source: A. Astes/Alamy Stock Photo.

support the company's promise of "24-hour parts and service" anywhere in the world. As these examples indicate, there are many different paths to success in global markets. In this book, we do *not* propose that global marketing is a knee-jerk attempt to impose a totally standardized approach on marketing around the world. Instead, a central issue in global marketing is how to tailor the global marketing concept to fit particular products, businesses, and markets.[37]

As shown in Table 1-5, McDonald's global marketing strategy is based on a combination of global and local marketing mix elements. For example, a vital element in McDonald's business model is a restaurant system that can be set up virtually anywhere in the world. McDonald's offers core menu items—hamburgers, french fries, and soft drinks—in most countries, and the company also customizes menu offerings in accordance with local eating customs. The average price of a Big Mac in the United States is $5.28. By contrast, in China, Big Macs sell for the equivalent of $3.17. In absolute terms, Chinese Big Macs are cheaper than American ones. But is it a fair comparison? Real estate costs vary from country to country, as do per capita incomes.

TABLE 1-5 Examples of Effective Global Marketing: McDonald's

Marketing Mix Element	Standardized	Localized
Product	Big Mac	McAloo Tikka potato burger, Chicken Maharaja Mac (India); Rye McFeast (Finland); Adagio (Italy)
Promotion	Brand name	Slang nicknames—for example, Mickey D's (United States, Canada), Macky D's (United Kingdom, Ireland), Macca's (Australia), Mäkkäri (Finland), MakDo (Philippines), McDo (France)
	Advertising slogan "i'm lovin' it"	"*Venez comme vous êtes*" ("Come as you are") television ad campaign in France. Various executions show individuals expressing different aspects of their respective personalities. One features a young man dining with his father. The ad's creative strategy centers on sexual freedom and rebellion: The father does not realize that his son is gay.
Place	Freestanding restaurants in high-traffic public areas	McDonald's Switzerland operates themed dining cars on the Swiss national rail system; McDonald's is served on the Stena Line ferry from Helsinki to Oslo; home delivery (India)
Price	Average price of Big Mac is $5.28 (United States)	$5.91 (Norway); $3.17 (China)

The approach to global marketing that a company adopts will depend on industry conditions, shifting economic realities, and its source or sources of competitive advantage. For example:

Harley-Davidson's motorcycles are perceived around the world as *the* all-American bike. Should Harley-Davidson start manufacturing motorcycles in a low-wage country such as Thailand?

The success of Honda and Toyota in world markets was initially based on exporting cars from factories in Japan. Today, both companies operate manufacturing and assembly facilities in the Americas, Asia, and Europe. From these sites, the automakers both supply customers in the local market and export their products to the rest of the world. For example, each year Honda exports tens of thousands of Accords and Civics from U.S. plants to Japan and dozens of other countries. Will European consumers continue to buy Honda vehicles exported from America? Will American consumers continue to snap up American-built Toyotas?

Uniqlo, a division of Japan's Fast Retailing, operates approximately 850 stores in Japan and 300 stores in 12 overseas countries. The company sources 90 percent of its clothing from China. Uniqlo currently has 46 stores in the United States; its plans call for a total of 200 U.S. stores by 2020. Can the company achieve its goal of reaching $50 billion in sales by 2020, thereby becoming the world's number 1 apparel retailer?

The answer to these questions is: It all depends. Although Harley-Davidson's competitive advantage is based, in part, on its "Made in the USA" positioning, the company has shifted some production outside the United States. India's 100 percent tariff on imported motorcycles prompted Harley-Davidson to launch production in the state of Haryana in 2011. To further capitalize on market opportunities in Asia, and to avoid import tariffs that can go as high as 60 percent, the company recently opened a manufacturing facility in Thailand.[38]

Toyota's success in the United States was originally attributable to its ability to transfer world-class manufacturing skills—"the Toyota Way"—to its U.S. plants while using advertising to inform prospective customers that American workers build the Avalon, Camry, and Tundra models, with many components purchased from American suppliers. The U.S. market generates approximately two-thirds of Toyota's profits. However, in its drive to become the world's top automaker, Toyota's insular corporate culture and focus on cost cutting compromised overall product quality. Under the leadership of Akio Toyoda, the company has rebounded. It sold 10.2 million cars in 2016 and posted record profits; an innovative production system, dubbed Toyota New Global Architecture, is designed to ensure that Toyota can respond quickly to market changes in any part of the world.[39]

As noted, about one-fourth of Uniqlo's 1,200 stores are located outside Japan; key country markets include the United States, China, Russia, Singapore, and South Korea. Shoppers have responded favorably to Uniqlo's colorful designs and the high service standards for which Japanese retailers are famous. According to A. T. Kearney's 2016 Global Retail Development Index, China is the number 1–ranked emerging market opportunity for retail. In China, Uniqlo's management team selectively targets cities with high population densities such as Beijing and Shanghai (see Exhibit 1-8).[40]

▸ **1-4** Identify the companies at the top of the Global 500 rankings.

1-4 The Importance of Global Marketing

The largest single market in the world in terms of national income is the United States, representing roughly 25 percent of the total world market for all products and services. U.S. companies that wish to achieve their maximum growth potential must "go global," however, because 75 percent of world market potential is outside their home country. Management at Coca-Cola clearly understands this; about 75 percent of the company's operating income and two-thirds of its operating revenue are generated outside North America.

Non-U.S. companies have an even greater motivation to seek market opportunities beyond their own borders; their opportunities include the 325 million people in the United States. For example, even though the dollar value of the home market for Japanese companies is the third largest in the world (after the United States and China), the market *outside* Japan is 90 percent of the world potential. For European countries, the picture is even more dramatic. Even though Germany is the largest single-country market in Europe, 94 percent of the world market potential for German companies is outside Germany.

Many companies have recognized the importance of conducting business activities outside their home country. Industries that were essentially national in scope only a few years ago are dominated today by a handful of global companies. In most industries, the companies that will survive and prosper in the twenty-first century will be global enterprises. Some companies that fail to formulate adequate responses to the challenges and opportunities of globalization will be absorbed by more dynamic, visionary enterprises. Others will undergo wrenching transformations and, if their efforts succeed, will emerge from the process greatly transformed. Some companies will simply disappear.

Each year, *Fortune* magazine compiles a ranking of the 500 largest service and manufacturing companies by revenues.[41] Walmart stands atop the 2016 Global 500 rankings, with revenues of

Exhibit 1-8 Japan's Fast Retailing competes with global companies such as Inditex (Spain), H&M (Sweden), and Gap (U.S.). Fast Retailing founder Tadashi Yanai intends to create the world's biggest apparel retail operation by 2020.
Source: August_0802/ Shutterstock.

$486 billion; it currently generates only about one-third of its revenues outside the United States. However, global expansion is key to Walmart's growth strategy. In all, 5 companies in the top 10 compete in the oil or energy sectors. Toyota and Volkswagen, the only global automakers in the top 10, are locked in a fierce competitive struggle as the German company rebounds from a scandal involving its diesel engines.

Examining the size of individual product markets, measured in terms of annual sales, provides another perspective on global marketing's importance. Many of the companies identified in the *Fortune* rankings are key players in the global marketplace.

1-5 Management Orientations

◀ **1-5** Explain the stages a company goes through as its management orientation evolves from domestic and ethnocentric to global and geocentric.

The form and substance of a company's response to global market opportunities depend greatly on its management's assumptions or beliefs—both conscious and unconscious—about the nature of the world. The worldview of a company's personnel can be described as ethnocentric, polycentric, regiocentric, or geocentric—collectively known as the EPRG framework.[42] This orientation may change over time. Management at a company with a prevailing ethnocentric orientation may, for example, consciously make a decision to move in the direction of geocentricism.

Ethnocentric Orientation

A person who assumes that his or her home country is superior to the rest of the world is said to have an **ethnocentric orientation**. Ethnocentrism is sometimes associated with attitudes of national arrogance or assumptions of national superiority; it can also manifest itself as indifference to marketing opportunities outside the home country. Company personnel with an ethnocentric orientation see only similarities in markets and *assume* that products and practices that succeed in the home country will succeed anywhere.

At some companies, the ethnocentric orientation means that opportunities outside the home country are largely ignored. Such companies are sometimes called *domestic companies.* Ethnocentric companies that conduct business outside the home country can be described as *international companies*; they adhere to the notion that the products that succeed in the home country are superior. This point of view leads to a **standardized or extension approach** to marketing based on the premise that products can be sold everywhere without adaptation.

As the following examples illustrate, an ethnocentric orientation can take a variety of forms:

> Nissan's earliest exports were cars and trucks that had been designed for mild Japanese winters; the vehicles were difficult to start in many parts of the United States during the cold winter months. In northern Japan, many car owners would put blankets over the hoods of their cars. Nissan's assumption was that Americans would do the same thing. As a Nissan spokesman said, "We tried for a long time to design cars in Japan and shove them down the American consumer's throat. That didn't work very well."[43]
>
> Until the 1980s, Eli Lilly and Company operated as an ethnocentric company: Activity outside the United States was tightly controlled by headquarters, and the focus was on selling products originally developed for the U.S. market.[44]
>
> For many years, executives at California's Robert Mondavi Corporation operated the company as an ethnocentric international entity. As former CEO Michael Mondavi explained, "Robert Mondavi was a local winery that thought locally, grew locally, produced locally, and sold globally. . . . To be a truly global company, I believe it's imperative to grow and produce great wines in the world in the best wine-growing regions of the world, regardless of the country or the borders."[45]
>
> The cell phone divisions of Toshiba, Sharp, and other Japanese companies prospered by focusing on the domestic market. When handset sales in Japan slowed a few years ago, the Japanese companies realized that Nokia, Motorola, and Samsung already dominated key world markets. Atsutoshi Nishida, president of Toshiba, noted, "We were thinking only about Japan. We really missed our chance."[46]

"What unites us through our brands, markets, and businesses is the group's identity, which we refer to as 'a worldwide business with local presence.' Everywhere we operate, our priority is to create or develop a strong brand that reflects consumer needs in that market as closely as possible."[47]

Franck Riboud, honorary chairman, Groupe Danone

In the ethnocentric international company, foreign operations or markets are typically viewed as being secondary or subordinate to domestic ones. (We are using the term *domestic* to mean the country in which a company is headquartered.) An ethnocentric company operates under the assumption that headquarters' "tried-and-true" knowledge and organizational capabilities can be applied in other parts of the world. Although this assumption can sometimes work to a company's advantage, valuable managerial knowledge and experience in local markets may go unnoticed. Even if customer needs or wants diverge from those in the home country, those differences are often ignored at headquarters.

Sixty years ago, most business enterprises—and especially those located in a large country like the United States—could operate quite successfully with an ethnocentric orientation. Today, however, ethnocentrism is one of the major internal weaknesses that must be overcome if a company is to transform itself into an effective global competitor.

