7 Understanding and Reaching Global Consumers and Markets

LEARNING OBJECTIVES

After reading this chapter you should be able to:

LO 7-1 Describe the nature and scope of world trade from a global perspective.

LO 7-2 Identify the major trends that have influenced world trade and global marketing.

LO 7-3 Identify the environmental forces that shape global marketing efforts.

LO 7-4 Name and describe the alternative approaches companies use to enter global markets.

LO 7-5 Explain the distinction between standardization and customization when companies craft worldwide marketing programs.

Building a Two Billion Dollar Business in India the Dell Inc. Way

Why did Dell Inc. embark on a bold global growth initiative in 2007? In the words of Steve Felice, former president of Dell Asia-Pacific and Japan, “Our success was going to be largely dependent on our ability to expand globally.”

Dell’s global initiative focused on emerging economies in Asia, Africa, and Latin America. Compared with mature economies in North America and Western Europe, emerging economies offered significant growth potential, according to Michael Dell, Dell’s founder and chief executive officer. And Dell’s global strategy has proven successful. India is a major growth market for Dell Inc. and now posts annual sales of $2.5 billion. Dell employs some 25,000 people in India, which represents about one-fourth of its global workforce.

Dell’s global initiative was bold in its departure from prior product development practices. Prior to its global initiative, Dell designed products for global requirements and distributed the same product globally. The company now routinely designs low-cost notebook, tablet, laptop, and desktop personal computers for customers in China, India, and other emerging economies.

Dell’s global initiative also required many changes in its signature direct sales, service, and distribution strategy. The company built its U.S. business with telephone- and Internet-based sales—without retailers. However, in emerging economies and India, customers prefer to see, touch, and use a personal computer before they buy. In response, Dell uses individual sales affiliates who reach out to customers in person and give them a firsthand product experience at their doorstep.

At the same time, Dell joined hands with Indian chain retailers such as Croma and eZone for a shop-in-a-shop counter for its products. Dell backs this hybrid retail model by offering extended onsite service (technicians who visit individuals’ homes) in over 650 cities to both retail and small business customers.

Dell also opened Dell exclusive stores in 2008. According to a company spokesperson, “The exclusive Dell store is a step towards enhancing the overall purchase experience for consumers in India. We have rapidly increased our presence in the consumer market here with new products and by expanding our reach. With the launch of Dell exclusive stores, we offer our customers the touch and feel for Dell branded products within a unique shopping experience.”

Each Dell exclusive store offers the advantages of Dell’s direct purchasing model with the additional benefit of retail availability—allowing customers to browse, touch, and feel the product. Dell’s approach makes it possible for customers to see the products on the retail shelves and then place an order for the preferred model with the choice to customize the looks and configuration of the unit. By 2015, Dell had 400 exclusive stores in India.

Dell's global initiative also involved a new advertising campaign, with Dell opting for real-life successful entrepreneurs in India to endorse its products. The "Take Your Own Path" advertising campaign has proven to be highly effective. Dell's success in India illustrates the importance of understanding global customers and reaching them by adapting to their specific needs and preferences.[1]

This chapter describes today's complex and dynamic global marketing environment. It begins by describing the dynamics of world trade and major trends that have influenced the landscape of global marketing. Attention is then focused on prominent cultural, economic, and political-regulatory factors that present both an opportunity and a challenge for global marketers. Four major global market entry strategies are then detailed, including the advantages and disadvantages of each. Finally, the task of designing, implementing, and evaluating worldwide marketing programs for companies such as Dell Inc. is described.

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DYNAMICS OF WORLD TRADE

LO 7-1

Describe the nature and scope of world trade from a global perspective.

The dollar value of world trade has more than doubled in the past decade. Manufactured products and commodities account for 75 percent of world trade. Service industries, including telecommunications, transportation, insurance, education, banking, and tourism, represent the other 25 percent.

All nations and regions of the world do not participate equally in world trade. World trade flows reflect interdependencies among industries, countries, and regions. These flows manifest themselves in country, company, industry, and regional exports and imports. The dynamics of world trade are evolving. China replaced the United States as the biggest country measured by world trade in 2015. Asia surpassed Western Europe as the largest region measured by world trade in 2015.[2]

Global Perspective on World Trade

The United States, China, Japan, Western Europe, and Canada together account for more than two-thirds of world trade in manufactured products and commodities. China is the world's leading exporter, followed by the United States and Germany. The United States is the world's leading importer, followed by China and Germany. China, Germany, and the United States remain well ahead of other countries in terms of imports and exports, as shown in **Figure 7–1**.

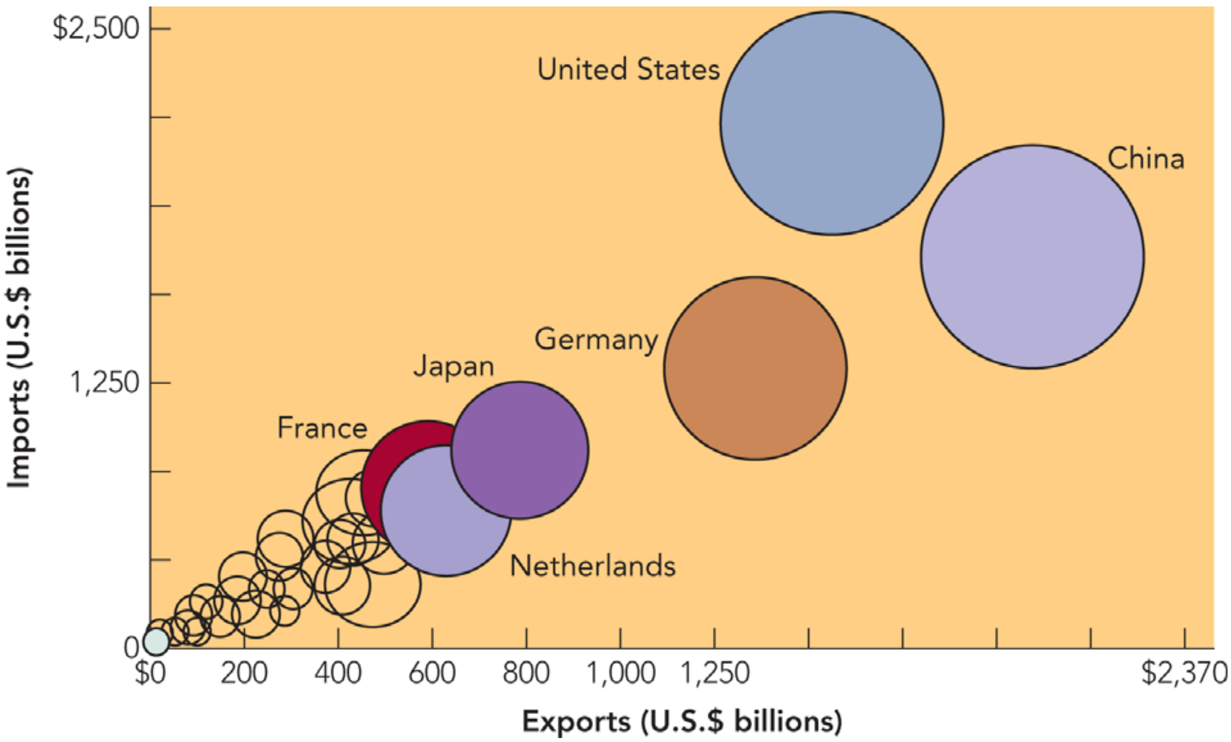

Figure 7–1 The United States, China, and Germany are the leaders in global merchandise trade by a wide margin. China exports more manufactured products and commodities than it imports. The United States imports more manufactured products and commodities than it exports. Read the text to learn about trends in U.S. exports and imports.

A global perspective on world trade views exports and imports as complementary economic flows: A country's imports affect its exports and exports affect its imports. Every nation's imports arise from the exports of other nations. As the exports of one country increase, its national output and income rise, which in turn leads to an increase in the demand for imports. This nation's greater demand for imports stimulates the exports of other countries. Increased demand for exports of other nations energizes their economic activity, resulting in higher national income, which stimulates their demand for imports. In short, imports affect exports and vice versa. This phenomenon is called the *trade feedback effect* and is one argument for free trade among nations.

Not all trade involves the exchange of money for products or services. In a world where 70 percent of all countries do not have convertible currencies or where government-owned enterprises lack sufficient cash or credit for imports, other means of payment are used. An estimated 10 to 15 percent of world trade involves **countertrade** , the practice of using barter rather than money for making global sales.

Countertrade is popular with many Eastern European nations, Russia, and Asian countries. For example, Daimler AG agreed to sell 30 trucks to Romania in exchange for 150 Romanian-made jeeps. Daimler then sold the jeeps in Ecuador in exchange for bananas, which it brought back to Germany and sold to a German supermarket chain in exchange for cash. When PepsiCo entered India, the Indian government stipulated that part of PepsiCo's local profits had to be to purchase tomatoes. This requirement worked for PepsiCo, which also owned Pizza Hut at the time.

United States Perspective on World Trade

The United States has been the world's perennial leader in terms of *gross domestic product (GDP)*, which is the monetary value of all products and services produced in a country during one year. The United States is also among the world's leaders in exports due in large part to its global prominence in the aerospace, chemical, office equipment, information technology, pharmaceutical, telecommunications, and professional service industries. However, the U.S. percentage share of world exports has shifted downward over the past 30 years, whereas its percentage share of world imports has increased. Therefore, the relative position of the United States as a supplier to the world has diminished despite an absolute growth in exports. At the same time, its relative role as a marketplace for the world has increased, particularly for automobile, oil, textile, apparel, and consumer electronics products.

The difference between the monetary value of a nation's exports and imports is called the **balance of trade** . When a country's exports exceed its imports, it incurs a surplus in its balance of trade. When imports exceed exports, a deficit results. World trade trends in U.S. exports and imports are reflected in the U.S. balance of trade.

Two important things have happened in U.S. exports and imports over the past 30 years. First, imports have exceeded exports each year, indicating that the United States has a continuing balance of trade deficit. Second, the volume of both exports and imports has increased dramatically, showing why almost every American is significantly affected. The effect varies from the products they buy (Samsung smartphones from South Korea, Waterford crystal from Ireland, Louis Vuitton luggage from France) to those they sell (Cisco Systems's Internet technology to Europe, DuPont's chemicals to the Far East, Merck pharmaceuticals to Africa) and the jobs and improved standard of living that result.

World trade flows to and from the United States reflect demand and supply interdependencies for goods and services among nations and industries. The four largest importers of U.S. products and services are, in order: Canada, Mexico, China, and Japan. These individual countries purchase approximately two-thirds of U.S. exports. The four largest exporters to the United States are, in order: China, Canada, Mexico, and Japan.

learning review

7-1. What country is the biggest as measured by world trade?

