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Chapter 15

Global Marketing and R & D

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Introduction

Question: How can marketing and R&D be performed so they reduce the costs of value creation and add value by better serving customer needs?

- The **marketing mix** (the choices the firm offers to its targeted market) is comprised of
 - product attributes
 - distribution strategy
 - communication strategy
 - pricing strategy

Classroom Performance System

The marketing mix involves all of the following elements except

- a) Product attributes
- b) Communication strategy
- c) Distribution strategy
- d) Production strategy

The Globalization of Markets and Brands

- Theodore Levitt argued that world markets were becoming increasingly similar making it unnecessary to localize the marketing mix
- Levitt's theory has become a lightning rod in the debate about globalization
- Most experts believe that while there is a trend towards global markets, cultural and economic differences among nations act as a major brake on any trend toward global consumer tastes and preferences
- In addition, trade barriers and differences in product and technical standards also limit the ability of firms to sell a standardized product to a global market

Market Segmentation

Question: What is market segmentation?

- Market segmentation involves identifying distinct groups of consumers whose purchasing behavior differs from others in important ways
- Global market segments are more likely to exist in industrial products than in consumer products

Market Segmentation

- Firms must
 - adjust their marketing mix from segment to segment
 - consider the existence of segments that transcend national borders and understand differences across countries in the structure of segments
 - must customize the product, the packaging, or the way in which the product is marketed in order to maximize performance in market where there are no cross-national segments

Product Attributes

- Products can be thought of as a bundle of attributes
- Products sell well when their attributes match consumer needs
- Consumer needs vary from country to country depending on
 1. culture
 2. the level of economic development
- So, the ability of firms to sell the same product worldwide is limited

Cultural Differences

- Countries differ along a range of cultural dimensions including
 - tradition
 - social structure
 - language
 - religion
 - education
- While, there is some evidence that tastes and preferences are becoming more cosmopolitan, the global culture that Levitt proposed is still a long way off

Economic Development

Question: How does a country's level of economic development influence marketing?

- Consumers in highly developed countries tend to demand a lot of extra performance attributes into their products
- Consumers in less developed nations tend to prefer more basic products

Product and Technical Standards

Question: How do differences in product and technical standards impact marketing decisions?

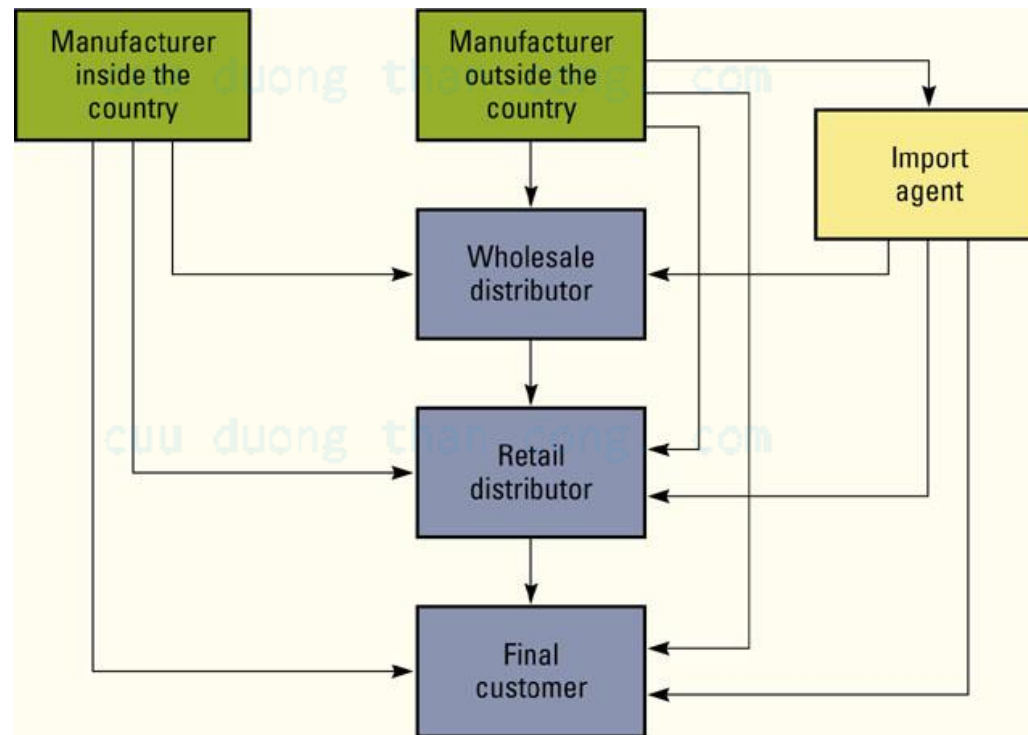
- National differences in product and technological standards force firms to customize the marketing mix
 - Government mandated product standards can make mass production difficult
 - Idiosyncratic decisions made in the past on technical standards can influence future marketing strategies

Distribution Strategy

- A firm's distribution strategy (the means it chooses for delivering the product to the consumer) is a critical element of the marketing mix
- If the firm manufactures its product in the particular country, it can sell directly to the consumer, to the retailer, or to the wholesaler
- The same options are available to a firm that manufactures outside the country, or the firm could sell to an import agent

Distribution Strategy

A Typical Distribution System



Differences between Countries

Question: How do distribution systems differ between countries?

