‘Social media are changing the way companies are engaging and interacting with their worldwide customer base. Svend Hollensen has captured all the latest trends in social media marketing very well with interesting models and new cases in his new eighth edition of *Global Marketing*.’
Philip Kotler, S. C. Johnson & Son Distinguished Professor of International Marketing, Kellogg School of Management, Northwestern University

‘The best textbook on global marketing I have come across! The case studies provide an excellent basis for class discussion.’
Dr Elisabeth Götze, Vienna University of Economics and Business

For nearly twenty years *Global Marketing* has been the definitive, truly international guide to marketing. During that time, borders have become ever more transient and this book more central to the work of marketers all around the world.

Now in its eighth edition, *Global Marketing* continues to be the most up-to-date and comprehensive text of its kind, with cutting-edge case studies and a focus on the impact of new technologies and perspectives on international marketing. This new edition expands on a number of new topics, including: the integration of social media marketing, influencer marketing, the Internet of Things, artificial intelligence and blockchain technology.

Key features include:

- A clear part structure, organised around the five main decisions that marketing people in companies face in connection to the global marketing process.
- Numerous pedagogical features such as Exhibits, Key Terms and Questions for Discussion to help students comprehend theory and apply it to the real world.
- Varied and topical case studies helping students to understand how the theory relates to real world application, featuring companies such as Match.com (Tinder), Waymo, Rolex, Spotify, Levi Strauss, Swarovski, Tencent and Huawei.

Global Marketing is ideal for undergraduate and postgraduate students studying international marketing, and for any practitioners who want to take their global marketing strategies to the next level.

About the author

Svend Hollensen is Associate Professor of International Marketing at the University of Southern Denmark and has worked as a marketing consultant for several international companies and organisations. As well as this book, he is the author of other Pearson texts, including *Marketing Management* (now in its 4th edition) and *Essentials of Global Marketing*.

Resources written to compliment this book can be found at **go.pearson.com/uk/he/resources**

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Global Marketing

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Praise for *Global Marketing*

'Currently the best, most detailed global marketing textbook available in terms of theoretical depth and practical relevance....This is one of the most comprehensive textbooks in the market that offers rich discussions on theories on the international and the general marketing/management.'

Dr Sandra Awanis, Lecturer in International Marketing, Lancaster University Management School

'Excellent level of detail in each chapter to support learning around strategic global marketing decisions. The video case studies are a huge bonus and really help to bring the subject alive.'

Giovanna Battiston, Senior Lecturer, Sheffield Hallam University

'This book provides detailed insights and knowledge about how strategic decisions are made in international/global marketing. The writing on each topic is rich and thorough and includes all the key models and theories, as well as relevant and top quality case studies for students to understand the main contents and test their understanding.'

Dr Qing Shan Ding, Senior Lecturer in Marketing, Huddersfield Business School, University of Huddersfield

'The best textbook on global marketing I have come across! The case studies provide an excellent basis for class discussion.'

Dr Elisabeth Götze, Senior Lecturer in Marketing, Vienna University of Economics and Business

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Philip Kotler, S. C. Johnson & Son Distinguished Professor of International Marketing, Kellogg School of Management, Northwestern University

'It is likely the best textbook on international marketing. It is well written and a very good introduction to the different subjects, covering a wide range of aspects of international marketing. The cases and questions used are also of very good quality.'

Robson S. Rocha, Ph.D., Associate Professor, Department of Management, Aarhus University

'The world today truly is flat, and a sound global perspective is an absolute must for all students. Svend Hollensen's *Global Marketing* provides a thorough and comprehensive treatment that delivers on this need.'

Professor Michael R. Solomon, Professor of Marketing, Haub School of Business, Saint Joseph's University, USA

'A superior text which provides the most current and comprehensive overview of all facets of international marketing through text and pragmatic case studies, including timely coverage of social marketing, blockchain technology, IoT and AI topics of increasing impact to both the global marketing student and practitioner.'

Dwight R. Thomas, Professor Emeritus, Athabasca Open University, Canada

‘International marketing involves multidisciplinary, complex analysis in an increasingly challenging world. *Global Marketing* has the most complete coverage with a clever, organized flow for all related topics, providing excellent theory, updated application examples and criteria for the best interpretation of international marketing situations, making it a key reference textbook to complement lectures of all levels.’

Mg. Jorge V. H. Almada, Professor of International Marketing, Economics Department, Universidad Torcuato Di Tella, Argentina; Professor of International Marketing, Engineering and Management School, Instituto Tecnólgico de Buenos Aires, Argentina

‘Global marketing is taken to a new level with the impact of new technologies and industry 4.0. This eighth edition textbook provides comprehensive, up-to-date coverage of trends such as artificial intelligence, the Internet-of-Things (IoT), blockchain and social media marketing, showing how these can and must be integrated into the global marketing process. Coupled with informative models, exhibits and case studies, this textbook is highly recommended.’

Dr Kon Sen Choeng, former Marketing Division Faculty Member, Nanyang Technological University

Global Marketing

Global Marketing

8th edition

Svend Hollensen

Pearson

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ON THE WEBSITE

For multiple choice questions to accompany this book, please visit
go.pearson.com/uk/he/resources

For password-protected online resources tailored to support the use of this textbook in teaching, please visit
go.pearson.com/uk/he/resources

Preface

Globalization is the growing interdependence of national economies – involving primarily customers, producers, suppliers and governments in different markets. Global marketing therefore reflects the trend of firms selling and distributing products and services in many countries around the world. It is associated with governments reducing trade and investment barriers, firms manufacturing in multiple countries and foreign firms increasingly competing in domestic markets.

For many years, the globalization of markets, caused by the convergence of tastes across borders, was thought to result in very large multinational enterprises that could use their advantages in scale economies to introduce world-standardized products successfully.

In his famous 1994 book, *The Global Paradox,* John Naisbitt has contradicted this myth, especially the last part:[1]

> The mindset that in a huge global economy the multinationals dominate world business couldn't have been more wrong. The bigger and more open the world economy becomes, the more small and middle-sized companies will dominate. In one of the major turn-arounds in my lifetime, we have moved from 'economies of scale' to 'diseconomies of scale'; from bigger is better to bigger is inefficient, costly and wastefully bureaucratic, inflexible and, now, disastrous. And the paradox that has occurred is, as we move to the global context: the smaller and speedier players will prevail on a much expanded field.

When the largest corporations (e.g. IBM, ABB) downsize, they are seeking to emulate the entrepreneurial behaviour of successful SMEs (small and medium-sized enterprises) where the implementation phase plays a more important role than in large companies. Since the behaviours of smaller and (divisions of) larger firms (according to the above quotation) are convergent, the differences in the global marketing behaviour between SMEs and LSEs (large-scale enterprises) are slowly disappearing. What is happening is that the LSEs are downsizing and decentralizing their decision-making process. The result will be a more decision- and action-oriented approach to global marketing. This approach will also characterize this book.

In light of their smaller size, most SMEs lack the capabilities, market power and other resources of traditional multinational LSEs. Compared with the resource-rich LSEs, the complexities of operating under globalization are considerably more difficult for the SME. The success of SMEs under globalization depends in large part on the decision and implementation of the right international marketing strategy.

The primary role of marketing management, in any organization, is to design and execute effective marketing programmes that will pay off. Companies can do this in their home market or they can do it in one or more international markets. Going international is an enormously expensive exercise, in terms of both money and, especially, top management time and commitment. Due to the high cost, going international must generate added value for the company beyond extra sales. In other words, the company needs to gain a competitive advantage by going international. So, unless the company gains by going international, it should probably stay at home.

[1]Naisbitt, J. (1994) *The Global Paradox,* Nicholas Brealey Publishing, London, p. 17.