7-2. What is the trade feedback effect?

MARKETING IN A BORDERLESS ECONOMIC WORLD

LO 7-2

Identify the major trends that have influenced world trade and global marketing.

Global marketing has been and continues to be affected by a growing borderless economic world. Five trends have significantly influenced the landscape of global marketing:

Trend 1: Gradual decline of economic protectionism by individual countries.

Trend 2: Formal economic integration and free trade among nations.

Trend 3: Global competition among global companies for global customers.

Trend 4: Emergence of a networked global marketspace.

Trend 5: Growing prevalence of economic espionage.

Decline of Economic Protectionism

Protectionism is the practice of shielding one or more industries within a country's economy from foreign competition through the use of tariffs or quotas. The argument for protectionism is that it limits the outsourcing of jobs, protects a nation's political security, discourages economic dependency on other countries, and promotes development of domestic industries. Read the Making Responsible Decisions box and decide for yourself if protectionism has an ethical dimension.[3]

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Making Responsible Decisions Ethics

Global Ethics and Global Economics—The Case of Protectionism

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World trade benefits from free and fair trade among nations. Nevertheless, governments of many countries continue to use tariffs and quotas to protect their various domestic industries. Why? Protectionism earns profits for domestic producers and tariff revenue for the government. There is a cost, however. Protectionist policies cost Japanese consumers between $75 billion and $110 billion annually. U.S. consumers pay about $70 billion each year in higher prices because of tariffs and other protective restrictions.

Sugar and textile import quotas in the United States, automobile and banana import tariffs in European countries, shoe and automobile tire import tariffs in the United States, beer import tariffs in Canada, and rice import tariffs in Japan protect domestic industries but also interfere with world trade for these products. Regional trade agreements, such as those found in the provisions of the European Union and the North American Free Trade Agreement, may also pose a situation whereby member nations can obtain preferential treatment in quotas and tariffs but nonmember nations cannot.

Protectionism, in its many forms, raises an interesting global ethical question. Is protectionism, no matter how applied, an ethical practice?

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Tariffs and quotas discourage world trade, as depicted in **Figure 7–2**. **Tariffs** , which are a government tax on products or services entering a country, primarily serve to raise prices on imports. The average tariff on manufactured products in industrialized countries is 4 percent. However, wide differences exist across nations. For example, European Union countries have a 10 percent tariff on cars imported from Japan, which is about four times higher than the tariff imposed by the United States on Japanese cars.

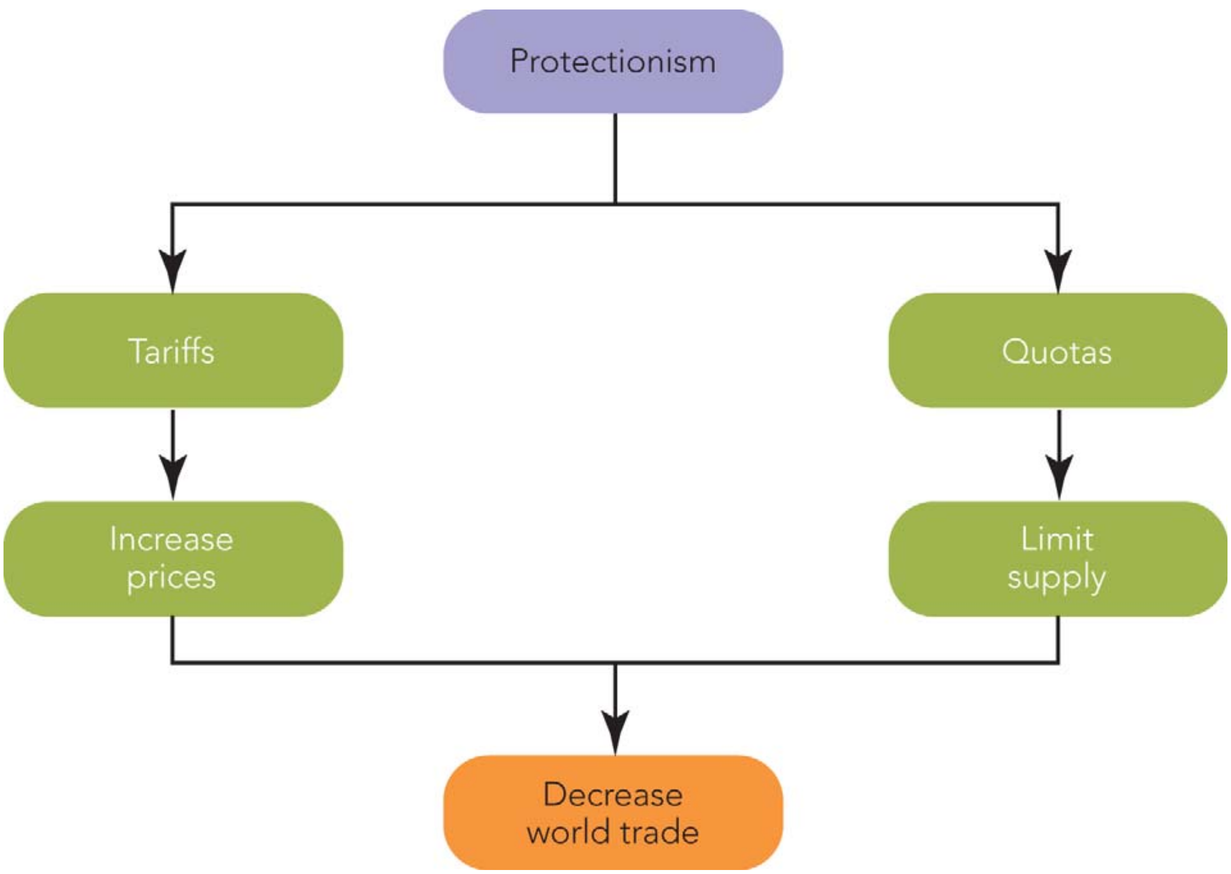


Figure 7–2 How does protectionism affect world trade? Protectionism hinders world trade through tariff and quota policies of individual countries. Tariffs increase prices and quotas limit supply.

The effect of tariffs on consumer prices is substantial. Consider U.S. rice exports to Japan. The U.S. Rice Millers' Association claims that if the Japanese rice market were opened to imports by lowering tariffs, lower prices would save Japanese consumers $6 billion annually, and the United States would gain a large share of the Japanese rice market. Tariffs imposed on bananas by European Union countries cost consumers $2 billion a year. U.S. consumers pay $5 billion annually for tariffs on imported shoes. Incidentally, 99 percent of shoes worn in the United States are imported.[4]

A **quota** is a restriction placed on the amount of a product allowed to enter or leave a country. Quotas can be mandated or voluntary and may be legislated or negotiated by governments. Import quotas seek to guarantee domestic industries access to a certain percentage of their domestic market. For example, there is a limit on Chinese dairy products sold in India, and in Italy there is a quota on Japanese motorcycles. China has import quotas on corn, cotton, rice, and wheat.

The United States also imposes quotas. For instance, U.S. sugar import quotas have existed for more than 70 years and preserve about half of the U.S. sugar market for domestic producers. American consumers pay $3 billion annually in extra food costs because of this quota. U.S. quotas on textiles are estimated to add 50 percent to the wholesale price of clothing for American consumers—which, in turn, raises retail prices.

The major industrialized nations of the world formed the **World Trade Organization (WTO)** in 1995 to address an array of world trade issues. There are 160 WTO member countries, including the United States, which account for more than 90 percent of world trade. The WTO is a permanent institution that sets rules governing trade between its members through panels of trade experts who decide on trade disputes between members and issue binding decisions. The WTO reviews more than 200 trade disputes annually.

Rise of Economic Integration

A number of countries with similar economic goals have formed transnational trade groups or signed trade agreements for the purpose of promoting free trade among member nations and enhancing their individual economies. Two of the best-known examples are the European Union (or simply EU) and the North American Free Trade Agreement (NAFTA). About 46 percent of all U.S. exports go to its free trade partners.

European Union

The European Union consists of 28 member countries that have eliminated most barriers to the free flow of products, services, capital, and labor across their borders (see **Figure 7–3**).[5] This single market houses more than 500 million consumers with a combined gross domestic product larger than that of the United States. In addition, 16 countries have adopted a common currency called the *euro*. Adoption of the euro has been a boon to electronic commerce in the EU by eliminating the need to continually monitor currency exchange rates.

Figure 7–3 The European Union in early 2016 consists of 28 countries with more than 500 million consumers.
European Union www.europa.eu.int

The EU creates abundant marketing opportunities because firms do not need to market their products and services on a nation-by-nation basis. Rather, pan-European marketing strategies are possible due to greater uniformity in product and packaging standards; fewer regulatory restrictions on transportation, advertising, and promotion imposed by countries; and the removal of most tariffs that affect pricing practices. For example, Colgate-Palmolive Company now markets its Colgate toothpaste with one formula and package across EU countries at one price. Black & Decker—the maker of electrical hand tools, appliances, and other consumer products—now produces 8, not 20, motor sizes for the European market, resulting in production and marketing cost savings. These practices were previously impossible because of different government and trade regulations. Europeanwide distribution from fewer locations is also feasible given open borders. French tire maker Michelin closed 180 of its European distribution centers and now uses just 20 to serve all EU countries.

North American Free Trade Agreement

The North American Free Trade Agreement (NAFTA) lifted many trade barriers between Canada, Mexico, and the United States and created a marketplace with more than 475 million consumers. NAFTA has stimulated trade flows among member nations as well as cross-border retailing, manufacturing, and investment. For example, NAFTA paved the way for Walmart to move to Mexico, and Mexican supermarket giant Gigante to move into the United States. Whirlpool Corporation's Canadian subsidiary stopped making washing machines in Canada and moved that operation to Ohio. Whirlpool then shifted the production of kitchen ranges and compact dryers to Canada. Ford invested $60 million in its Mexico City manufacturing plant to produce smaller cars and light trucks for global sales.[6]

A free trade agreement among Costa Rica, the Dominican Republic, El Salvador, Guatemala, Honduras, Nicaragua, and the United States extends many NAFTA benefits to Central American countries and the Dominican Republic. Called CAFTA-DR, this agreement is viewed as a step toward a 34-country Free Trade Area of the Americas for the Western Hemisphere.

