Marketing Management 3rd edition Marshall Solutions Manual

SKU: 9781259637155-SOLUTIONS

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CHAPTER 2: MARKETING FOUNDATIONS: GLOBAL, ETHICAL, SUSTAINABLE

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Learning Objectives

Identify the various levels in the Global Marketing Experience Curve.

Learn the essential information components for assessing a global market opportunity.

Define the key regional market zones and their marketing challenges.

Describe the strategies for entering new global markets.

Recognize key factors in creating a global product strategy.

Learn the importance of ethics in marketing strategy, the value proposition, and the elements of the marketing mix.

Recognize the significance of sustainability as part of marketing strategy and the use of the triple bottom line as a metric for evaluating corporate performance.

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Marketing Is Not Limited By Borders

Worldwide distribution networks, sophisticated communication tools, greater product standardization, and the Internet have opened world markets.

Large and small companies do business globally.

Opportunities are greater than ever but so are risks.

Global customers needs may lead to product adaptation.

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The Global Experience Learning Curve

Four distinct stages:

1. No foreign marketing
2. Foreign marketing
3. International marketing
4. Global marketing

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Companies with No Foreign Marketing

Companies with no direct foreign marketing may still do business with international customers through intermediaries or limited direct contact.

They may fulfill unsolicited orders but these are incidental.

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Companies with Foreign Marketing

Company follow existing customers into foreign markets.

Develops local distribution and service representation:

- By using local intermediaries.
- Or by establishing its own direct sales force.

Key activities are done in the home country but modified for international markets.

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International Marketing

Firm begins to manufacture products outside the home market.

Global markets are essential to corporate growth.

Firm establishes an international business division or unit.

Management may still have a "domestic first" mindset.

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Global Marketing

Global marketing firm views the world as a single market with many different segments.

Fifty percent or more of revenue comes from international markets.

Global marketing firms see segments that may or may not align with country boundaries. International marketing firms define markets along traditional political boundaries.

Moving to global marketing depends on research critical for decision makers.

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EXHIBIT 2.2

Ten Examples of Global Companies and their Expansion in Global Markets

Years to Expansion	U. S. Company	First Expansion
29	Wal-Mart (est. 1962)	1991 - Wal-Mart opens two units in Mexico City.
20	Hewlett-Packard (est. 1939)	1959 – HP sets up a European marketing organization in Geneva, Switzerland, and a manufacturing plant in Germany.
26	Tyson Foods (est. 1963)	1989 - Tyson establishes a partnership with a Mexican poultry company, to create an international partnership.
25	Caterpillar (est. 1925)	1950 – Caterpillar Tractor Co. Ltd. in Great Britain is founded.
19	Home Depot (est. 1979)	1998 – Home Depot enters the Puerto Rican market followed by Argentina.
18	Gap (est. 1969)	1987 - The first Gap store outside the United States opens in London on George Street.
12	Goodyear (est. 1898)	1910 - Goodyear's Canadian plant opens.
10	FedEx (est. 1971)	1981 - International delivery begins with service to Canada.
1	PepsiCo (est. 1965)	1966 - Pepsi enters Japan and Eastern Europe.

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The Global Experience Learning Curve

There are five components of essential information that relate to global marketing experience and international expansion:

1. Economic environment
2. Culture and societal trends
3. Business environment
4. Political and legal changes
5. Specific market conditions

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Emerging Markets

For most of the Twentieth Century, world economic growth came from the Triad (Western Europe, the United States, and Japan).

For the past 25 years, growth has been in emerging markets.

Seventy-five percent of growth will come from emerging markets, mainly China and India.

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Multinational Regional Market Zones

Multinational regional market zones consists of a group of countries that create formal relationships for mutual economic benefit through lower tariffs and reduced trade barriers (for example, NAFTA and the European Union).

They usually form as a result of four forces: economic factors, geographic proximity, political factors, and cultural similarities.

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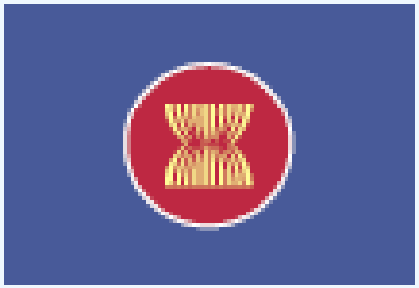
EXHIBIT 2.7 Top Four Regional Market Zones

13

MERCOSUR

ASEAN



EUROPEAN UNION

NAFTA

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Select the Global Market

Deciding which countries to enter can be high risk as poor decisions lead to high costs and poor long-term investments.

Identify Selection Criteria: View competition, target market size, and growth rate. What is the size of investment? How long will it take to become profitable?

Company Review: Does the company have the personnel, managerial, and financial resources to enter the market?

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EXHIBIT 2.10

Key Company Characteristics in Global Market Expansion

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Develop Global Market Strategies: Exporting

Exporting requires minimal investment and risk.

Ten percent of all global economic activity.

The **Internet** has increased both domestic and international sales through the use of credit cards and other payment systems plus global delivery systems like FedEx and UPS and DHL. Amazon has gone global.

Exporters provide expertise in global shipping.

Distributors know local market conditions best.

Direct sales force is expensive but needed with technology or high-end industrial products.

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Market Entry Strategy: Contractual Agreements

Contractual agreements are non-equity relationships with another company, often in the target country.

Licensing: May be required by law, direct importing may be restricted, or the company has limited financial resources.

Franchising: Franchise agreements allow the firm to retain control of quality. It has low capital investment, rapid expansion, local market knowledge.

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Market Entry Strategy: Strategic Alliances

Strategic alliances spread risk of foreign investment among partners. For example, they dominate the airline industry with oneworld, Skyteam, and Star.

International joint ventures allow companies to enter markets that would be closed because of legal restrictions or cultural barriers. They are formed by two or more companies that share management duties in a defined structure and also hold equal equity positions. They cannot be formed by individuals.

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Market Entry Strategy: Direct Foreign Investment

Direct foreign investment is the riskiest strategy, but it offers potential for long-term growth.