Polycentric Orientation

The **polycentric orientation** is the opposite of ethnocentrism. The term *polycentric* describes management's belief or assumption that each country in which a company does business is unique. This assumption lays the groundwork for each subsidiary to develop its own unique business and marketing strategies so as to succeed; the term *multinational company* is often used to describe such a structure. This point of view leads to a **localized or adaptation approach** that assumes products must be adapted in response to different market conditions. Examples of companies and business units with a polycentric orientation include the following:

> At Procter & Gamble, one of Pampers' many problems in the 1990s was that various regional groups and 80-plus country teams were all acting independently. P&G executives knew they had to address the issue in Pampers' two biggest organizations, Pampers Europe (run by an Austrian) and Pampers North America (run by an American). The two executives were not collaborating, thereby stifling any potential for their organizations to cooperate in solving the global challenges Pampers faced in research and development, design, manufacturing, and marketing.[48]
>
> Unilever, the Anglo-Dutch consumer products company, once exhibited a polycentric orientation. For example, its Rexona deodorant brand had 30 different package designs and 48 different formulations. Advertising was also executed on a local basis. Top management spent a decade changing Unilever's strategic orientation by implementing a reorganization plan that centralizes authority and reduces the power of local country managers.[49]

Regiocentric Orientation

In a company with a **regiocentric orientation**, a region becomes the relevant geographic unit; management's goal is to develop an integrated regional strategy. What does *regional* mean in this context? A U.S. company that focuses on the countries included in the North American Free Trade Agreement (NAFTA)—namely, the United States, Canada, and Mexico—has a regiocentric orientation. Similarly, a European company that focuses its attention on Europe is regiocentric. Some companies serve markets throughout the world, but do so on a regional basis. Such a company could be viewed as a variant of the multinational model discussed previously.

For decades, a regiocentric orientation prevailed at General Motors: Executives in different parts of the world—Asia-Pacific and Europe, for example—were given considerable autonomy when designing vehicles for their respective regions. Company engineers in Australia, for example, developed models for sale in the local market. One result of this approach was that a total of 270 different types of radios were being installed in GM vehicles around the world. As GM Vice Chairman Robert Lutz told an interviewer in 2004, "GM's global product plan used to be four regional plans stapled together."[50]

Geocentric Orientation

A company with a **geocentric orientation** views the entire world as a potential market and strives to develop integrated global strategies. A company whose management has adopted a geocentric orientation is sometimes known as a *global* or *transnational company*.[51] During the past several years, long-standing regiocentric policies at GM, such as those just discussed, have been replaced by a geocentric approach. Among other changes, the new policy calls for engineering jobs to be assigned on a worldwide basis, with a global council based in Detroit determining the allocation of the company's $7 billion annual product development budget. One goal of the geocentric approach: to save 40 percent in radio costs by using a total of 50 different radios.

It is a positive sign that, at many companies, management realizes the need to adopt a geocentric orientation. However, the transition to new structures and organizational forms can take time to bear fruit. As new global competitors emerge on the scene, management at long-established industry giants such as GM must face up to the challenge of organizational transformation. More than a decade ago, Louis R. Hughes, a GM executive, said, "We are on our way to becoming a transnational corporation." Basil Drossos, former president of GM de Argentina, echoed his colleague's words: "We are talking about becoming a global corporation as opposed to a multinational company; that implies that the centers of expertise may reside anywhere they best reside."[53] In 2008, Toyota sold more vehicles worldwide than GM for the first time. When GM emerged from bankruptcy in 2009, it did so as a smaller, leaner company.

"These days everyone in the Midwest is begging Honda to come into their hometown. It is no longer viewed as a 'Japanese' company, but a 'pro-American-worker corporation' flush with jobs, jobs, jobs."[52]

Douglas Brinkley, Professor of History, Tulane University

A global company can be further described as one that either pursues a strategy of serving world markets from a single country, or sources globally for the purposes of focusing on specific country markets. In addition, global companies tend to retain their association with a particular headquarters country. Until recently, Harley-Davidson served world markets from the United States exclusively. Similarly, all the production for luxury fashion marketer Tod's takes place in Italy.

By contrast, Uniqlo sources its apparel from low-wage countries; a sophisticated supply chain ensures timely delivery to its network of stores. Benetton pursues a mixed approach, sourcing some of its apparel from Italy and some from low-wage countries. Harley-Davidson, Tod's, Uniqlo, and Benetton may all be thought of as global companies.

Transnational companies serve global markets and use global supply chains, which often results in a blurring of national identity. A true transnational would be characterized as "stateless." Toyota and Honda are two examples of companies that exhibit key characteristics of transnationality. At global and transnational companies, management uses a combination of standardized (extension) and localized (adaptation) elements in the marketing program. A key factor that distinguishes global and transnational companies from their international or multinational counterparts is *mind-set*: At global and transnational companies, decisions regarding extension and adaptation are not based on assumptions, but rather made on the basis of ongoing research into market needs and wants.

One way to assess a company's "degree of transnationality" is to compute an average of three ratios: (1) sales outside the home country to total sales, (2) assets outside the home country to total assets, and (3) employees outside the home country to total employees. Viewed in terms of these metrics, Nestlé, Unilever, Royal Philips Electronics, GlaxoSmithKline, and the News Corporation can also be categorized as transnational companies. Each is headquartered in a relatively small home-country market—a fact of life that has compelled the company's management to adopt a regiocentric or geocentric orientation to achieve revenue and profit growth.

The geocentric orientation represents a synthesis of ethnocentrism and polycentrism; it is a "worldview" that sees similarities and differences in markets and countries and seeks to create a global strategy that is fully responsive to local needs and wants. A regiocentric manager might be said to have a worldview on a regional scale; the world outside the region of interest will be viewed with an ethnocentric or a polycentric orientation, or a combination of the two. However, research suggests that many companies are seeking to strengthen their regional competitiveness rather than move directly to develop global responses to changes in the competitive environment.[54]

The ethnocentric company is centralized in its marketing management; the polycentric company is decentralized; and regiocentric and geocentric companies are integrated on a regional or global scale, respectively. A crucial difference among the various orientations is the underlying assumption for each. The ethnocentric orientation is based on a belief in home-country superiority. The underlying assumption of the polycentric approach is that there are so many differences in cultural, economic, and marketing conditions in the world that it is futile to attempt to transfer experience across national boundaries. A key challenge facing organizational leaders today is managing a company's evolution beyond an ethnocentric, polycentric, or regiocentric orientation to a geocentric one. As noted in one highly regarded book on global business, "The multinational solution encounters problems by ignoring a number of organizational impediments to the implementation of a global strategy and underestimating the impact of global competition."[55]

ENTREPRENEURIAL LEADERSHIP, CREATIVE THINKING, AND THE GLOBAL STARTUP

Kevin Systrom and Mike Krieger, Instagram

Kevin Systrom and Mike Krieger are entrepreneurs. They developed an innovative product, created a brand, and cofounded a company to market it. By applying the basic tools and principles of modern marketing, the two Stanford University graduates have achieved remarkable success.

As is true with many entrepreneurs, Systrom's idea was based on his recognition of a problem that needed to be solved and his own needs and wants. Systrom had a passion for photography, and also appreciated the potential of social media. He hit upon an idea for a location-based photo-sharing app that he dubbed Burbn (after his favorite distilled spirit). He then recruited Krieger, who was working on his own app called Meebo. Krieger liked Systrom's idea, but the two agreed that Burbn was overloaded with functionality. Realizing that "There has to be a better way," the duo stripped out everything but the photo-sharing function, which they conceptualized as an "instant telegram" (see Exhibit 1-9).

In October 2010, Systrom and Krieger launched Instagram on Apple's App Store. Within two years, the photo-filtering and photo-sharing app had 30 million users. Soon thereafter, the platform was also launched on the Android and Windows Phone platforms.

Systrom's insight was that, even in prehistoric times, people communicated visually. Today, Instagram makes visual information accessible, just as Gutenberg's printing press made the printed word more accessible. Instagram's popularity is due in part to the dozens of filters that users can apply to their photos (the idea for filters came from Systrom's girlfriend Nicole).

In 2012, Facebook acquired Instagram for $1 billion. Today, Instagram has more than 600 million users who upload approximately 100 million photographs and videos each day; only 20 percent of users are in the United States. In 2016, Instagram generated more than $1.5 billion in revenues from mobile ads.

Social-media savvy companies in the luxury goods industry have been quick to embrace Instagram. To justify their products' high prices, managers of luxury brands need to help consumers understand the craftsmanship and heritage that are integral to the brand stories. Using photo images and videos, companies can take consumers "behind the scenes" and show the process by which luxury products are made by skilled artisans.

Exhibit 1-9 Stanford University graduates Kevin Systrom and Mike Krieger are Instagram's co-founders.
Source: CHRISTIE HEMM KLOK/The New York Times/Redux.

Nearly two-thirds of Instagram users use the app to learn about products and brands. Companies can leverage parent Facebook's powerful data and online advertising tools to reach different segments—say, current versus potential luxury consumers—by inserting targeted, photography-based ads in their respective Instagram feeds. One such segment is known as "Henrys," referring to younger Millennials who are described as "high earning, not rich yet."

Food is another category that is driving Instagram's popularity; to date, users have "IG-ed" (i.e., Instagrammed) more than 200 million posts with the hashtag #food. In response to this trend, social-media–conscious hospitality managers in London, New York, and other food-centric cities are taking steps to ensure that a restaurant's interior design, menus, and dishes lend themselves to Instagram posts. These range from Michelin-approved restaurants with posh addresses to Mexican-themed chains that feature burritos wrapped in branded foil. The most popular color? "Millennial Pink." Recent trending food items include "freakshakes" and "unicorn lattes."

Two new Instagram features, Stories and Live, launched in August 2016; they allow users to upload short video clips, live feeds, and photos that disappear within 24 hours. The features proved to be so addictive that parent company Facebook added similar functionality to WhatsApp, Messenger, and Facebook. Some critics have observed that, with Stories, Instagram was simply copying Snapchat. Systrom disagrees. To him, execution trumps originality. Stories "clearly provides unique value to people that they're not getting elsewhere," he says.

The music industry's embrace of Instagram and Stories illustrates Systrom's point. Musicians and bands of all types—from global superstars like Adele and Beyoncé to indie artists seeking to break through—are using the platform to connect with fans in an organic way. According to Nielsen, Instagram users spend more time listening to music and are likely to pay for streaming music services than nonusers. Artists use Stories and Live to announce new releases and tours, and to provide behind-the-scenes looks at the creative process. Popular posts can quickly go viral, allowing record companies and the artists themselves to see the impact on music sales.

Sources: John Paul Titlow, "How Instagram Became the Music Industry's Secret Weapon," *Fast Company* (September 29, 2017); Deepa Seetharaman, "A Copycat? No, Call It Competition," *The Wall Street Journal* (May 31, 2017), p. B5; Deepa Seetharaman, "'Efficiency Guru' Sharpens Instagram," *The Wall Street Journal* (April 14, 2017), p. B4; Deepa Seetharaman Natalie Whittle, "A Square Meal: How Restaurants Are Courting the Instagram Crowd," *FT Magazine* (April 7, 2017); Alexandra Wolfe, "Weekend Confidential: Kevin Systrom," *The Wall Street Journal* (July 2–3, 2016), p. C11; Hannah Kuchler, "Snap Happy: Instagram Rolls out Carpet for Fashion Brands," *Financial Times—FT Special Report: The Business of Luxury* (May 23, 2016), p. 2; Murad Ahmed, "The Camera-Shy Half of Instagram's Founding Duo," *Financial Times* (November 24, 2015), p. 10.