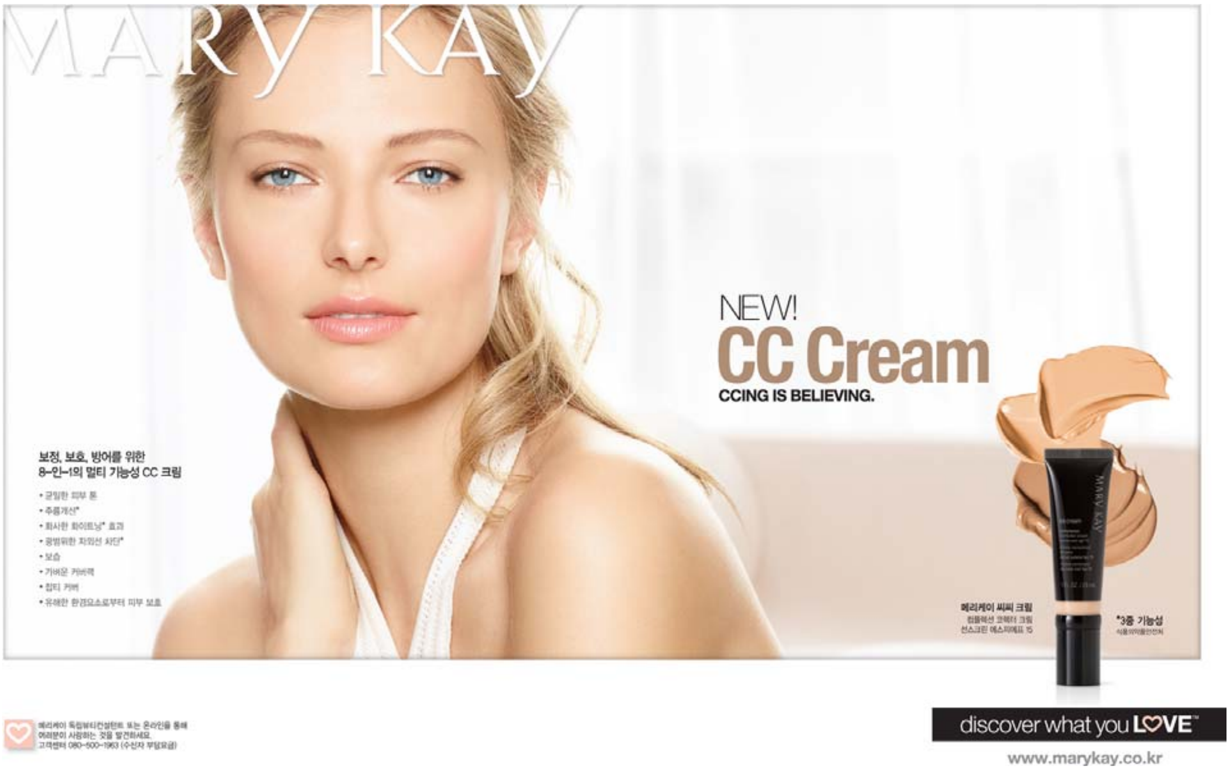
A New Reality: Global Competition among Global Companies for Global Consumers

The emergence of a largely borderless economic world has created a new reality for marketers of all shapes and sizes. Today, world trade is driven by global competition among global companies for global consumers.

Global Competition

Global competition exists when firms originate, produce, and market their products and services worldwide. The automobile, pharmaceutical, apparel, electronics, aerospace, and telecommunication fields represent well-known industries with sellers and buyers on every continent. Other industries that are increasingly global in scope include soft drinks, cosmetics, ready-to-eat cereals, snack chips, and retailing.

Global competition broadens the competitive landscape for marketers. The familiar “cola war” waged by Pepsi-Cola and Coca-Cola in the United States has been repeated around the world, including in India, China, Myanmar, and Argentina. Procter & Gamble’s Pampers and Kimberly-Clark’s Huggies have taken their disposable diaper rivalry from the United States to Western Europe. Boeing and Europe’s Airbus vie for lucrative commercial aircraft contracts on virtually every continent.



Since opening its first international venture in Australia in 1971, Mary Kay, Inc. has expanded to more than 35 countries on five continents. This Korean ad features the company's CC Cream Sunscreen.

Mary Kay, Inc.

marykay.com

Courtesy Mary Kay, Inc.

Global Companies

Three types of companies populate and compete in the global marketplace: (1) international firms, (2) multinational firms, and (3) transnational

Page 182

firms.[7] All three employ people in different countries, and many have administrative, marketing, and manufacturing operations (often called *divisions* or *subsidiaries*) around the world. However, a firm's orientation toward and strategy for global markets and marketing defines the type of company it is or attempts to be.

Mr. Clean has a different name in different countries and regions in the world. However, his image remains the same.

Source: Procter & Gamble

An *international firm* engages in trade and marketing in different countries as an extension of the marketing strategy in its home country. Generally, these firms market their existing products and services in other countries the same way they do in their home country. Avon, for example, successfully distributes its product line through direct selling in Asia, Europe, and South America, employing virtually the same marketing strategy used in the United States.

A *multinational firm* views the world as consisting of unique parts and markets to each part differently. Multinationals use a **multidomestic marketing strategy**, which means that they have as many different product variations, brand names, and advertising programs as countries in which they do business.

For example, Procter & Gamble markets Mr. Clean, its popular multipurpose cleaner, in North America and Asia. But you won't necessarily find the Mr. Clean brand name in other parts of the world. In Mexico and Puerto Rico, Mr. Clean is Maestro Limpio, and it is Don Limpio in Spain. Mr. Clean is Monsieur Propre in France and Belgium, Maestro Lindo in Italy, Pan Proper in Poland, and Mister Proper in Eastern Europe, the Middle East, and Russia.

A *transnational firm* views the world as one market and emphasizes cultural similarities across countries or universal consumer needs and wants rather than differences. Transnational marketers employ a **global marketing strategy**—the practice of standardizing marketing activities when there are cultural similarities and adapting them when cultures differ. This approach benefits marketers by allowing them to realize economies of scale from their production and marketing activities.

Global marketing strategies are popular among many business-to-business marketers such as Caterpillar and Komatsu (heavy construction equipment) and Texas Instruments, Intel, and Hitachi (semiconductors). Consumer product marketers such as Timex, Seiko, and Swatch (watches), Coca-Cola and Pepsi-Cola (cola soft drinks), Mattel and LEGO (children's toys), Nike and Adidas (athletic shoes), Gillette (personal care products), L'Oréal and Shiseido (cosmetics), and McDonald's (quick-service restaurants) successfully execute this strategy.

Each of these companies markets a **global brand**—a brand marketed under the same name in multiple countries with similar and centrally coordinated marketing programs.[8] Global brands have the same product formulation or service concept, deliver the same benefits to consumers, and use consistent advertising across multiple countries and cultures. This isn't to say that global brands are not sometimes tailored to specific cultures or countries. However, adaptation is used only when necessary to better connect the brand to consumers in different markets.

Consider McDonald's.[9] This global marketer has adapted its proven formula of "food, fun, and families" across 100 countries on six continents. Although the Golden Arches and Ronald McDonald appear worldwide, McDonald's tailors other aspects of its marketing program. It serves beer in Germany, wine in France, and coconut, mango, and tropical mint shakes in Hong Kong. Hamburgers are made with different meat and spices in Japan, Thailand, India, and the Philippines. But McDonald's world-famous french fry is standardized. Its french fry in Beijing, China, tastes like the one in Paris, France, which tastes like the one in your hometown.

Global Consumers

Global competition among global companies often focuses on the identification and pursuit of global consumers, as described in the Marketing Matters box.[10] **Global consumers** consist of consumer groups living in many countries or regions of the world who have similar needs or seek similar features and benefits from products or services. Evidence suggests the presence of a global middle-income class, a youth market, and an elite segment, each consuming or using a common assortment of products and services, regardless of geographic location.

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Marketing **Matters**

customer value

The Global Teenager—A Market of 2 Billion Voracious Consumers

© Kim Petersen/Alamy

The “global teenager” market consists of 2 billion 13- to 19-year-olds in Europe, North and South America, and industrialized nations of Asia and the Pacific Rim who have experienced intense exposure to television (MTV broadcasts in 169 countries in 28 languages), movies, travel, social media, and global advertising by companies such as Apple, Sony, Nike, and Coca-Cola. The similarities among teens across these countries are greater than their differences. For example, a global study of middle-class teenagers’ rooms in 25 industrialized countries indicated it was difficult, if not impossible, to tell whether the rooms were in Los Angeles, Hong Kong, Mexico City, Tokyo, Rio de Janeiro, Sydney, or Paris. Why? Teens spend about $820 billion annually for a common gallery of products: Nintendo video games, Tommy Hilfiger apparel, Levi’s blue jeans, Nike and Adidas athletic shoes, Swatch watches, Apple iPhones, Benetton apparel, and Cover Girl cosmetics.

Teenagers around the world appreciate fashion and music, and they desire novelty and trendier designs and images. They also acknowledge an Americanization of fashion and culture based on another study of 6,500 teens in 26 countries. When asked what country had the most influence on their attitudes and purchase behavior, 54 percent of teens from the United States, 87 percent of those from Latin America, 80 percent of the Europeans, and 80 percent of those from Asia named the United States. This phenomenon has not gone unnoticed by parents. As one parent in India said, “Now the youngsters dress, talk, and eat like Americans.”

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A variety of companies have capitalized on the global consumer. Whirlpool, Sony, and IKEA have benefited from the growing global middle-income class desire for kitchen appliances, consumer electronics, and home furnishings, respectively. Levi Strauss, Nike, Adidas, Coca-Cola, and Apple have tapped the global youth market. DeBeers, Rolex, Chanel, Gucci, Rolls-Royce, and Sotheby's and Christie's, the world's largest fine art and antique auction houses, cater to the elite segment for luxury products worldwide.

Emergence of a Networked Global Marketspace

The use of Internet technology as a tool for exchanging products, services, and information on a global scale is the fourth trend affecting world trade. Over 3 billion businesses, educational institutions, government agencies, and households worldwide are expected to have Internet access by 2017. The broad reach of this technology attests to its potential for promoting world trade.

A networked global marketspace enables the exchange of products, services, and information from sellers *anywhere* to buyers *anywhere* at *any time* and at a lower cost. In particular, companies engaged in business-to-business marketing have spurred the growth of global electronic commerce.[11] Ninety percent of global electronic commerce revenue arises from business-to-business transactions among a dozen countries in North America, Western Europe, and the Asia/Pacific Rim region.

VIDEO 7-1

Nestlé Hungary Ad

kerin.tv/13e/v7-1

Marketers recognize that the networked global marketspace offers unprecedented access to prospective buyers on every continent. Companies that have successfully capitalized on this access manage multiple country and language websites that customize content and communicate with consumers in their native tongue. Nestlé, the world's largest packaged food manufacturer, coffee roaster, and chocolate maker, is a case in point. The company operates 65 individual country websites in more than 20 languages that span five continents.

