Global Marketing Management

EIGHTH EDITION

Warren J. Keegan

ALWAYS LEARNING

PEARSON

Global Marketing Management

Warren Keegan is to global marketing what Philip Kotler is to marketing. As a student, then as a teacher, Keegan was my hero, and there is still no one who comes anywhere near him for depth, excitement, clarity, and vision. This eighth edition is a book that stands head and shoulders above all others. It pushes the state of the art to even new frontiers. For anyone interested in global marketing, whether student, teacher, or practitioner, this book is a must.

—PROFESSOR MALCOLM H. B. MCDONALD

Emeritus Professor at Cranfield School of Management and Visiting Professor at Henley, Warwick, Aston, and Bradford Business Schools

Companies doing business in the Asia Pacific region, both local and global, need marketing today more than ever. In this new business environment, marketing will be the key to success and prosperity, and Keegan's eighth edition is the key to global marketing. His book stands out as a clear leader. If you want to be a world-class global marketer, this book shows the way.

—HERMAWAN KARTAJAYA

Hermawan Kartajaya, founder of MarkPlus, Inc. Jakarta, Indonesia is the President of World Marketing Association. In 2003, he was named by the United Kingdom Chartered Institute of Marketing as one of the "50 Gurus Who Have Shaped the Future of Marketing".

Eighth Edition

Global Marketing Management

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Pearson Education Limited
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Authorized adaptation from the United States edition, entitled Global Marketing Management, 8th edition, ISBN 978-0-136-15739-7, by Warren J. Keegan, published by Pearson Education © 2014.

ISBN 10: 0-273-76868-9
ISBN 13: 978-0-273-76868-5

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

10 9 8 7 6 5 4 3 2 1
14 13 12 11 10

Typeset in ITC Garamond by Integra Software Services

Printed and bound by Courier Kendalville in The United States of America

The publisher's policy is to use paper manufactured from sustainable forests.

In memory of my parents, Donald Rayfield Keegan
and Edla Sigrid Polson

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PREFACE

Global Marketing Management, Eighth Edition, traces its ancestry to *Multinational Marketing Management,* a book that broke new ground in the field of international marketing when it was published in 1974. The first edition departed from the traditional export trade focus in the field of international marketing and adopted a strategic approach that reflected the growing importance of multinational corporations, the latest findings of research, and the most advanced experience of practitioners. The book combined text with classroom tested graduate-level cases and was an immediate worldwide success. The objective of each revision has been to not only reflect current practice but to anticipate the direction of development of the field and maintain the book's authoritative position as the leading MBA graduate-level and reference text for practitioners of international marketing. Considered one of the most comprehensive and visionary books on the subject for three and a half decades, the eighth edition continues this legacy by introducing a fresh perspective grounded in real world experience and a truly global vision of marketing and its evolving role in business.

Powerful trends are sweeping the marketing field today. Developing a global point of view and keeping pace with the changing environment is challenging every industry and every organization from new start-ups to established global giants. *Global Marketing Management,* Eighth Edition, presents the latest developments in global marketing within the context of the whole organization, making internal and external connections where appropriate for a deeper understanding of global business from a managerial point of view.

A special focus is placed on the big emerging markets—China and India, in particular, but also Brazil, Russia, South Africa, Indonesia, and Turkey (the BRIC-ITs) and countries in all of the emerging world regions from the Americas, Asia, Europe, the Middle East, and Africa. From the latest market statistics to the global trends in consumer tastes, attention is given to the dominant cultural, social, economic, and competitive forces that are shaping marketing worldwide.

Combining solid academic research with a strategic business perspective is another distinguishing feature of this edition. Updated with the most recent and relevant research and concepts from top scholarly journals and respected business publications, *Global Marketing Management,* Eighth Edition, provides theories, concepts, tools, and insights into global marketing that enable the student, teacher, and practitioner to identify global market opportunities, threats, and issues.

Through an updated page design, significantly more visual presentations, and many new features such as chapter outlines, marginal annotations, and bulleted summaries, this edition is more readable and engaging. The completely redone presentations and the addition of other supporting materials such as short closing cases, anecdotal stories, and experiential and application exercises for each chapter successfully illustrate the application of theoretical concepts to real-world situations and extend the student's understanding.

New to the eighth edition:

- Integrated discussion of Internet marketing throughout the book
- Intensified focus on culture's influence on marketing communications both from the customer's and manager's perspective
- New chapter—Global Social and Environmental Responsibility
- Latest research and theory from the leading academic and business publications
- Illustrative stories adapted from current business management press
- Experiential exercises that require students to apply concepts presented in the chapter to realistic business situations

- Chapter-at-a-glance outline for easy identification of the chapter structure and main topics
- Completely revised and updated lecture slides that include access to websites and other relevant multimedia sources and teaching aids
- Updated chapter organization to reflect current global marketing priorities and themes

The book is organized into six parts: Part I is an introduction to global marketing. Part II covers the major dimensions of the environment of global marketing—economic; social and cultural; and political, legal, and regulatory. Part III is devoted to analyzing and targeting global market opportunities. Part IV focuses on global marketing strategy, and Part V covers the global marketing mix of product, pricing, place, and promotion decisions. Part VI concludes the book with a focus on implementation. It addresses the tasks of leading, organizing, and monitoring the global strategy; the future of global marketing; and careers in global marketing. The topic of e-marketing, which was addressed in a separate chapter in the seventh edition, is now integrated into every chapter in the book.

A TOTAL TEACHING AND LEARNING PACKAGE

A successful global marketing management course requires more than a well-written book. Today's classroom requires well-prepared instructors and a fully integrated learning system. A total package of instructor supplements extends this edition's emphasis on creating value for your classroom. The following aids support *Global Marketing Management,* Eighth Edition:

Instructor PowerPoint Slides (Download Only) ISBN: 0-13-610877-6

A comprehensive set of PowerPoint slides that can be used by instructors for class presentations or by students for lecture preview or review is available for download.

Instructor's Manual (Download Only) ISBN:0-13-610880-6

A complete instructor's manual which can be used to prepare a lecture or class presentations, find answers to the end of chapter exercises, and even design the course syllabus.

Test Item File (Download Only) ISBN: 0-13-610878-4

The test bank for the eighth edition contains over 50 questions per chapter. Questions are provided in a multiple-choice and true/false format. This Test Item File supports Association to Advance Collegiate Schools of Business (AACSB) learning standards. Where appropriate, the answer line of each question indicates a category within which the question fails. This AACSB reference helps instructors identify those test questions that support learning goals.

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ACKNOWLEDGMENTS

This edition, like the previous seven, reflects the contributions, insights, and labor of many persons. My colleagues, associates, and students at the Lubin School of Business, Pace University, New York University, The George Washington University, Baruch College, Columbia Business School, and at many other universities around the world; the fellows and members of the Academy of International Business; clients, past and present, have all contributed.

Although many colleagues, students, clients, and others have contributed to this and to previous editions, I especially want to thank Elyse Arnow Brill, my former student and now good friend and partner on earlier book projects. She has been an invaluable partner in the writing of this edition. Elyse combines a great grasp of the marketing discipline, enthusiasm for tracking down new insights and experience, extraordinary energy and focus and organizational skills, and an ability to meet deadlines. She has worked with me on every chapter in the book and has made an invaluable contribution to this exciting new edition.

Special thanks are also due to my good friend Steven Burgess, Director and Professor of Marketing at Nelson Mandela Metropolitan University, South Africa. Steven is one of the world's leading global marketing scholars and has managed to find the time in his very busy schedule of teaching, research, consulting, and writing to make a major contribution to this edition by agreeing to coauthor a complete revision and update of Chapter 4, The Global Cultural Environment.

The reference librarian at Pace, Michelle Lang, is an author's dream come true: no matter how difficult the request, she always finds the information. If the information is out there, Michelle will find it.

Hermawan Kartajaya, President of the Asia Pacific Marketing Federation and Chief Service Officer of MarkPlus, Jakarta, has been a friend for almost two decades and is a knowledgeable and perceptive guide to marketing in Asia and the world and a source of insight and creative thinking about the marketing concept and discipline. Hermawan's remarkable rise as a leader in marketing is an impressive accomplishment and an inspiration to marketers all over the world. He has contributed the opening appendix to Chapter 1, The 18 Guiding Principles of Legacy Marketing, and the concluding appendix to Chapter 16, the 12 Cs of New Wave Marketing.

Professor Bodo B. Schlegelmilch, Vice-Dean International and Chair of International Marketing and Management, Vienna University of Economics and Business Administration (WU-Wien), former Editor-in-Chief of the *Journal of International Marketing,* and my coauthor of *Global Marketing Management: A European Perspective,* has generously shared his thoughts, experience, and insights.

Special thanks go to all those of you who reviewed the early drafts of this edition and provided your insights.

Joyce Claterbos	Kansas University
Debbie Gaspard	Southeast Community College
Michael Goldberg	Berkeley College
Daekwan Kim	Florida State University
Ruby Pui Wan Lee	Florida State University
Michael Mayo	Kent State University

Others who have made special contributions to this revision include Mark Keegan, my partner, and Anthony Donato, my associate at Keegan & Company; Mark Green, Professor, Simpson College and my coauthor of *Global Marketing*;

and Naval K. Bhargava, coauthor of the Indian, Bangladesh, Bhutan, Pakistan, Nepal, Sri Lanka, and Maldives edition of *Global Marketing Management*, Seventh Edition. Svend Hollensen, Professor, University of Southern Denmark, has been a good friend since we met during his residence at Pace as a visiting scholar and has been a very helpful supporter of this edition. Thomas D'Angelo, a former Pace DPS doctoral student, made an important contribution to Chapter 3, The Political. Legal, and Regulatory Environments of Global Marketing, based on his research on global bribery and corruption. Christopher "Kit" Nagel is a Professor at Concordia University in California. He was Marketing Manager-Asia for International Paper Company before joining the Concordia faculty and has drawn on this experience in his contribution to Chapter 8, Global Entry and Expansion Strategies. Niklas Myhr, Assistant Professor of Marketing, Argyros School of Business and Economics, Chapman University, provided encouragement and contributed to the chapter on Global Distribution. Noel Capon, Professor of Marketing, Columbia Business School, former colleague and friend who has shared his research and insights on managing global accounts; Dave Heenan, Trustee of the Estate of James Campbell, Visiting Professor, Georgetown University Business School is a longtime friend who has shared his experience and insights for this and every preceding edition of this book; Jean Boddewyn, Professor Emeritus, Baruch College and former Dean of the Fellows of the Academy of Business; Malcolm McDonald, Cranfield University, my coauthor for *Marketing Plans that Work,* and colleague at Cranfield; Joseph Ganitsky, Professor of International Business, Loyola University–New Orleans; Donald Gibson, Professor, Macquarie University; H. Donald Hopkins, Associate Professor, Temple University–Philadelphia; Raj Komaran, National University of Singapore; Hermann Kopp, Professor, Norwegian School of Management; James A. F. Stoner, Fordham University; and Dinker Raval and Bala Subramanian of Morgan State University.