The following factors are important to consider: timing, legal issues, transaction costs, technology transfer, product differentiation, and marketing communication barriers.

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Organizational Structure Choices

Decision-making authority becomes more complicated with added layers of authority and differences in global time zones. Clearly defined protocols for decision-making are needed.

The **degree of centralization** affects resource allocation and personnel. Organizational structure can be centralized, decentralized, or regionalized.

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Choose Structure

Global product lines works for firms with a broad, diverse range of products; for example, Siemens.

Geographic regions builds autonomous regional organizations that work well when local government relationships are critical; for example, Halliburton.

Matrix structure is a hybrid of the first two and is used by most global firms.

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Product Choices

Direct product extension means no changes in the product. There are no extra R&D or manufacturing costs

Product adaptation means the product is changes to meet local market needs and legal requirements. Product changes range from regional to city levels.

Backward product invention takes a discontinued product from one market and introduces it into another.

Forward product invention creates new products for new markets.

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Consumer Issues

Quality is viewed differently around the world.

Fitting the product to the culture is a challenge with brand names, product colors and features.

Brand strategy decisions reflect either a global, regional, or local brand.

The **country-of-origin** effect is the positive or negative perception of the product based on the producing country.

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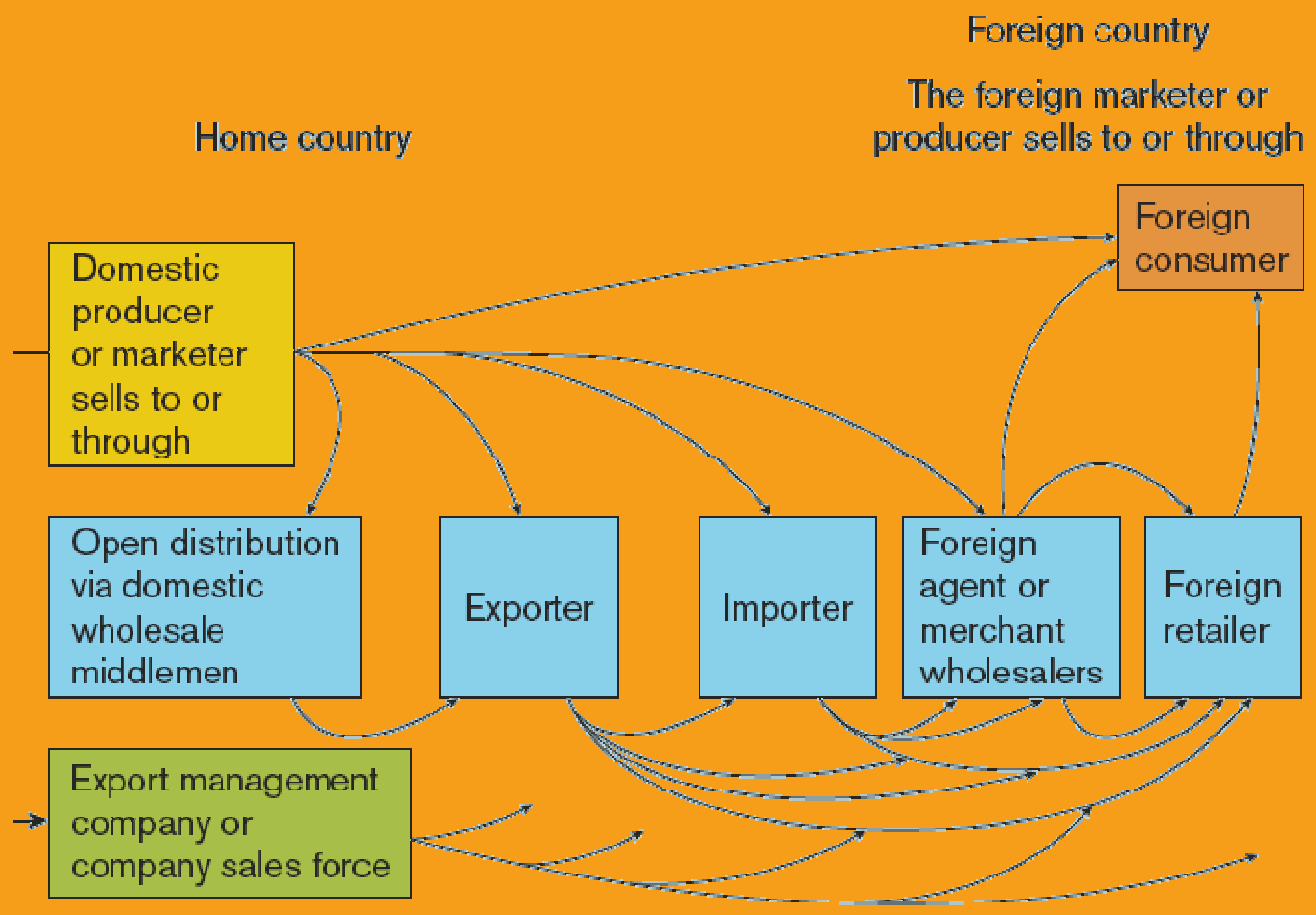
EXHIBIT 2.11

International Channel Structures



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Market Channel Issues

Channel factors include cost, capital, control, coverage, character, and continuity.

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Marketing Communications: Advertising

Four advertising strategies:

1. Global marketing themes.
2. Global marketing with local content.
3. Basket of global advertising themes.
4. Local market ad generation.

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Other Marketing Communications

Personal selling: Companies need sensitivity in selecting, hiring, and training their global sales force to accommodate local business cultures.

Sales promotion: The need to stimulate consumer trial and purchase can be greater outside the U.S.

Public relations: The expansion of global communications has greatly increased the importance of international public relations.

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Pricing

With a **one-world price**, the company assigns one price for its products in every global market. Examples include oil and diamonds.

A **local-market-conditions price** reflects the response to competitors in the local area.

A **cost-based price** does not reflect local conditions and is based on *cost-plus-final markup*.

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Price Escalation

Product export costs.

Tariffs, import fees, taxes.

Exchange-rate fluctuations.

Middlemen and transportation costs.