- The main differences between distribution systems are
 - retail concentration
 - channel length
 - channel exclusivity
 - channel quality

Differences between Countries

1. Retail Concentration

- In some countries the retail system is very concentrated, while in other countries it is fragmented
- In a **concentrated system**, a few retailers supply most of the market
- In a **fragmented system** there are many retailers, no one of which has a major share of the market

Differences between Countries

2. Channel Length

- Channel length refers to the number of intermediaries between the producer and the consumer
- When the producer sells directly to the consumer, the channel is very short
- When the producer sells through an import agent, a wholesaler, and a retailer, a long channel exists
- Fragmented retail systems tend to have longer channels

Differences between Countries

3. Channel Exclusivity

- An **exclusive distribution channel** is one that is difficult for outsiders to access
- Japan's system is an example of a very exclusive system

Differences between Countries

4. Channel Quality

- Channel quality refers to the expertise, competencies, and skills of established retailers in a nation, and their ability to sell and support the products of international businesses
- The quality of retailers is good in most developed countries, but is variable at best in emerging markets and less developed countries
- A poor quality channel can impede market entry

Choosing a Distribution Strategy

Question: Which distribution strategy should a firm choose?

- The choice of distribution strategy depends on the relative costs and benefits of each alternative
- Since each intermediary in a channel adds its own markup to the products, there is a link between channel length and profit margin
 - If price is important, a shorter channel is better
 - If a retail sector is very fragmented, a long channel is better

Classroom Performance System

Which of the following is not one of the three main differences between distribution systems?

- a) Retail concentration
- b) Product attributes
- c) Channel length
- d) Channel exclusivity

Communication Strategy

Question: How should a firm communicate the attributes of its product to prospective customers?

- Communication channels available to a firm include
 - direct selling
 - sales promotion
 - direct marketing
 - advertising

Barriers to International Communication

Question: What factors affect the success of a firm's international communications?

- International communication occurs whenever a firm uses a marketing message to sell its products in another country
- The effectiveness of a firm's international communication can be jeopardized by
 1. cultural barriers
 2. source and country of origin effects
 3. noise levels

Push versus Pull Strategies

- Firms must choose between a **push strategy** (emphasizes personnel selling) and a **pull strategy** (emphasizes mass media advertising)
- The choice between the strategies depends upon
 1. product type and consumer sophistication
 2. channel length
 3. media availability

Push versus Pull Strategies

1. Product Type and Consumer Sophistication

- Consumer goods firms trying to sell to a large segment of the market tend to prefer a pull strategy
- Industrial products firms or makers of other complex products favor a push strategy

Push versus Pull Strategies

2. Channel Length

- The longer the channel, the more intermediaries involved
- It can be expensive to using direct selling to push a product through many layers of a distribution channel
- A firm may try to pull its product through the channels by using mass advertising to create consumer demand

Push versus Pull Strategies

3. Media Availability

- A pull strategy relies on access to advertising media
- A push strategy is more attractive when there is limited access to mass media

Push versus Pull Strategies

- Push strategies tend to be emphasized
 - for industrial products and/or complex new products
 - when distribution channels are short
 - when few print or electronic media are available
- Pull strategies tend to be emphasized
 - for consumer goods products
 - when distribution channels are long
 - when sufficient print and electronic media are available to carry the marketing message

Global Advertising

Question: Should a firm standardize its advertising worldwide?

- Standardized advertising makes sense when
 - it has significant economic advantages
 - creative talent is scarce and one large effort to develop a campaign will be more successful than numerous smaller efforts
 - brand names are global
- Standardized advertising is not appropriate when
 - cultural differences among nations are significant
 - country differences in advertising regulations may block the implementation of standardized advertising

Classroom Performance System

A push strategy works best in all of the following situations except

- a) For industrial products
- b) When distribution channels are short
- c) When sufficient print and electronic media are available to carry the marketing message
- d) For complex new products

Global Advertising

- Some firms try to capture the benefits of global standardization while responding to individual cultural and legal environments
- Firms can use some features to use in advertising campaigns worldwide, and then localize other features

Pricing Strategy

Question: How should a firm price its product or service in foreign markets?

- Firms must consider
 - price discrimination
 - strategic pricing
 - government-mandated price controls

Price Discrimination

Question: Should a firm charge the same price everywhere, or price its product on a market-by-market basis?

