International Business 7e

by Charles W.L. Hill

McGraw-Hill/Irwin

Chapter 17

Global Marketing and R&D

Introduction

The marketing mix (the choices the firm offers to its targeted market) is comprised of:

- product attributes
- distribution strategy
- communication strategy
- pricing 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 lightening rod in the debate about globalization
- The current consensus is that while the world is moving towards global markets, cultural and economic differences among nations limit any trend toward global consumer tastes and preferences
- In addition, trade barriers and differences in product and technical standards also limit a firm's ability to sell a standardized product to a global market

Market Segmentation

- Market segmentation involves identifying distinct groups of consumers whose purchasing behavior differs from others in important ways

Markets can be segmented by:

- geography
- demography
- socio-cultural factors
- psychological factors

Market Segmentation

Firms need to be aware of two key market segmentation issues:

1. the differences between countries in the structure of market segments
2. the existence of segments that transcend national borders

❖ When segments transcend national borders, a global strategy is possible

Classroom Performance System

Which of the following is *not* an element in the marketing mix?

a) product attributes

b) communication strategy

c) distribution strategy

d) production strategy

Product Attributes

- A product is like a bundle of attributes
- Products sell well when their attributes match consumer needs
- If consumer needs were the same everywhere, a firm could sell the same product worldwide
- But, consumer needs vary from country to country depending on culture and the level of economic development

Cultural Differences

Countries differ along a range of cultural dimensions including:

- tradition
- social structure
- language
- religion
- education

- While there is some cultural convergence among nations, Levitt's vision of global markets is still a long way off

Economic Development

- A country's level of economic development has important marketing implications
- Consumers in highly developed countries tend to demand a lot of extra performance attributes
- Consumers in less developed nations tend to prefer more basic products

Product And Technical Standards

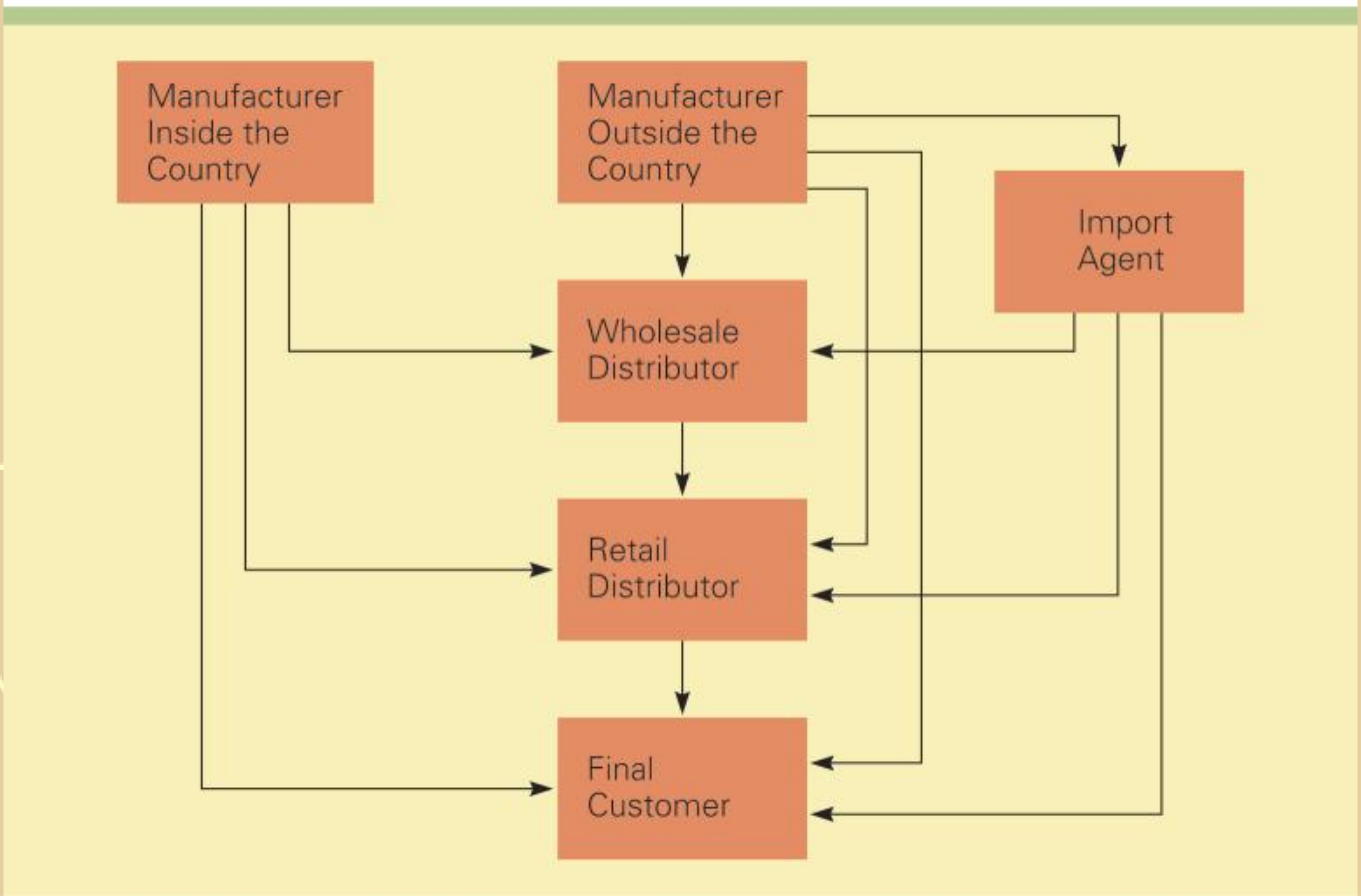
- Levitt's notion of global markets does not allow for the national differences in product and technological standards that force firms to customize the marketing mix