1-6 Forces Affecting Global Integration and Global Marketing

◀ **1-6** Discuss the driving and restraining forces affecting global integration today.

The remarkable growth of the global economy over the past 65 years has been shaped by the dynamic interplay of various driving and restraining forces. During most of those decades, companies from different parts of the world in different industries achieved great success by pursuing international, multinational, or global strategies. During the 1990s, changes in the business environment presented numerous challenges to established ways of doing business. Today, despite calls for protectionism as a response to the changing political environment, global marketing continues to grow in importance. This is because, even today, driving forces have more momentum than restraining forces. The forces affecting global integration are shown in Figure 1-1.

Driving Forces

Regional economic agreements, converging market needs and wants, technological advances, pressure to cut costs, pressure to improve quality, improvements in communication and transportation technology, global economic growth, opportunities for leverage, and innovation and entrepreneurship all represent important driving forces; any industry subject to these forces is a candidate for globalization.

MULTILATERAL TRADE AGREEMENTS For years, a number of multilateral trade agreements have accelerated the pace of global integration. NAFTA expanded trade among the United States, Canada, and Mexico. The General Agreement on Tariffs and Trade (GATT), which was ratified by more than 120 nations in 1994, created the World Trade Organization (WTO) to promote and protect free trade. In Europe, the expanding membership of the European Union has lowered boundaries to trade within the region. The creation of a single currency zone and the introduction of the euro have led to increased intra-European trade in the twenty-first century.

CONVERGING MARKET NEEDS AND WANTS AND THE INFORMATION REVOLUTION A person studying markets around the world will discover cultural universals as well as differences. The common elements in human nature provide an underlying basis for the opportunity to create and serve global markets. The use of the word *create* is deliberate here. Most global markets do not exist in nature; marketing efforts must create them. For example, no one *needs* soft drinks—and yet today in some countries, per capita soft drink consumption *exceeds* water consumption. Marketing has driven this change in behavior, so that the soft drink industry is now a truly global one. Today, consumer needs and wants around the world are converging as never before, which in turn creates an opportunity for global marketing. Multinational companies pursuing strategies of product adaptation run the risk of failing to be successful against global competitors that have recognized opportunities to serve global customers.

The information revolution—what some refer to as the "democratization of information"—is one reason for the trend toward convergence. This revolution is fueled by a variety of technologies, products, and services, including satellite dishes; globe-spanning TV networks such as CNN and MTV; widespread access to broadband Internet; and Facebook, Twitter, YouTube, and other social media. Taken together, these communication tools mean that people in the remotest corners of the globe can compare their own lifestyles and standards of living with those of people in other countries. In regional markets such as Europe and Asia, the increasing overlap of advertising across national boundaries and the greater mobility of consumers have created opportunities for marketers to pursue pan-regional product positioning. The Internet is an even stronger driving force: When a company establishes a site on the Internet, the company automatically becomes

FIGURE 1-1 Driving and Restraining Forces Affecting Global Integration

global. In addition, the Internet allows people everywhere in the world to reach out to one another and to companies around the globe, buying and selling a virtually unlimited assortment of products and services.

TRANSPORTATION AND COMMUNICATION IMPROVEMENTS The time and cost barriers associated with distance have fallen tremendously over the past 100 years. The jet airplane revolutionized travel and communication by making it possible for people to go around the world in less than 48 hours. Tourism enables people from many countries to see and experience the newest products sold abroad. In 1970, 75 million passengers traveled internationally; according to figures compiled by the International Air Transport Association, that figure increased to nearly 3.8 billion passengers in 2016.

One essential characteristic of the effective global business is face-to-face communication among employees and between a company and its customers. Modern jet travel made such communication feasible. Today's information technology allows airline alliance partners such as United and Lufthansa to sell seats on each other's flights, thereby making it easier for travelers to get from point to point. Meanwhile, the cost of international data, voice, and video communication has fallen dramatically over the past several decades. Today, Skype and FaceTime are powerful new communication channels. They are the latest in a series of innovations—including fax, e-mail, video teleconferencing, Wi-Fi, and broadband Internet—that enable managers, executives, and customers to link up electronically from virtually any part of the world without traveling at all.

A similar revolution has occurred in transportation technology. The costs associated with physical distribution, in terms of both money and time, have been greatly reduced in recent years. The per-unit cost of shipping automobiles from Japan and Korea to the United States by specially designed auto-transport ships is less than the cost of overland shipping from Detroit to either U.S. coast. Another key innovation has been the increased utilization of 20- and 40-foot metal containers that can be transferred from trucks to railroad cars to ships.

PRODUCT DEVELOPMENT COSTS The pressure for globalization is intense when new products require major investments and long periods of development time. The pharmaceutical industry provides a striking illustration of this driving force. According to the Pharmaceutical Research and Manufacturers Association, the cost of developing a new drug in 1976 was $54 million. Today, the process of developing a new drug and securing regulatory approval to market it can take 14 years, and the average total cost of bringing a new drug to market is estimated to exceed $400 million.[56] Such costs must be recovered in the global marketplace, because no single national market is likely to be large enough to support investments of this size.

In the face of this reality, Pfizer, Merck, GlaxoSmithKline, Novartis, Bristol-Myers Squibb, Sanofi-Aventis, and other leading pharmaceutical companies have little choice but to engage in global marketing. As noted earlier, however, global marketing does not necessarily mean operating everywhere; in the pharmaceutical industry, for example, seven countries account for 75 percent of sales. As shown in Table 1-6, demand for pharmaceuticals in Asia is expected to exhibit double-digit growth in the next few years. Seeking to tap that opportunity and to reduce development costs, Novartis and its rivals are establishing research and development (R&D) centers in China.[57]

TABLE 1-6 World Pharmaceutical Market by Region

	2012	2007–2012	2012–2017
	Market Size (US$ billions)	CAGR* (%)	Forecast CAGR (%)
North America	$348.7	3.0%	0.7–3.7%
Europe	222.8	2.4	−0.4 to 2.6
Asia/Africa/Australia	168.3	15.0	11.4–14.4
Japan	112.1	3.0	1.7–4.7
Latin America	72.5	12.0	10–13
Total world	962.1	5.3	5.3

* Compound annual growth rate.
Source: Based on IMS Health Market Prognosis. Courtesy of IMS Health.

QUALITY Global marketing strategies can generate more revenues and higher operating margins that, in turn, support design and manufacturing quality. For example, a global company and a domestic company may each spend 5 percent of their sales on R&D, but the global company may have many times the total revenue of the domestic company because it serves the world market. It is easy to understand how John Deere, Nissan, Matsushita, Caterpillar, and other global companies have achieved world-class quality (see Exhibit 1-10). Global companies "raise the bar" for all competitors in an industry.

When a global company establishes a benchmark in quality, competitors must quickly make their own improvements and come up to par. For example, starting in the 1960s, U.S. auto manufacturers saw their market share erode as Japanese carmakers built strong reputations based on their products' quality and durability. Although the U.S. companies have since made great strides in quality, Detroit now faces a new threat from a U.S. company: Tesla's all-electric cars have frequently been at or near the top of the quality and safety rankings for several years.

WORLD ECONOMIC TRENDS Prior to the global economic crisis that began in 2008, economic growth had been a driving force in the expansion of the international economy and in the growth of global marketing for three reasons. First, economic growth in key developing countries creates market opportunities that provide a major incentive for companies to expand globally. Thanks to rising per capita incomes in India, China, and elsewhere, the growing ranks of middle-class consumers have more money to spend than in the past. At the same time, slow growth in industrialized countries has compelled management to look abroad for opportunities in nations or regions with high rates of growth.

Second, economic growth has reduced resistance that might otherwise have developed in response to the entry of foreign firms into domestic economies. When a country such as China is experiencing rapid economic growth, policymakers are likely to look more favorably on outsiders. A growing country means growing markets; there is often plenty of opportunity for everyone. As a consequence, it is possible for a "foreign" company to enter a domestic economy and establish itself without threatening the existence of local firms. The latter can ultimately be strengthened by the new competitive environment. Without economic growth, however, global enterprises may take business away from domestic ones. In this kind of environment, domestic businesses are more likely to seek governmental intervention to protect their local positions. Predictably, the most recent economic crisis has created new pressure on policymakers in emerging markets to protect domestic markets.

The worldwide movement toward free markets, deregulation, and privatization is a third driving force. The trend toward privatization is opening up formerly closed markets; tremendous

Exhibit 1-10 With annual sales of $26 billion, Moline, Illinois–based Deere & Company is the world's leading manufacturer of farm equipment. Deere has benefited from booming worldwide demand for agricultural commodities; demand for tractors has been especially strong in Brazil, China, India, and other emerging markets.
Source: Courtesy of John Deere.

opportunities are being created as a result. In their book, Daniel Yergin and Joseph Stanislaw described these trends as follows:

> It is the greatest sale in the history of the world. Governments are getting out of businesses by disposing of what amounts to trillions of dollars of assets. Everything is going—from steel plants and phone companies and electric utilities to airlines and railroads to hotels, restaurants, and nightclubs. It is happening not only in the former Soviet Union, Eastern Europe, and China but also in Western Europe, Asia, Latin America, and Africa—and in the United States.[58]

For example, when a nation's telephone company is a state monopoly, the government can require it to buy equipment and services from national companies. In contrast, an independent company that needs to maximize shareholder value has the freedom to seek vendors that offer the best overall value proposition, regardless of nationality. Privatization of telephone systems around the world created significant opportunities for telecommunications equipment suppliers such as Sweden's Ericsson; Alcatel-Lucent, a Franco-American company; and Canada-based Nortel Networks. After years of growth, however, most telecom suppliers experienced slower growth as customers cut their spending in the face of the global recession. In 2009, Nortel Networks filed for bankruptcy; in the wake of this move, it auctioned off thousands of patents to an alliance of companies including Apple and Microsoft.

LEVERAGE A global company possesses the unique opportunity to develop leverage. In the context of global marketing, **leverage** means some type of advantage that a company enjoys by virtue of the fact that it has experience in more than one country. Leverage allows a company to conserve resources when pursuing opportunities in new geographical markets. In other words, it enables a company to expend less time, less effort, and/or less money. Four important types of leverage are experience transfers, scale economies, resource utilization, and global strategy.