The task of global marketing management is complex enough when the company operates in one foreign national market. It is much more complex when the company starts operations in several countries. Marketing programmes must, in these situations, adapt to the needs and preferences of customers that have different levels of purchasing power as well as different climates, languages and cultures. Moreover, patterns of competition and methods of doing business differ between nations and sometimes also within regions of the same nation. In spite of the many differences, however, it is important to hold on to similarities across borders. Some coordination of international activities will be required, but at the same time the company will gain some synergy across borders, in the way that experience and learning acquired in one country can be transferred to another.

Objectives

This book's value chain offers the reader an analytic decision-oriented framework for the development and implementation of global marketing programmes. Consequently, the reader should be able to analyse, select and evaluate the appropriate conceptual frameworks for approaching the five main management decisions connected with the global marketing process: (1) whether to internationalize; (2) deciding which markets to enter; (3) deciding how to enter the foreign market; (4) designing the global marketing programme; and (5) implementing and coordinating the global marketing programme.

Having studied this book, the reader should be better equipped to understand how the firm can achieve global competitiveness through the design and implementation of market-responsive programmes.

Target audience

This book is written for people who want to develop effective and decision-oriented global marketing programmes. It can be used as a textbook for undergraduate or graduate courses in global/international marketing. A second audience is the large group of people joining 'global marketing' or 'export' courses on non-university programmes. Finally, this book is of special interest to the manager who wishes to keep abreast of the most recent developments in the global marketing field.

Prerequisites

An introductory course in marketing.

Special features

This book has been written from the perspective of the firm competing in international markets, irrespective of its country of origin. It has the following key features:

- a focus on SMEs as global marketing players;
- a decision/action-oriented approach;
- a value chain approach (both the traditional product value chain and the service value chain);
- a value network approach (including different actors vertically and horizontally);
- a social media marketing approach is integrated throughout the book;
- coverage of global buyer–seller relationships;
- extensive coverage of born globals and global account management (GAM), as an extension of the traditional key account management (KAM);
- presents new interesting theories in marketing, for example, service value chain, Service Dominant (SD) Logic, value innovation, Blue Ocean Strategy, social media marketing,

Internet-of-Things (IoT), corporate social responsibility (CSR), global account management, viral branding and sensory and celebrity branding;

- aims to be a 'true' global marketing book, with cases and exhibits from all parts of the world, including Europe, the Middle East, Africa, the Far East, North and South America;
- provides a complete and concentrated overview of the total international marketing planning process;
- many new up-to-date exhibits and cases illustrate the theory by showing practical applications.

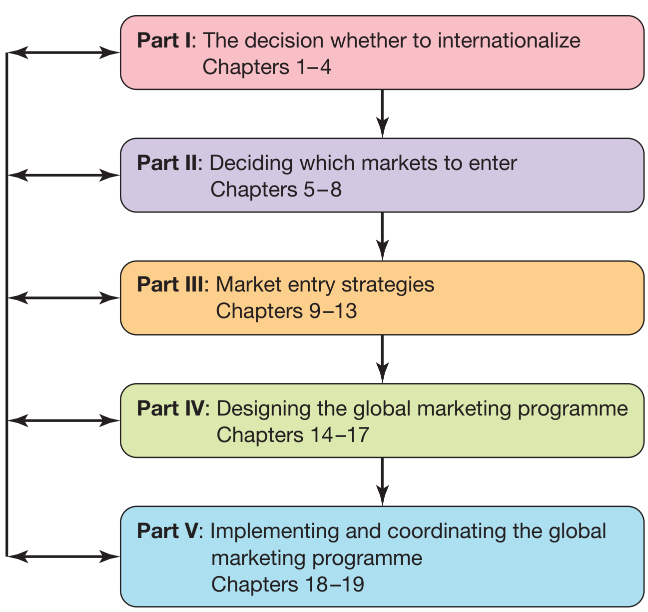
Outline

As the book has a clear decision-oriented approach, it is structured according to the five main decisions that marketing people in companies face in connection with the global marketing process. The 19 chapters are divided into five parts. The schematic outline of the book in Figure 1 shows how the different parts fit together. Global marketing research is considered to be an integral part of the decision-making process; therefore it is included in the book (**Chapter 5**), so as to use it as an important input to the decision about which markets to enter (**the beginning of Part II**). Examples of the practice of global marketing by actual companies are used throughout the book, in the form of exhibits. Furthermore, each chapter and part ends with cases, which include questions for students.

What's new in the eighth edition?

The new eighth edition is concentrated around three major themes: 'glocalization', 'internet of everything' and 'social media marketing'. The glocalization concept which runs throughout this new edition enables international marketers to utilize the synergies arising from being both 'local' and 'global' at the same time. An important aspect of this new edition is its emphasis on the so-called 'Internet of Everything' and 'Internet of Things' (IoT), which is becoming incorporated in all parts of the daily communication and buying behaviour

Figure 1 Structure of the book



of consumers around the world. Consequently, this increasing ubiquity of the internet is reflected in its inclusion in every chapter and in most of the cases and exhibits. The integration of 'social media marketing' maybe plays the most important role in this edition of *Global Marketing*.

The book is still structured around the well-known stages that SMEs go through when they internationalize as shown in Figure 1.

The book's chapters and cases are totally updated with newest journal articles and company information. Besides that, the following new issues are introduced in the individual chapters:

- **Chapter 1**: the concept of providing customer value is now extended by adding 'Artificial Intelligence (AI)' and its focus on the global marketing planning process (**section 1.11**). AI allows international marketers to adopt a data-driven approach with the objective of making predictive sense of their global digital customers' diverse behaviours across channels and devices. By analysing historical browsing and transactional patterns, marketers can identify relevant global customer segments.
- **Chapter 4**: The section about the 'sharing economy' is expanded by adding the 'sharing–exchange continuum' which is a model of consumption whereby goods and services are not owned by a single user, but rather only temporarily accessed by members of a network and underutilized assets are *shared*, either for free or for a fee (**section 4.5**).
- **Chapter 6**: shows the role of home government in the case of Chinese Huawei Technologies Corporation.
- **Chapter 14**: now contains an extended section about how Internet-of-Things (IoT) can be integrated into the global marketing process (**section 14.11**), which is highly dependent on the acquisition of the new skills for the marketer. As the IoT becomes a reality, the interactions between consumers and things undergo emergence and contribute something greater than the sum of the parts resulting in new consumer experiences embodying design and complexity.
- **Chapter 15**: introduces the concept of 'subscription-based pricing' (**section 15.5**). 'Subscription pricing' is a business model where a customer must pay a (e.g. monthly) subscription to have access to a product or service. The strategy was initially developed by magazines and newspapers, but an increasing number of companies and websites are now using this model for their products and services. The pricing model is illustrated by the Dollar Shave Club example.
- **Chapter 16**: now shows and explains the whole process from the single channel strategy to the omnichannel strategy (**section 16.4**). Rather than working in parallel, omnichannel implies integration and orchestration of channels such that the customer experience of engaging across all the channels is more efficient or pleasant than using single channels in isolation. Also, this chapter contains a section about blockchain technology (**section 16.6**) and its influence on international marketing and SCM. This new technology will change business execution and international marketing strategies. With blockchain, anyone can transfer valuable assets from one person to another person without a third-party trust middleman.
- **Chapter 17**: now contains a totally new way of dividing social media into four categories (Value Play, Value Sell, Value Share and Value Create), in order to optimize the social media marketing mix and maximize the Value Capture (net profit/bottom line) from the social media marketing plan (**section 17.7**). Furthermore, the chapter also presents the 'social media funnel' and the key metrics connected to the three stages of a typical customer buying process: Awareness, Engagement and Action (**section 17.8**). Finally, the chapter now contains a more detailed stage plan for the development of the social media marketing plan (**section 17.9**).