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Global Pricing Issues

Dumping refers to the practice of charging less than actual costs or less than the product price in the company's home markets.

Gray Marketing involves the unauthorized diversion of branded products into global markets. Gray markets distributors (who are often authorized distributors) divert products from low-price to high-price markets.

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Ethics: At the Core of Successful Marketing Management

Ethical leadership, culture, and policies are essential for ethical decision making. One example of ethical failure is Volkwagen's deception of emission reporting cost the firm billions of dollars.

Ethics in marketing is key to establishing and maintaining customer relationships.

Legal requirements are the baseline for marketing ethics.

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Ethics and the Value Proposition

Value equals benefits divided by price.

How customers view a company's ethics is key in evaluating the value proposition.

Once trust is broken, it is very difficult to get it back. Consider Wells Fargo's fake accounts and Johnson & Johnson's talcum powder being linked to ovarian cancer.

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Ethics and Elements of the Marketing Mix: Product

Use marketing research data that ensures privacy and confidentiality.

Define market segments that do not discriminate against any particular segment.

Develop products that are safe and select materials that are not harmful to users.

Manufacture products using materials that are safe for users, in conditions that are safe for employees.

Clearly define and honor warranties and service agreements.

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Ethics and Elements of the Marketing Mix: Price

Disclose the full price to customers before purchase.

Do not engage in unethical pricing practices such as price discrimination, price fixing, or predatory pricing.

Fully disclose any other bundled pricing before customer's purchase.

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Ethics and Elements of the Marketing Mix: Distribution

Unfair pressure should not be put on channel members.

Channel members should not use manipulative sales techniques on other channel members.

Data privacy confidentiality should occur throughout the channel.

No channel members should exert undue pressure on customers to purchase products that are unnecessary or not needed.

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Ethics and Elements of the Marketing Mix: Marketing Communications

No deception or misrepresentation should occur in any marketing communications to any stakeholders (customers, investors, employees).

High-pressure or manipulative sales techniques should not be used by salespeople or messaged in advertising.

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Code of Marketing Ethics

Most companies today create a code of ethics that defines the company's values.

The American Marketing Association's code of ethics refers to six values: honesty, responsibility, fairness, respect, transparency, and citizenship.

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Sustainability: Right and the Good Strategy

Doing well by doing good.

Environmental laws grew out of the problems of the Great Depression of the 1930s.

The Green movement was founded on environmental concerns and resource utilization issues and came to be known as sustainability.

Today sustainability includes issues like an educated workforce, greater connection and support of local communities, and linking policies and strategy.