Sweden's IKEA is capitalizing on the home-improvement trend sweeping through China. The home-furnishings retailer is courting young Chinese consumers who are eagerly updating their housing with modern, colorful but inexpensive furniture. IKEA entered China in 1998. The company expects to have at least 18 stores open in China by 2016.

IKEA www.ikea.com

© Imaginechina/AP Images

Growing Prevalence of Economic Espionage

The borderless economic world also has a dark side—economic espionage.[12] **Economic espionage** is the clandestine collection of trade secrets or proprietary information about a company's competitors. This practice is common in high-technology industries such as electronics, specialty chemicals, industrial equipment, aerospace, and pharmaceuticals, where technical know-how and trade secrets separate global industry leaders from followers.

It is estimated that economic espionage costs U.S. firms upwards of $250 billion a year in lost sales. The intelligence services of some 23 nations routinely target U.S. firms for information about research and development efforts, manufacturing and marketing plans, and customer lists. To counteract this threat, the *Economic Espionage Act (1996)* makes the theft of trade secrets by foreign entities a federal crime in the United States. This act prescribes prison sentences of up to 15 years and fines up to $500,000 for individuals. Agents of foreign governments found guilty of economic espionage face a 25-year prison sentence and a $10 million fine.

learning review

7-3. What is protectionism?

7-4. The North American Free Trade Agreement was designed to promote free trade among which countries?

7-5. What is the difference between a multidomestic marketing strategy and a global marketing strategy?

A GLOBAL ENVIRONMENTAL SCAN

LO 7-3

Identify the environmental forces that shape global marketing efforts.

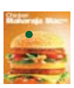
Global companies conduct continuing environmental scans of the five sets of environmental factors described earlier in **Chapter 3** in **Figure 3–1** (social, economic, technological, competitive, and regulatory forces). This section focuses on three kinds of uncontrollable environmental variables—cultural, economic, and political-regulatory—that affect global marketing practices in strikingly different ways than those in domestic markets.

Cultural Diversity

Marketers must be sensitive to the cultural underpinnings of different societies if they are to initiate and consummate mutually beneficial exchange relationships with global consumers. A necessary step in this process is **cross-cultural analysis** , which involves the study of similarities and differences among consumers in two or more nations or societies.[13] A thorough cross-cultural analysis involves an understanding of and an appreciation for the values, customs, symbols, and language of other societies.

Values

A society's **values** represent personally or socially preferable modes of conduct or states of existence that tend to persist over time. Understanding and working with these aspects of a society are important factors in global marketing. For example,



You will have to visit India to sample McDonald's Maharaja Mac or the McAloo Tikki burger described in the text.
Source: McDonald's

McDonald's does not sell beef hamburgers in its restaurants in India because the cow is considered sacred by almost 85 percent of the population. Instead, McDonald's sells the Maharaja Mac: two all-chicken patties, special sauce, lettuce, cheese, pickles, onions on a sesame-seed bun. For the 40 percent of Indian consumers who eat no meat of any kind, McDonald's offers the McAloo Tikki burger, which features a spicy breaded potato patty, and the McPuff, a vegetable and cheese pastry.

Page 186

- Germans have not been overly receptive to the use of credit cards such as Visa or MasterCard and installment debt to purchase products and services. Indeed, the German word for debt, *Schuld*, is the same as the German word for guilt.

Cultural values become apparent in the personal values of individuals that affect their attitudes and beliefs and the importance assigned to specific behaviors and attributes of products and services. These personal values affect consumption-specific values, such as the use of installment debt by Germans, and product-specific values, such as the importance assigned to credit card interest rates.

Customs

Customs are what is considered normal and expected about the way people do things in a specific country. Clearly customs can vary significantly from country to country. Consider, for example, that in France, men wear more than twice the number of cosmetics than women do and that Japanese women give Japanese men chocolates on Valentine's Day.

The custom of giving token business gifts is popular in many countries where they are expected and accepted. However, bribes, kickbacks, and payoffs offered to entice someone to commit an illegal or improper act on behalf of the giver for economic gain is considered corrupt in any culture.

The prevalence of bribery in global marketing has led to an agreement among the world's major exporting nations to make bribery of foreign government officials a criminal offense. This agreement is patterned after the **Foreign Corrupt Practices Act (1977)** , as amended by the *International Anti-Dumping and Fair Competition Act* (1998). These acts make it a crime for U.S. corporations to bribe an official of a foreign government or political party to obtain or retain business in a foreign country. For example, the German engineering company Siemens AG paid an $800 million fine for $1 billion in alleged bribes of government officials around the globe.[14]

Cultural symbols evoke deep feelings. What cultural lesson did Coca-Cola executives learn when they used the Eiffel Tower in Paris, France, and the Parthenon in Athens, Greece, in a global advertising campaign? Read the text to find the answer.

Left: © Sylvain Sonnet/Photographer's Choice RF/Getty Images
Right: © Antonio M. Rosario/Getty Images

Cultural Symbols

Cultural symbols are things that represent ideas and concepts in a specific culture. Symbols and symbolism play an important role in cross-cultural analysis because different cultures attach different meanings to things. So important is the role of symbols that a field of study, called *semiotics*, has emerged that examines the correspondence between symbols and their role in the assignment of meaning for people. By adroitly using cultural symbols, global marketers can tie positive symbolism to their products, services, and brands to enhance their attractiveness to consumers. However, improper use of symbols can spell disaster. A culturally sensitive global marketer will know that:

- North Americans are superstitious about the number 13, and Japanese feel the same way about the number 4. *Shi*, the Japanese word for four, is also the word for death. Knowing this, Tiffany & Company sells its fine glassware and china in sets of five, not four, in Japan.
- “Thumbs-up” is a positive sign in the United States. However, in Russia and Poland, this gesture has an offensive meaning when the palm of the hand is shown, as AT&T learned. The company reversed the gesture depicted in ads, showing the back of the hand, not the palm.

What does the Nestlé Kit Kat bar have to do with academic achievement in Japan? Read the text to find out.
Nestlé Company
www.nestle.com
©
CB2/ZOB/WENN/Newscom

Cultural symbols evoke deep feelings. Consider how executives at Coca-Cola Company’s Italian office learned this lesson. In a series of advertisements directed at Italian vacationers, the Eiffel Tower, the Empire State Building, and the Tower of Pisa were turned into the familiar Coca-Cola bottle. However, when the white marble columns in the Parthenon that crowns the Acropolis in Athens were turned into Coca-Cola bottles, the Greeks were outraged. Greeks refer to the Acropolis as the “holy rock,” and a government official said the Parthenon is an “international symbol of excellence” and that “whoever insults the Parthenon insults international culture.” Coca-Cola apologized for the ad.[15]

Language

Global marketers should know not only the native tongues of countries in which they market their products and services but also the nuances and idioms of a language. Even though about 100 official languages exist in the world, anthropologists estimate that at least 3,000 different languages are spoken. There are 24 official languages spoken in the European Union, and Canada has two official languages (English and French). Twenty major languages are spoken in India alone.

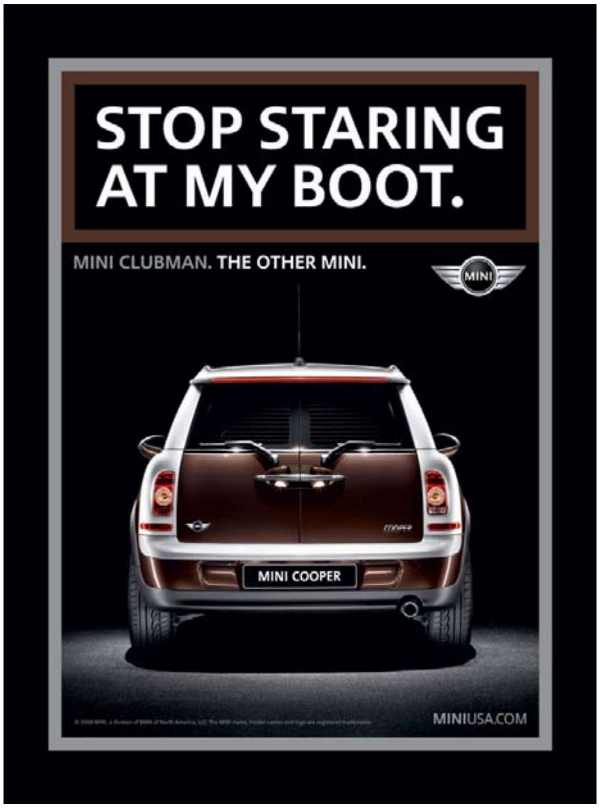
VIDEO 7-2

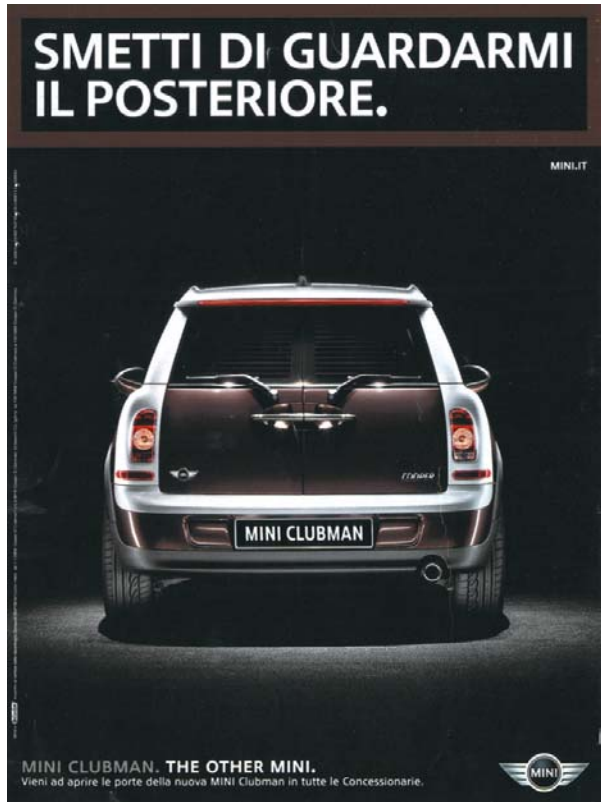
Nestlé Japan Ad

kerin.tv/13e/v7-2

English, French, and Spanish are the principal languages used in global diplomacy and commerce. However, the best language to use to communicate with consumers is their own, as any seasoned global marketer will attest to. Unintended meanings of brand names and messages have ranged from the absurd to the obscene:

- When the advertising agency responsible for launching Pert shampoo in Canada realized that the name means “lost” in French, it substituted the brand name Pret, which means “ready.”
- The Vicks brand name common in the United States is German slang for sexual intimacy; therefore, Vicks is called Wicks in Germany.