Several new exhibits with real updated company examples are added to various chapters. Many completely new and exciting **chapter case studies** are now available:

- Case study 3.1: **Bumble** – the 'feminist' Tinder is expanding fast
- Case study 3.2: **BYD electric cars** – the Chinese electric car manufacturer is considering sales worldwide
- Case study 4.1: **William Demant** hearing aids – different threats appear on the horizon
- Case study 5.3: **e-Bikes** in China
- Case study 8.1: **Waymo** – the driverless Google car is finding future growth markets
- Case study 9.2: **Jissbon** – is acquisition the right way to gain market shares in the Chinese condom market?
- Case study 9.4: **Müller Yogurts** entering the US market by Muller Quaker Joint Venture and exiting again two years later

Furthermore, completely new **part cases** have been added:

- Case I.1: **Electrolux** – a white goods manufacturer is considering growth opportunities worldwide
- Case I.2: **Nintendo Switch** – a 'Blue Ocean Strategy' come-back in the games console market
- Case II.3: **Rolex** – the luxury watch maker is facing increasing competition in the world market
- Case III.1: **Tinder dating app** – the famous dating app brand is facing increasing competition from e.g. Badoo
- Case III.2: **Spotify** – the online music-streaming company is growing fast but is suffering financial imbalance
- Case IV.1: **Swarovski** – the jewellery/crystal manufacturer is expanding into e-commerce and social media
- Case IV.2: **Levi Strauss** – expanding in new international markets
- Case V.1: **Tencent** – the Chinese online giant is seeking new alliances
- Case V.2: **Huawei smartphones** – expanding into the international markets for smartphones

The following **exhibits** are also new in the book:

- Exhibit 6.1: **Huawei Technologies Corporation** – the role of home government in the internationalization process – good and bad
- Exhibit 14.13: **Google**'s use of IoT in the form of the smart thermostat, Nest
- Exhibit 14.14: **Coca Cola Israel** increases its sales of its Mini Bottle through a 'Mini Me' 3-D campaign
- Exhibit 16.3: **Maersk**'s use of blockchains in its shipping
- Exhibit 17.6: **Abena** is using 'influencer marketing' for penetrating the US diaper market
- Exhibit 17.7: **Fox Business** is 'sellling' a political statement

In total **Seven** (chapter cases) and **nine** (part cases) = **16 new cases** have been added to the book. In total the book contains **62** chapter cases + **15** part case studies (three per part) = **77** updated case studies in all.

Furthermore **6 completely new exhibits** have been added to the book.

Pedagogical/learning aids

One of the strengths of *Global Marketing* is its strong pedagogical features:

- Chapter objectives tell readers what they should be able to do after completing each chapter.
- Real-world examples and exhibits enliven the text and enable readers to relate to marketing models.
- End-of-chapter summaries recap the main concepts.
- Questions for discussion allow students to probe further into important topics.

- Each chapter contains three or four case studies, which help the student relate the models presented in the chapter to a specific business situation.
- Part cases studies – for each part there are three comprehensive case studies covering the themes met in the part. To reinforce learning, all case studies are accompanied by questions. Case studies are based on real-life companies. Further information about these companies can be found on the Internet. Company cases are derived from many different countries representing all parts of the world. Tables 1 and 2 present the chapter and part case studies.
- Multiple choice questions.
- Part case studies: each part is introduced by a case which highlights a general decision problem from the part.

Table 1 Chapter case studies: overview

Chapter	Case study title, subtitle and related websites	Country/area of company headquarters	Geographical target area	Target market	
				B2B	B2C
Chapter 1 Global marketing in the firm	Case study 1.1 **Green Toys, Inc.** A manufacturer of eco-friendly toys is going international www.greentoys.com	US	US, World	✓	✓
	Case study 1.2 **Hunter Boot Ltd** The iconic British brand is moving into exclusive fashion www.hunterboots.com	UK	World		✓
	Case study 1.3 **Nivea** www.nivea.com	Germany	World		✓
	Case study 1.4 **Uber**	US	World		✓
Chapter 2 Initiation of internationalization	Case study 2.1 **LifeStraw** Vestergaard-Frandsen transforms dirty water into clean drinking water www.vestergaard.com	Switzerland	World (developing countries)	✓	✓
	Case study 2.2 **Elvis Presley Enterprises Inc. (EPE)** Internationalization of a cult icon www.elvis.com	US	World		✓
	Case study 2.3 **TOMS Shoes** www.toms.com	US	World (developing countries)		✓
Chapter 3 Internationalization theories	Case study 3.1 **Bumble** The 'feminist' Tinder is expanding fast www.bumble.com	US	World		✓
	Case study 3.2 **BYD electric cars** The Chinese electric car manufacturer is considering sales worldwide www.byd.cn	China	World	✓	✓

Table 1 Continued

Chapter	Case study title, subtitle and related websites	Country/area of company headquarters	Geographical target area	Target market	
				B2B	B2C
	Case study 3.3 **Reebok** www.reebok.com www.adidas-group.com	US	World	✓	✓
Chapter 4 Development of the firm's international competitiveness	Case study 4.1 **William Demant hearing aids** Different threats appear on the horizon www.demant.com	Denmark	World	✓	✓
	Case study 4.2 **DJI Technology Co. Ltd** A Chinese 'born global' is dominating the world market for drones with its Phantom www.dji.com	China	World	✓	✓
	Case study 4.3 **Nike** www.nike.com	US	World		✓
Chapter 5 Global marketing research	Case study 5.1 **Teepack Spezialmaschinen GmbH** Organizing a global survey of customer satisfaction www.teepack.com	Germany	World	✓	
	Case study 5.2 **LEGO Friends** One of the world's largest toy manufacturers moves into the girl's domain www.lego.com	Denmark	World		✓
	Case study 5.3 **e-Bikes in China** https://www.youtube.com/watch?v=NvaO3hP3i7w	China	World		✓
	Case study 5.4 **HondaJets** Honda enters the small-sized business jet market http://www.hondajet.com/	Japan	World	✓	
Chapter 6 The political and economic environment	Case study 6.1 **G-20 and the economic and financial crises** What on earth is globalization about? Protests during a meeting in Buenos Aires, Argentina, November, 2018 https://g20.org/en/	US	World	✓	✓
	Case study 6.2 **Danfoss Power Solutions** Which political/economic factors would affect a manufacturer of hydraulic components? www.powersolutions.danfoss.com	Denmark, US, Germany	World	✓	
	Case study 6.3 **Debate on globalization** No website available	US	US	✓	✓

Table 1 Continued

Chapter	Case study title, subtitle and related websites	Country/area of company headquarters	Geographical target area	Target market	
				B2B	B2C
Chapter 7 The sociocultural environment	Case study 7.1 **Cirque du Soleil Inc.** The show that revolutionized the circus arts is expanding its global scope www.cirquedusoleil.com	Canada	World		✓
	Case study 7.2 **IKEA catalogue** Are there any cultural differences? www.ikea.com	Sweden, Holland	World		✓
	Case study 7.3 **Allergan** The maker of Botox and breast implants www.allergan.com	Ireland/US		✓	✓
Chapter 8 The international market selection process	Case study 8.1 **Waymo** The driverless Google car is finding future growth markets www.waymo.com	US	World	✓	✓
	Case study 8.2 **Philips Lighting** Screening markets in the Middle East www.philips.com	Holland	World		✓
	Case study 8.3 **Oreo (Mondelēz)** www.oreo.com	US	World		✓
Chapter 9 Some approaches to the choice of entry mode	Case study 9.1 **Jarlsberg** The king of Norwegian cheeses is deciding on entry modes into new markets www.jarlsberg.com	Norway	World	✓	✓
	Case study 9.2 **Jissbon** Is acquisition the right way to gain market shares in the Chinese condom market? www.jissbon.cn	China	Europe, World		✓
	Case study 9.3 **Understanding entry modes into the Chinese market** No website available	World	China	✓	
	Case study 9.4 **Müller Yogurts** www.muellergroup.com	Germany	US	✓	✓
Chapter 10 Export modes	Case study 10.1 **Lysholm Linie Aquavit** International marketing of the Norwegian Aquavit brand www.linie.com	Norway	Germany, the rest of the world	✓	✓