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
- How a product is delivered depends on the firm's market entry strategy
- Firms that manufacturer the product locally can sell directly to the consumer, to the retailer, or to the wholesaler
- Firms that manufacture outside the country have the same options plus the option of selling to an import agent

Distribution Strategy

Figure 17.1: A Typical Distribution System



Differences Between Countries

There are four main differences in distribution systems:

1. retail concentration
2. channel length
3. channel exclusivity
4. channel quality

Differences Between Countries

1. Retail Concentration

- ❖In a concentrated retail system, a few retailers supply most of the market
- ❖In a fragmented retail system there are many retailers, no one of which has a major share of the market
- ❖Developed countries tend to have greater retail concentration, while developing countries are more fragmented

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
- Countries with fragmented retail systems tend to have longer channels, while countries with concentrated systems have shorter channels
- The Internet is helping to shorten channel length as is the emergence of large stores like Wal-Mart and Tesco

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
- ❖Firms may find that they have to devote considerable resources to upgrading channel quality

Choosing A Distribution Strategy

- The choice of distribution strategy determines which channel the firm will use to reach potential consumers
- The optimal 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 generally a critical link between channel length and the firm's profit margin
- So, when price is important, a shorter channel is better
- A long channel can be beneficial because it economizes on selling costs when the retail sector is very fragmented, and can offer access to exclusive channels

Classroom Performance System

The main differences between distribution systems include all of the following *except*

a) retail concentration

b) product attributes

c) channel length

d) channel exclusivity

Communication Strategy

- Communicating product attributes to prospective customers is a critical element in the marketing mix
- How a firm communicates with customers depends partly on the choice of channel

Communication channels available to a firm include

- direct selling
- sales promotion
- direct marketing
- advertising

Barriers To International Communication

- 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

Barriers To International Communication

1. Cultural Barriers – it can be difficult to communicate messages across cultures

❖ A message that means one thing in one country may mean something quite different in another

❖ To overcome cultural barriers, firms need to develop cross-cultural literacy, and use local input when developing marketing messages

Barriers To International Communication

2. Source and Country of Origin Effects

- Source effects occur when the receiver of the message evaluates the message on the basis of status or image of the sender
- Firms can counter negative source effects by deemphasizing their foreign origins
- Country of origin effects refer to the extent to which the place of manufacturing influences product evaluations

Barriers to International Communication

3. Noise Levels

- Noise refers to the amount of other messages competing for a potential consumer's attention
- In highly developed countries, noise is very high
- In developing countries, noise levels tend to be lower

Push versus Pull Strategies

Firms have to choose between two types of communication strategies:

- ❖ a push strategy emphasizes personnel selling
- ❖ 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

- Firms in consumer goods industries that are trying to sell to a large market segment usually use a pull strategy
- Firms that sell industrial products typically prefer a push strategy

2. Channel Length

- A pull strategy can work better with longer distribution channels

Push versus Pull Strategies

3. Media Availability

- ❖A pull strategy relies on access to advertising media
- ❖When media is not easily available, a push strategy may be more attractive

Push versus Pull Strategies

In general, a push strategy is better:

- for industrial products and/or complex new products
- when distribution channels are short
- when few print or electronic media are available