- Firms can maximize profits through price discrimination (charging consumers in different countries different prices for the same product)
- For price discrimination to work
 - the firm must be able to keep national markets separate
 - different price elasticities of demand must exist in different countries

Price Discrimination

- Price elasticity of demand is a measure of the responsiveness of demand for a product to changes in price
- Demand is elastic when a small change in price produces a large change in demand
- Demand is inelastic when a large change in price produces only a small change in demand
- Elasticity of demand is determined by
 - income level
 - competitive conditions
- In general price elasticities tend to be greater in countries with lower income levels and greater numbers of competitors

Strategic Pricing

- Strategic pricing has three aspects
 1. **Predatory pricing** - the profit gained in one market is used to support aggressive pricing designed to drive competitors out, in another market
 2. **Multi-point pricing** - a firm's pricing strategy in one market may have an impact on a rival's pricing strategy in another market
 - Aggressive pricing in one market can prompt a competitive response from a rival in another market
 - So, central monitoring of pricing decisions around the world is important

Strategic Pricing

3. **Experience curve pricing** - involves pricing low worldwide in an attempt to build global sales volume as rapidly as possible, even if this means taking large losses initially
- Firms believe that several years in the future, when it has moved down the experience curve, they will be making substantial profits and have a cost advantage over less aggressive competitors

Regulatory Influences on Prices

- The use of either price discrimination or strategic pricing may be limited by national or international regulations
- **Dumping** occurs whenever a firm sells a product for a price that is less than the cost of producing it
 - Antidumping rules set a floor under export prices and limit firms' ability to pursue strategic pricing
- Many developed nations have regulations promoting competition and restricting monopoly practices

Classroom Performance System

When a firm uses a pricing strategy aimed at giving a company a competitive advantage over its rivals, the firm is engaging in

- a) Predatory pricing
- b) Multipoint pricing
- c) Experience curve pricing
- d) Strategic pricing

Configuring the Marketing Mix

Question: How should a firm configure its marketing mix?

- Standardization versus customization is not an all or nothing concept
- Most firms standardize some things and customize others
- Decisions about what to standardize and what to customize should be made after exploring the costs and benefits of each option

New Product Development

- Firms need to develop and market new products
 - Technological innovation is important in new product development
 - Product life cycles are shorter than in the past because technological innovation generates creative destruction
- Firms need to invest in R&D and apply the technology to developing products that meet consumer needs, and that can be manufactured in a cost-effective way

The Location of R&D

Question: Where should a firm locate R&D?

- New product ideas come from the interactions of scientific research, demand conditions, and competitive conditions
- New-product development is greater when
 - more money is spent on basic and applied research and development
 - demand is strong
 - consumers are affluent
 - competition is intense

Integrating R&D, Marketing, and Production

Question: How can a firm ensure that its new product development is successful?

- Commercialization of new technologies in international firms may require different versions of a new product to be produced for different countries
- New product development efforts should be closely coordinated with the marketing, production, and materials management functions
- This integration will ensure that customer needs are met and that the company performs all its value creation activities efficiently

Cross-Functional Teams

Question: How can a firm achieve cross-functional integration?

- Cross-functional integration is facilitated by cross-functional product development teams
- Effective cross functional teams should
 - be led by a heavyweight project manager with status in the organization
 - have members from all the critical functional areas
 - have members located together
 - have clear goals
 - have an effective conflict resolution process

Building Global R&D Capabilities

Question: How should a firm build global R&D capabilities?

- R&D and marketing need to be integrated to adequately commercialize new technologies
- Many firms establish a global network of R&D centers to develop the basic technologies that will become new products
- These technologies are then applied by local R&D groups in regional or country units

Critical Discussion Question

1. Imagine you are the marketing manager for a US manufacturer of disposable diapers. Your firm is considering entering the Brazilian market. Your CEO believes the advertising message that has been effective in the United States will suffice in Brazil. Outline some possible objections to this. Your CEO also believes that the pricing decisions in Brazil can be delegated to local managers. Why might she be wrong?

Critical Discussion Question

2. Within 20 years we will have seen the emergence of enormous global markets for standardized consumer products. Do you agree with this statement? Justify your answer.

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Critical Discussion Question

3. You are the marketing manager of a food products company that is considering entering the Indian market. The retail system in India tends to be very fragmented. Also, retailers and wholesalers tend to have long-term ties with Indian food companies, which makes access to distribution channels difficult. What distribution strategy would you advise the company to pursue? Why?

Critical Discussion Question

4. Price discrimination is indistinguishable from dumping. Discuss the accuracy of this statement?

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Critical Discussion Question

5. You work for a company that designs and manufactures personal computers. Your company's R&D center is in North Dakota. The computers are manufactured under contract in Taiwan. Marketing strategy is delegated to the heads of three regional groups: a North American group (based in Chicago), a European group (based in Paris), and an Asian group (based in Singapore). Each regional group develops the marketing approach within its region. In order of importance, the largest markets for your products are North America, Germany, Britain, China, and Australia. Your company is experiencing problems in its product development and commercialization process. Products are late to market, the manufacturing quality is poor, and costs are higher than projected, and market acceptance of new products is less than hoped for. What might be the source of these problems? How would you fix them?