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EXHIBIT 2.13

Triple Bottom Line: Stakeholders

39

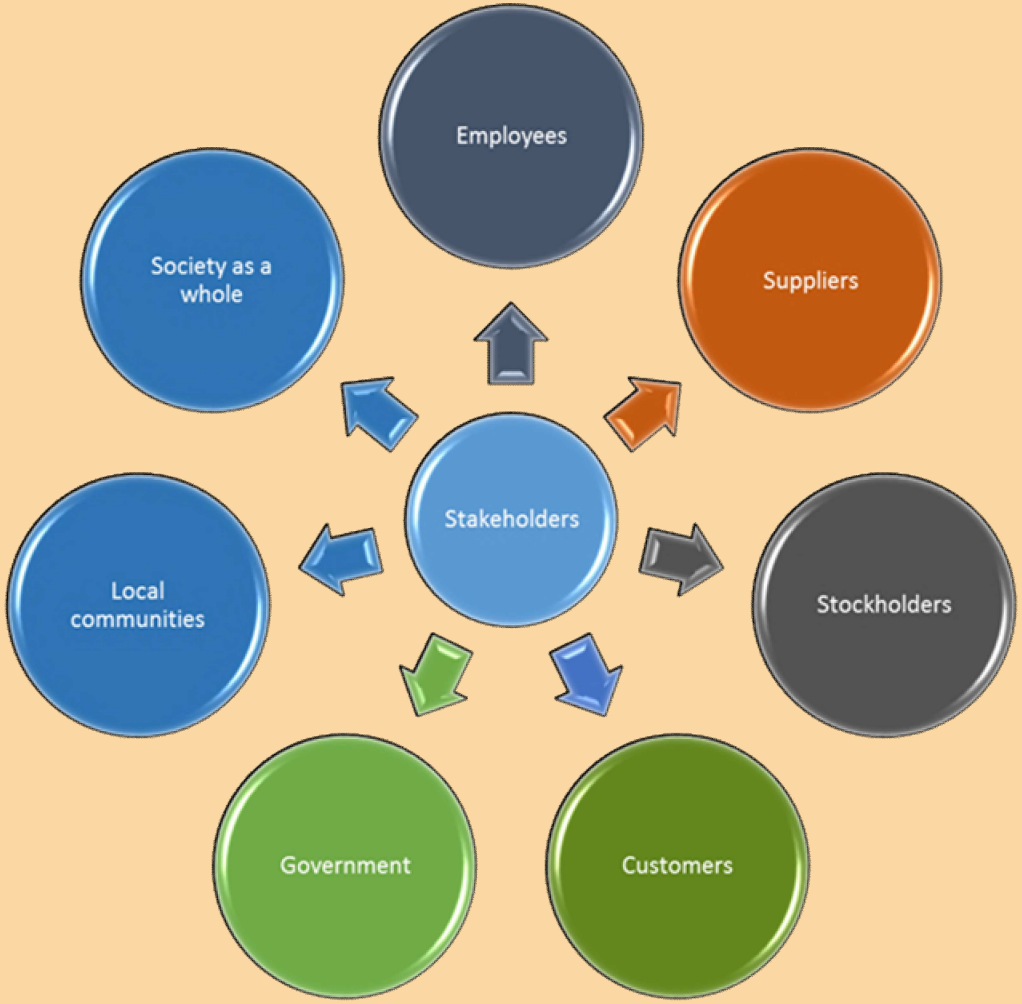

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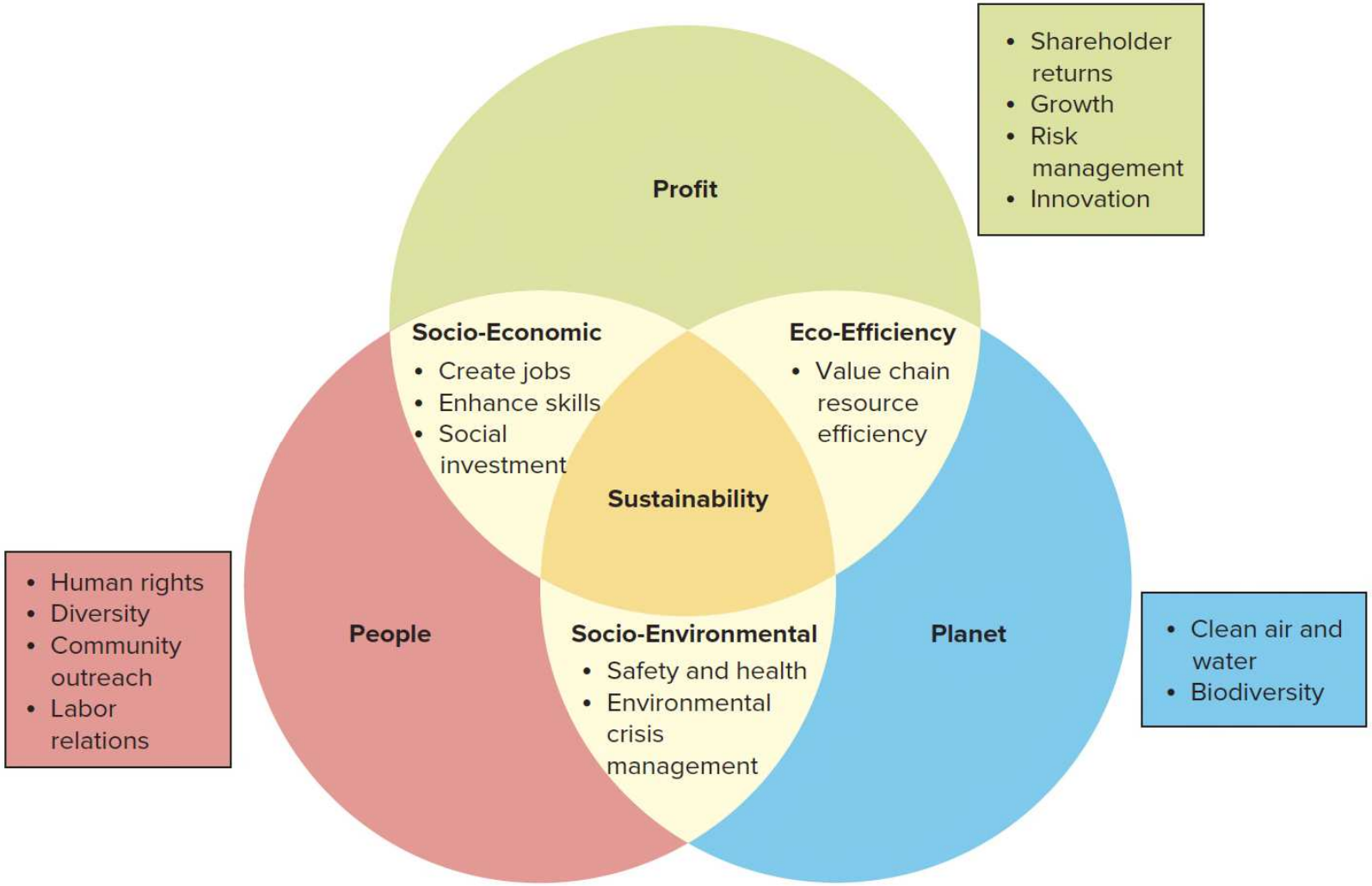
EXHIBIT 2.14

Triple Bottom Line



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Chapter 2
Marketing Foundations: Global, Ethical, Sustainable

LEARNING OBJECTIVES

LO 2-1 Identify the various levels in the Global Marketing Experience Curve.

LO 2-2 Learn the essential information components for assessing a global market opportunity.

LO 2-3 Define the key regional market zones and their marketing challenges.

LO 2-4 Describe the strategies for entering new global markets.

LO 2-5 Recognize key factors in creating a global product strategy.

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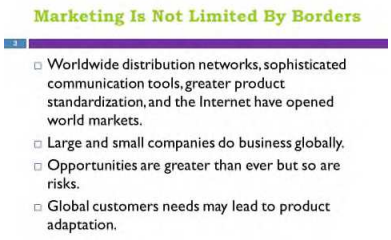
CHAPTER OUTLINE

I. MARKETING IS NOT LIMITED BY BORDERS	
II. THE GLOBAL EXPERIENCE LEARNING CURVE A. Companies with No Foreign Marketing B. Companies with Foreign Marketing C. International Marketing D. Global Marketing	

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Companies with No Foreign Marketing

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Companies with Foreign Marketing

- Company follow existing customers into foreign markets.
- Develops local distribution and service representation
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- Key activities are done in the home country but modified for international markets

International Marketing

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- Firm establishes an international business division or unit
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Global Marketing

- Global marketing firm views the world as a single market with many different segments
- 50% or more of revenue comes from international markets
- Global marketing firms see segments that may or may not align with country boundaries; International marketing firms define markets along traditional political boundaries
- Moving to global marketing depends on research critical for decision makers

EXHIBIT 2.2 Ten Examples of Global Companies and their Expansion in Global Markets