Table 1 Continued

Chapter	Case study title, subtitle and related websites	Country/area of company headquarters	Geographical target area	Target market	
				B2B	B2C
	Case study 10.2 **Parle Products** An Indian biscuit manufacturer is seeking agents and cooperation partners in new export markets www.parleproducts.com	India	World	✓	✓
	Case study 10.3 **Honest Tea** www.honesttea.com	US	World, US		✓
Chapter 11 Intermediate entry modes	Case study 11.1 **Hello Kitty** Can the cartoon cat survive the buzz across the world? www.sanrio.com	Japan	World	✓	✓
	Case study 11.2 **Kabooki** Licensing in the LEGO brand www.legowear.dk	Denmark	World	✓	✓
	Case study 11.3 **Marriott** www.marriott.com	US	World	✓	✓
Chapter 12 Hierarchical modes	Case study 12.1 **Polo Ralph Lauren** Polo moves distribution for South-East Asia in-house www.ralphlauren.com	US	World, Asia	✓	✓
	Case study 12.2 **Durex Condoms** SSL will sell Durex condoms in the Japanese market through its own organization www.durex.com	UK	World	✓	✓
	Case study 12.3 **Starbucks** www.starbucks.com	US	World	✓	✓
Chapter 13 International sourcing decisions and the role of the subsupplier	Case study 13.1 **ARM** Challenging Intel in the world market of computer chips www.arm.com	UK	World	✓	
	Case study 13.2 **Bosch Indego** How to build B2B and B2C relationships in a new global product market – robotic lawnmowers www.bosch.com	Germany	World	✓	✓
	Case study 13.3 **Kone elevators and escalators** www.kone.com	Finland	World	✓	

Table 1 Continued

Chapter	Case study title, subtitle and related websites	Country/area of company headquarters	Geographical target area	Target market	
				B2B	B2C
Chapter 14 Product decisions	Case study 14.1 **Danish Klassic** Launch of a cream cheese in Saudi Arabia www.arla.com (regarding the Puck brand)	Denmark	Saudi Arabia Middle East	✓	✓
	Case study 14.2 **Zippo Manufacturing Company** Has product diversification beyond the lighter gone too far? www.zippo.com	US	World	✓	✓
	Case study 14.3 **Burburry branding** www.burberry.com	UK	World		✓
	Case study 14.4 **Tequila Avión** www.tequilaavion.com	US	World	✓	
Chapter 15 Pricing decisions and terms of doing business	Case study 15.1 **Harley-Davidson** How should the pricing strategy be affected by the new EU tariffs in 2018? www.harley-davidson.com	US	US, Europe		✓
	Case study 15.2 **Gillette Co.** Is price standardization possible for razor blades? www.gillette.com	US	World	✓	✓
	Case study 15.3 **Vaseline pricing strategy** www.vaseline.com	US	US, World		✓
Chapter 16 Distribution decisions	Case study 16.1 **De Beers** Forward integration into the diamond industry value chain www.debeers.com	South Africa, UK, Luxembourg	Europe, World	✓	✓
	Case study 16.2 **Tupperware** The global direct distribution model is still working www.tupperware.com	US	World	✓	✓
	Case study 16.3 **DHL** www.dhl.com	Germany	World	✓	
Chapter 17 Communication decisions	Case study 17.1 **Helly Hansen** Sponsoring fashion clothes in the US market www.hellyhansen.com	Norway	US	✓	✓

Table 1 Continued

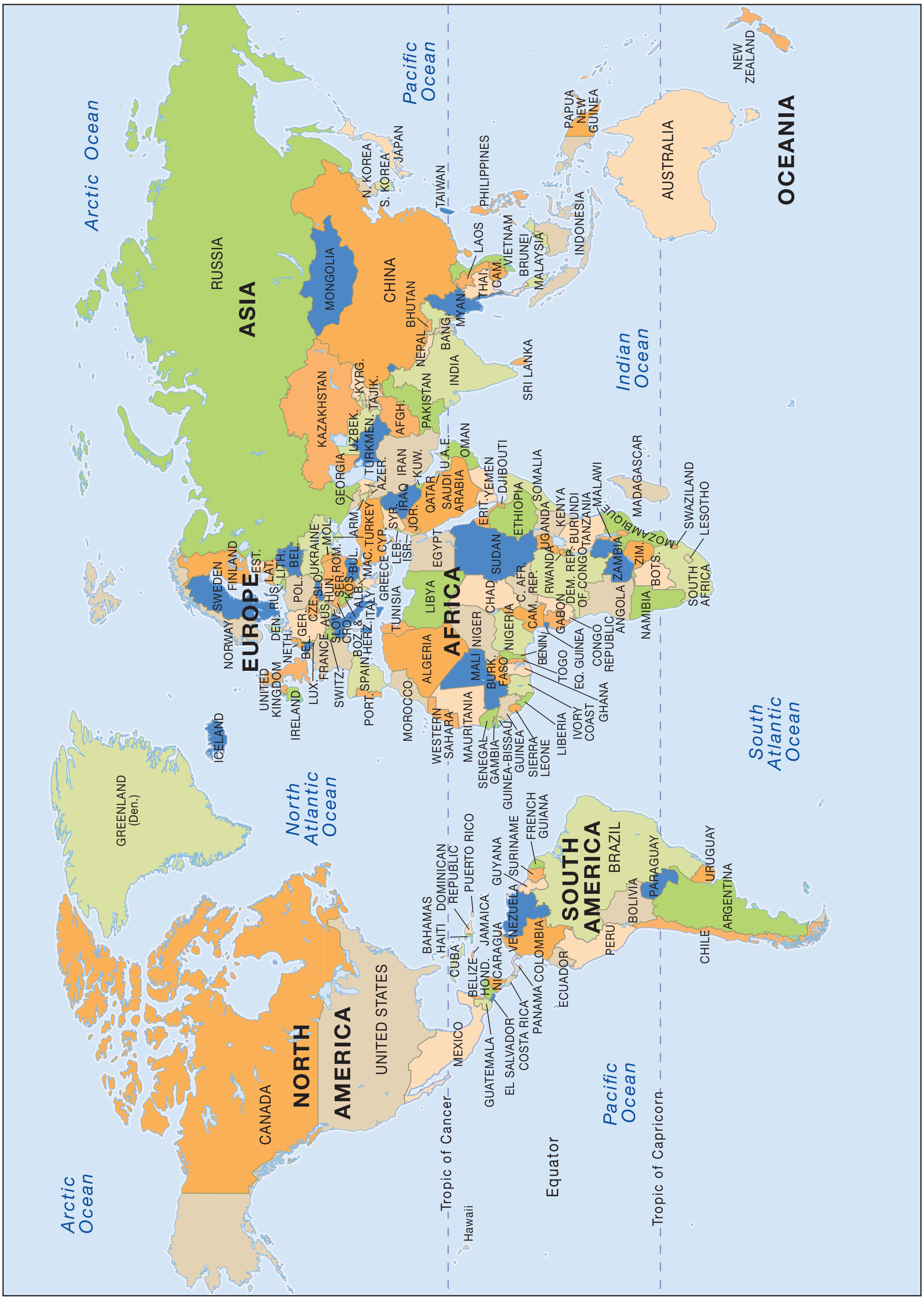
Chapter	Case study title, subtitle and related websites	Country/area of company headquarters	Geographical target area	Target market	
				B2B	B2C
	Case study 17.2 **Morgan Motor Company** Can the British retro sports car brand still be successful after 100 years? www.morgan-motor.co.uk	UK	World (Europe and US)	✓	✓
	Case study 17.3 **BMW Motorcycles** www.bmwmotorcycles.com www.bmw.com	Germany	US, World	✓	✓
Chapter 18 **Cross-cultural sales negotiations**	Case study 18.1 **ZamZam Cola** Marketing of a 'Muslim' cola from Iran to the European market www.zamzamrefreshment.com	Iran	Europe, Middle East	✓	✓
	Case study 18.2 **TOTO** The Japanese toilet manufacturer seeks export opportunities for its high-tech brands in the US www.toto.co.jp/en/				
	Case study 18.3 **Dunkin' Donuts** www.DunkinDonuts.com www.dunkinbrands.com				
	Case study 18.4 **Stella & Dot** www.stelladot.com	US	World	✓	✓
Chapter 19 **Organization and control of the global marketing programme**	Case study 19.1 **Mars Inc.** Merger of the European food, pet care and confectionery divisions www.mars.com	US	World	✓	✓
	Case study 19.2 **Henkel** Should Henkel shift to a more customer-centric organization? www.henkel.com	Germany	World	✓	✓
	Case study 19.3 **McDonald's** www.mcdonalds.com	US	World	✓	