> **"If we were going to be world-class, we needed to pull together and leverage our global assets around the world to create a powerhouse 'One Ford.' It's exactly why we are here."[59]**
>
> Alan Mulally, former CEO, Ford Motor Company

Experience Transfers A global company can leverage its experience in any market in the world. It can draw upon management practices, strategies, products, advertising appeals, or sales or promotional ideas that have been market tested in one country or region and apply them in other comparable markets. For example, Whirlpool has considerable experience in the United States dealing with powerful retail buyers such as Lowe's and Best Buy. Most European appliance retailers have plans to establish their own cross-border "power" retailing systems. As former Whirlpool CEO David Whitwam explained, "When power retailers take hold in Europe, we will be ready for it. The skills we've developed here are directly transferable."[60]

Chevron is another example of a global company that gains leverage through experience transfers. As H. F. Iskander, general manager of Chevron's Kuwait office, explains:

> Chevron is pumping oil in different locations all over the world. There is no problem we have not confronted and solved somewhere. There isn't a rock we haven't drilled through. We centralize all that knowledge at our headquarters, analyze it, sort it out, and that enables us to solve any oil-drilling problem anywhere. As a developing country you may have a national oil company that has been pumping your own oil for 20 years. But we tell them, "Look, you have 20 years of experience, but there's no diversity. It is just one year of knowledge 20 times over." When you are operating in a multitude of countries, like Chevron, you see a multitude of different problems and you have to come up with a multitude of solutions. You have to, or you won't be in business. All those solutions are then stored in Chevron's corporate memory. The key to our business now is to tap that memory, and bring out the solution that we used to solve a problem in Nigeria in order to solve the same problem in China or Kuwait.[61]

Scale Economies The global company can take advantage of its greater manufacturing volume to obtain traditional scale advantages within a single factory. Also, finished products can be manufactured by combining components manufactured in scale-efficient plants in different countries. Japan's giant Matsushita Electric Company is a classic example of global marketing in action; it achieved scale economies by exporting VCRs, televisions, and other consumer electronics products throughout the world from world-scale factories in Japan. The importance of manufacturing scale has diminished somewhat as companies implement flexible manufacturing techniques and invest in factories outside the home country. Nevertheless, scale economies were clearly a cornerstone of many Japanese companies' success in the 1970s and 1980s.

Leverage from scale economies is not limited to manufacturing. Just as a domestic company can achieve economies in staffing by eliminating duplicate positions after an acquisition, so a global company can achieve the same economies on a global scale by centralizing functional activities. The larger scale of the global company also creates opportunities to improve corporate staff competence and quality.

RESOURCE UTILIZATION A major strength of the global company is its ability to scan the entire world to identify people, money, and raw materials that will enable it to compete most effectively in world markets. For a global company, it is not problematic if the value of the "home" currency rises or falls dramatically, because there really is no such thing as a home currency. The world is full of currencies, and a global company seeks financial resources on the best available terms. In turn, it uses them where there is the greatest opportunity to serve a need at a profit.

GLOBAL STRATEGY The global company's greatest single advantage can be its global strategy. A global strategy is built on an information system that scans the world business environment to identify opportunities, trends, threats, and resources. When opportunities are identified, the global company adheres to the three principles identified earlier: It leverages its skills and focuses its resources to create superior perceived value for customers and achieve competitive advantage. *The global strategy is a design to create a winning offering on a global scale.* This takes great discipline, much creativity, and constant effort. The reward is not just success; it's survival.

For example, French automaker Renault operated for many years as a regional company. During that time, its primary struggle was a two-way race with Peugeot Citroën for dominance in the French auto industry. However, in an industry dominated by Toyota and other global competitors, Chairman Louis Schweitzer had no choice but to formulate a global strategy. Initiatives included acquiring a majority stake in Nissan Motor and Romania's Dacia. Schweitzer has also invested $1 billion in a plant in Brazil and spent hundreds of millions of dollars in South Korea.[62]

A note of caution is in order: A global strategy is no guarantee of ongoing organizational success. Companies that cannot formulate or successfully implement a coherent global strategy may lose their independence. InBev's acquisition of Anheuser-Busch at the end of 2008 is a case in point. Some globalization strategies do not yield the expected results, as seen in the unraveling of the DaimlerChrysler merger and the failure of Deutsche Post's DHL unit to penetrate the U.S. domestic package delivery market.

The severe downturn in the business environment in the early years of the twenty-first century wreaked havoc with strategic plans. This proved true for established global firms as well as newcomers from emerging markets that had only recently come to prominence on the world stage. For example, at Swiss-based ABB, Mexico's Cemex, and UK supermarket chain Tesco, the ambitious global visions of the respective chief executives were undermined by expensive strategic bets that did not pay off.[63] Although all three companies survived, they are smaller, more focused entities than before.

INNOVATION AND ENTREPRENEURSHIP Worldwide, new companies are forming. In India, Mexico, Spain, Vietnam, and many other countries, entrepreneurship is flourishing. So, what is an entrepreneur? Management guru Peter Drucker used the term to describe someone who introduces innovations. Entrepreneurs, by definition, are always pioneers in introducing new products and services. According to Drucker:

> They are people with exceptional abilities who seize opportunities that others are oblivious to or who create opportunities through their own daring and imagination.... Innovation is the specific instrument of entrepreneurship. Innovation is the act that endows resources with a new capacity to create wealth.... Through innovation, entrepreneurs create new satisfactions or new consumer demand.[64]

Italy's Emilia Romagna region is a good example of a place with a distinguished record of entrepreneurship. It is home to some of the world's most famous brands, including Ferrari, YOOX, Datalogic, and Technogym.[65] In this text, we will survey some of the most dynamic developments in global entrepreneurship so that readers will develop a better understanding of the importance of innovative leadership and creative thinking.

Restraining Forces

Despite the impact of the driving forces identified previously, several restraining forces may slow a company's efforts to engage in global marketing. In addition to the market differences discussed earlier, important restraining forces include management myopia, organizational culture, national controls, and opposition to globalization. As we have noted, in today's world the driving forces predominate over the restraining forces. That is why the importance of global marketing is steadily growing.

MANAGEMENT MYOPIA AND ORGANIZATIONAL CULTURE In many cases, management simply ignores opportunities to pursue global marketing. A company that is "nearsighted" and ethnocentric will not expand geographically. Anheuser-Busch, the brewer of Budweiser beer, lost its independence after years of focusing primarily on the domestic U.S. market. Myopia is also a recipe for market disaster if headquarters attempts to dictate when it should listen. Global marketing does not work without a strong local team that can provide information about local market conditions.

In companies where subsidiary management "knows it all," there is no room for vision from the top. Conversely, in companies where headquarters management is all-knowing, there is no room for local initiative or an in-depth knowledge of local needs and conditions. Executives and managers at successful global companies have learned how to integrate global vision and perspective with local market initiative and input. A striking theme emerged during interviews conducted by one of the authors with executives of successful global companies—namely, respect for local initiative and input by headquarters executives, and the corresponding respect for headquarters' vision by local executives.

NATIONAL CONTROLS Every country protects the commercial interests of its local enterprises by maintaining control over market access and entry into both low- and high-tech industries. Such control ranges from a monopoly controlling access to tobacco markets to national government control of broadcast, equipment, and data transmission markets. Today, tariff barriers have been largely removed in high-income countries, thanks to the WTO, GATT, NAFTA, and other economic agreements.

Even so, **nontariff barriers (NTBs)** are still very much in evidence. NTBs are nonmonetary restrictions on cross-border trade, such as food safety and labeling rules and other bureaucratic obstacles. For example, the European Union prohibits the use of generic terms such as "Parmesan" for dairy imports to protect cheese producers in Italy. NTBs have the potential to make it difficult for companies to gain access to some individual country and regional markets.

OPPOSITION TO GLOBALIZATION To many people around the world, globalization and global marketing represent a threat. The term *globaphobia* is sometimes used to describe an attitude of hostility toward trade agreements, global brands, or company policies that appear to result in hardship for some individuals or countries while benefiting others.

Globaphobia manifests itself in various ways, including protests or violence directed at policymakers or well-known global companies (see Exhibit 1-11). Opponents of globalization include politicians, labor unions, college and university students, national and international nongovernmental organizations (NGOs), and others. *Shock Doctrine* author Naomi Klein has been an especially outspoken critic of globalization.

Two prominent examples of this restraining force are the election of Donald Trump in the United States and the Brexit vote in the United Kingdom. Shortly after being sworn in as the 45th U.S. president, Trump pulled the United States out of the Transatlantic Trade and Investment Partnership (TTIP) as well as the Trans-Pacific Partnership (TPP). He also campaigned on a pledge to revise or withdraw from NAFTA. Meanwhile, U.K. Prime Minister Theresa May

Exhibit 1-11 American fashion icon Ralph Lauren created the official uniforms that Team USA wore at the opening and closing ceremonies of the 2012 Olympics in China. Controversy erupted after it was revealed that the uniforms—navy blazers, white trousers and skirts, and berets—were "Made in China" rather than in the United States. Critics linked the outsourcing story to the broader issue of the loss of manufacturing jobs in America. Perhaps not surprisingly, the uniforms for the 2016 Summer Games in Rio were "Made in the USA."

Source: Leonard Zhukovsky/Shutterstock.

was working to finalize "divorce" arrangements for the United Kingdom's withdrawal from the European Union.

In the United States, the perception that globalization has depressed the wages of American workers and resulted in the loss of both blue- and white-collar jobs helped Trump win the 2016 presidential election. Even prior to the election, there was a growing suspicion that the world's advanced countries—starting with the United States—were reaping a disproportionate amount of the rewards of free trade. As an unemployed miner in Bolivia put it, "Globalization is just another name for submission and domination. We've had to live with that here for 500 years and now we want to be our own masters."[66]

1-7 Outline of This Book

This book has been written for students and businesspeople interested in global marketing. Throughout the book, we present and discuss important concepts and tools specifically applicable to global marketing.

The book is divided into five parts. Part One consists of Chapter 1, an overview of global marketing and the basic theory of global marketing.

Part Two is devoted to topics that must be considered when approaching global markets. We cover marketing information systems and research in Chapter 2. Chapter 3 discusses market segmentation, targeting, and positioning. Chapter 4 surveys the basics of importing, exporting, and sourcing. We devote Chapter 5 to various aspects of global strategy, including strategy alternatives for market entry and expansion.

In Part Three, we examine the global context of marketing mix decisions. Guidelines for making product, price, channel, and marketing communications decisions in response to global market opportunities and threats are presented in detail in Chapters 6 through 10. Chapter 11 explores the ways that the Internet, e-commerce, and other aspects of the digital revolution are creating new opportunities and challenges for global marketers.

Chapter 12 in Part Four address issues of corporate strategy in the twenty-first century, it includes an overview of strategy and competitive advantage.

Summary

Marketing is an organizational function and a set of processes for creating, communicating, and delivering value to customers and for managing customer relationships in ways that benefit the organization and its stakeholders. A company that engages in *global marketing* focuses its resources on global market opportunities and threats. Successful global marketers such as Nestlé, Coca-Cola, and Honda use familiar *marketing mix* elements—the four Ps—to create global marketing programs. Marketing, R&D, manufacturing, and other activities compose a firm's *value chain*; firms configure these activities to create superior customer value on a global basis. The *value equation* expresses the relationship between value and the marketing mix.