A pull strategy is better:

- for consumer goods products
- when distribution channels are long
- when sufficient print and electronic media are available to carry the marketing message

Global Advertising

- Standardizing advertising worldwide has both pros and cons

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

Global Advertising

Standardized advertising does not make sense when:

- cultural differences among nations are significant
- country differences in advertising regulations block the implementation of standardized advertising

- Some firms have been trying tactics to capture the benefits of global standardization while responding to individual cultural and legal environments
- So, some features of a campaign are standardized while others are customized to local markets

Classroom Performance System

Standardized advertising makes sense in all of the following situations *except*

a) when cultural differences among nations are significant

b) when a firm is trying to save money

c) when creative talent is scarce and one large effort to develop a campaign will be more successful than numerous smaller efforts

d) when brand names are global

Classroom Performance System

A pull strategy is best

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

Pricing Strategy

- International pricing is an important element in the marketing mix

There are three issues to consider:

- The case for price discrimination
- Strategic pricing
- Regulations that affect pricing decisions

Price Discrimination

- Price discrimination occurs when firms charge consumers in different countries different prices for the same product
- Firms using price discrimination hope it will boost profits

For price discrimination to work:

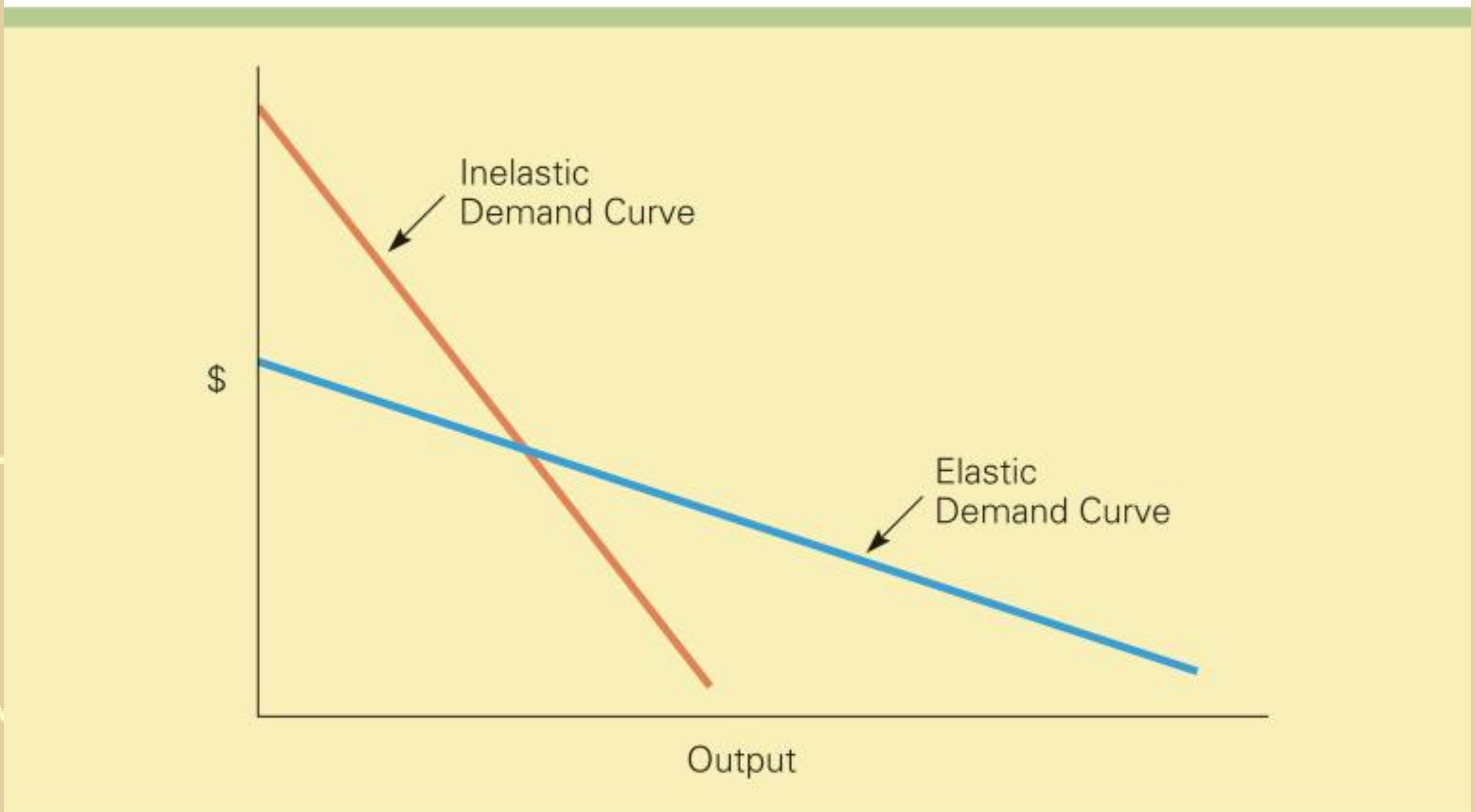
- the firm must be able to keep national markets separate
- different price elasticities of demand must exist in different countries