Years to Expansion	U.S. Company	First Expansion
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20	Hewlett-Packard (est. 1939)	1959 – HP sets up a European marketing organization in Geneva, Switzerland, and a manufacturing plant in Germany.
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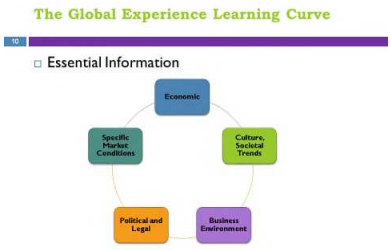
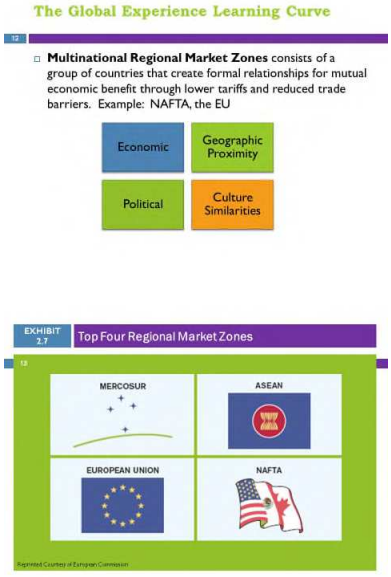
E. Essential Information i. Economic ii. Culture, Societal Trends iii. Business Environment iv. Political and Legal v. Specific Market Conditions	
F. Emerging Markets	
G. Multinational Regional Market Zones i. Europe ii. Americas iii. Asia	

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III. SELECT THE GLOBAL MARKET A. Identify Selection criteria B. Company review	**SELECT THE GLOBAL MARKET** 14 □ Deciding which countries to enter can be high risk as poor decisions lead to high costs and poor long-term investments. □ **Identify Selection Criteria** ▫ View competition, target market size and growth rate ▫ What is the size of investment? ▫ How long will it take to become profitable? □ **Company Review** ▫ Does the company have the personnel, managerial, and financial resources to enter the market? EXHIBIT 2.16 Key Company Characteristics in Global Market Expansion
IV. DEVELOP GLOBAL MARKET STRATEGIES A. Market Entry Strategies i. Exporting a. Internet b. Exporter and Distributor ii. Distributors a. Direct Sales Force iii. Contractual Agreements a. Licensing b. Franchising iv. Strategic Alliances a. International Joint Venture	**DEVELOP GLOBAL MARKET STRATEGIES** 14 □ **Market Entry Strategies** □ **Exporting** requires minimal investment and risk ▫ 10% of all global economic activity ▫ The **Internet** has increased both domestic and international sales through the use of credit cards and other payment systems plus global delivery systems like FedEx and UPS and DHL. Amazon has gone global. ▫ **Exporters** provide expertise in global shipping ▫ **Distributors** know local market conditions best. ▫ **Direct Sales Force** is expensive but needed with technology or high-end industrial products. **Market Entry Strategies** 17 □ **Contractual Agreements** are non-equity relationships with another company, often in the target country. ▫ **Licensing** ▪ May be required by law, direct importing may be restricted, or the company has limited financial resources ▫ **Franchising** ▪ Franchise agreements allow the firm to retain control of quality ▪ Low capital investment, rapid expansion, local market knowledge **Market Entry Strategies** 18 □ **Strategic Alliances** spread risk of foreign investment among partners. Dominate the airline industry with oneworld, Skyteam, and Star. ▫ **International Joint Venture** allows companies to enter markets that would be closed because of legal restrictions or cultural barriers ▫ Two or more companies that ▪ Share management duties in a defined structure ▪ Form the venture, not individuals ▪ Hold equal equity positions

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v. Direct Foreign Investment	
B. Organizational Structure	
C. Product	

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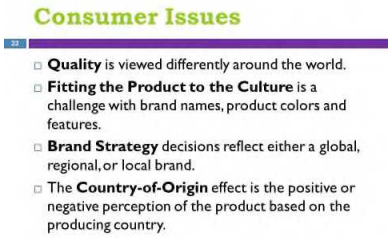
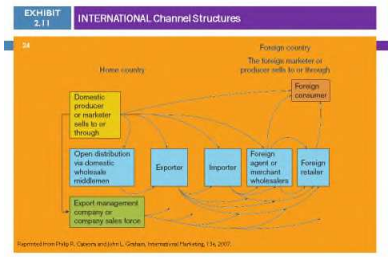
D. Consumers i. Quality ii. Fitting the Product to the Culture iii. Brand Strategy iv. Country of Origin	
E. Market Channels i. Channel Structures ii. Channel Factors a. Cost b. Capital c. Coverage d. Character e. Continuity	
F. Marketing Communications i. Advertising ii. Personal Selling iii. Sales promotion iv. Public Relations	

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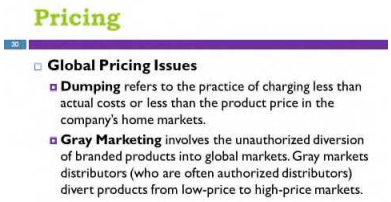
G. Pricing i. One World Price ii. Local Market Conditions Price iii. Cost-Based Price iv. Price Escalation a. Product export costs b. Tariffs, import fees, taxes c. Exchange rate fluctuations d. Middlemen and transportation costs v. Global Pricing Issues	 

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V. ETHICS: AT THE CORE OF SUCCESSFUL MARKETING MANAGEMENT
 	
A. Ethics and the Value Proposition
	Ethics: At the Core of Successful Marketing Management
	31
	- Ethical leadership, culture, and policies are essential for ethical decision-making.
	  - VW's deception of emission reporting cost the firm billions of dollars.
	- Ethics in Marketing is key to establishing & maintaining customer relationships.
	- Legal requirements are the baseline for marketing ethics.
	
	Ethics & the Value Proposition
	32
	- Value = Benefits/Price
	- How customers view a company's ethics is key in evaluating the value proposition.
	- Once trust is broken, it is very difficult to get it back.
	  - Wells Fargo fake accounts
	  - Johnson & Johnson's baby powder link to ovarian cancer

B. Ethics and the Elements of the Marketing Mix i. Product ii. Price iii. Distribution iv. Promotion	**Ethics & Elements of the Marketing Mix: Product** 33 - Use marketing research data that ensures privacy and confidentiality. - Define market segments that do not discriminate against any particular segment. - Develop products that are safe and select materials that are not harmful to users. - Manufacture products using materials that are safe for users, in conditions that are safe for employees. - Clearly define and honor warranties and service agreements. **Ethics & Elements of the Marketing Mix: Price** 34 - Disclose the full price to customers before purchase. - Do not engage in unethical pricing practices such as price discrimination, price fixing, or predatory pricing. - Fully disclose any other bundled pricing before customer's purchase **Ethics & Elements of the Marketing Mix: Distribution** 35 - Unfair pressure should not be put on channel members. - Channel members should not use manipulative sales techniques on other channel members. - Data privacy confidentiality should occur throughout the channel. - No channel members should exert undue pressure on customers to purchase products that are unnecessary or not needed.