The Mini is marketed in many countries using many languages, such as English and Italian. The Italian translation is "Stop Looking at My Rear."
Source: MINI USA

Experienced global marketers use **back translation** , where a translated word or phrase is retranslated into the original language by a different interpreter to catch errors. For example, IBM's first Japanese translation of its "Solution for a small planet" advertising message yielded "Answers that make people smaller." The error was corrected. Nevertheless, unintended translations can produce favorable results. Consider Kit Kat bars marketed by Nestlé worldwide. Kit Kat is pronounced "kitto katsu" in Japanese, which roughly translates to "Surely win." Japanese teens eat Kit Kat bars for good luck, particularly when taking crucial school exams.[16]

Cultural Ethnocentricity

The tendency for people to view their own values, customs, symbols, and language favorably is well known. However, the belief that aspects of one's culture are superior to another's is called *cultural ethnocentricity* and is a sure impediment to successful global marketing.

An outgrowth of cultural ethnocentricity exists in the purchase and use of products and services produced outside of a country. Global marketers are acutely aware that certain groups within countries disfavor imported products, not on the basis of price, features, or performance, but purely because of their foreign origin.

Consumer ethnocentrism is common in many countries. This bumper sticker is just one illustration of how ethnocentric consumers express themselves in the United States.
© R. Kerin

Consumer ethnocentrism is the tendency to believe that it is inappropriate, indeed immoral, to purchase foreign-made products.[17] Ethnocentric consumers believe that buying imported products is wrong because such purchases are unpatriotic, harm domestic industries, and cause domestic unemployment. Consumer ethnocentrism has been observed among a segment of the population in the United States, France, Japan, Korea, and Germany as well as other parts of Europe and Asia. Consumer ethnocentrism makes the job of global marketers more difficult.

Economic Considerations

Global marketing is also affected by economic considerations. Therefore, a scan of the global marketplace should include (1) an assessment of the economic infrastructure in these countries, (2) measurement of consumer income in different countries, and (3) recognition of a country's currency exchange rates.

Economic Infrastructure

The *economic infrastructure*—a country's communications, transportation, financial, and distribution systems—is a critical consideration in determining whether to try to market to a country's consumers and organizations. Parts of the infrastructure that North Americans or Western Europeans take for granted can be huge problems elsewhere—not only in developing nations but even in Eastern Europe, the Indian subcontinent, and China, where such an infrastructure is assumed to be in place. For example, PepsiCo has invested $1.5 billion in transportation and manufacturing systems in China and India since 2010.

PepsiCo has made a huge financial investment in bottling and distribution facilities in China.

PepsiCo

pepsico.com

© ChinaFotoPress/ZUMA Press/Newscom

The communication infrastructures in these countries also differ. This infrastructure includes telecommunication systems and networks in use, such as telephones, cable television, broadcast radio and television, computer, satellite, and wireless telephone. In general, the communication infrastructure in many developing countries is limited or antiquated compared with that of developed countries.

Even the financial and legal system can cause problems. Formal operating procedures among financial institutions and the notion of private property are still limited. As a consequence, it is estimated that two-thirds of the commercial transactions in Russia involve nonmonetary forms of payment. The legal red tape involved in obtaining titles to buildings and land for manufacturing, wholesaling, and retailing operations also has been a huge problem. Still, the Coca-Cola Company planned to invest $1 billion by 2015 for bottling facilities in Russia. Frito-Lay spent $60 million to build a plant outside Moscow to make Lay's potato chips.

Consumer Income and Purchasing Power

A global marketer selling consumer products must also consider what the average per capita or household income is among a country's consumers and how the income is distributed to determine a nation's purchasing power. Per capita income varies greatly between nations. Average yearly per capita income in EU countries is about $35,500 and is less than $700 in some developing countries such as Liberia. A country's income distribution is important because it gives a more reliable picture of a country's purchasing power. Generally, as the proportion of middle-income households in a country increases, the greater that nation's purchasing capability tends to be.

Seasoned global marketers recognize that people in developing countries often have government subsidies for food, housing, and health care that supplement their income.

So people with seemingly low incomes are actually promising customers for a variety of products. For instance, a consumer in South Asia earning the equivalent of $250 per year can afford Gillette razors. When that consumer's income rises to $1,000, a Sony television becomes affordable, and a new Volkswagen or Nissan automobile can be bought with an annual income of $10,000. In developing countries of Eastern Europe, a $1,000 annual income makes a refrigerator affordable, and $2,000 brings an automatic washer within reach—good news for Whirlpool, the world's leading manufacturer and marketer of major home appliances.

Levi Strauss & Co. launched its Denizen brand jeans in China. Created for teens and young adults in emerging markets who cannot afford Levi-branded jeans, Denizen is now sold in North America.

Levi Strauss & Co.

www.levistrauss.com

© Eugene Hoshiko/AP Images

VIDEO 7-3

Denizen

kerin.tv/13e/v7-3

Income growth in developing countries of Asia, Latin America, and Eastern Europe stimulates world trade. The number of consumers in these countries earning the equivalent of $10,000 per year surpassed the number of consumers in the United States, Japan, and Western Europe combined in 2015. By one estimate, half of the world's population has now achieved "middle-class" status.[18] For this reason, developing countries represent a prominent marketing opportunity for global companies.

Currency Exchange Rates

Fluctuations in exchange rates among the world's currencies are of critical importance in global marketing. Such fluctuations affect everyone, from international tourists to global companies.

A **currency exchange rate** is the price of one country's currency expressed in terms of another country's currency, such as the U.S. dollar expressed in Japanese yen, euros, or Swiss francs. Failure to consider exchange rates when pricing products for global markets can have dire consequences. Mattel learned this lesson the hard way. The company was recently unable to sell its popular Holiday Barbie doll and accessories in some international markets because they were too expensive. Why? Barbie prices, expressed in U.S. dollars, were set without regard for how they would convert into foreign currencies and were too high for many buyers.[19]

Exchange rate fluctuations affect the sales and profits made by global companies. When foreign currencies can buy more U.S. dollars, for example, U.S. products are less expensive for the foreign customer. Short-term fluctuations, however, can have a significant effect on the profits of global companies.[20] Hewlett-Packard recently gained nearly a half million dollars of additional profit through exchange rate fluctuations in one year. On the other hand, Procter & Gamble lost $550 million on its operations in Russia due to devaluation of the Russian ruble in 2015.

Political-Regulatory Climate

Assessing the political and regulatory climate for marketing in a country or region of the world involves not only identifying the current climate but also determining how long a favorable or unfavorable climate will last. An assessment of a country or regional political-regulatory climate includes an analysis of its political stability and trade regulations.

Political Stability

Trade among nations or regions depends on political stability. Billions of dollars in trade have been lost in the Middle East and Africa as a result of internal political strife, terrorism, and war. Losses such as these encourage careful selection of politically stable countries and regions of the world for trade.

Political stability in a country is affected by numerous factors, including a government's orientation toward foreign companies and trade with other countries. These factors combine to create a political climate that is favorable or unfavorable for marketing and financial investment in a country or region of the world. Marketing managers monitor political stability using a variety of measures and often track country risk ratings supplied by agencies such as the PRS Group, Inc. Visit the PRS Group, Inc. website described in the Marketing Insights About Me box to see political risk ratings for 100 countries, including your own. Expect to be surprised by the ranking of countries, including the United States.

***

Marketing Insights About Me

Checking My Country's Political Risk Rating—Are You Surprised?

The political climate in every country is regularly changing. Governments can make new laws or enforce existing policies differently. Numerous consulting firms prepare political risk analyses that incorporate a variety of variables such as the risk of internal turmoil, external conflict, government restrictions on company operations, and tariff and nontariff trade barriers.

Courtesy of The PRS Group

The PRS Group, Inc. maintains multiple databases of country-specific information and projections, including country political risk ratings for 100 countries. These ratings can be accessed at **www.prsgroup.com**. Click “Risk Index.”

Which three countries have the highest rating (lowest risk), and which three have the lowest rating (highest risk)? Which countries have risk ratings closest to the United States?

***

Trade Regulations

Countries have a variety of rules that govern business practices within their borders. These rules often serve as trade barriers. For example, Japan has some 11,000 trade regulations. Japanese car safety rules effectively require all automobile replacement parts to be Japanese and not American or European; public health rules make it illegal to sell aspirin or cold medicine without a pharmacist present. The Malaysian government has advertising regulations stating that “advertisements must not project or promote an excessively aspirational lifestyle,” Sweden outlaws all advertisements to children, and Iran bans Mattel’s Barbie dolls because they are a symbol of Western decadence.

learning review

7-6. Cross-cultural analysis involves the study of __________.

7-7. When foreign currencies can buy more U.S. dollars, are U.S. products more or less expensive for a foreign consumer?

COMPARING GLOBAL MARKET-ENTRY STRATEGIES

LO 7-4

Name and describe the alternative approaches companies use to enter global markets.

Once a company has decided to enter the global marketplace, it must select a means of market entry. Four general options exist: (1) exporting, (2) licensing, (3) joint venture, and (4) direct investment.[21] As **Figure 7–4** demonstrates, the amount of financial commitment, risk, marketing control, and profit potential increases as the firm moves from exporting to direct investment.

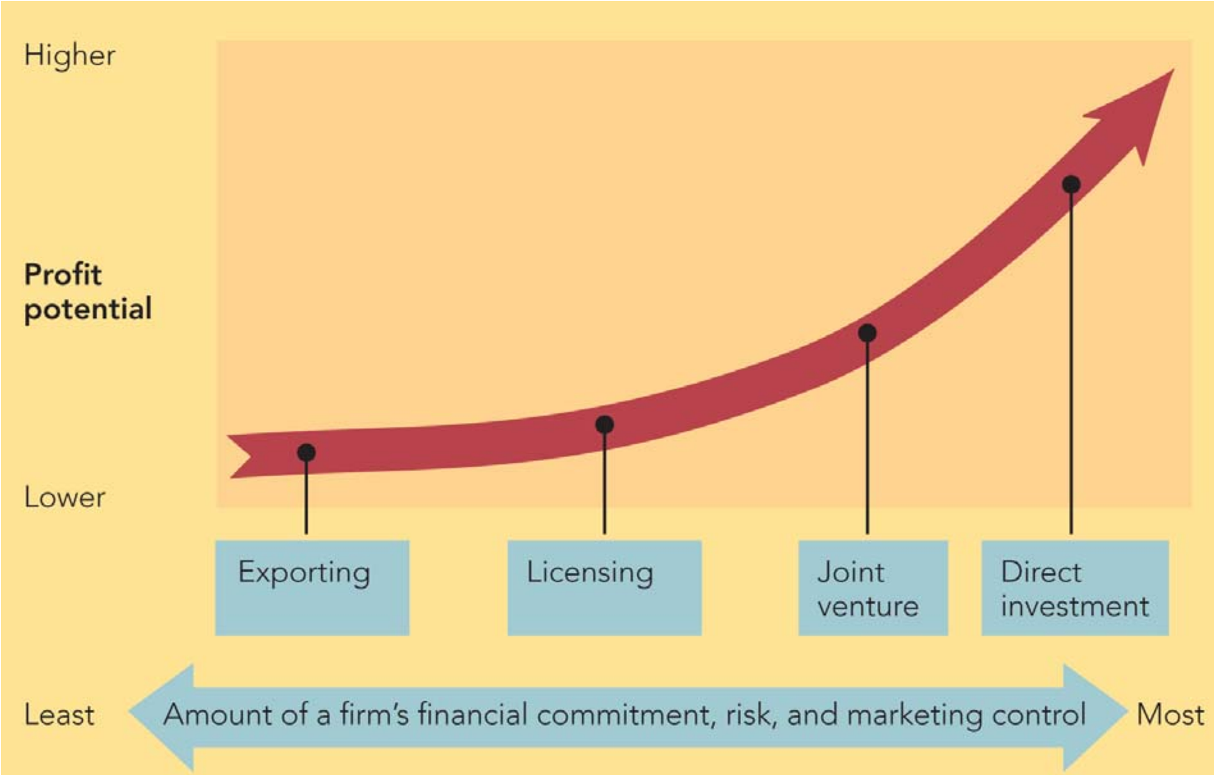


Figure 7–4 A firm's profit potential and control over marketing activities increase as it moves from exporting to direct investment as a global market-entry strategy. But so does a firm's financial commitment and risk. Firms often engage in exporting, licensing, and joint ventures before pursuing a direct investment strategy.