Finally, my greatest debt is to my readers: the faculty who adopt this book and the students and executives who purchase the book to study and learn about how to be a successful player in the exciting world of global marketing. To all of you I say, thank you for your support and inspiration and best wishes for every success in your global marketing programs.

The publishers wish to thank Mohua Banerjee of International Management Institute, Kolkata, for reviewing the content of the International Edition.

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He wrote the first multinational marketing textbook and is one of the world's leading experts on marketing and global business. He holds BS and MS degrees in economics from Kansas State University and an MBA and doctorate in marketing and international business from the Harvard Business School. He has held faculty positions at a number of business schools including Columbia, George Washington University, New York University, INSEAD, IMD, and the Stockholm School of Economics.

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Dr. Keegan is the author or coauthor of many books, including *Global Marketing Management: A European Perspective* (Financial Times/Prentice Hall, 2001), *Marketing Plans That Work: Targeting Growth and Profitability* (Butterworth Heinemann, 1997), *Global Marketing* (7th ed., Prentice Hall, 2012), *Marketing* (2nd ed., Prentice Hall, 1996), *Marketing Sans Frontiers* (InterEditions, 1994), *Advertising Worldwide* (Prentice Hall, 1991), and *Judgments, Choices, and Decisions: Effective Management Through Self-Knowledge* (John Wiley & Sons, 1984). He has published numerous articles in leading journals including *Harvard Business Review, Administrative Science Quarterly, Journal of Marketing, Journal of International Business Studies,* and *The Columbia Journal of World Business.*

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Part I Introduction and Overview

CHAPTER 1

Introduction to Global Marketing

The new electronic interdependence re-creates the world in the image of a global village.

—Marshall Herbert McLuhan *The Medium is the Message* (1967)

Marketing is too important to be left to the marketing department.

—David Packard *Cofounder of HP*

Learning Objectives

1. Summarize the evolution of marketing (3–6).
2. Identify the three basic principles of marketing (6–7).
3. Discuss global marketing practices and strategies (7–11).
4. Discuss the growth of global market opportunities (12–15).
5. Compare and contrast management orientations (15–18).
6. Describe the driving forces behind the increased pace of global integration (18–26).
7. Identify three restraining forces that hinder global marketing efforts (26–27).

INTRODUCTION

We live in a fast-paced, global marketplace. Wherever we live, whether it is in Europe, the Americas, Asia, Africa, or the Middle East, we take for granted products and services that come from around the world. From our laptops, cell phones, tablets, cars, furniture, artwork, and food, to our shoes, jeans, tee shirts, and watches, the world and its products are ours. A myriad of cultural influences and shared interests have become a backdrop to our daily lives as technology and travel push the envelope to provide us with faster and deeper connections with just about everyone and everything on the planet.

In this context, where does marketing fit—what role does it play and what value does it add? Does the field and practice of marketing globally contribute to or detract from the welfare of the global population?

Global marketing management requires a strategically integrated focus on customers, competition, technology, regulation, and economic, political, and social trends and factors…in a word, everything. An aligned marketing effort in a global enterprise requires an alignment of organizational design, corporate culture, leadership, employee motivation and compensation, creativity and innovation, and the rethinking of traditionally distinct functional policies and programs.

In the past two centuries, a sweeping transformation has profoundly affected the world economy. Prior to 1840, students sitting at their desks would not have had any item in their possession that was manufactured more than a day's horseback ride from where they lived—with the possible exception of the books they were reading. Many countries—most notably Great Britain—were actively involved in international trade in the mid-nineteenth century. This involvement increased until the world withdrew into autarky as a response to the collapse of aggregate demand that resulted in the global depression of 1929–1939.

The world economy began its recovery in the 1930s with military spending in Germany and Japan followed by military spending in the US, the UK, and USSR. At the end of World War II, Germany, Japan, Eastern Europe, and Western USSR were in ruins; Britain was broke and exhausted. The US mainland had been untouched by any enemy invasion or bombardment and had recovered from the Great Depression to become the most productive, innovative and richest country in the world. In the war-torn countries, the challenge was reconstruction. For the United States, the challenge was converting a wartime economy that had supplied not only its own military forces, but also those of its British and Soviet allies, to peacetime needs and wants. Remarkably, both the victors and the defeated made a remarkably speedy recovery in rebuilding their peacetime economies. The United States became a colossus with more than half of global GDP, and Japan and Germany rapidly became the second and third largest countries in the world in GDP after the United States. The USSR and the dream of a communist utopia eventually collapsed, and the threat of international communism fell into the dustbin of history.

Since World War II, there has been an unparalleled expansion into global markets by companies that previously focused principally on customers located in their home country. Three decades ago, the phrase *global marketing* did not even exist. Today, businesses look to global marketing for the realization of their full commercial and societal potential. However, there is another even more critical reason why companies need to take global marketing seriously: survival. A company that fails to become global in outlook and practice risks losing its domestic business to competitors who have lower costs, more relevant experience, and better products.

What is global marketing? How does it differ from domestic marketing? Marketing can be defined as a series of activities leading to an exchange between a seller and a buyer at a profit. 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—product, price, place, and promotion—is a marketer's primary tool. Marketing is a discipline, as applicable in Australia as it is in Zanzibar, in all industries and sectors from high to low tech and from for-profit to not-for-profit firms and for all products from consumer to industrial.

This book is about global marketing, its context, concepts, tools, and practice. An organization that engages in global marketing focuses its resources on global market opportunities and threats. One difference between domestic marketing and global marketing is in the scope of activities. A company that engages in global marketing conducts key marketing activities outside the home-country market. These activities include marketing intelligence gathering, which provides the information foundation for a market-driven, integrated marketing mix that address the opportunity and competition in every addressed global market. Another difference is that global marketing involves an understanding of specific concepts, considerations, and strategies that must be skillfully applied, in conjunction with universal marketing fundamentals, to ensure success in global markets. This book concentrates on the major dimensions of global marketing. A brief overview of marketing is presented next, although the author assumes the reader has completed introductory marketing and international business courses or has equivalent experience.

MARKETING: A UNIVERSAL DISCIPLINE

The foundation for a successful global marketing program is a sound understanding of the marketing discipline. Marketing is the process of focusing the resources and objectives of an organization on environmental opportunities and needs. The first and most fundamental fact about marketing is that it is a universal discipline. Marketing is a set of concepts, tools, theories, practices and procedures, and experience. Together, these elements constitute a teachable and learnable body of knowledge. Although marketing is universal, marketing practice, of course, varies from country to country, region to region, and across markets within a single country. Just as each person is unique, each country or market is unique. This reality of differences means that, as marketers, we cannot always directly apply experience from one country to another or from one market to another. It is certain that if customers, competitors, channels of distribution, and available media are different, to name only a few of the varying contingencies that exist in diverse markets, it will be necessary to change our marketing plan. On the other hand, even though markets are unique, each shares many similarities with other markets. The astute global marketer recognizes these similarities and creates greater value by extending elements of the marketing program wherever possible. Successful global companies recognize that one product can serve needs worldwide and that the global product is more competitive because it provides greater value to customers at a lower cost. Of course, global products are adapted to local languages, laws, regulations, and the physical and cultural environments of markets, when adaptation is required and when the cost of adaptation does not exceed the gain in competitiveness achieved by adaptation.

The Marketing Concept

During the past century, the concept of marketing has changed dramatically. As shown in Figure 1-1, it has evolved from a focus on the product and on producing a better product based on internal standards and values defined by the company in isolation from the customer. An example of this stage of the marketing concept was Henry Ford's famous reply to executives who wanted Ford to offer the Model T in colors other than the standard black in order to better compete with General Motors. Ford's reply: "Any customer can have a car painted any color that he wants so long as it is black." In Ford's mind, the Model T was a perfect car, and there was no point in wasting money on offering different colors. Profitability was the sole objective of product-focused marketing. The means was a sale based on persuading the customer to exchange his or her money for the company offering. Messaging involved 'pushing' the product into the market space and to the end user by mass advertising in print, on TV, or through in-store promotion.

Marketing Is Everything

	Marketing Concept		
	Old	**"New" (1960's)**	**Strategic (Emerging)**
Focus	Product	Customer	Way of Doing Business
Means	Telling and Selling	Integrated Marketing Mix	Knowledge and Experience
End	Profit	Profit	Mutually Beneficial Relationship
Marketing Is...	Selling	A Function	Everything

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FIGURE 1-1 Marketing Is Everything

THE NEW CONCEPT OF MARKETING AND THE FOUR PS The new concept of marketing, which appeared about 1960, shifted the focus of marketing from the product to the customer. The objective was still profit, but the means of achieving the objective expanded to include the entire marketing mix, or the Four Ps as they became known: product, price, place (channels of distribution), and promotion. For a discussion of the new concept of marketing see "The 18 Guiding Principles of Legacy Marketing" in the appendix at the end of this chapter.

THE STRATEGIC CONCEPT OF MARKETING By the 1990s, it was clear that the new concept of marketing was outdated and that the times demanded a strategic concept. The strategic concept of marketing, a major evolution in the history of marketing thought, shifted the focus of marketing from the customer or the product to the customer in the context of the broader external environment. Knowing everything there is to know about the customer is not enough. To succeed, marketers must know the customer in a context including the competition, regulation and government policy, and the broader economic, social, political, scientific, and technological macro forces that shape particular markets and their evolution. The strategic concept of marketing recognizes that sustainable profitability is the reward for performance, which must be achieved by satisfying customers in a socially and environmentally responsible and sustainable way.[1] In the final chapter of this book, I discuss the Big New Idea in marketing: creating shared value. Today, is it urgent for marketers to understand that real success can only be realized by creating an economic value for both customers and society. Social and community needs and challenges must be an integral part of the economic value-creation process. In the strategic concept of marketing, addressing social needs is not an exercise in corporate philanthropy but rather an exercise in creating shared value. What society needs is a healthy enterprise system that creates

[1] Regis McKenna, "Marketing is Everything," *Harvard Business Review* (January–February 1991).

competitive products and jobs that sustain employees. When a company is creating shared value, employees and suppliers will be directly supporting community needs with strong, secure families, tax-supported government community projects, and their own private contributions.