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	Ethics & Elements of the Marketing Mix: Marketing Communications 36 □ No deception or misrepresentation should occur in any marketing communications to any stakeholders (customers, investors, employees). □ High-pressure or manipulative sales techniques should not be used by salespeople or messaged in advertising
C. Code of Marketing Ethics	**Code of Marketing Ethics** 37 □ Most companies today create a Code of Ethics that defines the company's values. □ The American Marketing Association's Code of Ethics refers to six values: honesty, responsibility, fairness, respect, transparency, and citizenship.
VI. SUSTAINABILITY: NOT JUST THE RIGHT THING TO DO BUT A GOOD MARKETING STRATEGY A. Triple Bottom Line: The Link between Doing Well and Doing Good	**Sustainability: Right & The Good Strategy** 38 □ Doing Well By Doing Good □ Environmental Laws grew out of the problems of the Great Depression of the 1930s □ The Green Movement was founded on environmental concerns and resource utilization issues and came to be known as sustainability. □ Today sustainability includes issues like an educated workforce, greater connection & support of local communities, and linking policies and strategy. **Triple Bottom Line: Stakeholders** 39

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	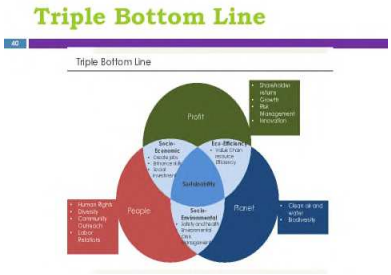
VII. SUMMARY	

KEY TERMS

developed economies Specific economies that have fueled world economic growth for much of the 20th century, including Western Europe, the United States, and Japan.

emerging markets Growing economies that have developed over the last 25 years that are projected to contribute toward 75 percent of world economic growth over the next 20 years.

regional market zones A group of countries that create formal relationships for mutual economic benefit through lower tariffs and reduced trade barriers.

European Union A successful regional marketing zone founded more than 50 years ago by six European countries (Belgium, France, Italy, Luxembourg, The Netherlands, and West Germany) with the Treaty of Rome that now includes 25 countries.

NAFTA (North American Free Trade Agreement) Created to eliminate tariffs between Canada, Mexico, and the United States, and stands as the single largest economic alliance today.

MERCOSUR Inaugurated in 1995, it is the most powerful market zone in South America and includes the major economies of South America: Argentina, Bolivia, Brazil, Chile, Paraguay, and Uruguay.

ASEAN Founded in 1967, it is the most important Asian market zone and includes 10 countries running the entire length of the Pacific Rim (Brunei Darussalam, Indonesia, Malaysia, Philippines, Cambodia, Laos, Myanmar, Singapore, Thailand, and Vietnam).

exporting The most common method for entering foreign markets, it offers firms the ability to penetrate foreign markets with minimal investment and very little risk.

distributors Represent the company and often many others in foreign markets.

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contractual agreements Enduring, nonequity relationships with another company that allow a company to expand its participation in a foreign market.

licensing When a firm offers other manufacturers the right to use their brand in exchange for a set fee or percentage of sales.

franchising A contractual agreement in which a firm provides a contracted company in a foreign market with a bundle of products, systems, services, and management expertise in return for local market knowledge, financial consideration, and local management experience.

strategic alliances A market entry strategy designed to spread the risk of foreign investment among its partners. Examples of strategic alliances would be international joint ventures or direct foreign investment.

joint ventures A strategic alliance formed by legal entities consisting of a partnership of two or more participating companies that share management duties and a defined management structure in which every partner holds an equity position.

direct foreign investment A strategic alliance with long-term implications in which a company moves

decision-making authority An issue that arises when companies grow internationally and lines of authority become longer and more complicated resulting in difficulty in defining decision-making protocols.

degree of centralization The degree to which decisions are made at the firm's home office.

global product lines A broad, diverse range of products with global functionality

geographic regions An international organizational structure that divides international markets by geography, building autonomous regional organizations that perform business functions in the geographic area.

matrix structure An international organizational structure that encourages regional autonomy among organizations while building product competence in key areas around the world.

country-of-origin effect The influence of the country of manufacture, assembly, or design on a customer's positive or negative perception of a product.

global marketing themes Global advertising strategy in which a basic template is used for global ads that allows for slight modifications depending on local markets

global marketing with local content Global advertising strategy in which a firm keeps the same global marketing theme as the home market but adapts it with local content

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basket of global marketing themes Global advertising strategy in which distinct ads built around several marketing messages are created that local marketers can select from to best fit their specific market situation

local market ad generation Global marketing strategy in which a firm allows local marketers to create local ads that do not necessarily coordinate with its global marketing messages.

transfer pricing The cost companies charge internally to move products between subsidiaries or divisions.

dumping A global pricing issue that refers to the practice of charging less than their actual costs or less than the product price in the firm's home markets.

gray market A global pricing issue that references the unauthorized diversion of branded products into global markets.

Marketing ethics A philosophy that encompasses a societal and professional standard of right and fair practices that are expected of marketing managers in their oversight of strategy formulation, implementation, and control.

Triple bottom line (TBL) A metric for evaluating not only the financial results of the company but the broader social equity, economic, and environmental considerations as well.

APPLICATION QUESTIONS

1. You are the marketing manager for a small company located in the United States that manufactures specialized parts for high-end ink-jet printers. The company's largest customer (Hewlett Packard) has asked your company to supply parts to 10 of its distribution and repair sites around the world. The company has never sold products outside the United States, so this represents a significant step for the company. What stage in the global experience learning curve is the company likely entering and why? Identify the activities the company should undertake at this stage.