Exporting

Exporting is producing products in one country and selling them in another country. This entry option allows a company to make the least number of changes in terms of its product, its organization, and even its corporate goals. Host countries usually do not like this practice because it provides less local employment than under alternative means of entry.

Indirect exporting is when a firm sells its domestically produced products in a foreign country through an intermediary. It has the least amount of commitment and risk but will probably return the least profit. Indirect exporting is ideal for a company that has no overseas contacts but wants to market abroad. The intermediary is often a distributer that has the marketing know-how and resources necessary for the effort to succeed. Fran Wilson Creative Cosmetics uses an indirect exporting approach to sell its products in Japan. Read the Marketing Matters box to find out how this innovative marketer and its

Japanese distributors sell 20 percent of the lipsticks exported to Japan by U.S. cosmetics companies.[22]

***

Marketing **Matters** entrepreneurship

Creative Cosmetics and Creative Export Marketing in Japan

© Markus Sepperer/Anzenberger/Redux

How does a medium-sized U.S. cosmetics firm sell 1.5 million tubes of lipstick in Japan annually? Fran Wilson Creative Cosmetics can attribute its success to a top-quality product, effective advertising, and a novel export marketing program. The firm's Moodmatcher lip coloring comes in green, orange, silver, black, and six other hues that change to a shade of pink, coral, or red, depending on a woman's chemistry when it's applied.

The company does not sell to department stores. According to a company spokesperson, "Shiseido and Kanebo (two large Japanese cosmetics firms) keep all the other Japanese or import brands out of the major department stores." Rather, the company sells its Moodmatcher lipstick through a network of Japanese distributors that reach Japan's 40,000 beauty salons.

The result? The company, with its savvy Japanese distributors, accounted for 20 percent of the lipsticks exported annually to Japan by U.S. cosmetics companies.

***

Direct exporting is when a firm sells its domestically produced products in a foreign country without intermediaries. Companies become involved in direct exporting when they believe their volume of sales will be sufficiently large and easy to obtain that they do not require intermediaries. For example, the exporter may be approached by foreign buyers that are willing to contract for a large volume of purchases. Direct exporting involves more risk than indirect exporting for the company but also opens the door to increased profits. The Boeing Company applies a direct exporting approach. Boeing is the world's largest aerospace company and the largest U.S. exporter.

Even though exporting is commonly employed by large firms, it is the prominent global market-entry strategy among small- and medium-sized companies. For example, about 97 percent of U.S. firms exporting products have fewer than 500 employees. These firms account for nearly 33 percent of total U.S. merchandise exports.[23]

Licensing

McDonald's uses franchising as a market-entry strategy, and about two-thirds of the company's sales come from non–U.S. operations. Note that the golden arches appear prominently—one aspect of its global brand promise.

McDonald's www.mcdonalds.com

© China/Alamy

Under licensing, a company offers the right to a trademark, patent, trade secret, or other similarly valued item of intellectual property in return for a royalty or a fee. The advantages to the company granting the license are low risk and a capital-free entry into a foreign country. The licensee gains information that allows it to start with a competitive advantage, and the foreign country gains employment by having the product manufactured locally. For instance, Yoplait yogurt is licensed from Sodima, a French cooperative, by General Mills for sales in the United States.

There are some serious drawbacks to this mode of entry, however. The licensor forgoes control of its product and reduces the potential profits gained from it. In addition, while the relationship lasts, the licensor may be creating its own competition. Some licensees are able to modify the product somehow and enter the market with product and marketing knowledge gained at the expense of the company that got them started. To offset this disadvantage, many companies strive to stay innovative so that the licensee remains dependent on them for improvements and successful operation. Finally, should the licensee prove to be a poor choice, the name or reputation of the company may be harmed.

A variation of licensing is *franchising*. Franchising is one of the fastest-growing market-entry strategies. Over

75,000 franchises of U.S. firms are located in countries throughout the world. Franchises include soft-drink, motel, retailing, fast-food, and car rental operations and a variety of business services. McDonald's is a premier global franchiser, with some 14,000 franchised units outside the United States.

Joint Venture

When a foreign company and a local firm invest together to create a local business, it is called a **joint venture** . These two companies share the ownership, control, and profits of the new company. For example, the Strauss Group has a joint venture with PepsiCo to market Frito-Lay's Cheetos, Doritos, and other snacks in Israel.[24]

The advantages of this option are twofold. First, one company may not have the necessary financial, physical, or managerial resources to enter a foreign market alone. The joint venture between Ericsson, a Swedish telecommunications firm, and CGCT, a French switch maker, enabled them together to beat out AT&T for a $100 million French contract. Ericsson's money and technology combined with CGCT's knowledge of the French market helped them to win the contract. Second, a government may require or strongly encourage a joint venture before it allows a foreign company to enter its market. For example, in China, international giants such as Procter & Gamble, Starbucks, and General Motors operate wholly or in part through joint ventures.

The disadvantages arise when the two companies disagree about policies or courses of action for their joint venture or when governmental bureaucracy bogs down the effort. For example, U.S. firms often prefer to reinvest earnings gained, whereas some foreign companies may want to spend those earnings. Or a U.S. firm may want to return profits earned to the United States, while the local firm or its government may oppose this—a problem faced by many potential joint ventures. The collapse of the joint venture between France's Group Danone and a local company in China is a case in point. The joint venture partners could not agree on the distribution of profits.[25]

Direct Investment

The biggest commitment a company can make when entering the global market is *direct investment*, which entails a domestic firm actually investing in and owning a foreign subsidiary or division. Examples of direct investment are Nissan's Smyrna, Tennessee, plant that produces pickup trucks and the Mercedes-Benz factory in Vance, Alabama, that makes the M-class sports utility vehicle. Many U.S.-based global companies also use this mode of entry. Reebok entered Russia by creating a subsidiary known as Reebok Russia.

For many companies, direct investment often follows one of the other three market-entry strategies.[26] For example, both FedEx and UPS entered China through joint ventures with Chinese companies. Each subsequently purchased the interests of its partner and converted the Chinese operations into a division.

The advantages to direct investment include cost savings, a better understanding of local market conditions, and fewer local restrictions. Firms entering foreign markets using direct investment believe that these advantages outweigh the financial commitments and risks involved. However, sometimes they don't. U.S.-based Target Stores entered Canada in 2013 only to withdraw in 2015 after sizable operating losses and an investment of $5.7 billion.[27]

learning review

7-8. What mode of entry could a company follow if it has no previous experience in global marketing?

7-9. How does licensing differ from a joint venture?

CRAFTING A WORLDWIDE MARKETING PROGRAM

LO 7-5

Explain the distinction between standardization and customization when companies craft worldwide marketing programs.

The choice of a market-entry strategy is a necessary first step for a marketer when joining the community of global companies. The next step involves the challenging task of planning, implementing, and evaluating marketing programs worldwide.

Successful global marketers standardize global marketing programs whenever possible and customize them wherever necessary. The extent of standardization and customization is often rooted in a careful global environment scan supplemented with judgment based on experience and marketing research.

Product and Promotion Strategies

Global companies have five strategies for matching products and their promotion efforts to global markets. As **Figure 7–5** shows, the strategies focus on whether a company extends or adapts its product and promotion message for consumers in different countries and cultures.

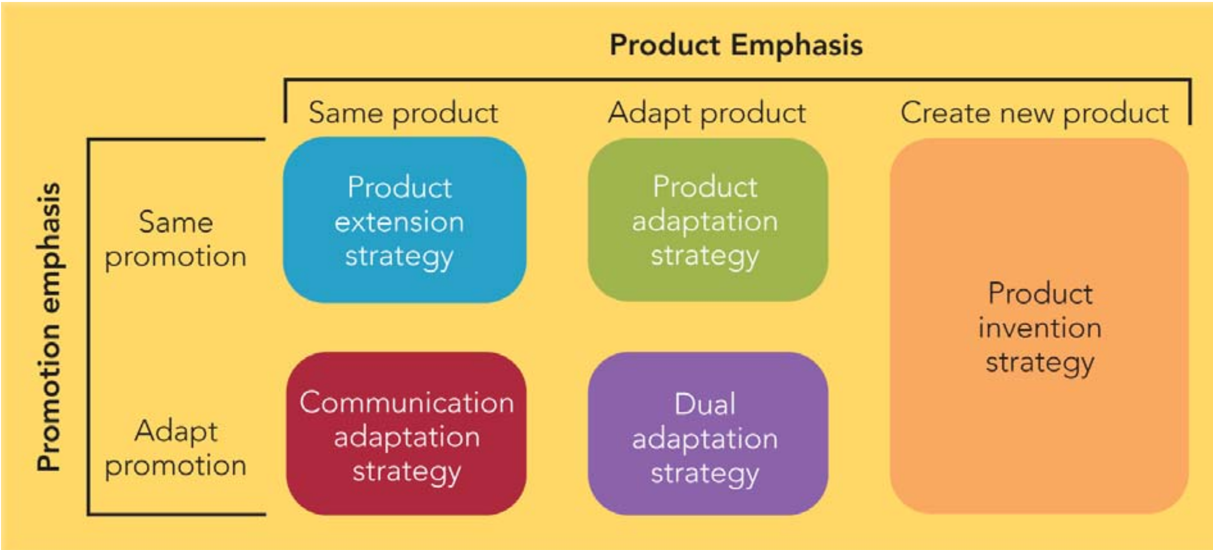


Figure 7–5 Five product and promotion strategies for global marketing exist based on whether a company extends or adapts its product and promotion message for consumers in different countries and cultures. Read the text to learn how different companies employ these strategies.