A revolutionary development in the shift to the strategic concept of marketing is in the marketing objective—which shifts from profit to stakeholder benefits. Stakeholders are individuals or groups who have an interest in the activity of a company. They include the employees and management, customers, society, government, and shareholders, to mention only the most prominent. For example, to compete in today's market, it is necessary to have an employee team committed to continuing innovation and to producing quality products in an environmentally sustainable manner. In other words, marketing must focus on the customer in context and deliver value by creating stakeholder benefits for customers, employees, and the communities they serve and, in turn, affect.

Profitability is not forgotten in the strategic concept. Indeed, it is a critical means to the end of creating stakeholder benefits. The means of the strategic marketing concept is strategic management, which integrates marketing with the other management functions. One of the tasks of strategic management is to make a profit, which can be a source of funds for investing in the business and for rewarding shareholders and management. Thus, profit is still a critical objective and measure of marketing success, but it is not an end in itself. The aim of marketing is to create value for stakeholders, and the key stakeholder is the customer. If your customer can get greater value from your competitor because your competitor is willing to accept a lower level of profit reward for investors and management, the customer will choose your competitor, and you will be out of business. The spectacular entry of Apple, the new North American player, into the global cell phone market has been responsible for the precipitous decline in market share and revenue of the former leaders from Europe, the "cradle of innovation and scale in mobile," in the words of one leading consultant. Nokia, the former leader, is now a distant third in sales trailing Apple and Samsung. This massive market shift occurred because Apple and RIM pioneered the design and deployment of smartphones, which have completely displaced traditional phones in the top end of the market. Apple pulls in more than half of the profits in the world's mobile industry despite having only a 4 percent share of the world market in units. Apple's success is based on its ability to create value for customers. Stephen Elop, Nokia's new boss, underlined what a threat this is to the former world leader. "We are standing on a burning platform," he wrote in a memo to all 132,000 Nokia employees.[2]

Finally, the strategic concept of marketing has shifted the focus of marketing from a company-centric maximization paradigm to managing strategic partnerships and positioning the firm in the value chain to create value for customers. This expanded concept of marketing was termed *boundaryless marketing* by Jack Welch, former chairperson and chief executive officer (CEO) of General Electric. The notion of *boundaryless* marketing is shown in Figure 1-2.

Figure 1-2 depicts marketing's set of activities as encompassing the business processes, from the initial identification of customer needs and wants to the end product or service offering that creates the best relative customer value vis-à-vis the competition. Marketing can be conceptualized as the process of focusing the resources and objectives of an enterprise on customer and consumer needs. Market-driven firms are focused, agile, and tactically responsive both through differentiated marketing planning strategies and marketing mix elements. It is ultimately the marketing mix

[2] "Blazing Platforms," *The Economist,* February 12, 2011, 69.

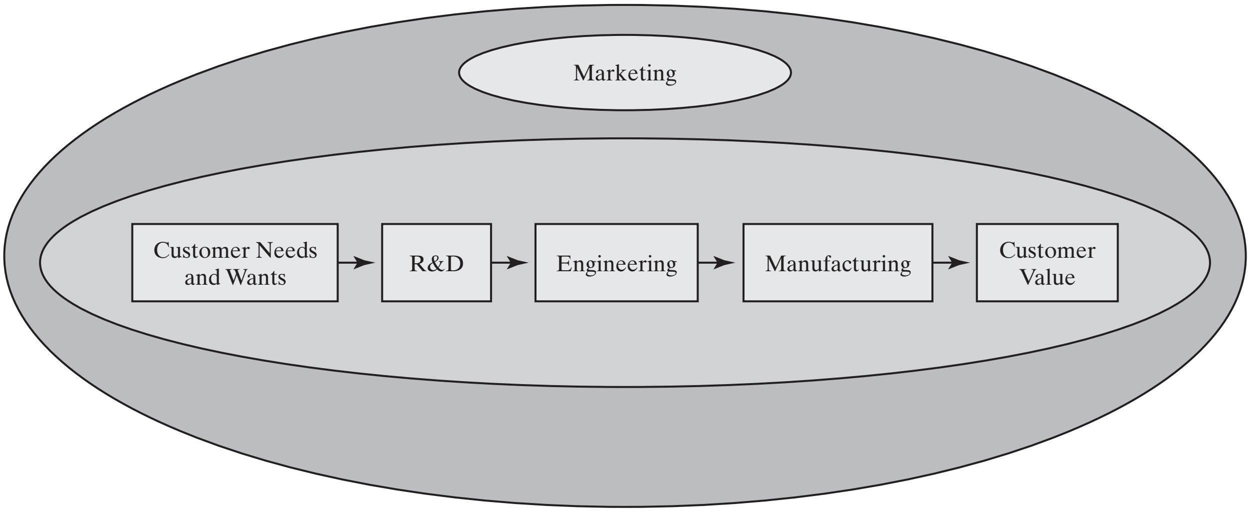

FIGURE 1-2 Value Chain Boundaryless Marketing

that integrates the organization's offers, logistics, and communications into a viable offering, which is, in turn, experienced by the customer as the overall marketing strategy. The three basic principles that underlie marketing are discussed next.

THE THREE PRINCIPLES OF MARKETING

The essence of marketing can be summarized in three great principles. The first principle identifies the purpose and task of marketing, the second identifies the competitive reality of marketing, and the third identifies the essential requirement for achieving the first two principles.

Customer Value and the Value Equation

The task of marketing is to create customer value that is greater than the value created by competitors. The value equation, shown in Figure 1-3, is a guide to this task. As suggested in the equation, value for the customer can be increased by expanding or improving product and/or service benefits, by reducing the price, or by a combination of these elements. Companies with a cost advantage can use this advantage to gain a sustainable competitive edge in any of the marketing mix elements: product, price, promotion, or place. Knowledge of the customer combined with innovation and creativity can lead to a total offering that offers superior customer value. If the benefits

Key Marketing Principles

Action	***Knowledge***
• Customer Value = Benefits/Price (B/P)	• **Company**
• Focus	• **Customer**
• Comptitive Advantage	• **Competition**

FIGURE 1-3 Key Marketing Principles

are strong enough and valued enough by customers, a company does not need to be the low-price competitor to win customers. On the other hand, the value equation may lead to a focus on price as the key element of competitive advantage.

Competitive or Differential Advantage

The second great principle of marketing is competitive advantage. A competitive advantage is a total offer, vis-à-vis relevant competition that is more attractive to customers. The advantage can exist in any element of the company's offer: the product, the price, advertising and point-of-sale promotion, or the distribution of the product. One of the most powerful strategies for penetrating a new national market is to offer a superior product at a lower price. The price advantage will get immediate customer attention and, for those customers who purchase the product, the superior quality will make an impression.

Focus

The third great principle of marketing is focus, or the concentration of attention. Focus is required to succeed in the task of creating customer value at a competitive advantage through the mobilization of organizational effort and resources. All great enterprises, large and small, are successful because they understand and apply this principle.

Apple retains its edge as a leader in product design and benefits, often disrupting older technologies, because it is more clearly focused on how to take advantage of technology to design and make products that offer unique consumer benefits, and because it knows how to position and communicate unique benefits to target markets. Apple's selection and integration of marketing activities, including brand-building retail stores that offer not only value-creating products but unique services for existing and prospective customers, contribute to its continuing distinctive advantage. Starbucks is another example of driven focus and often obsessive attention to every element of branding behavior and consistent customer experience. This attention to detail can be seen in Starbucks' ads, in-store promotions, décor and ambiance, products, product sizes, brand messaging, and training of the baristas behind the counter. Such laser focus and brand experience sometimes comes from an entrepreneurial leader who himself embodies the values of the brand, such as Starbucks' Howard D. Schultz.[3]

GLOBAL MARKETING: WHAT IT IS AND WHAT IT IS NOT

Although the marketing discipline is universal, markets and customers are quite differentiated. This means that marketing practice must vary not only from region to region but also from country to country, and even between the different market segments within a country. Companies that attempt to transfer irrelevant or inappropriate experience from one market to another will suffer a loss both in investment, credibility, and market share. One famous example involves Nestlé's attempt to create a market for iced tea in India. Nestlé received a cold response, as Indian consumers traditionally like to have their tea beverages hot. Procter and Gamble provides another well-known example with its attempted introduction of Cheer laundry detergent in Japan. P&G overlooked the fact that the Japanese wash their clothes in cold water. Accordingly, the advertising campaign highlighting washing clothes at "all temperatures" was meaningless to this target audience.

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[3] Scott Bedbury and Stephen Fenischell, *A New Brand World: 8 Principles for Achieving Brand Leadership in the 21st Century* (New York: Penguin Book Group, 2002).

A major issue in global marketing practice and theory involves the extent of adaptation or standardization of products for diverse markets. With the growth of the global, competitive marketplace, international marketing has transformed into integrated global marketing. The global marketing manager's focus has shifted from a focus on the functional differences between national or regional markets to a focus on understanding the transnational differences and similarities of target markets.[4] The prime driver of marketing globally is the synergistic benefits and productivity improvements obtained through global marketing initiatives. These value-creating initiatives include each of the elements of the marketing mix as well as other supporting business functions, such as accounting, procurement and channel management, production, and research and development (R&D).

The Standardization Debate

Robert Buzzell offered the first theoretical discussion of standardization as an international marketing strategy in 1968.[5] He argued that dissimilarities among countries led multinational firms to perceive marketing planning in each country as a local problem with localized solutions. Buzzell provided several rationales for an international standardization strategy, most importantly, cost savings arising from standardization of the marketing mix elements and the creation of a single marketing strategy spanning the globe. Following Buzzell's work, Professor Theodore Levitt's 1983 seminal article in the *Harvard Business Review*, "The Globalization of Markets," argued that marketers were confronted with a "homogenous global village."[6] Levitt advised organizations to develop standardized, high-quality world products and market them around the globe using standardized advertising, pricing, and distribution. He recognized that "success in a world with homogenized demand requires a search for sales opportunities in similar segments across the globe." In fact, he contended that "the most effective world competitors incorporate superior quality and reliability into their cost structures.... They compete on the basis of appropriate value—the best combinations of price, quality, reliability, and delivery for products that are globally identical with respect to design, function, and even fashion." Levitt introduced the importance of creating value by offering functional, quality, low-priced products. One way of doing this is through the use of standardization of the marketing mix and marketing process.