   Companies with No Foreign Marketing – the company has no formal international channel relationship or global marketing strategy targeted at international customers. The company should begin to develop local distribution and service representation in the foreign market. This can be done in one or two ways. One method is to identify local intermediaries in the appropriate international market and create a formal relationship. The second approach is for the company to establish its own direct sales force in major markets thereby expanding the company's direct market reach.

2. You are the market research director for a consumer product company. You have been asked to evaluate China as a potential market for your company's products and begin a search of

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secondary data. What types of information would you consider in assessing China? How would you find information on these issues?

Economic

An accurate understanding of the current economic environment is essential. At the same time additional economic data on consumer spending per capita are also needed to facilitate decision making. A wide array of data is available online on the subject of "doing business in China"; some is available at no cost and other data is available for a fee.

Culture, Societal Trends

Understanding a global market's culture and social trends is fundamental for consumer products. Cultural values, symbols and rituals, and cultural differences affect people's perception of products. This information can be gathered at a high level by researching news articles about China. More detailed info can be provided by fee-based services, including consultants who are experts in these topics.

Specific Market Conditions

Before entering a foreign market a company has some understanding of the specific market conditions for their own products as a result of their business knowledge. However, it is unlikely a company has in depth knowledge about market trends, competitors and unique market characteristics. The more a company knows about the local market environment the better they will be able to leverage their investment in that market. As in the two items above, there will be high level information available through industry journals and fee-based services. For specific industry assessments, the services of a local consultant or a global consultancy with local employees will be very useful and likely worth the investment.

3. You are the marketing manager for Oxymoron Detergent and have been tasked with introducing this product into Argentina. What six factors would you need to consider in determining the proper channel of distribution for the introduction of Oxymoron detergent?

   In selecting a channel partner, companies should consider six strategic objectives known as the Six C's of channel strategy: cost, capital, control, coverage, character, and continuity offer a checklist for evaluating channel options.

4. The marketing manager for McDonald's has been asked to develop a code of marketing ethics for the company. Develop a marketing code of ethics for McDonald's, keeping in mind that the company has stores all over the world.

   The marketing mix ("4 Ps") is a good framework for considering different categories of behavior specific to marketing that should be addressed in a code of marketing ethics. Particular attention should be given to standards regarding marketing communications (truthful, clear) and product (safety, quality, green packaging).

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After creating their own version, students will benefit from reviewing the several codes of conduct (for Directors, Suppliers, and Employees) that is shown on the McDonald's website. While much broader than just marketing, these documents will give students a sense of how seriously large corporations like McDonald's take the subject of ethics.

http://corporate.mcdonalds.com/mcd/investors/corporate-governance/codes-of-conduct.html

5. The CEO of Timberland has called and asked you to develop a triple bottom line report for the company. What might be included in a TBL report for Timberland?

   Here, students should focus not on developing a code of behavior, but rather a progress report on how well Timberland is doing in the key areas of the Triple Bottom Line. Exhibit 2.14 can be used as an outline for the report.

   - *Profit*
     - *Shareholder returns (e.g., earnings per share)*
     - *Growth rates (revenues, earnings, market share)*
     - *Risk management (key areas of risk such as regulation or lawsuits)*
     - *Innovation (recent product, process, or other innovations)*
   - *People*
     - *Human rights (labor practices used by those producing products)*
     - *Diversity (progress in meeting diversity quotas)*
     - *Community outreach (charitable giving, employee involvement)*
     - *Labor relations (union relations, efforts to organize, employee satisfaction)*
   - *Planet*
     - *Air, water (antipollution efforts, use of renewable energy sources)*
     - *Biodiversity (sustainability efforts, use of "green" packaging, use of recyclable materials in production of products)*

MANAGEMENT DECISION CASE

Selling to the Bottom of the Pyramid
Marketing Unilever Products in Rural Villages Around the World

Instructors leading a discussion about this case will find a review of the two HBR articles by Simanis & Duke and Mahajan to be very helpful. One way to introduce the case is to ask students why a company would even bother marketing to a target market made up of consumers with such limited financial resources. The answers could focus on both the opportunity for significant revenues as well as on the benefits provided to consumers. Students should be able to list potential products that consumers in developed economies regularly enjoy but are not available to BOPM consumers (take an imaginary stroll down the Health & Beauty aisles of your favorite discount store). The questions below provide opportunities for discussion on whether and what to market to BOPMs from both revenue maximization and ethical standpoints.*

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This case provides another opportunity to reinforce the definition of value and to emphasize that value should be considered from the perspective of the consumer. A concluding point that should become clear is that marketing to BOPMs is a more complex proposition than marketing in traditional markets. Consequently, it is probably only the largest consumer products companies and ones with sophisticated marketing organizations that should take on this interesting challenge.

Questions for Consideration:

1. Is Unilever providing value to their Indian customers? In what ways? Consider the four types of utility when forming your answer.

   Value is defined in this chapter as a ratio of the bundle of benefits a customer receives from an offering compared to the costs incurred by the customer in acquiring that bundle of benefits. In light of that definition, the very small unit size of the Wheel detergent product and the very low price are significant factors in evaluating value. A point to emphasize is that marketers can change the value equation by manipulating the bundle of benefits, the cost to acquire or both. In the case of BOPM markets, the emphasis is on significantly lowering the cost to acquire, sometimes by reducing some of the benefits. However, customers are willing to forego some of the benefits to have the opportunity to realize any of the benefits of the product.

   Form utility is created when the firm converts raw materials into finished products, a utility provided in the Unilever example, but not in any way unique to the BOPM context. Time utility is not of particular importance as the product is presumably available throughout the year and at appropriate times of day. Ownership utility is enabled through the small packets offered at very low prices which make the ownership of the product possible. The most significant example is Place utility, which is facilitated through the army of Shakti women who make the product available in the villages where people live.

2. Considering the competition Unilever is receiving from Procter & Gamble and other companies, in what creative ways could Unilever change their Wheel detergent product offering to differentiate it from competitors' offerings?
   Differentiation comes with increasing the relative perceived value. Assuming that Unilever has lowered their prices as much as possible, they would need to focus on expanding the bundle of benefits. The product could be improved by adding ingredients that make it more effective, perhaps in some way specific to the environments in which it is used (e.g., hard or soft water or less than pure water). A more likely opportunity would be to augment the product with information, training or even entertainment.