A product may be sold globally in one of three ways: (1) in the same form as in its home market, (2) with some adaptations, or (3) as a totally new product:[28]

1. *Product extension.* Selling virtually the same product in other countries is a product extension strategy. It works well for products such as Coca-Cola, Gillette razors, Sony consumer electronics, Harley-Davidson motorcycles, Nike apparel and shoes, and Apple smartphones. As a general rule, product extension seems to work best when the consumer market target for the product is alike across countries and cultures—that is, consumers share the same desires, needs, and uses for the product.
2. *Product adaptation.* Changing a product in some way to make it more appropriate for consumer preferences or a country's climate is a product adaptation strategy. Wrigley's offers grapefruit, cucumber, and tea-flavored chewing gum in China. Frito-Lay produces and markets its potato chips in Russia, but don't expect them to taste like the chips eaten in North America. Russians prefer dairy, meat, and seafood-flavored potato chips. Gerber baby food comes in different varieties in different countries. Popular Gerber varieties outside the United States include vegetables and rabbit meat in Poland and freeze-dried sardines and rice in Japan. Maybelline's makeup is adapted to local skin types and weather across the globe, including an Asia-specific mascara that doesn't run during the rainy season.
3. *Product invention.* Alternatively, companies can invent totally new products designed to satisfy common needs across countries. Black & Decker did this with its Snake

Light flexible flashlight. Created to address a global need for portable lighting, the product became a best seller in North America, Europe, Latin America, and Australia and is the most successful new product developed by

Black & Decker. Similarly, Whirlpool developed a compact, automatic clothes washer specifically for households in developing countries with annual household incomes of $2,000. Called Ideale, the washer features bright colors because washers are often placed in home living areas, not hidden in laundry rooms (which don't exist in many homes in developing countries).

An identical promotion message is used for the product extension and product adaptation strategies around the world. Gillette uses the same global message for its men's toiletries: "Gillette, the Best a Man Can Get." Even though Exxon adapts its gasoline blends for different countries based on climate, the promotion message is unchanged: "Put a Tiger in Your Tank."

Global companies may also adapt their promotion message. For instance, the same product may be sold in many countries but advertised differently. As an example, L'Oréal, a French health and beauty products marketer, introduced its Golden Beauty brand of sun care products through its Helena Rubenstein subsidiary in Western Europe with a *communication adaptation strategy*. Recognizing that cultural and buying motive differences related to skin care and tanning exist, Golden Beauty advertising features dark tanning for northern Europeans, skin protection to avoid wrinkles among Latin Europeans, and beautiful skin for Europeans living along the Mediterranean Sea, even though the products are the same.

Gillette delivers the same global message whenever possible, as shown in the Gillette for Women Venus ads from the United States, Mexico, and France.

The Gillette Company www.gillette.com

Source: Procter & Gamble

VIDEO 7-4

Nescafé China

kerin.tv/13e/v7-4

Other companies use a *dual adaptation strategy* by modifying both their products and promotion messages. Nestlé does this with Nescafé coffee. Nescafé is marketed using different coffee blends and promotional campaigns to match consumer preferences in different countries. For example, Nescafé, the world's largest brand of coffee, generally emphasizes the taste, aroma, and warmth of shared moments in its advertising around the world. However, Nescafé is advertised in Thailand as a way to relax from the pressures of daily life.

These examples illustrate the simple rule applied by global companies: Standardize product and promotion strategies whenever possible and customize them wherever necessary. This is the art of global marketing.[29]

Distribution Strategy

Distribution is of critical importance in global marketing. The availability and quality of retailers and wholesalers as well as transportation, communication, and warehousing facilities are often determined by a country's stage of economic development.

Figure 7–6 outlines the channel through which a product manufactured in one country must travel to reach its destination in another country. The first step involves the seller; its headquarters is the starting point and is responsible for the successful distribution to the ultimate consumer.

Figure 7–6 Channels of distribution in global marketing are often long and complex.

The next step is the channel between two nations, moving the product from one country to another. Intermediaries that can handle this responsibility include resident buyers in a foreign country, independent merchant wholesalers who buy and sell the product, or agents who bring buyers and sellers together.

Once the product is in the foreign nation, that country's distribution channels take over. These channels can be very long or surprisingly short, depending on the product line. In Japan, fresh fish go through three intermediaries before getting to a retail outlet. Conversely, shoes go through only one intermediary. Recall that Dell has had to revise its direct-marketing channel that originally featured online and phone buying in India, as described in the chapter-opening example.

Pricing Strategy

Global companies also face many challenges in determining a pricing strategy as part of their worldwide marketing effort. Individual countries, even those with free trade agreements, may impose considerable competitive, political, and legal constraints on the pricing latitude of global companies. For example, antitrust authorities in Germany limited Walmart from selling some items below cost to lure shoppers. Without this advantage, Walmart was unable to compete against German discount stores. This, and other factors, led Walmart to leave Germany following eight years without a profit.[30]

Pricing too low or too high can have dire consequences. When prices appear too low in one country, companies can be charged with dumping, a practice subject to severe penalties and fines. *Dumping* is when a firm sells a product in a foreign country below its domestic price or below its actual cost. This is often done to build a company's share of the market by pricing at a competitive level. Another reason is that the products being sold may be surplus or cannot be sold domestically and, therefore, are already a burden to the company. The firm may be glad to sell them at almost any price.

When companies price their products very high in some countries but competitively in others, they face a gray market problem. A *gray market*, also called *parallel importing*, is a situation where products are sold through unauthorized channels of distribution. A gray market comes about when individuals buy products in a lower-priced country from a manufacturer's authorized retailer, ship them to higher-priced countries, and then sell them below the manufacturer's suggested retail price through unauthorized retailers. Many well-known products have been sold through gray markets, including Seiko watches, Chanel perfume, and Mercedes-Benz cars. Parallel importing is legal in the United States. It is illegal in the European Union.

learning review

7-10. Products may be sold globally in three ways. What are they?

7-11. What is *dumping*?

LEARNING OBJECTIVES REVIEW

LO 7-1 *Describe the nature and scope of world trade from a global perspective.*

A global perspective on world trade views exports and imports as complementary economic flows: A country's imports affect its exports and exports affects its imports. Trade flows reflect interdependencies among industries, countries, and regions.

LO 7-2 *Identify the major trends that have influenced world trade and global marketing.*

Five major trends have influenced the landscape of global marketing in the past decade. First, there has been a gradual decline of economic protectionism by individual countries, leading to a reduction in tariffs and quotas. Second, there is growing economic integration and free trade among nations, reflected in the creation of the European Union and the North American Free Trade Agreement. Third, there exists global competition among global companies for global consumers, resulting in firms adopting global marketing strategies and promoting global brands. Fourth, a networked global marketspace has emerged using Internet technology as a tool for exchanging products, services, and information on a global scale. And finally, economic espionage has grown among countries and companies because technical know-how and trade secrets separate global industry leaders from followers.

LO 7-3 *Identify the environmental forces that shape global marketing efforts.*

Three major environmental forces shape global marketing efforts. First, there are cultural forces, including values, customs, cultural symbols, and language. Economic forces also shape global marketing efforts. These include a country's stage of economic development and economic infrastructure, consumer income and purchasing power, and currency exchange rates. Finally, political-regulatory forces in a country or region of the world create a favorable or unfavorable climate for global marketing efforts.

LO 7-4 *Name and describe the alternative approaches companies use to enter global markets.*

Companies have four alternative approaches for entering global markets. These are exporting, licensing, joint venture, and direct investment. Exporting involves producing products in one country and selling them in another country. Under licensing, a company offers the right to a trademark, patent, trade secret, or similarly valued item of intellectual property in return for a royalty or fee. In a joint venture, a foreign company and a local firm invest together to create a local business. Direct investment entails a domestic firm actually investing in and owning a foreign subsidiary or division.

LO 7-5 *Explain the distinction between standardization and customization when companies craft worldwide marketing programs.*

Companies distinguish between standardization and customization when crafting worldwide marketing programs. Standardization means that all elements of the marketing program are the same across countries and cultures. Customization means that one or more elements of the marketing program are adapted to meet the needs or preferences of consumers in a particular country or culture. Global marketers apply a simple rule when crafting worldwide marketing programs: Standardize marketing programs whenever possible and customize them wherever necessary.

LEARNING REVIEW ANSWERS

7-1 **What country is the biggest as measured by world trade?**
Answer: China

7-2 **What is the trade feedback effect?**
Answer: The phenomenon in which one country's imports affect the exports of other countries and vice versa, thus stimulating trade among countries.

7-3 **What is protectionism?**
Answer: Protectionism is the practice of shielding one or more industries within a country's economy from foreign competition through the use of tariffs or quotas.

7-4 **The North American Free Trade Agreement was designed to promote free trade among which countries?**

Answer: the United States, Canada, and Mexico

7-5 **What is the difference between a multidomestic marketing strategy and a global marketing strategy?**

Answer: Multinational firms view the world as consisting of unique markets. As a result, they use a multidomestic marketing strategy because they have as many different product variations, brand names, and advertising programs as countries in which they do business. Transnational firms view the world as one market. As a result, they use a global marketing strategy, which involves standardizing marketing activities when there are cultural similarities and adapting them it when cultures differ.

7-6 **Cross-cultural analysis involves the study of __________.**

Answer: similarities and differences among consumers in two or more nations or societies.

7-7 **When foreign currencies can buy more U.S. dollars, are U.S. products more or less expensive for a foreign consumer?**

Answer: less expensive

7-8 **What mode of entry could a company follow if it has no previous experience in global marketing?**

Answer: indirect exporting through intermediaries

7-9 **How does licensing differ from a joint venture?**

Answer: Under licensing, a company offers the right to a trademark, patent, trade secret, or other similarly valued item of intellectual property in return for a fee or royalty. In a joint venture, a foreign company and a local firm invest together to create a local business to produce some product or service. The two companies share ownership, control, and profits of the new entity.

7-10 **Products may be sold globally in three ways. What are they?**

Answer: Products can be sold: (1) in the same form as in their home market (product extension); (2) with some adaptations (product adaptation); and (3) as totally new products (product invention).

7-11 **What is *dumping*?**

Answer: *Dumping* is when a firm sells a product in a foreign country below its domestic price or below its actual cost to produce.