Global companies also maintain strategic *focus* while relentlessly pursuing *competitive advantage*. The marketing mix, value chain, competitive advantage, and focus are universal in their applicability, irrespective of whether a company does business only in its home country or has a presence in many markets around the world. However, in a *global industry*, companies that fail to pursue global opportunities risk being pushed aside by stronger global competitors.

A firm's *global marketing strategy (GMS)* can enhance its worldwide performance. The GMS addresses several issues. First is the nature of the marketing program in terms of the balance between a *standardized (extension) approach* to the marketing mix elements and a *localized (adaptation) approach* that is responsive to country or regional differences. Second is the *concentration of marketing activities* in a few countries or the dispersal of such activities across many countries. Companies that engage in global marketing can also engage in *coordination of marketing activities.* Finally, a firm's GMS addresses the issue of *global market participation.*

The importance of global marketing today can be seen in the company rankings compiled by *The Wall Street Journal*, *Fortune*, the *Financial Times*, and other publications. Whether ranked by revenues or some other measure, most of the world's major corporations are active regionally or globally. The size of global markets for individual industries or product categories helps explain why companies "go global." Global markets for some product categories represent hundreds of billions of dollars in annual sales; other markets are much smaller. Whatever the size of the opportunity, successful industry competitors find that increasing revenues and profits means seeking markets outside the home country.

Company management can be classified in terms of its orientation toward the world: *ethnocentric*, *polycentric*, *regiocentric*, or *geocentric*. These terms reflect progressive levels of development or evolution. An ethnocentric orientation characterizes *domestic* and *international companies*; international companies pursue marketing opportunities outside the home market by extending various elements of the marketing mix. A polycentric worldview predominates at a *multinational company*, whose country managers operate autonomously adapt the marketing mix. When management moves to integrate and coordinate activities on a regional basis, the decision reflects a regiocentric orientation. Managers at *global* and *transnational companies* are geocentric in their orientation and pursue both extension and adaptation strategies in global markets.

The dynamic interplay of several driving and restraining forces shapes the importance of global marketing. Driving forces include market needs and wants, technology, transportation and communication improvements, product costs, quality, world economic trends, recognition of opportunities to develop *leverage* by operating globally, and innovation and entrepreneurship. Restraining forces include market differences, management myopia, organizational culture, and national controls such as *nontariff barriers (NTBs)*.

Discussion Questions

1-1. What are the basic goals of marketing? Are these goals relevant to global marketing?

1-2. What is meant by "global localization"? Is Coca-Cola a global product? Explain.

1-3. A company's global marketing strategy (GMS) is a crucial competitive tool. Discuss some of the global marketing strategies available to companies. Give examples of companies that use the different strategies.

1-4. U.K.-based Burberry is a luxury fashion brand that appeals to both genders and to all ages. To improve Burberry's competitiveness in the luxury goods market, CEO Marco Gobetti must update the marketing program put in place by his predecessor. The strategy should address key markets that Burberry will participate in, as well as the integration and coordination of marketing activities. Research recent articles about Burberry and discuss Burberry's GMS.

1-5. Discuss the differences between the global marketing strategies of Harley-Davidson and Toyota.

1-6. Describe the differences among ethnocentric, polycentric, regiocentric, and geocentric management orientations.

1-7. Identify and briefly describe some of the forces that have resulted in increased global integration and the growing importance of global marketing.

1-8. Define *leverage* and explain the different types of leverage available to companies with global operations.

1-9. Each July, *Fortune* publishes its Global 500 listing of the world's largest companies. You can find the current rankings online at www.fortune.com/global500/. Alternatively, you can consult the print edition of *Fortune*. Browse through the list and choose any company that interests you. Compare its 2017 ranking with the most recent ranking. Has the company's ranking changed? Consult additional sources (e.g., magazine articles, annual reports, the company's Web site) to get a better understanding of the factors and forces that contributed to the company's move up or down in the rankings. Write a brief summary of your findings.

1-10. There's a saying in the business world that "nothing fails like success." Take Gap, for example. How can a fashion retailer that was once *the* source for wardrobe staples such as chinos and white T-shirts suddenly lose its marketing edge? Motorola also fell victim to its own success. The company's Razr cell phone was a huge hit, but Motorola struggled to leverage that success. Google acquired Motorola Mobility but then sold it to Lenovo in 2014. Recently, Starbucks CEO Howard Shultz warned that his company and brand risk becoming commoditized. And, as noted in Case 1-3, some industry observers are saying that Apple has "lost its cool." If you were to make separate recommendations to management at each of these companies, what would you say?

CASE 1-1 *Continued (refer to page 2)*

Continued (refer to page 2)

The Global Marketplace

Now that you have an overview of global marketing, it's time to test your knowledge of global current events. Some well-known companies and brands are listed in the left-hand column. The question is: In which country is the parent corporation located? Possible answers are shown in the right-hand column. Write the letter corresponding to the country of your choice in the space provided; each country can be used more than once. Answers follow.

1. Firestone Tire & Rubber	a. Germany
2. Ray-Ban	b. France
3. Rolls-Royce	c. Japan
4. RCA	d. Great Britain
5. Budweiser	e. United States
6. Ben & Jerry's Homemade	f. Switzerland
7. Gerber	g. Italy
8. Miller Beer	h. Sweden
9. Rollerblade	i. Finland
10. Case New Holland	j. China
11. Weed Eater	k. Netherlands
12. Holiday Inn	l. Belgium
13. Wild Turkey bourbon	m. India
14. ThinkPad	n. Brazil
15. Wilson Sporting Goods	o. South Korea
16. Right Guard	p. Thailand
17. BFGoodrich	
18. Jaguar	
19. Burger King	
20. Jenny Craig	
21. The Body Shop	
22. Titleist	
23. Swift	
24. Gaggia	
25. Church's English shoes	
26. American Standard Brands	
27. Chicken of the Sea tuna	

Answers

1. Japan (Bridgestone) **2.** Italy (Luxottica SpA) **3.** Germany (Volkswagen) **4.** China (TTE) **5.** Belgium (Anheuser-Busch InBev) **6.** Great Britain/Netherlands (Unilever) **7.** Switzerland (Nestlé) **8.** Great Britain (SABMiller) **9.** Italy (Benetton)**10.** Italy (Fiat)**11.** Sweden (AB Electrolux)**12.** Great Britain (InterContinental Hotels Group PLC)**13.** Italy (Campari)**14.** China (Lenovo)**15.** Finland (Amer Group)**16.** Germany (Henkel)**17.** France (Michelin)**18.** India (Tata Motors)**19.** Brazil (3G Capital) **20.** Switzerland (Nestlé) **21.** France (L'Oréal) **22.** South Korea (Fila Korea) **23.** Brazil (JBS) **24.** Netherlands (Philips) **25.** Italy (Prada Group) **26.** Japan (Lixil Corp) **27.** Thailand (Thai Union Frozen Products PCL)

Discussion Questions

1-11. Anheuser-Busch (A-B), which has been described as "an American icon," is now owned by a company based in Belgium. Responding to reports that some consumers planned to boycott Budweiser products to protest the deal, one industry observer said, "Brand nationality is all about where it was born, and also the ingredients of that beer and how they make the beer. Basically, it doesn't matter who owns it. We are in a global world right now." Do you agree?

1-12. Anheuser-Busch has long enjoyed a reputation as a very desirable place to work. Executives were awarded well-appointed corporate suites and traveled on corporate jets; many had secretaries as well as executive assistants. When managers took commercial flights, they flew first class. Most employees received beer for free and could count on donations of beer and merchandise for community events. Tickets to St. Louis Cardinals home baseball games were also used as a marketing tool. A-B spent heavily on advertising and promotion; various advertising agencies produced about 100 new ads for A-B each year. Given these facts, which changes, if any, would you expect A-B's new owners to make? Why?

1-13. In 2009, Italy's Fiat acquired a 20 percent stake in Chrysler, another iconic American company. In January 2014, Fiat completed the acquisition and Chrysler is now a subsidiary of Fiat. Are you familiar with Fiat? What do you think CEO Sergio Marchionne hoped to accomplish with this pair of deals? How might Chrysler benefit from the alliance?

1-14. Ben & Jerry's Homemade is a quirky ice cream marketer based in Burlington, Vermont. Founders Ben Cohen and Jerry Greenfield are legendary for their enlightened business practices, which include a three-part mission statement: product mission, financial mission, and social mission. When the company was acquired by consumer products giant Unilever, some of the brand's loyal customers were alarmed. What do you think was the source of their concern?

CASE 1-2
McDonald's Expands Globally While Adjusting Its Local Recipe

McDonald's Corporation is a fast-food legend whose famous golden arches can be found at more than 37,000 locations in 118 different countries. The company is the undisputed leader in the quick-service restaurant (QSR) segment of the hospitality industry, with more than twice the system-wide revenues of Burger King. McDonald's built its reputation by promising and delivering three things to customers: inexpensive food with consistent taste regardless of location; quick service; and a clean, familiar environment.

The company was also a pioneer in the development of convenience-oriented features such as drive-through windows and indoor play areas for children. Today, thanks to memorable advertising and intensive promotion efforts, McDonald's is one of the world's most valuable brands: In 2017, Interbrand ranked it as the world's number 12 brand overall (Apple has been number 1 for several years running). The golden arches are said to be the second-most-recognized symbol in the world, behind the Olympic rings. In 2014, McDonald's was named Creative Marketer of the Year at the Cannes Lions International Festival of Creativity.

Despite these successes, the company faces competitive attacks from several directions. During the 1990s, a wide range of upscale food and beverage purveyors arrived on the scene. For example, consumers began flocking to Starbucks coffee bars, where they spend freely on lattes and other coffee-based specialty drinks. The "fast-casual" segment of the industry, which includes companies such as Baja Fresh, Chipotle Mexican Grill, Panera Bread, and Cosi, is attracting customers seeking higher-quality menu items in more comfortable surroundings. Millennials, in particular, began shunning McDonald's and seeking out alternative fast-dining options such as Five Guys, a "better burger" chain that features freshly cut fries made from locally sourced potatoes.

Meanwhile, Subway overtook McDonald's as the restaurant chain with the most outlets in the United States. McDonald's U.S. menu offerings had grown rapidly, and, some would say, quality and service had suffered. Some industry observers also suggested that, in terms of both food offerings and marketing, McDonald's was losing touch with modern American lifestyles.

Until recently, the picture appeared brighter outside the United States. Thanks to changing lifestyles around the globe, more people are embracing the Western-style fast-food culture (see Exhibit 1-12). McDonald's responded to this opportunity by stepping up its rate of new unit openings. McDonald's International is organized into three geographic regions: (1) Europe; (2) Asia-Pacific, Middle East, and Africa (APMEA); and (3) Other Countries. In 2005, the offices of the country heads for Europe and Asia were moved from the U.S. headquarters to their respective regions; now, for example, the head of APMEA manages his business from China's Hong Kong. Commenting on the change, Ken Koziol, vice president of worldwide restaurant innovation, explained, "McDonald's was built on a strong foundation of a core menu that we took around the world but we need to make sure we are more locally relevant. Taste profiles and desires are changing."