Table 2 Part case studies: overview

Part	Case study title, subtitle and related websites	Country/area of company headquarters	Geographical target area	Target market	
				B2B	B2C
Part I The decision whether to internationalize	Case study I.1 **Electrolux** A white goods manufacturer is considering growth opportunities worldwide www.electrolux.com	Sweden	World	✓	✓
	Case study I.2 **Nintendo Switch** A 'Blue Ocean Strategy' come-back in the games console market? www.nintendo.com	Japan	World		✓
	Case study I.3 **Cereal Partners Worldwide (CPW)** The no. 2 world player is challenging the no. 1, Kellogg www.generalmills.com/en/Company/Businesses/international/joint-ventures www.nestle.com/asset-library/documents/media/news-and-features/2011-february/cpw-brochure.pdf	Switzerland, US	World	✓	✓
Part II Deciding which markets to enter	Case study II.1 **SodaStream** Managing profitable growth in an increasingly competitive global environment www.sodastream.com	Israel/US	World	✓	✓
	Case study II.2 **The Female Health Company (FHC)** The female condom is seeking a foothold in the world market for contraceptive products www.femalehealth.com	US	World (governmental organizations)	✓	✓
	Case study II.3 **Rolex** The luxury watch maker is facing increasing competition in the world market www.rolex.com	Switzerland	World	✓	✓
Part III Market entry strategies	Case study III.1 **Tinder dating app** The famous dating app brand is facing increasing competition from e.g. Badoo www.match.com, www.tinder.com	US	World		✓
	Case study III.2 **Spotify** The online music streaming company is growing fast but is suffering financial imbalance www.spotify.com	Sweden	World		✓
	Case study III.3 **Autoliv Airbags** Transforming Autoliv into a global company www.autoliv.com	Sweden, US	World	✓	

Table 2 Continued

Part	Case study title, subtitle and related websites	Country/area of company headquarters	Geographical target area	Target market	
				B2B	B2C
Part IV Designing the global marketing programme	Case study IV.1 **Swarovski** The jewerelly/crystal manufacturer is expanding into e-commerce and social media	Austria	World	✓	✓
	Case study IV.2 **Levi Strauss** Expanding in new international markets	US	World	✓	✓
	Case study IV.3 **Guinness** How can the iconic Irish beer brand compensate for declining sales in the home market? www.diageo.com www.guinness.com	UK, Ireland	World	✓	✓
Part V Implementing and coordinating the global marketing programme	Case study V.1 **Tencent** The Chinese online giant is seeking new alliances www.tencent.com	China	World		✓
	Case study V.2 **Huawei** Expanding into the international markets for smartphones www.huawei.com	China	World	✓	✓
	Case study V.3 **Tetra Pak** How to create B2B relationships with the food industry on a global level www.tetrapak.com	Sweden	World	✓	



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Abbreviations

ACs	advanced countries
APEC	Asia-Pacific Economic Cooperation
AR	augmented reality
ASEAN	Association of South East Asian Nations
B2B	business to business
B2C	business to consumer
BATNA	best alternative to a negotiated agreement
BDA	before–during–after
BERI	Business Environment Risk Index
BMI	Business Monitor International
BOP	bottom of the pyramid
BRIC	Brazil, Russia, India and China
BT	British Telecommunications
C2C	consumer to consumer
CAGR	compound annual growth rate
CATI	computer-aided telephone interviews
CDB	China Development Bank
CEO	chief executive officer
CFR	cost and freight
CIF	cost, insurance and freight
CIP	carriage and insurance paid to
CMM-SEI	Carnegie Mellon University's Software Engineering Institute
COO	country of origin
CPM	cost per thousand
CPT	carriage paid to
CPV	customer perceived value
CRM	customer relationship management
CSR	corporate social responsibility
DAF	delivered at frontier
DAP	delivered at place
DAT	delivered at terminal
DDP	delivered duty paid
DDU	delivered duty unpaid
DEQ	delivered ex-quay
DES	delivered ex-ship
DMR	digital remastering
DSS	decision support system
EBIT	earnings before interest and taxes
ECB	European Central Bank
ECSC	European Coal and Steel Community
EEA	European Economic Area

EEC	European Economic Community
EFTA	European Free Trade Area
EMC	export management company
EMEA	Europe, Middle East and Africa
EMU	European Economic and Monetary Union
EPAC	electronically power-assisted cycles
EPRG	ethnocentric, polycentric, regiocentric, geocentric
EU	European Union: title for the former EEC used since the ratification of the Maastricht Treaty in 1992
EURATOM	European Atomic Energy Community
EXW	ex-works
FAB	flavoured alcoholic beverages
FAS	free alongside ship
FCA	free carrier
FDA	Food and Drug Administration (US)
FDI	foreign direct investment: a market entry strategy in which a company invests in a subsidiary or partnership in a foreign market (joint venture)
FHI	Family Health International
FMCG	fast-moving consumer goods
FOB	free on board: the seller quotes a price covering all expenses up to the point of shipment
FSC	Foreign Sales Corporation
G-D	goods dominant
GA	global account
GAM	global account management
GATT	General Agreement on Tariffs and Trade
GDP	gross domestic product
GEL	General Electric Lighting
GNI	gross national income
GNP	gross national product: the total 'gross value' of all goods and services produced in the economy in one year
GPC	global pricing contract
GRP	gross rating point
GSM	global system for mobile communications (wireless mobile)
GWD	guinea worm disease
HHP	household penetration
HLL	Hindustan Latex Ltd
HOG	Harley Owners Group
ICC	International Chamber of Commerce
IDR	intermediation–disintermediation–reintermediation
IMC	integrated marketing communications
IMF	International Monetary Fund
IMS	international market selection
IoT	Internet-of-Things
IP	intellectual property
IPLC	international product life cycle
ISO	International Standards Organization
ISP	internet service provider
IT	information technology
KAM	key account management
KSF	key success factor