Some well-publicized failures by companies seeking to follow Levitt's advice brought his proposals into question. The business press frequently quoted industry observers who disputed Levitt's views. For example, Carl Spielvogel, chairman and CEO of the Backer Spielvogel Bates Worldwide advertising agency, told *The Wall Street Journal,* "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."[7] Indeed, it was global marketing that made Coke a worldwide success. However, that success was not based on a total standardization of marketing

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[4] Jagdish N. Sheth and Atul Parvatiyar, "The Antecedents and Consequences of Integrated Global Marketing," *International Marketing Review*, 18, iss. 1 (2001): 16–29. See also, Hongsik John Cheon, Chang-Hoan Cho, and John Sutherland, "A Meta-Analysis of Studies on the Determinants of Standardization and Localization of International Marketing and Advertising Strategies," *Journal of International Consumer Marketing*, 19, no. 4 (2007): 109.

[5] R. D. Buzzell, "Can You Standardize Multinational Marketing?," *Harvard Business Review*, 46, no. 6 (1968): 102–133.

[6] Theodore Levitt, "The Globalization of Markets," *Harvard Business Review*, 61, no. 3 (1983): 92–102.

[7] Joanne Lipman, "Ad Fad: Marketers Turn Sour on Global Sales Pitch Harvard Guru Makes," *The Wall Street Journal,* May 12, 1988, 1.

mix elements. In his book *The Borderless World*,[8] Kenichi Ohmae explains that Coke's success in Japan could be achieved only by spending a great deal of time and money becoming an "insider" to that market. That is, the company built a complete local infrastructure with its sales force and vending machine operations. Coke's success in Japan, according to Ohmae, was a function of its ability to achieve "global localization," the ability to be as much of an insider as a local company, but still reap the benefits that result from world-scale operations.

What does the phrase *global localization* really mean? In a nutshell, it means a successful global marketer must have the ability to "think globally and act locally." As we will see many times in this book, global marketing may include a combination of standard (e.g., the actual product) and nonstandard (e.g., distribution, messaging, or packaging) approaches. A global product may be the same product everywhere and yet different. Global marketing requires marketers to behave in a way that is global and local at the same time by responding to similarities and differences in world markets. This being the case, a review of the literature reflects an evolving state of knowledge and practice with respect to a multidimensional view of global marketing strategy when it comes to standardization/adaptation decisions. In 1969, Keegan, using the global marketing mix, identified four strategic alternatives based on product standardization versus adaptation and promotion standardization versus adaptation dimensions.[9] Much literature in the field of international marketing builds on this initial multidimensional perspective[10] and looks beyond single-strategy dimensions. Heterogeneity among various cross-border markets does not allow standardization in any absolute sense. Important variables of differentiated markets include cultural, legal, and social dictates, as well as differences in local media and distribution vehicles and capabilities, trade restrictions, and government regulation. Yet, the expense involved in adaptation of many of the elements of the marketing program can be prohibitively expensive. Finding the balance and merging the benefits of standardization and adaptation may be a key determinant of successful integrated global marketing campaigns.[11]

Indeed, the Coca-Cola Company has demonstrated that its ability to think globally and act locally can be a source of competitive advantage. By adapting taste and product elements, sales promotion, distribution, and customer service initiatives to local needs, Coke established a strong brand preference.

Not only is tailoring the global marketing concept to fit a particular product, business, or market of crucial importance, it is necessary to understand that global marketing does not mean entering every country or region in the world. Global marketing requires widening business horizons to encompass the world while scanning for opportunity and threat. The decision to enter markets outside the home country depends on a company's resources and its stage of development, its managerial mind-set, and the nature of opportunities along with existing competitive threats. Globalization challenges companies to recognize what they do well within the global marketplace and be where they have competitive strength. For example, the most globally successful auto companies have been gaining market share. Toyota, Mercedes, and BMW rely on a strong single- or dual-brand strategy across all their markets.

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[8] Kenichi Ohmae, *Borderless World: Power and Strategy in the Interlinked Economy* (New York: HarperCollins, 1999).

[9] W. J. Keegan, "Multinational Product Planning: Strategic Alternatives," *Journal of Marketing*, 33, no. 1 (1969): 58–62.

[10] See, for example, J. A. Quelch and E. J. Hoff, "Customizing Global Marketing," *Harvard Business Review*, 64, no. 3 (1986): 59–68.

[11] See, for example, Cheon, Cho, Sutherland, "A Meta-Analysis of Studies"; and Andreas Birnik and Cliff Bowman, "Marketing Mix Standardization in Multinational Corporations: A Review of the Evidence," *International Journal of Management Reviews*, 9, no. 4 (2007): 303–324 (22).

They bring their branding strengths to new markets as compared with GM, which lost market share over the past five decades with its failure to apply the three principles of marketing. Any understanding of these principles would have led GM to the conclusion that in order to be competitive, it needed to reduce the number of brands in its global product portfolio. It is only after being forced into bankruptcy and a government bailout that GM finally sold or closed the brand franchises that stood between them and a chance at competitive global parity. As this example shows, globalization is not a one-size-fits-all solution for companies. Remaining domestic or regional rather than becoming weakened by expanding focus and expending resources globally may be the best strategy for some companies. Indeed, by remaining a predominantly regional company until recently, Fiat, based in Turin, Italy, was able to enter the US market with a controlling investment in Chrysler, America's third largest car company.

Many other companies have successfully pursued global marketing by creating strong global brands. In the automotive industry, Daimler has gained global recognition for its Mercedes nameplate, as has its competitor, Bayerische Motoren Werke Aktiengesellschaft, Munich, for its nameplate BMW automobiles and motorcycles. However, as shown in Table 1-1, global marketing strategies can also be based on product or system design and innovation, product positioning, packaging, distribution and logistics, customer service, and sourcing considerations. For example, McDonald's has designed a restaurant system that can be set up virtually anywhere in the world, but, like Coca-Cola, McDonald's customizes its menu offerings in accordance with local eating and entertainment customs. In Jakarta, Indonesia, for example, McDonald's is positioned as upscale dining. In Israel, Big Macs are served without cheese in many outlets to permit the separation of meat and dairy products required by kosher dietary laws. Unilever formerly used a teddy bear in various world markets to communicate the benefits of the company's fabric softener and now relies on the tag line "Brands for Life" and a strong Internet and Facebook presence to support its sales in over 170 countries worldwide. Harley-Davidson's motorcycles are positioned around the world as the all-American bike. Italy's Benetton and Spain's Zara utilize 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 that supports a promise of "24 hour parts and service" anywhere in the world. China's Foxconn's sourcing strategies have made it an indispensable partner to the likes of

TABLE 1-1 Examples of Global Marketing Strategies

Global Marketing Strategy	Company/Home Country
Brand Name	Coca-Cola (US), Apple (US), BMW (Germany)
Product Design	McDonald's (US), Toyota (Japan), Apple (US), Google (US)
Product positioning	Unilever (Great Britain/Netherlands), Harley-Davidson (US), Apple (US), Samsung (S. Korea)
Packaging	Gillette (US), Apple (US)
Distribution	IKEA (Sweden), Apple (US), H&M (Sweden)
Customer service	Caterpillar (US), Dell (US), Brother (Japan), Apple (US), Lexus (Japan)
Sourcing	Toyota (Japan), Honda (Japan), Nike (US), Wal-Mart (US), Apple (US), Foxconn (China)
Innovation	Apple (US), Google (US), Samsung (S. Korea), Tata (India), Ford (US)

IBM, Microsoft, Nokia, Sony, Hewlett-Packard, and Apple. Information technology has given CEMEX of Mexico its competitive advantage in delivery of cement and building products in the 50 countries in which it operates. Southwest Airlines, the largest US-based airline, is known throughout the aviation industry as a "low-cost carrier" because of its unique business model. Over the past several years, Ford successfully repaired its struggling business through the innovation of styling, fit and finish, safety, and fuel economy technology. The success of Honda and Toyota in world markets was initially based on exporting cars from factories in Japan. Now, both companies have invested in extensive assembly and manufacturing facilities abroad, including the United States and major markets.

The particular approach to global marketing that a company adopts will depend on industry conditions and its source or sources of competitive advantage. Should Harley-Davidson start manufacturing motorcycles in a low-wage country such as Mexico or China? Because Harley's competitive advantage is based in part on its "Made in the USA" positioning, shifting production outside the United States may not be advisable. Toyota and Honda's historic success abroad is partly attributable to their ability to transfer world-class manufacturing skills to global markets while using advertising to stress that its products are built in market countries with components manufactured and purchased in the market countries. Toyota and Honda have positioned themselves as global brands independent of the location of manufacture and assembly. A Toyota is a Toyota wherever it is made. Similarly, Hyundai is a recent example of an Asian automaker that entered the North American market three decades ago with quality problems and with unit volumes similar to Chinese competition of today. It took the company almost two decades to establish a presence in the mature North American market through competing on price and building its sales network and brand image. Today, Hyundai is moving toward successfully positioning its brand independent of country of origin. Yet, there remain brands, such as Harley-Davidson motorcycles that, if made abroad, would clash with the brand image linking Harley to its country of origin, the USA.

Apple is a world leader in every category of marketing strategy highlighted in Table 1-1 and had an equity market value of more than $500 billion in 2012.[12] With its iconic music player the iPod, Apple confirmed its reputation for innovation and fueled its financial success. The iPhone sold 3.8 million units in three months in 2009 during the height of the Great Recession, attesting to its strong marketing program and product value. And with the 2010 launch of Apple's iPad positioned in a new category, the tablet, Apple added to its family of tech gadgets creating mobile platforms for digital communication, information, and entertainment. The explosive growth of mobile apps since Apple's App Store launch in 2008 has increased innovation in the product categories as well as competition. From computers to smartphones, Apple products are known for their style, uncluttered ease of use, technical sophistication, and power. Apple innovation involves leaping ahead of existing technology, anticipating needs, and "delivering capabilities that redefine product categories."[13] Driving these offerings was the marketing genius of Steve Jobs, "a gifted marketer and showman, but also a skilled listener to the technology….to judge when an intriguing innovation is ready for the marketplace. Technical progress, affordable pricing and consumer demand must jell to produce a blockbuster product."[14] Jobs knew that controlling the product is less important than controlling our desire.[15]

[12] As of December 12, 2012.
[13] David B. Yoffie, cited in "The Apple in His Eye," *The New York Times*, January 31, 2010.
[14] Ibid.
[15] Devin Leonard, "The Last Pitchman," *Businessweek*, June 14–20, 2010.