Asia-Pacific

The Indian market holds huge potential for McDonald's. In 1996, the company formed a joint venture with an Indian partner, Vikram Bakshi, and opened restaurants in New Delhi and Bombay. In Delhi, McDonald's competes with Nirula's, a QSR chain with multiple outlets; in addition, hundreds of smaller regional chains can be found throughout India. The U.S.-based Subway chain opened its first Indian location in 2001; Pizza Hut, KFC, and Domino's Pizza have also entered this market.

Exhibit 1-12
Source: Hasan Jamali/AP Wide World Photos.

Indian demand for meals from the major food chains is growing at a double-digit rate; annual total sales exceed $1 billion. With those trends in mind, McDonald's identifies strategic locations for its restaurants in areas with heavy pedestrian traffic, such as the shopping street in Bandra in the Bombay suburbs. Other restaurant locations include a site near a college in Vile Parle and another opposite the Andheri train station; in all, McDonald's India operated more than 400 locations at the end of 2017.

Because the Hindu religion prohibits eating beef, McDonald's developed the Chicken Maharaja Mac specifically for India. Despite protests from several Hindu nationalist groups, the first McDonald's attracted huge crowds to its site near the Victoria railway terminal; customers included many tourists from across India and from abroad as well as locals commuting to and from work.

McDonald's has worked steadily to prove that it is sensitive to Indian tastes and traditions. As is true throughout the world, McDonald's emphasizes that most of the food ingredients it uses—as much as 95 percent—are produced locally. In addition, to accommodate vegetarians, each restaurant has two separate food preparation areas. The "green" kitchen is devoted to vegetarian fare such as the spicy McAloo Tikki potato burger, Pizza McPuff, and Paneer Salsa McWrap. Even the mayonnaise is made without eggs on this side of the kitchen. Meat items, in contrast, are prepared on the red side of the kitchen. Some of the new menu items developed for India are now being introduced in Europe and the United States.

McDonald's and other fast-food operators have also been instrumental in providing employment opportunities to Indian women. On a global basis, female participation in the work force is disproportionately low. Two-thirds of India's female labor force works in agriculture. Employers in the fast-food sector have discovered that women employees tend to be friendly and loyal, which is important for quick-serve restaurants. To reassure conservative parents, McDonald's invites them to visit restaurant locations to see firsthand that their daughters are working in a safe environment for a company that respects women.

China is currently home to the world's largest McDonald's; China is also the fastest-growing market in terms of the number of new restaurant openings. The first Chinese location opened in mid-1992 in central Beijing, a few blocks from Tiananmen Square. By 2016, McDonald's had more than 2,700 restaurants in China. The restaurants purchase 95 percent of their supplies, including lettuce, from local sources.

Prior to 2016, the corporate parent owned two-thirds of the McDonald's stores in China. However, a food-safety scare caused a short-term dip in sales and profitability. In search of improved profitability and flexibility, McDonald's launched an initiative dubbed "Vision 2022" as the blueprint for expanding outside China's largest cities. In a key strategic move, CEO Steve Easterbrook sold a controlling stake in all 2,700 Chinese stores to a state-run company, Citic, and a U.S.-based private equity group. The sale marked McDonald's transition to an all-franchise business model in China. As part of the deal, the new partners will build more than 1,000 new McDonald's stores.

Western Europe

The golden arches are a familiar sight in Europe, particularly in France, Germany, and the United Kingdom. There is even a four-star Golden Arch hotel in Zurich. Overall, Europe contributes about 40 percent of both revenue and operating income for the company, making it a key world region for McDonald's.

France's tradition of culinary excellence makes it a special case in Europe; French dining options range from legendary three-star Michelin restaurants to humble neighborhood bistros. From the time McDonald's opened its first French outlet in 1972, policymakers and media commentators have voiced concerns about the impact of fast food on French culture. Even so, with more than 1,400 locations, France today represents McDonald's second-largest European market (Germany ranks number 1).

Nevertheless, controversy has kept the company in the public eye. For example, some French citizens objected when McDonald's became the official food of the World Cup finals that were held in France in 1998. In August 1999, a sheep farmer named Jose Bové led a protest against construction of the 851st French McDonald's near the village of Millau. The protesters used construction tools to dismantle the partially finished structure. Bové told the press that the group had singled out McDonald's because, in his words, it is a symbol of America, "the place where they not only promote globalization and industrially produced food but also unfairly penalize our peasants." At one point, executives at McDonald's France even ran an ad in *Femme Actuelle* magazine suggesting that children should eat only one meal at McDonald's per week.

McDonald's French franchisees experience some of the same competitive pressures facing the U.S. units; there are also culturally distinct differences. For example, the French are obsessed with bread. Local bistro operators have enjoyed great success selling fresh-baked baguettes filled with ham and brie, effectively neutralizing McDonald's advantage of fast service and low prices. In response, McDonald's rolled out the McBaguette, a burger made with local Charolais beef and topped with French cheese and mustard.

In addition, executives hired an architecture firm to develop new restaurant designs and reimage the French operations. A total of eight different themes were developed; many of the redesigned restaurants have hardwood floors and exposed brick walls. Signs have muted colors rather than featuring the chain's signature red and yellow, and the golden arches are displayed more subtly. Overall, the restaurants don't look like McDonald's restaurants elsewhere.

The first redesigned restaurant was located on the Champs-Élysées on a site previously occupied by a Burger King; called "Music," the restaurant provides diners with the opportunity to listen to music on iPods and watch music videos on TV monitors. In some locations, lime green Danish designer armchairs have replaced plastic seats. As McDonald's locations in France have undergone style makeovers, some franchisees have reported sales increases of 10 to 20 percent. Encouraged by these results, McDonald's has embarked on an ambitious program to refurbish several thousand outlets in various countries.

> **"The tastes of the urban, upwardly mobile Indian are evolving, and more Indians are looking to eat out and experiment. The potential Indian customer base for a McDonald's or a Subway is larger than the size of entire developed countries."**
>
> Sapna Nayak, food analyst at Raobank India

Central and Eastern Europe

January 31, 2015, marked the 25th anniversary of McDonald's arrival in the Soviet Union. The first Moscow McDonald's was built on Pushkin Square, near a major metro station just a few blocks from the Kremlin. It has 700 indoor seats and another 200 outside. It boasts 800 employees and features a 70-foot counter with 27 cash registers, equivalent to 20 ordinary McDonald's restaurants rolled into one. For its 20th-birthday celebration, the Pushkin Square location offered customers a "buy one, get one free" hamburger promotion; accordion-wielding musicians provided background music.

Khamzat Khazbulatov was selected to manage the first restaurant; today, he is CEO of McDonald's Russia. At present, there approximately 600 McDonald's restaurants in Russia, and the company employs more than 35,000 people. To ensure a steady supply of high-quality raw materials, the company built McComplex, a huge, $50 million processing facility on the outskirts of Moscow. McDonald's also worked closely with local farmers to boost yields and quality. Now the facility has been turned over to private companies that today provide 80 percent of the ingredients used in Russia. For example, Wimm-Bill-Dann supplies dairy products to McDonald's; in 2002, it became the first Russian company to be listed on the New York Stock Exchange. Overall, 100,000 people are employed by companies in McDonald's supply chain.

Ukraine and Belarus are among the other countries in Eastern Europe with newly opened restaurants. The first Ukrainian McDonald's opened in Kiev in 1997; by 2007, the chain had expanded to 57 locations in 16 cities. Plans call for as many as 100 restaurants, for a total investment of $120 million.

The marketing environment in the region became notably more complicated in 2014. Russian President Vladimir Putin annexed a region in Ukraine called Crimea, forcing McDonald's to close its three restaurants there. After Moscow-backed rebels initiated military action in Ukraine in 2014, the United States, Germany, and other Western nations imposed trade sanctions on Russia. In retaliation, Russian consumer-safety officials descended on numerous McDonald's locations and cited them for alleged food safety, sanitation, and financial violations. Those issues were subsequently resolved, and in the last few years McDonald's has expanded into new Russian territories such as Siberia.

McDonald's has also set its sights on Central Europe, where plans call for hundreds of new restaurants to be opened in Croatia, Slovakia, Romania, and other countries. In 2010, McDonald's Czech Republic restaurants featured a special lineup of New York–themed sandwiches that were promoted with the iconic "I Heart NY" logo. Advertisements promised, "Another burger each week"; the offerings included Wall Street Beef ("grilled beef, cheese, crispy bacon, fresh lettuce and onion

Source: Jeremy Banx/Banx Cartoons.

with BBQ sauce on an oval bun topped with sesame seeds") and Broadway Chicken.

Refocusing on the U.S. Market

When Jim Cantalupo became McDonald's CEO in 2002, he took the extraordinary step of calling a summit meeting of senior creative personnel from 14 advertising agencies representing the company's 10 largest international markets. Foremost among them was New York–based DDB Worldwide, the lead agency on the McDonald's account that handles advertising in dozens of countries, including Australia, the United States, and Germany. In addition, Leo Burnett is responsible for ads targeting children. McDonald's marketing and advertising managers from key countries were also summoned to the meeting at company headquarters in Oak Brook, Illinois. As Larry Light, then global chief marketing officer for McDonald's, noted, "Creative talent is a rare talent, and creative people don't belong to geographies, to Brazil or France or Australia. We're going to challenge our agencies to be more open-minded about sharing between geographies."

Charlie Bell, a former executive at McDonald's Europe who was promoted to chief operating officer, didn't mince words about the company's advertising. "For one of the world's best brands, we have missed the mark," he said before the summit meeting. In June 2002, the company announced that "i'm lovin' it" would be the new global marketing theme; the copy was proposed by Heye & Partner, a DDB Worldwide unit located in Germany. The phrase remains the company's global tag line today.

After Jim Skinner was named chief executive officer in 2004, he instituted a "Plan to Win" initiative to increase McDonald's momentum. The core idea was to make McDonald's "better, not just bigger." Skinner identified five main drivers of McDonald's: people, products, place, price, and promotion. The results of the initiative were very positive. For example, *Consumer Reports* lauded the company's efforts to upgrade its coffee program. Consumers embraced "better-for-you" menu items such as salads and sandwiches. McDonald's is also striving to be more environmentally conscious by using less plastic packaging and recycling more. Denis Hennequin, the executive in charge of European operations, is pleased with the results of his reimaging campaign. He said, "I'm changing the story. We've got to be loyal to our roots, we have to be affordable, we have to be convenient . . . but we have to add new dimensions."

McDonald's total stock return for the three-year period 2007 through 2009 was the highest among the 30 companies that make up the Dow Jones Industrial Average—a remarkable performance, given the difficult economic environment. The company's strong financial results gave it the resources to move forward with a remodeling initiative for its U.S. restaurants. The price tag: a whopping $1 billion. The upgrades were partly a response to the positive results from revamped European operations; the makeover also reflects the influence of modern retail design principles used by Apple, Starbucks, and other trendsetters. By 2015, most of McDonald's 14,350 U.S. restaurants had been updated.