L/C	letter of credit
LCC	low-cost car
LDCs	less developed countries
LSEs	large-scale enterprises
LTO	long-term orientation
M&A	merger and acquisition
MACS	market attractiveness/competitive strengths
MFN	most-favoured nation
MIS	marketing information system
MNCs	multinational corporations
MNE	multinational enterprise
MS	market share
MSRP	manufacturer's suggested retail price
MVAS	mobile value-added services
NAFTA	North American Free Trade Agreement: a free trade agreement to establish an open market between the US, Canada and Mexico
NASSCOM	National Association of Software and Service Companies
NGO	non-governmental organization
NICs	newly industrialized countries
NPD	new product development
NSB	National Standards Board
OE	operational effectiveness
OECD	Organization for Economic Cooperation and Development: a multinational forum that allows the major industrialized nations to discuss economic policies and events
OEM	original equipment manufacturer (outsourcer)
OLI	ownership-location-internalization
OPEC	Organization of Petroleum Exporting Countries
OTC	over the counter
OTS	opportunity to see
PEST	political/legal, economic, social/cultural, technological
PLB	private-label brand
PLC	product life cycle: a theory that characterizes the sales history of products as passing through four stages: introduction, growth, maturity, decline
PPP	purchasing-power parity
PR	public relations
QDF	quality deployment function
R&D	research and development
RM	relationship marketing
RMC	regional management centre
ROA	return on assets
ROI	return on investment
RTD	ready to drink
S-D	service-dominant
SaaS	software-as-a-service
SBU	strategic business unit: a single business or a collection of related businesses that can be planned separately from the rest of the company
SEM	search-engine marketing
SGVC	sustainable global value chain
SMEs	small and medium-sized enterprises

SMS	short message service
SRC	self-reference criterion
STD	sexually transmitted disease
STP	software technology park
SWOT	strengths, weaknesses, opportunities, threats
TC	transaction cost
TCA	transaction cost analysis
TF	trade fair
TLC	technological life cycle
TQM	total quality management
TTM	time to market
ULCC	ultra low-cost car
UNAIDS	Joint United Nations Programme on AIDS
UNFPA	United Nations Population Fund
USAID	United States Agency for International Development
USP	unique selling proposition
VAT	value added tax
VER	voluntary export restraint
VRIO	value, rarity, imitability, organization
WHO	World Health Organization
WoM	word-of-mouth
WTO	World Trade Organization (successor to GATT)

About the author

Svend Hollensen is an Associate Professor of International Marketing at the University of Southern Denmark. He holds an MSc (Business Administration) from Aarhus Business School. He has practical experience working as an International Marketing Coordinator in a large Danish multinational enterprise and as an International Marketing Manager in a company producing agricultural machinery.

After working in industry, Svend received his PhD in 1992 from Copenhagen Business School.

With Pearson Education he has published *Marketing Management – A Relationship Approach* (the fourth edition was published in 2019) as well as *Marketing Research – An International Approach* (2006), together with Marcus Schmidt. *Essentials of Global Marketing* was published in 2008 with a second edition in 2012. *Global Marketing* has been translated into Russian and Chinese. An Indian edition (co-authored with Madhumita Banerjee) was published in September 2009 and a Spanish edition (co-authored with Jesus Arteaga) was published in May 2010. In 2017, Svend published the first edition of *Social Media Marketing – A Practitioner Guide* together with marketing gurus, Philip Kotler and Marc Opresnik. It is now in the third edition and is out (or underway) in Italian, Spanish, Chinese and Vietnamese editions.

Furthermore, Svend has published in internationally well-recognized journals, including *California Management Review*, *Thunderbird International Business Review*, *Journal of Family Business Strategy*, *International Journal of Innovation Management*, *Journal of Brand Strategy* and *Marketing Intelligence & Planning*.

Svend has also worked as a business consultant for several multinational companies, as well as global organizations such as the World Bank.

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Part I
The decision whether to internationalize

Part I Contents

Part I Case studies

Introduction to Part I

It is often the case that a firm that goes on an export adventure discovers it should have stayed in the home market because it did not have the necessary competences to start exporting. Chapter 1 discusses competences and global marketing strategies from the value chain perspective. Chapter 2 discusses the major motivations of the firm to internationalize. Chapter 3 concentrates on some central theories that explain firms' internationalization processes. Chapter 4 discusses the concept of international competitiveness from a macro level to a micro level.

Chapter 1
Global marketing in the firm

Learning objectives

After studying this chapter you should be able to:

- Characterize and compare the management style in SMEs (small and medium-sized enterprises) and LSEs (large-scale enterprises)
- Identify drivers of global integration and market responsiveness
- Explain the role of global marketing in the firm from a holistic perspective
- Describe and understand the concept of the value chain
- Identify and discuss different ways of internationalizing the value chain
- Explain the difference between the 'product value chain' and the 'service value chain'
- Understand how 'customer experience' can extend the traditional value perspective.

1.1 Introduction to globalization

At the time of writing, we are ten years on from the financial crisis, but still we have not enjoyed a broad-based rebound to create a world that is safe and more prosperous.

Global 'free trade' has come under criticism in the West from populists who blame it for the loss of factory jobs. In reality, free trade has taken fewer jobs than automation, a force that is much harder to reverse. The reality is that cross-border commerce has played an important role in improving the inclusive global prosperity that the world has enjoyed since the Second World War.

Over the past decade, regional and bilateral trade agreements have become popular – a reflection of the difficulties in finding consensus among all the nations who belong to the WTO. But for the WTO to drive global growth – and for that growth to be shared more widely – governments, companies, NGOs and others have to work more closely together.

In 2005, Thomas L. Friedman published his international bestselling book *The World is Flat* (Friedman, 2005). It analyses globalization, primarily in the early twenty-first century, and the picture has changed dramatically. The title is a metaphor for viewing the world as a level playing field in terms of commerce, where all players and competitors have an equal opportunity. Companies from every part of the world will be competing with each other in every corner of the world's markets – for customers, resources, talent and intellectual capital. Products and services will flow from many locations to many destinations. Friedman describes how many companies in, for example, the Ukraine, India and China, provide human-based subsupplies for multinational companies. In this way, these companies in emerging and developing countries are becoming integral parts of complex global supply chains for large multinational companies, like Dell, SAP, IBM and Microsoft.

Pankaj Ghemawat has contradicted Friedman's view of the world being flat. In his book, Ghemawat introduces World 3.0 (Ghemawat, 2008), a world that is neither a set of distinct nation-states (World 1.0) nor the stateless ideal (World 2.0) that seems implicit in the 'the world is flat' strategies of so many companies. In such a World 3.0 (Ghemawat, 2011a), home matters, but so do countries abroad. Ghemawat argues that when distances (geographic, cultural, administrative/political and economic) increase, cross-border trade tends to decrease (Ghemawat, 2011b). Ghemawat thinks that it is certainly possible to have a global strategy and a global organization in such a world. But the global strategy must be based not on the elimination of differences and distances among people, cultures and places, but on an understanding of them.

1.2 The process of developing the global marketing plan

This book has a clear decision-oriented approach, and is structured according to the five main decisions that marketing people in companies face in connection with the global marketing process. The 19 chapters are divided into five parts (Figure 1.1).

In the end, a firm's global competitiveness is mainly dependent on the end-result of the global marketing stages: *the global marketing plan* (see Figure 1.2). The purpose of the marketing plan is to create sustainable competitive advantages in the global marketplace. Generally, firms go through some kind of mental process in developing global marketing plans. In small and medium-sized enterprises (SMEs) this process is normally informal; in larger organizations it is often more systematized. Figure 1.2 offers a systematized approach to developing a global marketing plan – the stages are illustrated using the most important models and concepts, which are explained and discussed throughout the chapters. Readers are advised to return to this figure throughout the book.