GLOBALIZATION AND GLOBAL MARKETING

The largest national market in the world, the United States, today represents roughly 25 percent of the total world market for all products and services. Despite significant economic growth over the last 40 years in Asia and India, with advances in innovation, technology, and productivity, the United States' share of total world output has remained constant. US companies wishing to achieve maximum growth potential must go global, as three quarters of world market potential is in the rest of the world (ROW).

Non-US companies have an even greater motivation to seek market opportunities beyond their own borders—their opportunities include the 308 million people in the United States. Non-Chinese firms have the greatest market opportunity by globally targeting China's 1.34 billion consumers. China surpassed Japan's market value in August 2010 to become the second largest economy after the United States, leading both India and Germany in fourth and fifth position, respectively. Goldman Sachs estimates that China will overtake the United States in total GDP in 2019, although estimates vary.[16] Japanese firms now have 85 percent of world market potential outside their home market, while German firms have 94 percent of world market potential outside of their borders. Non-EU companies have just over 500 million people in the member states of the EU to target with their products and services.

Thousands of companies have recognized the importance of conducting business activities outside their home country. Industries that were strictly national in scope only a few years ago are dominated today by global companies with home bases on all continents and in all world regions. The rise of the global corporation closely parallels the rise of the national corporation, which emerged from the local and regional corporation in the 1880s and the 1890s in the United States. The auto industry provides a dramatic example. In the first quarter of the twentieth century, there were thousands of auto companies in the world and more than 500 in the United States alone. Today, *Fortune* tracks 30 automotive companies worldwide in its survey of Global 500 companies. (See Table 1-2.) In most industries, the companies that will survive and prosper in this century will be global enterprises. Companies that do not respond to the challenges and opportunities of globalization will be absorbed by more dynamic enterprises. As Thomas Middelhoff, chairman of Bertelsmann AG, said recently, "There are no German and American companies. There are only successful and unsuccessful companies."[17]

It is interesting to note that none of the top 15 automobile and parts companies are Chinese. In 2009, China became the world's largest market for cars. Initially, China's automobile market was supplied by purely local competitors. However, as the value-for-money products available reached a certain level of quality, global firms jumped into the rapidly expanding market in a big way. Today, General Motors is selling more cars in China than in the American domestic market. Emerging economies made up more than half of global sales for the first time in 2010. Sales in the Chinese market was projected to be 6 million more vehicles than sold in the US market, as low vehicle penetration (only 24 vehicles per 1,000 people vs. 79 vehicles per 1,000 people in the mature markets of the G7), rising incomes, competitive pricing, and credit availability support increased car sales.[18] American and European carmakers have been introducing their best technology to their plants in China to compete against growing competition from domestic Geely, Chery, and Lifan. Global competitive advantage is also to be

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[16] http://www.istockanalyst.com/article/viewarticle/articleid/4894427
[17] As quoted in "Global Mall," *The Wall Street Journal,* May 7, 1998, 1.
[18] http://parts.olathetoyota.com/2011-car-sales-statistics.html

TABLE 1-2 Total Motor Vehicle and Parts Sales Worldwide, 2009

	2009 Revenues in millions	Global 500 Rank
Toyota	204,352	10
Volkswagen	166,579	14
General Motors	148,979	18
Ford	146,277	19
Daimler	140,328	23
Honda	99,652	51
Fiat	86,914	64
Nissan	83,982	67
Peugeot	79,560	75
BMW	77,864	78
Hyundai	72,542	87
Robert Bosch	66,052	98
Renault	55,314	130
Volvo	46,057	163
Johnson Controls	38,062	198
All Other (15)	376,980	—

gained by leveraging Chinese sourcing and providing access to lowest-price, high-quality components, or establishing an R&D facility and becoming a desirable employer, leveraging China's pool of low-cost but high-quality engineering talent for global product development.[19] However, to build market share, bringing popular Western models to the Chinese market is not necessarily a successful strategy. For example, the sport-utility craze in the United States has not translated well into the Chinese new middle-class consumer's experience; SUVs are regarded as being work vehicles with "peasant" connotations. Chinese buyers have gravitated more toward high margin, affordable sedans such as the Honda Accord, Volkswagen Passat, and Buick Regal.[20]

To defend their home market turf, domestic Chinese firms have been pursuing Western automotive companies, their assets, and research capabilities, as demonstrated by Geely Automobile's acquisition of Volvo, as well as joint ventures to share latest designs, technology, and manufacturing expertise. Such sharing has helped China become a car exporter,[21] putting increasing pressure on the likes of GM, VW, Ford, and other industry giants which are losing market share and sales to home-grown foreign rivals. In fact, BYD Auto, a Chinese battery maker, has been focusing on the design and manufacture of an electric car, which it is positioning for the North American market early this decade.[22] In light of domestic market constraints, including pollution and greenhouse gas emissions, and the need to decrease reliance on

[19] See Jeff Galvin, Jimmy Hexter, and Martin Hirt, "Building a Second Home in China," *The McKinsey Quarterly* (June 2010), accessed July 1, 2010, http://www.mckinseyquarterly.com/article.
[20] See, for example, Dan Lienert, "The Rising Chinese Car Market," Forbes.com (2003), accessed March 7, 2011, www.forbes.com/2003/12/15/cx_dl_1215feat.html.
[21] http://parts.olathetoyota.com/2011-car-sales-statistics.html
[22] See Ian Rowley, "China: Car Capital of the World?," *Businessweek*, May 18, 2009.

fossil fuels, Chinese carmakers could very well leapfrog current engine technology and develop strong competitive advantage in hybrid, electric, or other leading technologies.[23] However, marketing, as conducted by leading Western global firms, is a nascent practice in China, where home-grown companies develop products for the local market on the basis of experience with customer needs or intuition. Formal market research that leads to a more detailed understanding of the target market and which propels product and service innovation has been rare but is a growing practice. Coca-Cola, P&G, and Colgate-Palmolive are examples of global packaged-goods firms which are competing across categories in the Chinese market based on their years of experience in sophisticated marketing research techniques and protocols, product development, and brand management.[24] Despite these strong marketing programs, many globalizing firms continue to make mistakes, such as segmenting groups and roll-out strategies as they would in more mature markets, instead of recognizing cultural and geographic differences in urban or smaller urban markets across China's vast country market.[25]

Table 1-3 shows the top 10 of the *Forbes* Global 2000, a list of global companies for 2010 ranked in terms of market capitalization—that is, the market value of all shares of stock outstanding. Table 1-4 provides a different perspective: the top 10 of *Forbes'* 2010 ranking of the largest global firms by revenues.[26] Comparing the top 10

TABLE 1-3 The World's Largest Corporations by Market Value (US$Billions), April 2010[27]

Rank	Company/Country	Industry	Market Value
1	PetroChina/China	Oil & Gas	$333.84
2	ExxonMobil/US	Oil & Gas	308.77
3	Microsoft/US	Software Services	254.52
4	ICBC/China	Banking	242.23
5	Wal-Mart Stores/US	Retail	205.37
6	China Mobile (HK-China)	Telecom	199.73
7	BHP Billiton/Australia/UK	Materials	192.46
8	Berkshire Hathaway/US	Financials	190.86
9	Petrobras/Brazil	Oil & Gas	190.34
10	Apple/US	Tech, Hardware, & Equip	189.51[28]

[23] Filipe Barbosa and Damian Hattingh, "Applying Global Trends: A Look at China's Auto Industry," *The McKinsey Quarterly* (July 2010), accessed August 23, 2010, http://www.mckinseyquarterly.com.

[24] See Andrew Martin, "Smelling An Opportunity: P&G Capitalizes By Expanding Brand Outside the Home," *The New York Times*, December 9, 2010.

[25] Galvin, Hexter, and Hirt, "Building a Second Home in China."

[26] There are many different ways to value a global company, each of which creates a different ranking of the world's largest or most profitable companies. For example, the *Fortune* Global 500 ranking list is based on revenues. For the *Financial Times* Global 500, the ranking is based on market value or market capitalization, which takes a snapshot of the share price multiplied by the number of outstanding shares. Finally, the *Forbes* Global 2000 uses a combination of sales, profit, assets, and market value that are equally weighted to determine the top public companies. Each of the rankings has its own strengths and weaknesses. Even where a company is listed on one or more of the published rankings, market values, for example, can be different in light of timing or variations in accounting standards.

[27] *Forbes*, The Global 2000, April, 21, 2010, accessed December 13, 2012, http://www.forbes.com/lists/18/global-2000-10_The Global-2000_MktVal.html.

[28] Apple's market capitalization was $314.08 billion the first quarter of 2011.

TABLE 1-4 The Global 2000: Largest Companies by Revenue (US$ Billions), April 2010[29]

Rank 2010	Company/Country	Sales ($Bill)	Profits
1	Wal-Mart Stores/US	408.21	14.34
2	Royal Dutch Shell/ Netherlands	278.19	12.52
3	ExxonMobil/US	275.56	19.28
4	BP/UK	239.27	16.58
5	Toyota Motor/ Japan	210.84	−4.49
6	Sinopec-China Petroleum/China	208.47	4.37
7	ING Group/ Netherlands	167.49	−1.30
8	Total/France	160.68	12.10
9	Chevron/US	159.29	10.48
10	PetroChina/China	157.22	16.80

Since 1955, when the first Fortune 500 list was compiled, in excess of 1,800 companies have been included. Between 1975 and 1995, 60 percent of the companies on the *Fortune* 500 were replaced.[30]

companies in each table, it is striking to note that while five out of ten of the largest global firms measured by market value are North American, on the most profitable list of the *Forbes* 2000 2010 ranked companies, the top 10 global firms are from more diverse countries, including the Netherlands, UK, Japan, China, and France. In light of China's growth as an industrial exporter over the past decade, it is not surprising that three of the top 10 biggest global competitors are from China: PetroChina, China Mobile in telecommunications, and ICBC, the Industrial and Commercial Bank of China. Although two of the *Forbes* 2000 2010 top 10 largest global companies are in the oil and gas industry, five of the top 10 most profitable global firms are in oil and gas extraction, clearly beating out other industries such as banking, automobiles, retail, and high-tech services and equipment. Toyota of Japan is the only automobile company on either top 10 list, as compared with a decade ago when the top three global firms measured by revenue were in the automobile industry: General Motors, DaimlerChrysler, and Ford Motor Company. Wal-Mart Stores, being the largest global company based on sales, is only one of two global firms in the top 10 of both lists measured by market value and sales. It has organically grown to the top sales position over the past decade through a growth strategy of retail expansion and not through mergers and acquisitions.