FOCUSING ON KEY TERMS

back translation, **187**

balance of trade, **177**

consumer ethnocentrism, **188**

countertrade

cross-cultural analysis, **185**

cultural symbols, **186**

currency exchange rate, **190**

customs, **186**

economic espionage, **185**

exporting, **192**

Foreign Corrupt Practices Act (1977), **186**

global brand, **183**

global competition, **181**

global consumers, **183**

global marketing strategy, **182**

joint venture, **195**

multidomestic marketing strategy, **182**

protectionism, **178**

quota, **178**

tariffs, **178**

values, **185**

World Trade Organization (WTO), **179**

APPLYING MARKETING KNOWLEDGE

1. Explain what is meant by this statement: "Quotas are a hidden tax on consumers, whereas tariffs are a more obvious one."
2. How successful would a television commercial in Japan be if it featured a husband surprising his wife in her dressing area on Valentine's Day with a small box of chocolates containing four candies? Explain.
3. As a novice in global marketing, which global market-entry strategy would you be likely to start with? Why? What other alternatives do you have for a global market entry?
4. Coca-Cola is sold worldwide. In some countries, Coca-Cola owns the bottling facilities; in others, it has signed contracts with licensees or relies on joint ventures. When selecting a licensee in each country, what factors should Coca-Cola consider?

BUILDING YOUR MARKETING PLAN

Does your marketing plan involve reaching global customers outside the United States? If the answer is no, read no further and do not include a global element in your plan.

If the answer is yes, try to identify the following:

1. What features of your product are especially important to potential customers?
2. In which countries do these potential customers live?
3. What special marketing issues are involved in trying to reach them?

Answers to these questions will help in developing more detailed marketing mix strategies described in later chapters.

Video Case 7 Video Case 7: Mary Kay, Inc.: Building a Brand in India

VIDEO 7-5

Mary Kay Video Case

kerin.tv/13e/v7-5

Sheryl Adkins-Green couldn't ask for a better assignment. As the newly appointed vice president of brand development at Mary Kay, Inc., she is responsible for development of the product portfolio around the world, including global initiatives and products specifically formulated for global markets. She is enthusiastic about her position, noting that "There is tremendous opportunity for growth. Even in these economic times, women still want to pamper themselves, and to look good is to feel good."

Getting up to speed on her new company and her new position topped her short-term agenda. She was specifically interested in the company's efforts to date to build the Mary Kay brand in India.

THE MARY KAY WAY

Mary Kay Ash founded Mary Kay Cosmetics in 1963 with her life savings of $5,000 and the support of her 20-year-old son, Richard Rogers, who currently serves as executive chair of Mary Kay, Inc. Mary Kay, Inc. is one of the largest direct sellers of skin care and color cosmetics in the world with more than

$2.5 billion in annual sales. Mary Kay brand products are sold in more than 35 markets on five continents. The United States, China, Russia, and Mexico are the top four markets served by the company. The company's global independent sales force exceeds 2 million. About 65 percent of the company's independent sales representatives reside outside the United States.

Mary Kay Ash's founding principles were simple, time-tested, and remain a fundamental company business philosophy. She adopted the Golden Rule as her guiding principle, determining the best course of action in virtually any situation could be easily discerned by "doing unto others as you would have them do unto you." She also steadfastly believed that life's priorities should be kept in their proper order, which to her meant "God first, family second, and career third." Her work ethic, approach to business, and success have resulted in numerous awards and recognitions including, but not limited to, the Horatio Alger American Citizen Award, recognition as one of "America's 25 Most Influential Women," and induction into the National Business Hall of Fame.

Mary Kay, Inc. engages in the development, manufacture, and packaging of skin care, makeup, spa and body, and fragrance products for men and women. It offers anti-aging, cleanser, moisturizer, lip and eye care, body care, and sun care products. Overall, the company produces more than 200 premium products in its state-of-the-art manufacturing facilities in Dallas, Texas, and Hangzhou, China. The company's approach to direct selling employs the "party plan," whereby independent sales representatives host parties to demonstrate or sell products to consumers.

GROWTH OPPORTUNITIES IN ASIA-PACIFIC MARKETS

Asia-Pacific markets represent major growth opportunities for Mary Kay, Inc. These markets for Mary Kay, Inc. include Australia, China, Hong Kong, India, Korea, Malaysia, New Zealand, the Philippines, Singapore, and Taiwan.

China accounts for the largest sales revenue outside the United States, representing about 25 percent of annual Mary Kay, Inc. worldwide sales. The company entered

China in 1995 and currently has some 200,000 independent sales representatives or "beauty consultants" in that country.

Part of Mary Kay's success in China has been attributed to the company's message of female empowerment and femininity, which has resonated in China, a country where young women have few opportunities to start their own businesses. Speaking about the corporate philosophy at Mary Kay, Inc., KK Chua, president, Asia-Pacific, said, "Mary Kay's corporate objective is not only to create a market, selling skin care and cosmetics; it's all about enriching women's lives by helping women reach their full potential, find their inner beauty and discover how truly great they are." This view is echoed by Sheryl Adkins-Green, who notes that the Mary Kay brand has "transformational and aspirational" associations for users and beauty consultants alike.

Mary Kay, Inc. learned that adjustments to its product line and message for women were necessary in some Asia-Pacific markets. In China, for example, the order of life's priorities—"God first, family second, and career third"—has been modified to "Faith first, family second, and career third." Also, Chinese women aren't heavy users of makeup. Therefore, the featured products include skin cream, anti-aging cream, and whitening creams. As a generalization, whitening products are popular among women in China, India, Korea, and the Philippines, where lighter skin is associated with beauty, class, and privilege.

MARY KAY, INDIA

Mary Kay, Inc. senior management believed that India represented a growth opportunity for three reasons. First, the Indian upper and consuming classes were growing and were expected to total over 500 million individuals. Second, the population was overwhelmingly young and optimistic. This youthful population continues to push consumerism as the line between luxury and basic items continues to blur. Third, a growing number of working women have given a boost to sales of cosmetics, skin care, and fragrances in India's urban areas, where 70 percent of the country's middle-class women reside.

Senior management also believed that India's socioeconomic characteristics in 2007 were similar in many ways to China's in 1995, when the company entered that market (see **Figure 1**). The Mary Kay culture was viewed as a good fit with the Indian culture, which would benefit the company's venture into this market. For example, industry research has shown that continuing modernization of the country has led to changing aspirations. As a result, the need to be good looking, well-groomed, and stylish has taken on a newfound importance.

***

	India 2007	China 1995
Population (million)	1,136	1,198
Population age distribution (0–24; 25–49; 50+)	52%, 33%, 15%	43%, 39%, 18%
Urban population	29.2%	29.0%
Population/square mile	990	332
Gross domestic product (U.S.$ billion)	3,113	728
Per capita income (U.S.$)	$950	$399
Direct selling sales percent of total cosmetics/skin care sales	3.3%	3.0%

***

Figure 1 Social and economic statistics for India in 2007 and China in 1995.

Mary Kay initiated operations in India in September 2007 with a full marketing launch in early 2008. The initial launch was in Delhi, the nation's capital and the second most populated metropolis in India, and Mumbai, the nation's most heavily populated metropolis. Delhi, with per capita income of U.S. $1,420, and Mumbai, with per capita income of $2,850, were among the wealthiest metropolitan areas in India.

According to Rhonda Shasteen, chief marketing officer at Mary Kay, Inc., "For Mary Kay to be successful in India, the company had to build a brand, build a sales force, and build an effective supply chain to service the sales force."

Building a Brand

Mary Kay, Inc. executives believed that brand building in India needed to involve media advertising; literature describing the Mary Kay culture, the Mary Kay story, and the company's image; and educational material for Mary Kay independent sales representatives. In addition, Mary Kay, Inc. became the cosmetics partner of the Miss India Worldwide Pageant 2008. At this event, Mary Kay Miss Beautiful Skin 2008 was crowned.

Brand building in India also involved product mix and pricing. Four guidelines were followed:

1. Keep the offering simple and skin care focused for the new Indian sales force and for a new operation.
2. Open with accessibly priced basic skin care products in relation to the competition in order to establish Mary Kay product quality and value.
3. Avoid opening with products that would phase out shortly after launch.
4. Address the key product categories of Skin Care, Body Care, and Color based on current market information.

Brand pricing focused on offering accessibly priced basic skin care to the average middle-class Indian consumer between the ages of 25 and 54. This strategy, called "mass-tige pricing," resulted in product price points that were above mass but below prestige competitive product prices. Following an initial emphasis on offering high-quality, high-value products, Mary Kay introduced more technologically advanced products that commanded higher price points. For example, the company introduced the Mary Kay MelaCEP Whitening System, consisting of seven products, which was specifically formulated for Asian skin in March 2009. This system was ". . . priced on the lower price end of the prestige category with a great value for money equation," said Hina Nagarajan, country manager for Mary Kay India.

Courtesy Mary Kay, Inc.

Building a Sales Force

According to Adkins-Green, "Mary Kay's most powerful marketing vehicle is the direct selling organization," which is a key component of the brand's marketing strategy. Mary Kay relied on its Global Leadership Development Program directors and National Sales directors and the Mary Kay Sales Education staff from the United States and Canada for the initial recruitment and training of independent sales representatives in India. New independent sales representatives received 2 to 3 days of intensive training and a starter kit that included not only products, but also information pertaining to product demonstrations, sales presentations, professional demeanor, the company's history and culture, and team building.

"Culture training is very important to Mary Kay (independent sales representatives) because they are going to be the messengers of Mary Kay," said Hina Nagarajan. "As a direct-selling company that offers products sold person-to-person, we recognize that there's a personal relationship between consultant and client with every sale," added

Rhonda Shasteen. By late 2009, there were some 4,000 independent sales representatives in India present in some 200 cities mostly in the northern, western, and northeastern regions of the country.

Creating a Supply Chain

Mary Kay, India, imported products into India from China, Korea, and the United States. Products were shipped to regional distribution centers in Delhi and Mumbai, India, where Mary Kay Beauty Centers were located. Beauty Centers served as order pickup points for the independent sales representatives. Mary Kay beauty consultants purchased products from the company and, in turn, sold them to consumers.

LOOKING AHEAD

Mary Kay, Inc. plans to invest around $20 million in the next five years on product development, company infrastructure, and building its brand in India. “There is a tremendous opportunity for growth,” says Sheryl Adkins-Green. India represents a particularly attractive opportunity. Developing the brand and brand portfolio and specifically formulating products for Indian consumers will require her attention to brand positioning and brand equity.[31]

Questions

1. Is Mary Kay an international firm, a multinational firm, or a transnational firm based on its marketing strategy? Why?
2. What global market-entry strategy did Mary Kay use when it entered India?
3. Is Mary Kay a global brand? Why or why not?

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