Figure 1.1 The five-stage decision model in global marketing

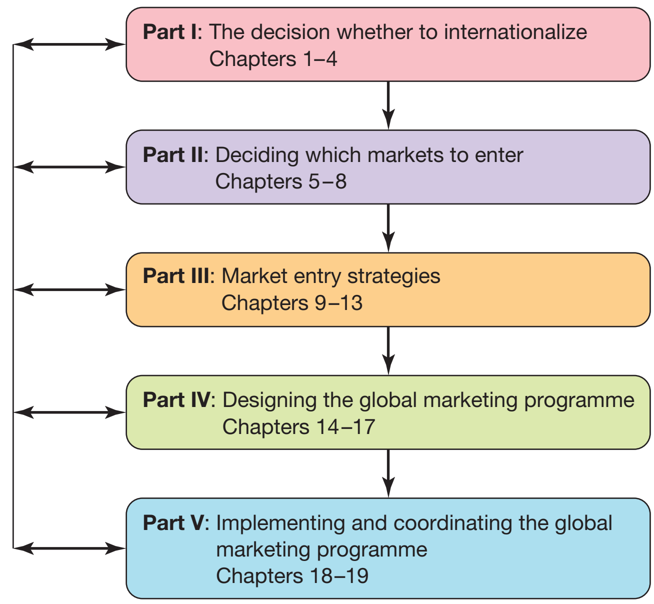


Figure 1.2 Development of an international marketing plan

Source: Hollensen, S. (2008) *Essentials of Global Marketing*, FT/Prentice Hall, pp. 6–9. Copyright © Pearson Education Limited.

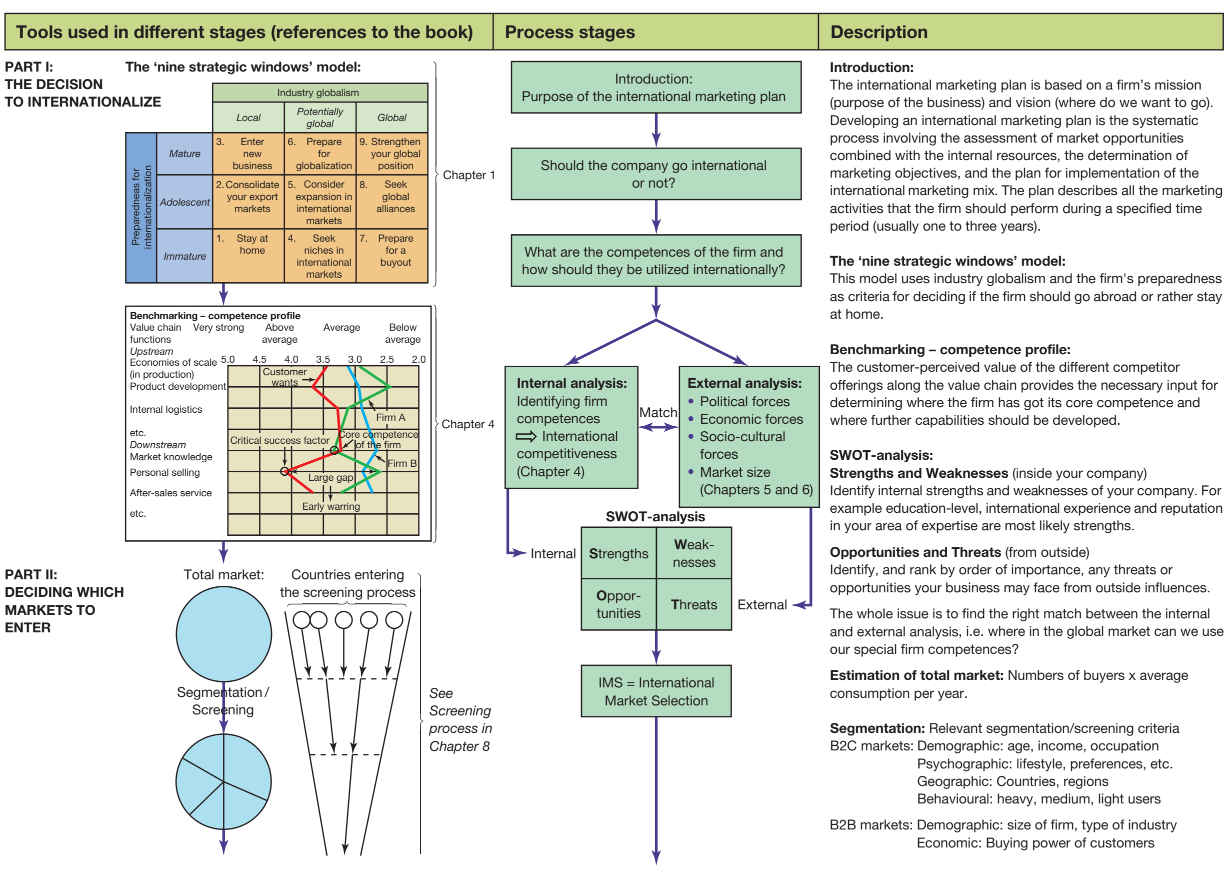
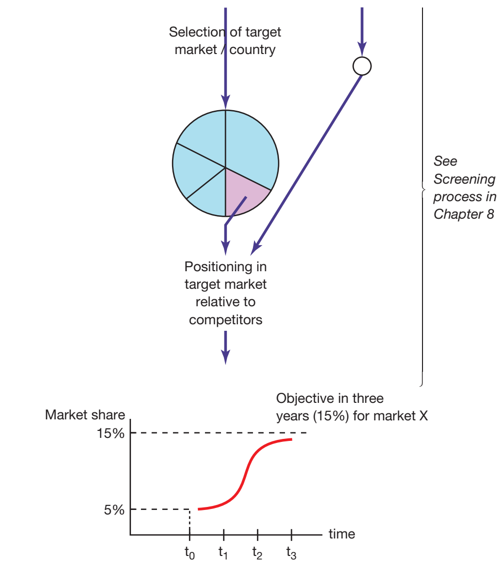
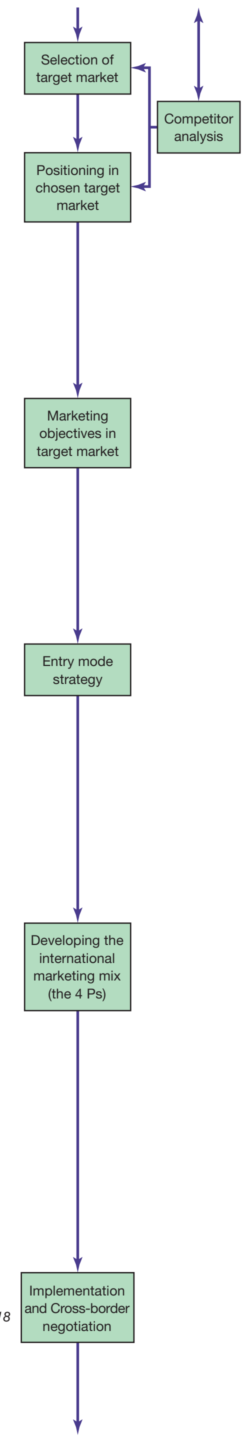


Figure 1.2 Continued





PART III: MARKET ENTRY STRATEGIES

Entry mode strategy:

Increasing internalization

- Hierarchical modes
- Intermediate modes
- Export modes

See Chapters 9–12

PART IV: DESIGNING THE GLOBAL MARKETING PROGRAMME

Marketing mix plan (per country and overall)

Marketing mix (activities)	Year 1 (t_1)	Year 2 (t_2)	Year 3 (t_3)
Product Features, quality, name, guarantees, packaging, support services	New variant	New product line and services	Develop new technology / product
Price List price, additional services prices, credit facilities, terms/conditions, allowances	Keep skimming price	Lower price	Stabilize price
Place Distributors, wholesalers, retailers, locations, logistics, e-commerce	Selective dist.	Expand distr. with new partners	New int. markets
Promotion Advertising, direct mail, email, publicity, sales promotion, personal selling, PR, social media	Keep current advertising media	Development of social media campaign	Personal selling

See Chapters 14–17

PART V: IMPLEMENTING AND COORDINATING THE GLOBAL MARKETING PROGRAMME

Implementation of marketing activities	Year 1				Year 2				Year 3				Responsible
(Q = Quarter)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Advertising													XX
Emails													XY
Demonstrations													YX
Personal selling													YY
. . .													