MANAGEMENT ORIENTATIONS

The form and substance of a company's response to global market opportunities depend greatly on 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.[31] Management

[29] Adapted from "The Global 2000," Forbes.com. Ranked by Sales, April 2010, accessed March 8, 2011, http://www.forbes.com/lists/2010/18/global-2000-10_The-Global-2-10_Sales.html.

[30] W. Chan Kim and Renèe Mauborgne, "How to Discover the Unknown Market," *The Financial Times,* May 6, 1999, 12.

[31] Adapted from Howard Perlmutter, "The Tortuous Evolution of the Multinational Corporation," *Columbia Journal of Business* (January–February 1969).

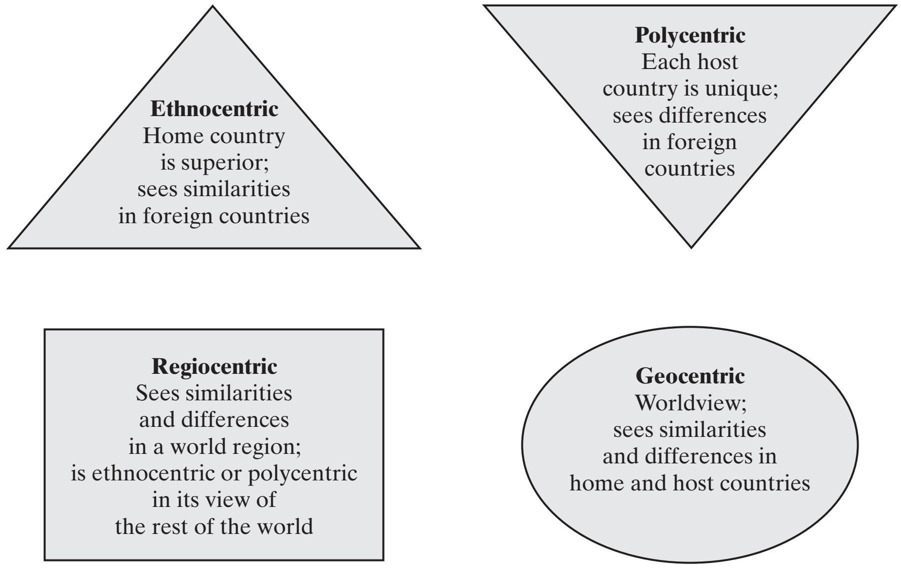

FIGURE 1-4 Orientation of Management and Companies

at a company with a prevailing ethnocentric orientation may consciously make a decision to move in the direction of geocentricism. The orientations—collectively known as the EPRG framework—are summarized in Figure 1-4.

Recent studies have demonstrated that the cognitive orientation of top-level management can either help propel organizations toward fast track internationalization—born globals—or toward lower-risk, international commitments such as exporting in the early phases of internationalization. These domestic mind-sets refer to management's knowledge and knowledge structures prior to going international and are based on cultural values and managerial experience and learning. They are the lens through which management perceives the environment and makes decisions. Activities that cultivate greater learning and knowledge creation can lead to a management mind-set which fosters, for example, new ways to compete and differentiate offerings from competitors. In other words, a more complex knowledge base can lead to stronger and often faster or earlier international commitment and risk taking. In contrast, consistent use of the same home market patterns of competition and business activity can lead to inertia, which may prevent firms from expanding both their mind-sets and markets.[32]

In later chapters, we will discuss global organizational design and the importance of management of human resources and talent capital worldwide. For now, it is important to note that cognitive orientations of management are vital to enterprise-wide growth and expansion strategies.[33]

Ethnocentric Orientation

A person who assumes his or her home country is superior compared with the rest of the world is said to have an ethnocentric orientation. The ethnocentric orientation means company personnel see only similarities in markets and assume the products and

[32] Sucheta Nadkarni and Pedro David Perez, "Prior Conditions and Early International Commitment: The Mediating Role of Domestic Mindset," *Journal of International Business Studies*, 38 (2007): 160–170.

[33] See, for example, Orly Levy, Schon Beechler, et al., "What We Talk About When We Talk About 'Global Mindset': Managerial Cognition in Multinational Corporations," *Journal of International Business Studies*, 38 (2007): 231–258.

practices that succeed in the home country will, due to their demonstrated superiority, be successful anywhere. At some companies, the ethnocentric orientation means that opportunities outside the home country are ignored. Such companies are sometimes called domestic companies. Ethnocentric companies that do 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 and, therefore, can be sold everywhere without adaptation.

In the ethnocentric international company, foreign operations are viewed as being secondary or subordinate to domestic operations. An ethnocentric company operates under the assumption that tried and true headquarters' knowledge and organizational capabilities can be applied in other parts of the world. Although this can sometimes work to a company's advantage, valuable managerial knowledge and experience in local markets may go unnoticed. For a manufacturing firm, ethnocentrism means foreign markets are viewed as a means of disposing of surplus domestic production. Plans for overseas markets are developed utilizing policies and procedures identical to those employed at home. No systematic marketing research is conducted outside the home country, and no major modifications are made to products. Even if consumer needs or wants in international markets differ from those in the home country, those differences are ignored at headquarters.

Fifty years ago, most business enterprises—and especially those located in a large country such as the United States—could operate successfully with an ethnocentric orientation. Today, ethnocentrism is a fatal orientation for companies who are competing in a global or globalizing industry.

Polycentric Orientation

The polycentric orientation is the opposite of ethnocentrism. The term *polycentric* describes management's often unconscious 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 in order to succeed; the term *multinational company* is often used to describe such a structure. An executive offered the following description of his polycentric company: "We were like a medieval state. There was the king and his court, but it was the in-country barons who were in charge. The king and his court might declare this or that, but the land barons went and did their thing."

Regiocentric and Geocentric Orientations

In a company with a regiocentric orientation, management views regions as unique and seeks to develop an integrated regional strategy. For example, a European company that focuses its attention on the EU or Europe is regiocentric. A company with a geocentric orientation views the entire world as a potential market and strives to develop integrated world market strategies. A company whose management has a regiocentric or geocentric orientation is a global or transnational company.[34]

[34] Although the definitions provided here are important, to avoid confusion we will use the term *global marketing* when describing the general activities of global companies. Another note of caution is in order: usage of the terms *international, multinational,* and *global* varies widely. Alert readers of the business press are likely to recognize inconsistencies; usage does not always reflect the definitions provided here. In particular, companies that are global as defined in this book are often described as multinational enterprises (abbreviated MNE) or multinational corporations (abbreviated MNC). The United Nations prefers the term *transnational company* rather than *global company.* When we refer to an international company or a multinational, we will do so in a way that maintains the distinctions described in the text.

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. Many companies seek to strengthen their regional competitiveness as a first stage in globalization rather than moving directly to worldwide operations. These companies have a global strategy and are focusing on establishing a regional competitive advantage as the first stage of globalization.

The ethnocentric company is centralized in its marketing management, the polycentric company is decentralized, and the regiocentric and geocentric companies are integrated on a regional and global scale, respectively. A crucial difference between the 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 impossible and futile to attempt to transfer experience across national boundaries, except in exceptional cases where the product or service is driven to global standards and has become a truly global product. The geocentric company believes that there are similarities and differences in markets and that they can create the greatest value by recognizing when to extend a global element of their offer and when to adapt to regional, national, and subnational differences.

DRIVING AND RESTRAINING FORCES

The remarkable growth of the global economy over the past 60 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. Over the past two decades, changes in the global business environment have presented significant challenges to the more industrial-age, purely domestic ways of doing business. The growing importance of global marketing stems from the fact that driving forces have significantly more momentum than restraining forces in defining the competitive global environment. The forces affecting global integration are shown in Figure 1-5.

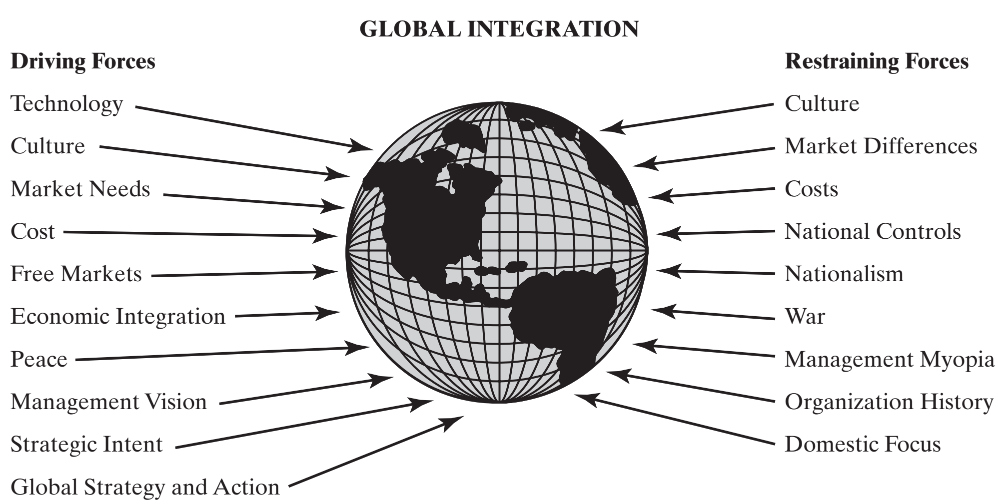

FIGURE 1-5 Global Integration

Driving Forces

Converging market needs and wants; technology advances; pressure to cut costs; pressure to improve quality; access to labor, talent, raw materials and energy needs; dramatic improvements in communication and transportation technologies; global economic growth; and opportunities for leverage, all represent important driving forces. Almost all industries are subject to these forces and, therefore, are candidates for globalization.

TECHNOLOGY Technology is a significant, universal factor that crosses national, regional, and cultural boundaries. Technology is truly stateless; there are no cultural boundaries limiting its application. Once a technology is developed, it soon becomes available everywhere in the world. With 43 percent of the world's online population residing in Asia, China accounts for 17 percent of the global online population. China will have 1.3 billion subscribers and 957 million mobile web users by 2014 and has already surpassed the United States in the use of mobile Internet apps.[35] India's Internet population has grown to 71 million. Japan has about 21.8 million social network users, with about one-half actively managing their profiles. The Philippines has more than 106 million Facebook users and is ranked eighth in the world for countries with the highest number of residents using the social networking site. This growing phenomenon of online and mobile use supports Levitt's prediction concerning the emergence of global markets for standardized products. In his landmark Harvard Business Review article, Levitt anticipated the communication revolution that has, in fact, become a driving force behind global marketing[36] and the emergence of a true global village. The Internet's first ad appeared in October 1994 on Wired magazine's news site. It was part of the AT&T's "You Will" campaign showcasing technologies of the future—most of which we now take for granted.[37] It's "tech's time of tumult" and an historic moment in the history of technology and its innovations as the world shifts to a mobile, ad-supported, on-demand, socially connected, truly global network.[38] In regional markets such as Europe, the increasing overlap of advertising across national boundaries along with the mobility of consumers and their awareness of the latest trends and technologies have created opportunities for marketers to pursue pan-European product positioning.