3. What principles should be used to determine if a product is a good fit for a BOPM market? Are there products that should not be offered to BOPM consumers? Should this issue be decided by marketers, governments or consumers?

   Potential principles for "good BOPM fit" could include:

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- *Product is able to be produced and packaged in units small enough that the costs to product and distribute can lead to a price that is affordable by BOPM consumers.*
- *The resulting package size needs to be meaningful/practical.*
- *A distribution method is available or can be developed that supports that cost structured needed to keep unit prices at the appropriate level.*
- *An adequate number of consumers will consider this product (in a small unit size and at a very low price) to be something that would be worth spending some of their limited resources to acquire. This could be determined through marketing research.*

The question of what products are appropriate for BOPM markets should lead to interesting discussions about whether consumers in BOPM markets require different kinds of consideration in this regard. If it is acceptable to sell candy to middle class American families, are BOPM families not also entitled to the benefits of enjoying candy? There are products that are harmful and therefore questionable from an ethical standpoint. However, while well-intentioned, efforts to discriminate among consumers based on their ability to pay can be problematic. Students will disagree on the role that marketers or governments should play in deciding whether a product is an appropriate use of discretionary income. However, this decision is likely best made by consumers. The marketer's key responsibilities are to offer a product that provides value and then to communicated that value (product attributes/benefits and costs) in an accurate, clear and complete manner.

4. Is it ethical for marketers to try to make money off people who are living at a subsistence level? Should companies only market their products to people in certain income classes? What factors should a marketer take into consideration when trying to answer these questions?

   The ethics of selling certain kinds of products is a fair question for marketers to consider regardless of the income level of their target markets. Students will be able to list products that could fit into this category: those that hurt customers' health (e.g., cigarettes, sugary drinks consumed in excess). However, as discussed in Question 3, marketers should be careful when taking on the role of "values police"; here, the definition of value could be reinforced with a focus on it being defined from the perspective of the consumer. In today's connected world, even BOPM markets are likely aware of an array of products that are outside of their reach due to high prices. This issue will often take care of itself as consumers with very limited resources are more likely to be more careful in how they use those scarce resources. The key factor that marketers should consider is determining what the value elements are for this unique target market. The experience of Unilever and other successful BOPM marketers is that being able to offer the product at the appropriate price point is critical to success and this necessarily requires a very small quantity of the product that may moderate the amount of potential harm for questionable products.

* E. Simanis & D. Duke, "Profits at the Bottom of The Pyramid," *Harvard Business Review*, *92*(10), (2014), pp. 86-93.

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V. Mahajan, "How Unilever Reaches Rural Consumers in Emerging Markets," *Harvard Business Review Digital Articles,* (2016), pp. 2-6.

SUGGESTED VIDEO

YUM! BrandsS (11:30 Minutes)

Description: YUM! Brands customizes its marketing approach to expand to global markets. Peter Bassi (President of YUM! Restaurants International) describes 7 key marketing perspectives that company focuses on to be competitive and successful on a global scale.

1. What central changes are contributing to the growth of Yum! Brands in global markets?

   Ongoing changes leading to the growth in the global fast food market

   - *Rise of the middle class in emerging economies such as China and India*
   - *Growth in the number of working women and their changing lifestyles*
   - *Fast food affordability and easy accessibility*
   - *Growth in the promotional activities by fast food companies*

2. Give some examples of ways that you believe Yum! Brands will have to adapt its offerings to appeal to global customers in different countries.

   Taco Bell (India) - Crunchy potato tacos and extra-spicy burritos filled with paneer, the rubbery, fresh Indian cheese.

   Pizza Hut (Japan) – Seafood Mix Pizza [tomato sauce and cheese plus shrimp, squid, tuna, mayonnaise, broccoli, and onions]

   KFC (China) - Chicken congee [rice porridge] and pepper beef rice.

Global Marketing: Domino's Abroad (4:18 minutes)

Description: Domino's Pizza is the world's largest pizza delivery chain, with stores in over 80 countries worldwide and over half its sales outside the United States. In order to satisfy consumer preferences in that many markets, Domino's must understand its global customers and adjust its marketing mix to meet local needs. The video describes Domino's marketing efforts in several countries.

1. When going global, one of the most fundamental decisions marketers must make is the standardization/localization decision regarding the different elements of the marketing mix. For the Product component of the mix, Domino's chose a *localization* strategy, modifying

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the product to regional tastes. Some companies choose a *standardization* approach, keeping the product essentially the same as the one offered in domestic markets.

a. What are the pros and cons of standardization?

b. Considering the markets in India, do you believe Domino's could have been as successful with this one-size-fits-all approach?

The major benefit to standardization is cost. For manufactured products, localization can be an expensive process, involving retooling and specialized training of workers. While Domino's has a finely-tuned process of making pizzas in the flavors offered in the U.S., using different ingredients on a pizza is a much simpler modification. There are other downstream costs of localization, however, For example, Domino's cannot use existing photographs or video of their pizzas for ads in countries that have different pizza offerings.

Another argument for standardization is that the world is becoming smaller (or "flatter" as author Thomas Friedman contends.[1]). Particularly since pizza is a youth-oriented product, global customers may tolerate—or even prefer—products that are "western" or American. This could, of course, also backfire as there will be consumers who will resent Americans trying to force their cultural preferences upon locals.

c. What steps could you take as a marketing manager to determine which approach—localization or standardization—would be most effective for moving into India or any other new region/country?

The clear answer is to do some research. Marketers can start by looking at the experience of competitors or businesses with similar products (what did KFC do, for example?). Hiring local employees who were raised in the region can be a great source of information. Focus groups, surveys and in Domino's case, taste tests, will help support decision making. Fast food restaurants have an advantage over other types of global businesses in that they can do real time product testing, trying new recipes and then making modifications based on order volume and customer feedback.

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[1] Friedman, T. L. (2005). The world is flat: A brief history of the twenty-first century. New York: Farrar, Straus and Giroux.

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