Price Discrimination

- The price elasticity of demand is a measure of the responsiveness of demand for a product to changes in price
- When a small change in price produces a large change in demand, demand is elastic
- When a large change in price produces only a small change in demand, demand is inelastic
- Income level and competitive conditions are the two most important determinants of a country's elasticity of demand for a certain product
- Typically, price elasticities are greater in countries with lower income levels and larger numbers of competitors

Price Discrimination

Figure 17.2: Elastic and Inelastic Demand Curves



Strategic Pricing

Strategic pricing has three aspects:

1. predatory pricing
2. multi-point pricing
3. experience curve pricing

Strategic Pricing

1. Predatory Pricing

- ❖Predatory pricing involves using the profit gained in one market to support aggressive pricing designed to drive competitors out in another market
- ❖After the competitors have left, the firm will raise prices

Strategic Pricing

2. Multi-point Pricing

- Multi-point pricing refers to the fact that 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 may elicit a competitive response from a rival in another critical market
- For managers, it is important to centrally monitor pricing decisions around the world
- Aggressive pricing in one market may elicit a response from rivals in another market

Strategic Pricing

3. Experience Curve Pricing

- ❖Firms that are further along the experience curve have a cost advantage relative to firms further up the curve
- ❖Firms pursuing an experience curve pricing strategy price low worldwide in an attempt to build global sales volume as rapidly as possible, even if this means taking large losses initially
- ❖The firm believes that several years in the future, when it has moved down the experience curve, it will be making substantial profits and have a cost advantage over its less aggressive competitors

Regulatory Influences On Prices

❖The use of either price discrimination or strategic pricing may be limited by national or international regulations

A firm's ability to set its own prices may be limited by:

1. antidumping regulations
2. competition policy

Regulatory Influences On Prices

1. Antidumping 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 a firm's ability to pursue strategic pricing

Regulatory Influences On Prices

2. Competition Policy

- Most industrialized nations have regulations designed to promote competition and restrict monopoly practices
- The regulations can be used to limit the prices that a firm can charge

Classroom Performance System

A firm is using __________ when it uses a pricing strategy aimed at giving a company a competitive advantage over its rivals.

a) predatory pricing
b) multipoint pricing
c) experience curve pricing
d) strategic pricing

Configuring The Marketing Mix

- Standardization versus customization is not an all or nothing concept
- Most firms standardize some things and customize others
- Firms should consider the costs and benefits of standardizing and customizing each element of the marketing mix

New Product Development

- Today, competition is as much about technological innovation as anything else
- The pace of technological change is faster than ever
- Product life cycles are often very short
- New innovations can make existing products obsolete, but at the same time, open the door to a host of new opportunities
- Firms today need to make product innovation a priority
- This requires close links between R&D, marketing, and manufacturing

The Location Of R&D

- New product ideas come from the interactions of scientific research, demand conditions, and competitive conditions

The rate of new product development is greater in countries where:

- 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

- New product development has a high failure rate
- To reduce the chance of failure, new product development efforts should involve close coordination between R&D, marketing, and production

This integration will ensure that:

- customer needs drive product development
- new products are designed for ease of manufacture
- development costs are kept in check
- time to market is minimized

Cross-Functional Teams

- 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
- include members from all the critical functional areas
- have members located together
- establish clear goals
- develop an effective conflict resolution process

Building Global R&D Capabilities

- To adequately commercialize new technologies, firms need to integrate R&D and marketing
- Commercialization of new technologies may require firms to develop different versions for different countries
- This may require R&D centers in North America, Asia, and Europe that are closely linked by formal and informal integrating mechanisms with marketing operations in each country in their regions, and with the various manufacturing facilities

Classroom Performance System

Which of the following does not promote new product development?

a) Spending more money on basic and applied research and development

b) weak demand

c) Affluent consumers

d) Intense competition