The new goal and opportunity is to make marketing personal and individualized around the world. The Internet differs from previous disruptive technologies like the telephone, automobile, radio, and television. It connects companies to a ready-made marketplace: a multitrillion dollar network of connections spanning the globe with an access point to billions of customers located around the world, every day all day. Web 2.0 companies such as Facebook, LinkedIn, and YouTube and their online communities are powerful platforms for creating customer loyalty, building brands, co-creating products and business strategy, extracting more value from interactions, and tapping into the world of talent.

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[35] The Nielsen Company, as reported by Jack Marshall, ClickZ online newsletter (August 6, 2010), accessed August 8, 2010.

[36] Levitt, "The Globalization of Markets."

[37] Just over ten years ago, Sir Tim Berners-Lee, the inventor of the web, said, "I have a dream for the web [in which computers] become capable of analyzing all the data on the web—the content, links, and transactions between people and computers. A 'Semantic Web' which should make this possible, has yet to emerge, but when it does, the day-to-day mechanisms of trade, bureaucracy, and our daily lives will be handled by machines talking to machines. The 'intelligent agents' people have touted for ages will finally materialize." As reported by Vin Crosbie, "The New Media Stone Age," ClickZ online newsletter (February 6, 2009), accessed February 6, 2009, http://www.clickz.com/clickz/column/1709191/the-new-media-stone-age.

[38] David Kirkpatrick, "Tech's Time of Tumult," CNNMoney Fast Forward Newsletter (October 19, 2007), accessed October 19, 2007, CNNMoney.com.

REGIONAL ECONOMIC AND POLITICAL AGREEMENTS A number of multilateral trade agreements have accelerated the pace of global integration. Examples include the mother of all regional unions, the European Union, which began after World War II as a free trade union and is today an economic and political union with a common currency, the euro. The EU includes 27 countries, 17 of which are in the euro zone. In addition, there are four candidate member states: Turkey, Croatia, Iceland, and the Former Yugoslav Republic of Macedonia.

The North American Free Trade Agreement (NAFTA) was signed by the governments of Canada, Mexico, and the United States, creating a free trade area in North America. The agreement came into force on January 1, 1994. It superseded the Canada–United States Free Trade Agreement signed in 1989.

The General Agreement on Tariffs and Trade (GATT), which was ratified by more than 120 nations in 1994, was replaced by the World Trade Organization to promote and protect free trade, but has come under attack by developing countries. The goal of several of the multilateral agreements is to facilitate South–South trade such as between Latin American (Mercosur also known as the Southern Common Markets) or African countries. The Commonwealth of Independent States (CIS) exists between 11 of the former 15 Soviet Republics. APEC (Asia-Pacific Economic Cooperation) is made up of 21 members, most with a coastline on the Pacific Ocean. The ASEAN Free Trade Area was created to promote regional stability and foster economic growth among its 10 Southeast Asian country members.

MARKET NEEDS AND WANTS A study of markets around the world reveals cultural universals as well as cultural differences. The common elements of human nature provide an underlying basis for the opportunity to create and serve global markets. The word *create* is deliberate. Most global markets do not exist in nature; they must be created by marketing effort. For example, no one needs soft drinks, and yet today, in some countries, per capita soft-drink consumption exceeds the consumption of water. Marketing has driven this change in behavior, and today the soft-drink industry is global. Consumer needs and wants around the world are converging today as never before. This creates an opportunity for global marketing. Multinational, multicountry strategy companies pursuing strategies of product adaptation run the risk of being overtaken by global competitors that have recognized opportunities to serve global customers with global products. Philips Lighting, the world's largest producer of industrial and consumer lighting products, is playing a large role in the ongoing global transformation from incandescent to solid-state lighting using LED technology. Focusing on worldwide innovation, Philips understands that new technology is "just a vehicle to respond to needs.…It's really about [looking] outside and understanding what the market needs are, what the future applications are, what the requirements are for lighting solutions and experiences in various places and spaces."[39]

Market needs and consumer desires will, in great part, be defined by the growing middle class of emerging economies. Until recently, the world's middle class has been located in the triad of Europe, North America, and Japan. In 2000, developing countries accounted for 56 percent of the global middle class. By 2030, this figure is expected to reach 93 percent, with China and India accounting for two-thirds of the growth. As a result, multinationals, which have viewed developing economies largely as a source of cheap labor, are now in the position to benefit from workers now able to afford more than life's necessities. In almost every country, the growing middle

[39] "Philips Lighting CEO Rudy Provost: Innovation Means Putting Consumers' Needs First," Knowledge@ Wharton (February 20, 2008), accessed February 25, 2008, http://knowledge.wharton.upenn.edu/article.

class spurs market trends and the creation of new products.[40] The global push to address this growing worldwide, middle-class, consumer audience is comprised of multifaceted integrating forces, such as digital information networks and globally integrated R&D, marketing programs, and distribution channels.[41]

Global customers, and not only those in the middle class, are suddenly beginning to look similar across international markets, and this similarity itself is an integrating force. For example, Japanese consumers are similar to consumers in Europe and the United States in their interest in seeking quality, value, and convenience and a less expensive product. Japanese consumers, like their European and North American counterparts, are flocking to discount and online retailers. Affordable private-label foods have increased significantly, and many consumers across the globe, despite smaller living spaces, are purchasing in bulk, eating at home instead of at restaurants, and packing their own lunches. This shift in attitude toward more cost consciousness and economy is projected to continue despite any longer term, global economic recovery.[42]

TRANSPORTATION AND COMMUNICATION IMPROVEMENTS The time and cost barriers associated with distance have fallen tremendously over the past 100 years. The jet airplane revolutionized communication by making it possible for people to travel around the world in just over one day's time. Tourism enables people from many countries to see and experience the newest products being sold abroad. One essential characteristic of the effective global business is face-to-face, real-time communication among business leadership and employees and between the company and its customers. Along with modern jet travel, communication technologies, which range from simple point-to-point voice communication to multiparty, multichannel, and multimedia applications, are reducing the barriers of distance and time. Examples of communications technology platforms include cellular systems, wireless LANs, and wireless personal area networks. Basic communications technology such as e-mail, fax, and pagers are found worldwide. Skype is a popular example of a VoIP (Voice over Internet Protocol) product,[43] with an estimated 600 million accounts worldwide. VoIP allows customers, executives, and managers to conduct business face-to-face in real time from virtually any part of the globe at almost no cost.

A similar revolution has occurred in transportation technology. Physical distribution has declined in terms of cost; the time required for shipment has been greatly reduced. For example, a distributor of a tablet PC located in Austin, Texas, can have the product shipped from a manufacturer outside Shanghai by FedEx Corp. in a total of five days. With finished product delivered to a truck, loaded on a plane in Shanghai to Anchorage, and then delivered by a series of flights and trucks to Austin, FedEx has become a de facto partner in thousands of retail operations around the globe, eliminating warehousing and inventory costs and offering competitive air express rates. This just-in-time value proposition offered by FedEx has made it number one in the China–US air express market.[44] With transport capabilities increasing and cost decreasing, distance factors matter less. For example, the per-unit cost of shipping automobiles from Japan and

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[40] "The New Global Middle Class: Potentially Profitable—But Also Unpredictable," Knowledge@Wharton (July 9, 2008), accessed August 25, 2008, http://knowledge.wharton.upenn.edu/article.

[41] See, for example, Christopher P. Beshouri, "A Grassroots Approach to Emerging-Market Consumers," *The McKinsey Quarterly*, no. 4 (2006), accessed January 15, 2007, http://www.mckinseyquarterly.com/article.

[42] Brian Salsberg, "The New Japanese Consumer," *The McKinsey Quarterly* (March 2010), accessed March 12, 2010, http://www.mckinseyquarterly.com/article.

[43] Skype was first released in 2003, written by Estonian developers Ahti Heinla, Priit Kasesalu, and Jaan Tallinn. It has developed into a platform with over 600 million users and was acquired by Microsoft in 2011 for $8.5 billion; Wikipedia, Skype, accessed December 12, 2012.

[44] Dean Foust, "Taking Off Like 'A Rocket Ship,'" *Businessweek*, April 3, 2006, 76.

Korea to the United States by specially designed auto-transport ships is less than the cost of overland shipping from Detroit to either US coast.

PRODUCT DEVELOPMENT COSTS The pressure for globalization is intense when new products require major investments and long periods of development time. The pharmaceuticals industry provides a striking illustration of this driving force. According to the Pharmaceutical Manufacturers Association (PMA), the cost of developing a new drug in 1976 was $54 million; by 1982, the cost had increased to $87 million. By 1993, the cost of discovering, developing, and launching a new drug had reached $359 million,[45] and by 2003, studies indicate the cost had more than doubled to $802 million.[46] Other estimates indicate that costs may have more than quadrupled during the same time period to 1.7 billion.[47] The same kind of expenditures and development times are common in other industries. These outlays provide an incentive to expand globally to recover costs of discovery and development and realize the potential returns of additional market revenue.

QUALITY Global marketing strategies can generate greater revenue and greater operating margins, which, in turn, support the cost of world-class design and manufacturing quality. A global and a domestic company may each spend 5 percent of sales on R&D, but the global company will have many times the total revenue of the domestic because it serves the world market. Global companies raise the bar for all competitors in an industry. Global competition has forced all companies to improve quality. For truly global products, uniformity can drive down research, engineering, design, and production costs across business functions. Quality, uniformity, and cost reduction were all driving forces behind Ford's development of its "World Car." Manufacturing of the 2012 Focus, an all-new sedan and five-door hatchback, ramped up at Wayne Assembly in Michigan. Across the Atlantic, Ford's Saarlouis factory in Germany built virtually the same cars for Europeans. Manufacturing plants in Louisville, Kentucky (US), Vsevolozhsk, St Petersburg (Russia), and the Valencia plant in Spain were also scheduled to build the new-shape models. The global Focus is built and sold in the United States; the availability of diesel engines and a wagon body style in Europe will be the only significant regional differentiators for the model series in global markets.[48]

The global success or failure of this new Focus, the idea of engineering one car, one platform, one set of powertrains for one model that will be sold in the same segment the world over, is the true test of Ford's goal to become a global vehicle manufacturer.