> **"For a market leader, they've been really aggressive in a pretty fundamental way, but at the same time not losing the core of who McDonald's is."**
>
> Kevin Lane Keller, Professor of Marketing, Tuck School of Business, Dartmouth College

McDonald's executives are intent on creating a modern, streamlined environment that will encourage customers to stay longer and spend more. Some of the changes are dramatic: Gone are the red roofs and splashes of neon yellow that many associate with iconic spokes-clown Ronald McDonald. The new color palette includes subtle shades of orange, yellow, and green. Also on tap: softer lighting and comfortable, stylish new furniture. As Jim Carras, a senior U.S. executive, noted, "McDonald's has to change with the times. And we have to do so faster than we ever have before."

New Challenges at Home for the New Bosses

Despite winning accolades for its marketing creativity and investing significant sums in upgrades, McDonald's faces several challenges in its home market. After taking over the CEO position in 2012, Don Thompson was under constant pressure from public health activists alleging that the company is a major contributor to the wave of obesity striking the United States. In addition, animal rights activists continued to protest the treatment of animals by McDonald's suppliers. Also, the issue of pay inequality and the minimum wage came to the fore in the United States. Activists targeted the company for paying low wages; the current minimum wage in the United States is $7.25 per hour. McDonald's responded by noting that the company provides that all-important "first job" for many Americans.

Equally worrying was the worst sales slump in more than a decade, indicative that consumer tastes were changing in the United States. Pledging that McDonald's would "listen to the customer," Thompson authorized the rapid rollout of a menu innovation called "Create Your Taste." The system allowed customers to bypass the counter and go directly to a kiosk to customize orders for a hamburger or chicken sandwich on a tablet. Executives acknowledged that the new platform would take some of the "fast" out of the customer experience; it cannot be used with the drive-through, and the custom sandwiches are more expensive than the traditional offerings. However, with its eye on speed and convenience, McDonald's rolled out another innovation: It adopted Apple Pay to allow customers to pay for their purchases with their smartphones.

Don Thompson retired in 2015 after his initiatives failed to reignite sales. Upon his departure, Steve Easterbrook assumed the job of CEO, pledging that he would spearhead McDonald's transformation into a "modern, progressive burger company." Easterbrook, who is British, had spent several years engineering a turnaround in McDonald's U.K. business. Among other things, he objected to the venerable *Oxford English Dictionary's* definition of a "McJob" as "an unstimulating, low-paid job."

One of Easterbrook's first acts as CEO was to commission a study to determine where McDonald's had gone wrong. The research indicated that McDonald's core customers had defected to rival burger chains such as Wendy's and Burger King. Part of the attraction was value-oriented promotional pricing such as "5 items for $4" Deal Meals. Easterbrook responded by cutting McDonald's prices on coffee and soft drinks and launching "all-day breakfast." Responding to Wendy's brand pledge that its burgers are "fresh, never frozen," McDonald's is replacing the frozen beef patties in its Quarter Pounder sandwich with fresh ones. The CEO is also spending more than $1 billion to overhaul stores in the United States as well as France, Germany. and other key country markets.

Discussion Questions

1-15. Identify the key elements in McDonald's global marketing strategy. Despite a slowdown in global fast-food consumption, McDonald's continues to be a success story. What is the key to its success? Does McDonald's think globally and act locally? Does it also think locally and act globally?

1-16. Do you think government officials in developing countries such as Russia, China, and India welcome McDonald's? Do consumers in these countries welcome McDonald's? Why or why not?

1-17. Is it realistic to expect that McDonald's—or any well-known company—can expand globally without occasionally making mistakes or generating controversy? Why do antiglobalization protesters—and sometimes government officials—target McDonald's?

1-18. Assess the changes McDonald's has made to its marketing strategy in the United States and around the world.

Visit the Web Site

See www.mcdonalds.com for a directory to country-specific sites.

Sources: Anna Nicolaou, "Flipping the Fortunes of Burgers," *Financial Times—FT Big Read: US Food and* Beverage (November 27, 2017), p. 11; Preetika Rana, "Fast-Food Jobs Attract Women in India," *The Wall Street Journal* (December 27, 2016), p. B3; Julie Jargon, "McDonald's Is Losing the Burger War," *The Wall Street Journal* (October 7, 2016), pp. A1, A10; Wayne Ma, Rick Carew, and Kane Wu, "McDonald's Hunts for a Partner in China," *The Wall Street Journal* (October 4, 2016), pp. B1, B6; Julie Jargon, "From the Grill: Ways to Rescue McDonald's," *The Wall Street Journal* (December 24, 2014), p. B8; James Marson and Julie Jargon, "Moscow Advances on McDonald's," *The Wall Street Journal* (August 21, 2014), pp. B1, B2; Maureen Morrison, "Is McDonald's Losing That Lovin' Feeling?" *Advertising Age* (February 20, 2012), pp. 1, 20; Marion Issard, "To Tailor Burgers for France, McDonald's Enlists Baguette," *The Wall Street Journal* (February 24, 2012), p. B4; Bruce Horovitz, "McDonald's Revamps Stores to Look More Upscale," *USA Today* (May 8, 2011), pp. 1B, 2B; Andrew E. Kramer, "Russia's Evolution, as Seen Through the Golden Arches," *The New York Times* (February 2, 2010), p. B3; Janet Adamy, "As Burgers Boom in Russia, McDonald's Touts Discipline," *The Wall Street Journal* (October 16, 2007), pp. A1, A17; Jenny Wiggins, "Burger, Fries, and a Shake-Up," *Financial Times* (January 27, 2007), p. 7; Steven Gray, "Beyond Burgers: McDonald's Menu Upgrade Boosts Meal Prices and Results," *The Wall Street Journal* (February 18–19, 2006), pp. A1, A7; Jeremy Grant, "Golden Arches Bridge Local Tastes," *Financial Times* (February 9, 2006), p. 10.

CASE 1-3

Apple versus Samsung: The Battle for Smartphone Supremacy Heats Up

When Steve Jobs died in October 2011, the world lost one of the towering figures of the modern business era (see Exhibit 1-13). Apple, the company Jobs cofounded, was a pioneer in the consumer electronics world; its key product introductions included the Apple II (1977), the Macintosh (1984), the iPod and iTunes (2001), the Apple Store (2001), the iPhone (2007), and the iPad (2009). At the time of Jobs's death, Apple was the most valuable tech company in the world. By September 2012, Apple stock had soared to record levels, with its price briefly rising above $700 per share. In addition, Apple had amassed more than $100 billion in cash, most of it held abroad as foreign earnings. Meanwhile, once-dominant tech industry giants such as Nokia, Sony, Dell, and BlackBerry were struggling.

Despite strong 2012 sales for the iPhone 5, industry observers began to wonder whether Apple's hot streak of hit product introductions was starting to cool. Apple's reputation was based on its proven ability to disrupt existing markets (e.g., the music and telecommunications industries) and to create new markets through the introduction of technical and design innovations. However, some viewed the 2012 launch of the iPhone 5 as an evolutionary step rather than a revolutionary breakthrough. In fact, many consumers opted to buy the slower, cheaper iPhone 4 or 4S rather than upgrade to the iPhone 5. Without Jobs, who was considered by many to be the heart and soul of the company, were Apple's best days behind it?

The Competitive Threat

As growth in the key smartphone sector began to slow, Apple's most formidable competitor was Samsung Electronics, a division of Korean industrial giant Samsung Group, whose products range from semiconductors to household appliances to smartphones. Samsung's popular Galaxy series of phones are powered by Android, an operating system developed by Google. Some Galaxy models, including the Galaxy Note (also known as a "phablet"), have larger screens than the iPhone—a point of difference that has helped drive sales of those devices. The rivalry between Apple and Samsung has been heated, with the two sides squaring off in court over alleged patent infringement.

Exhibit 1-13 Apple cofounder Steve Jobs wore many hats during his illustrious career, including inventor, entrepreneur, CEO, and visionary technologist. He was also a master showman, a storyteller, and marketing genius. His appearances at product launches are the stuff of legend, and under his guidance Apple's must-have products—including the iPod, the iPhone, and the iPad—were, simply put, the epitome of "cool."
Source: Paul Sakuma/Associated Press.

China and Europe are two of Samsung's key markets; in 2012, the company launched the Galaxy S III in Europe. In 2013, however, Samsung staged a lavish event at Radio City Music Hall in New York to launch the Galaxy S4. Why the change? As J. K. Shin, the executive in charge of Samsung's mobile business, noted, "We're a global player in the smartphone market and a global company, and the U.S. is an important market for us. . . . I'm not satisfied with our U.S. market share."

In many developing countries, there is strong demand for inexpensive mobile phones. Some Android-based models from Samsung and other companies sell for much less than Apple's cheapest models. For many years, Apple did not offer a lower-cost version of the iPhone. In the United States, wireless carriers such as Verizon and AT&T subsidized the price of the iPhone for consumers who signed multiyear service contracts—a factor that explained why an American iPhone 5 sold for $199. By contrast, in other countries consumers paid the full, unsubsidized price of the iPhone but were not tied to a contract. Moreover, the iPhone 5 was the same in every world market. By contrast, Samsung made several versions of the Galaxy S4—using different processors, for example—to suit the needs of different regions.

Not surprisingly, smartphone makers are setting their sights on China, India, and other emerging markets. For example, China is now Apple's second-largest market. In 2013, Cook announced that China Mobile, the largest carrier in the region and the world's largest carrier overall, would begin selling the iPhone. Apple faces strong competition from local competitors such as Oppo and Xiaomi; Oppo's R9 bested the iPhone 6 as the top-selling smartphone in 2016. Distribution is critical, and Cook is aggressively expanding the number of outlets in China that sell iPhones.

As growth in China and Europe slows, India, the number 2 smartphone market, is becoming increasingly important. Here, however, Apple's 3 percent market share means that it lags far behind Samsung and Chinese producers in terms of smartphone shipments. Two-thirds of the phones sold in India cost less than $180. By contrast, Indian consumers pay about $300 for an iPhone 5S, the older model that Apple launched in 2013. These devices are sold through small, independent retailers; for entry-level buyers, Apple's Web site offers only the iPhone SE and iPhone 6. In May 2017, Apple began manufacturing the SE in India, bringing the price down to approximately $325. Local manufacturing will also allow Apple to open its own flagship stores in India.

Famously, Steve Jobs downplayed the importance of formal market research, saying that consumers don't know what they want. By contrast, Samsung Electronics relies heavily on market research; it has 60,000 staff members working in dozens of research centers in China, Great Britain, India, Japan, the United States, and elsewhere. Samsung designers have backgrounds in such diverse disciplines as psychology, sociology, and engineering. Researchers track trends in fashion and interior design. Also, Samsung spends more on advertising and promotion than does Apple.