WORLD ECONOMIC TRENDS There are three reasons why economic growth has been a driving force in the expansion of the international economy and the growth of global marketing. First, world growth has created market opportunities that provide a major incentive for companies to expand globally. At the same time, slower growth in a company's domestic market can signal the need 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

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[45] PMA figures cited in T. W. Malnight, "Globalization of an Ethnocentric Firm: An Evolutionary Perspective," *Strategic Management Journal*, 16, no. 2 (2006): 123.
[46] Joseph A. DiMasi, Ronald W. Hansen, and Henry G. Grabowski, "The Price of Innovation: New Estimates of Drug Development Costs," *Journal of Health Economics* (February 2003).
[47] "Has the Pharmaceutical Blockbuster Model Gone Bust?," Bain & Company press release (December 8, 2008).
[48] Glenn Brooks, "All Eyes Focus on Alan Mulally's One Ford Strategy," AutomotiveWorld.com (March 17, 2011), http://www.automotiveworld.com/news//86323-all-eyes-focus-on-alan-mulally-s-one-ford-strategy

a country is growing rapidly, policy makers are likely to look favorably on outsiders. A growing country means growing markets; there is often plenty of opportunity for everyone. In a growing market, it is possible for a foreign company to enter a domestic economy and establish itself without taking business away from local firms. Without economic growth, global enterprises may indeed take business away from domestic ones. Domestic businesses are more likely to seek governmental intervention to protect their local position if markets are not growing.

Worldwide movement toward deregulation and privatization is another driving force. The trend toward privatization is opening up formerly closed markets significantly, and tremendous opportunities are being created as a result. For example, when a nation's telephone company is a state monopoly, it is much easier to require it to buy only from national companies. An independent, private company will be more inclined to look for the best offer, regardless of the nationality of the supplier. Privatization of telephone systems around the world is creating opportunities and threats for every company in the industry.

LEVERAGE A global company possesses the unique opportunity to develop leverage. Leverage is simply some type of advantage that a company enjoys by virtue of the fact that it conducts business in more than one country. Four important types of leverage are experience transfers, scale economies, resource utilization, and global strategy.

1. *Experience transfers.* A global company can leverage its experience in any market in the world. It can draw on management practices, strategies, products, advertising appeals, or sales or promotional ideas that have been tested in actual markets and apply them in other comparable markets.
2. *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 produced by combining components manufactured in scale-efficient plants in different countries. Globalizing firms continue to look to economies of scale in their merger and acquisition activities as well as their overall global manufacturing strategy.

   Leverage from scale economies is not limited to manufacturing. Economies of scope, advantages gained by providing services across several product categories or geographical markets, drive industries toward globalization. For example, global firms such as Procter and Gamble, Colgate-Palmolive, and Unilever, in the household and personal care product categories, derive significant benefits from sharing the same distribution, marketing, design, and research capabilities across product categories and customer needs. By centralizing functional activities, global firms also create opportunities to improve corporate staff competence and quality, and affect worldwide corporate culture.
3. *Resource utilization.* A major strength of the global company is its ability to scan the entire world to identify people, money, and raw materials and use them effectively to compete in world markets. For many, if not all companies, talented people are a prime source of competitive advantage. The digital global economy is fueled by intellectual capital and the sharing of knowledge across worldwide enterprises. Global managers recognize that flat and networked organizations populated by empowered employees and managers are indispensable to quick decision making and response to rapidly changing marketplace demands. This is equally true for established companies and start-ups. Executives worldwide rank human performance and attracting and retaining people as their number one strategic priority. Global investment in human performance areas will be critical to building cross-cultural human talent. These include creating a high–performance

workforce by matching talent with the right global opportunities, measuring and developing talent in real time and across borders, and linking workforce goals to business strategy and results. Building human assets involves understanding how a new generation of employees and corporate leadership from all points of the globe will function.

4. *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 in the chapter. 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 is survival.

BOX 1-1

Side Bar: Nokia "Blinded by the Light"[49]

Why do individuals and organizations fail to see the need for change? Answer: We fail to see because we are blinded by the light of what we already see.

In 2000, Motorola was displaced by Nokia, a Finnish company emerging as a global competitor from nowhere during the shift from analog to digital phones in the 1990s. Nokia had been through several transformations since it was founded in 1865 as a pulp mill in Southern Finland. After purchasing a cable company, electronics accounted for only 3 percent of the company's business. In the 1980s, Nokia moved into several new businesses, including television manufacturing and information technology. By 1994, Nokia had divested its other divisions to focus on telecommunications. At that time, it had over 50,000 employees at 17 production plants in nine countries and 14 R&D facilities in 14 countries. By the early 2000s, both Nokia and Motorola were being challenged by Asian consumer-electronics companies such as Samsung, Sanyo, LG, and Sony Ericsson. The Asian electronics companies got the leg up on incorporating new multimedia capabilities into mobile telephony because of the rapid growth of Asian data networks conducive to these new capabilities and the growing Asian consumer demand. At the same time, wireless carriers sought to highlight their own brand names and services along with manufacturers' brands, to the detriment of Nokia's traditionally strong brand and marketing. Until this time, Nokia had done a good job of combining technology and marketing new and fashionable products to its customers.

By the early 2000s, the global market was essentially split into two markets: replacement markets in regions such as Western Europe and North America which continued to drive sales, and new sales in emerging markets such as Africa, parts of Eastern Europe, and China. By 2003, Nokia led the worldwide mobile handset industry with over one-third of the market with strong growth in Asia/Pacific, Central and Eastern Europe, and the Middle East and Africa. Through 2007, Nokia saturated the mobile phone market with everything from expensive, often stylish multicapacity phones to basic models after learning lessons from Motorola and its misplaced reliance on a few top-selling models such as the Razr. Management of Nokia's supply chain, manufacturing, and marketing was arguably the best in the world. They had a strong head start in the fast-growing markets of China and India. Nokia's global market share reached almost 40 percent, twice the combined share of its two closest rivals, Motorola and Samsung Electronics.

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[49] *Nokia "Blinded by the Light"* adapted from J. Stewart Black and Hal B. Gregersen, *It Starts With One: Changing Individuals Changes Organizations* (Upper Saddle River, NJ: Pearson Education Inc., Wharton School Publishing, 2008).

Yet, by 2007, despite the steady increase of unit sales, annual revenues were decreasing. Sales in developing regions such as India, China, and Latin America were shifting Nokia's sales mix to less lucrative models. Operating margins that had been above 20 percent were dropping significantly. New management had to find alternative avenues of growth, address sliding profit margins, and confront ever-stronger competitors. Motorola, Samsung, and LG Electronics were creating products targeted to the middle class in emerging markets as well as the ultra-inexpensive phones, both Nokia's mainstay products. As phone sales accounted for 60 percent of Nokia's revenues, leadership pushed R&D efforts by investing more than $8 billion in 2008 and sped to market higher-end products. Even earlier than 2007, there were signs of Nokia's fallibility. It lagged in offering mobile phone color-screens and trailed Motorola in supporting enhanced European GSM standards. Shelves were chock-full of sleek Samsung flip phones, new fashionable designs by Sony Ericsson, and big-screen color models by Sharp and Sagem. Nokia failed to anticipate changes in North American consumer tastes such as flip phones and touch screens, instead it continued its practice of mass production for the global market to reduce production costs. In addition, Nokia had only a small market share in CDMA phones—a growing segment dominated by Samsung and used by an estimated one-half of the American market—and lagged in camera phones that transmit photos—wireless technology then dominated by Japanese firms such as NEC, which leveraged their decades of experience making consumer electronics to produce multimedia phones.[50]

"Nokia misread the market," said one industry analyst. "When markets start to evolve from the low end to being more modern, Nokia's share usually starts to fall," said another influential analyst.[51] If in fact Nokia lost its feel for consumer taste and demands, it began to cast a wider net for high-margin growth opportunities outside of traditional handsets; they moved toward the "convergence market" through efforts of their multimedia group and focused on exploiting Nokia's technology assets with new standardized, yet flexible software and new modular hardware. In 2008, Nokia purchased London-based Symbian, the leading maker of operating system software for advanced mobile phones, the smartphone. This move was intended to counter new entrants to the competitive field including Apple and Google. Google backed the Android operating system with the goal of creating a web-friendly software platform, and Apple raised the bar and redefined the market with its popular iPhone and expansive support for software development, mobile applications.

Nokia continued to lose ground in the smartphone market—its global share fell to 28 percent at the end of 2010, down almost 10 percent from a year earlier. Mr. Elop, Nokia's chief executive, stated that Nokia found itself losing in "a war of ecosystems," including software, games, advertising, search, and other mobile services.[52] Mr. Elop acknowledged Nokia had to take bold action to make up for lost ground.[53] Historically, even tech giants have had a difficult time playing catch up with new leaders redefining the market. Xerox, Lucent, Kmart, IBM, and Sony are a few of the past giants who have floundered and sometimes failed because they didn't recognize disruptive market changes, the influences of market newcomers on customer needs, technology trends, or the introduction of new products with greater value.

"Every major personal or company change rarely occurs in isolation but contains a context, a history. In virtually every case, individuals or companies were doing the right thing and doing it well before something in the environment changed."[54] Although Nokia continues to sell more smartphones than any other company globally, to address the shifting landscape it has formed an alliance with Microsoft and will switch from Symbian to Windows Phone software on its smartphones. With HP's purchase of Palm in 2010, the competitive field continues to shift. No longer business leading consumers, consumers are leading business strategy.[55]

[50] Kevin O'Brien, "Nokia Struggles to Regain Market Share in the U.S.," *The New York Times,* November 3, 2009.
[51] Jack Ewing, "Mad Dash for the Low End," *Businessweek,* February 18, 2008.
[52] Steve Lohr, "Playing Catch-Up: Nokia and HP Try To Innovate," *The New York Times*, February 10, 2011, B1.
[53] Ibid.
[54] "Of Cell Phones, Maps, and Mental Models: Why Doing What Was Right is Sometimes Wrong," Knowledge@ Wharton (August 2008), http://knowledge.wharton.upenn.edu/article
[55] Randall Stross, "Microsoft+Nokia=A Challenge for Apple," *The New York Times*, April 3, 2011.