The Post-Jobs Era Begins

In the months following Jobs's death, Cook made a number of key strategic decisions. For example, he authorized the introduction of the iPad mini, a product that Jobs had opposed. It quickly became a bestseller. In fall 2013, in conjunction with the launch of the iPhone 5s and iOS 7, a long-rumored lower-priced iPhone model was unveiled. The iPhone 5c featured a plastic case and was available in several colors; the price was approximately $100 lower than that of the new iPhone 5s. The 5c was designed to appeal especially to consumers in emerging markets who could not afford a top-of-the-line smartphone.

Cook made key personnel decisions as well. Scott Forstall, the executive in charge of iOS mobile software, was fired. In his place, Cook named chief designer Jonathan Ive and software executive Craig Federighi. Going forward, Ive, who had been senior vice president for industrial design, will be responsible for the "look and feel"—in other words, the user interface—for the iPhone and iPad. When Cook, Ive, and Federighi appeared together on the cover of *Bloomberg Businessweek* in fall 2013, commentators noted that Steve Jobs would have never shared the spotlight in this manner. In another key appointment, Angela Ahrendts, the highly regarded CEO of Burberry PLC, was recruited to take over Apple's retail operations.

Apple's Marketing Communications Problem

Cook and his team also addressed the issue of Apple's marketing communications. It was widely reported that Phil Schiller, Apple's senior vice president for global marketing, was concerned that Apple's advertising had lost its edge. Apple had a long-standing relationship with a single agency: Los Angeles-based Chiat/Day, which had created the legendary "1984" television spot that launched the original Macintosh. In the 1990s, that agency, now known as TBWA/Chiat/Day, created the iconic "Think Different" campaign. However, a "Genius Bar" campaign timed to coincide with the 2012 Olympics was deemed a failure. In a subsequent e-mail to TBWA, Schiller admitted that he was impressed by arch-rival Samsung's 2013 Super Bowl ad; by contrast, he noted, Apple was "struggling to nail a compelling [creative] brief on iPhone."

The marketing issue was pushed to the forefront during the Academy Awards broadcast in spring 2014. Oscar host Ellen DeGeneres took a star-studded selfie (featuring Bradley Cooper, Jennifer Lawrence, and Brad Pitt, among others) with a Samsung Galaxy phone and posted it on Twitter. The post then made social media history after being retweeted more than 3.5 million times. It turns out that DeGeneres is an iPhone owner; however, Samsung had paid $20 million to sponsor the broadcast. Although there was some disagreement among industry insiders about the monetary value the publicity the stunt generated, most agreed that Samsung had gotten the better of Apple. Writing in *Advertising Age*, Mark Bergen summed up the situation bluntly when he noted, "Samsung is simply out-innovating its archrival when it comes to marketing."

Spurred into action, Cook and Schiller authorized the formation of an in-house advertising agency at Apple. The company is hiring top talent from some of the ad industry's best agencies to staff it. The in-house team has been tasked with creating new ads; it will compete against TBWA/Media Arts Lab, as TBWA is now known, in a process known as a "creative shootout." Schiller has also beefed up Apple's roster of agencies that specialize in digital marketing.

CEO Tim Cook Asserts Himself

By mid-2014, it was clear that CEO Tim Cook was stepping out of the shadow of his legendary predecessor (see Exhibit 1-15). In a move designed to make Apple's common stock more affordable to investors, Cook authorized a seven-for-one stock split. Simply put, if an investor held 50 shares of the stock at a price of, say $500 per share before the split, after the split the investor would have 350 shares of stock priced at $71.43 per share.

In May 2014, Cook announced that Apple was acquiring Beats Electronics for $3 billion. The deal brought two more key personnel into the Apple fold—namely, hip-hop star Dr. Dre and music mogul Jimmy Iovine. The two had founded Beats in 2006 to market premium headphones; by the time the deal was announced in May 2014, the duo had also launched an online music streaming service, Beats Radio. Both Dre and Iovine were added to the roster of Apple executives, and it was expected that their close ties to the music industry would be an asset. Moreover, the deal reflected the growing importance of wearable technology; many believed that "fashion electronics" products such as Beats' $399 headphones were poised for explosive growth.

In September 2014, CEO Cook and his team introduced the iPhone 6 and iPhone 6 Plus, both of which featured larger screens than earlier iPhones. Apple Pay, a key feature of the new devices, promised to usher in a new era of secure mobile payments. Cook also presided over the launch of a new wearable device, the Apple Watch, in 2015.

In 2016, the iPhone 7 and the larger iPhone 7 Plus went on sale. Their launch coincided with the recall of Samsung's Galaxy Note 7, a situation that helped drive sales and revenues at Apple. Even so, trouble spots were apparent. In China, for example, Apple's handsets were losing ground to local brands including Huawei, Oppo, and Vivo.

Even as the iPhone continued to generate significant profits, Cook set the strategic goal of doubling revenues from Apple's services business, including the App Store and Apple Music, to $50 billion by 2020. To help achieve that goal, Apple began to experiment with original video programming. As Apple Music chief Jimmy Iovine said, "A music service needs to be more than a bunch of songs and a few playlists. I'm trying to help Apple Music be an overall movement in popular culture." Among its projects: *Carpool Karaoke*, based on talk show host James Corden's popular feature, and *Planet of the Apps* from will.i.am.

Apple and Autonomous Cars

In 2014, word began to circulate that Apple was developing autonomous-driving technology for a new generation of automobiles. Project Titan, as the initiative was known, involved machine learning, artificial intelligence (AI), and other advanced technologies. Established automakers, including Ford and GM, were also speeding up their development efforts in this area in order to catch industry pioneer Tesla. For example, GM acquired Cruise Automation, an autonomous-car startup; GM has also deployed more than 300 Chevrolet Bolt EVs. Ford invested $1 billion in Argo AI. Meanwhile, other tech companies were jumping into the fray. Waymo, a division of Google, has been working on driverless-car technology since 2009. In 2016, Waymo launched a partnership with Fiat Chrysler Automobiles (FCA). Ride-sharing pioneer Uber also has projects in development.

The iPhone Turns 10

In 2017, anticipation was running high for the 10th-anniversary edition of Apple's iconic iPhone. At Apple's Worldwide Developers conference in June 2017, Apple launched ARKit, a technology platform that enables developers to create new apps for the next-generation iOS 11. LEGO and IKEA are two of the first companies to develop augmented-reality (AR) apps. The IKEA app, for example, allows furniture shoppers to use the iPhone's camera to visualize 3D images of IKEA furniture superimposed on different rooms in their homes and apartments. Some industry observers also predict that Apple will build AR technology and sensors into eyeglasses, in which case users would not need to have access to their phones to utilize the AR feature. iOS 11 was released at the end of September 2017.

Analysts had predicted a mammoth upgrade "supercycle," fueled in part by rumors of major form-factor changes such as a cutting-edge OLED (organic light-emitting diode) screen. The new phone was designed to support both augmented reality and virtual reality technologies as well as artificial intelligence.

On September 12, 2017, CEO Cook took the stage at the Steve Jobs Theater in Apple Park, the company's new $5 billion campus, to launch the new line of phones. These devices included the iPhone 8 ($699) and iPhone 8 Plus ($799). The special-edition iPhone X, starting at $999, reflected Apple's strategy of charging its most brand-loyal customers premium prices for hardware upgrades as the smartphone category entered the mature phase of the product life cycle.

In 2018, the company launched HomePod, a $349 home speaker powered by Apple's Siri voice assistant. Within the tech industry, some viewed the HomePod as Apple's "late-to-the-game" response to Amazon's wildly popular Echo digital assistant. Echo's artificial-intelligence capabilities allow it to respond to the vocal prompt "Alexa," followed by a verbal command or question. Despite the fact that Amazon commands roughly 70 percent of the market, Apple CEO Cook insists that the key to HomePod's success will be a feature Echo lacks: high-quality music playback capability. "We're hitting on something people will be delighted with. It's gonna blow them away. It's gonna rock the house," Cook says.

Discussion Questions

1-19. Are you an iOS user or an Android user? Which brand of smartphone did you buy, and why?

1-20. Do you think Apple can continue to grow by developing breakthrough products that create new markets, as it did with the iPod, iPhone, and iPad?

1-21. How has Samsung's global marketing strategy enabled it to compete so effectively against Apple?

1-22. Assess the prospects for the global success of HomePod.

1-23. Do you think Apple should develop self-driving cars (i.e., hardware) or focus on self-driving systems (i.e., software)?

1-24. Which uses for an AI-enabled iPhone can you think of?

1-25. More than 1.3 billion Apple devices are in use worldwide. The company's goal is to achieve 100 percent renewable energy and to generate and source 4 gigawatts of new clean energy by 2020. **Dig deeper**: What is the update on this initiative? Conduct some exploratory research, and write a short essay or present a brief oral report on your findings. Remember to cite your sources!

Sources: Saritha Rai, "Finally, a Cheap(ish) iPhone," *Bloomberg Businessweek* (June 19, 2017), pp. 30–32; Megan Murphy, "Tim Cook on Apple's Future—And His Legacy," *Bloomberg Businessweek* (June 19, 2017), p. 54; Lucas Shaw and Alex Webb, "A Star Is Born," *Bloomberg Businessweek* (May 1–7, 2017), pp. 22–24; Tim Bradshaw, "Apple Grapples with iPhone Retreat in China," *Financial Times* (February 2, 2017), p. 13; Ann-Christine Diaz and Maureen Morrison, "For Apple, Marketing Is a Whole New Game," *Advertising Age* (June 9, 2014), pp. 12–14+; Sam Grobart, "What, Us Worry?", *Bloomberg Businessweek* (September 19–25, 2013); Sam Grobart, "Think Colossal: How Samsung Became the World's No. 1 Smartphone Maker," *Bloomberg Businessweek* (April 1–7, 2013), pp. 58–64; Yun-Hee Kim, "Samsung Targets Apple's Home Turf," *The Wall Street Journal* (March 15, 2013), pp. B1, B4; Dhanya Ann Thoppil, "In India, iPhone Lags Far Behind," *The Wall Street Journal* (February 27, 2013), pp. B1, B4; Brian X. Chen, "Challenging Apple's Cool," *The New York Times* (February 11, 2013), pp. B1, B6; Anton Troianovski, "Fight to Unseat iPhone Intensifies," *The Wall Street Journal* (January 25, 2013), pp. B1, B6; Rolfe Winkler, "Apple's Power Within," *The Wall Street Journal* (December 7, 2013), p. C1; Josh Tyrangiel, "Tim Cook's Freshman Year," Cover Story, *Bloomberg Businessweek* (September 10–26, 2012), pp. 62–75.

Writing Assignments

1-26. Discuss the differences between the global marketing strategies of Harley-Davidson and Toyota.

1-27. U.K.-based Burberry is a luxury fashion brand that appeals to both genders and to all ages. To improve Burberry's competitiveness in the luxury goods market, CEO Marco Gobbetti recently updated the marketing programs put in place by his predecessors. The strategy addresses key markets that Burberry will participate in, as well as the integration and coordination of marketing activities. Research recent articles about Burberry and discuss Burberry's GMS.

Scan for Endnotes.