See Chapter 18

- Geographical market: region (Western Europe, Eastern Europe, Far East, North America etc.) country or area in a country
- Customer type: end-customer, middlemen, OEMs, Global Accounts (GAs)

Competitor analysis:
You'll discover your company's competitive advantage – the reason customers do business with you instead of your competition. By observing the actions of your competitors, you might learn more about your market. For example, does a successful competitor offer reduced prices in a specific market? If so, what might that tell you about the market's spending habits? If you find that your market is saturated with capable competitors ('red ocean'), you can avoid the costly mistake of selecting a target market without adequate demand for your offer. You can then redirect your efforts toward something that will generate more profit with the existing resources base in your company ('blue-ocean strategy').

Marketing objectives:

Meeting marketing objectives should lead to sales. (If not, you need to set different marketing objectives.) They should be clear, measurable, and have a stated time frame for achievement.

In other words the objectives should follow the SMART-concept: **S**pecific, **M**easurable, **A**chievable, **R**ealistic. **T**imeable

Setting your marketing objectives and finalizing the remaining components of your marketing plan may serve as a reality check: do you have the resources and competences necessary to accomplish your objectives?

Example: Increase market share in target market from now (t_0) 5% to 15% in three years (t_3) – Is that realistic?

Entry mode strategy:
Once the firm has set its target objectives in target markets the next step is to choose the best way to enter the market. The chosen entry mode can be regarded as the first decision level in the vertical chain that will provide distribution to the next actors in the vertical chain at the national level.

The following characteristics are connected to the three types of entry modes (seen from the manufacturer's perspective):

- Export modes (agent, distributor): Low control, low risk, high flexibility
- Intermediate mode (joint venture, strategic alliance): shared control and risk, split ownership
- Hierarchical modes (Own subsidiary): High control, high risk, low flexibility

Development of the marketing mix:
The international marketing mix section of your plan (the 4 Ps or alternatively the 7 Ps) outlines your game plan to achieve your marketing objectives internationally. It is, essentially, the heart of the marketing plan. The marketing mix section should include information about:

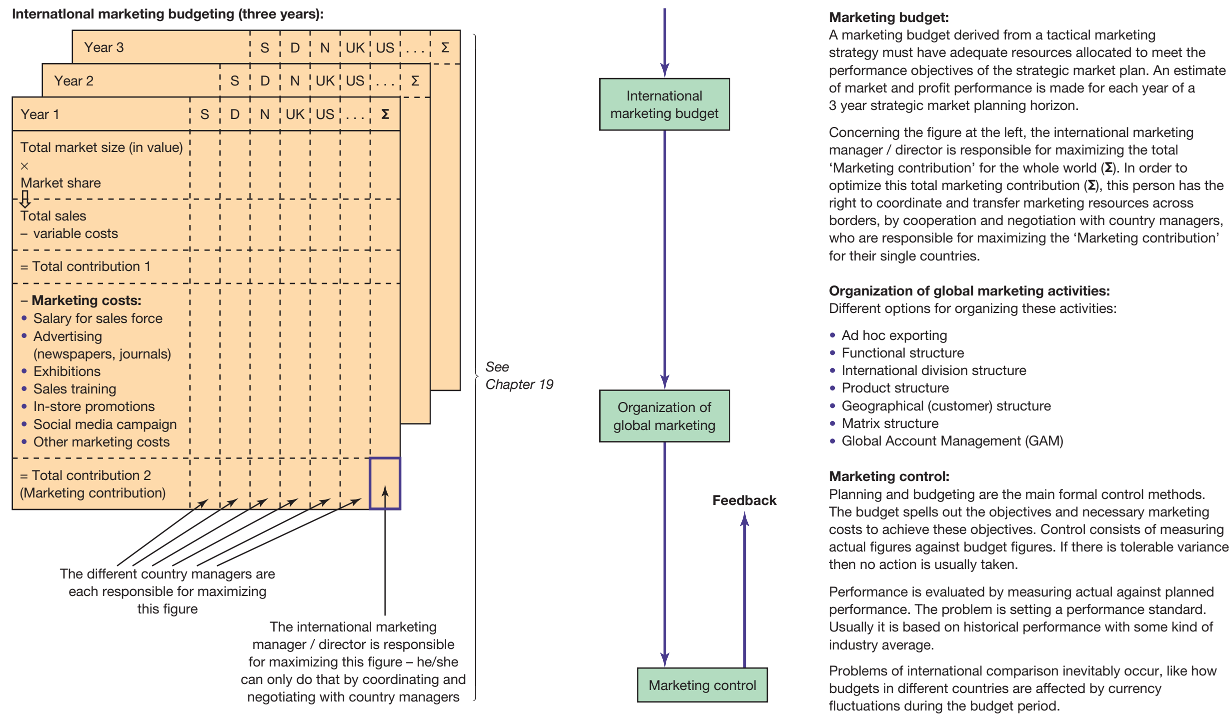
- Product – your offering: product(s) and services
- Price – what you'll charge customers for delivered products and services
- Promotion – how you will promote or create awareness and interest for your product in the marketplace
- Place (distribution) – how you will bring your product(s)/services together with your customers through different channels? How can you create extra value by developing relationships with your customer?

Implementation:
To translate the strategy into action (organizing):

- Assemble the 4P-mix for each product/service (SBU)
- Organize the marketing effort
- *Who* is responsible for the implementation of the activities?
- *When* will the activities take place?
- Internal marketing plan: Sell the marketing plan inside the organization before going outside. Are there any internal barriers that should be considered?

Cross-border negotiation:
The most fundamental gap influencing the negotiation climate between buyer and seller is the *cultural distance*, represented by differences in communication and negotiation behaviour, the concepts of time, space and work patterns, and the nature of social norms. The cultural distance can be reduced by cultural training and market research.

Figure 1.2 Continued



1.3 Comparison of the global marketing and management style of SMEs and LSEs

LSEs
According to the EU definition, LSEs (large-scale enterprises) are firms with more than 250 employees. Although LSEs account for less than 1 per cent of companies, almost one-third of all private sector jobs in the EU are provided by LSEs.

SMEs
SMEs (small and medium-sized enterprises) occur commonly in the EU and in other regional economic blocs. The EU categorizes companies with fewer than 50 employees as 'small', and those with fewer than 250 as 'medium'. In the EU, SMEs (250 employees and less) comprise approximately 99 per cent of all firms.

The reason underlying this 'convergence' is that many large multinationals (such as IBM, Philips, GM and ABB) have begun downsizing operations, so in reality many **LSEs** act like a confederation of small, autonomous, entrepreneurial and action-oriented companies. One can always question the change in orientation of **SMEs**. Some studies (e.g. Bonaccorsi, 1992) have rejected the widely accepted proposition that firm size is positively related to export intensity. Furthermore, many researchers (e.g. Julien et al., 1997) have found that SMEs as exporters do not behave as a homogeneous group.

Table 1.1 gives an overview of the main qualitative differences between management and marketing styles in SMEs and LSEs. We will discuss each of the headings in turn.

Resources

- *Financial*. A well-documented characteristic of SMEs is the lack of financial resources due to a limited equity base. The owners put only a limited amount of capital into the business, which quickly becomes exhausted.
- *Business education/specialist expertise*. In contrast to LSEs, a characteristic of SME managers is their limited formal business education. Traditionally, the SME owner/manager is a technical or craft expert and is unlikely to be trained in any of the major business disciplines. Therefore specialist expertise is often a constraint because managers in small businesses tend to be generalists rather than specialists. In addition, global marketing expertise is often the last of the business disciplines to be acquired by an expanding SME; finance and production experts usually precede the acquisition of a marketing counterpart. Therefore it is not unusual to see owners of SMEs closely involved in sales, distribution, price setting and, especially, product development.

Table 1.1 The characteristics of LSEs and SMEs

	LSEs	**SMEs**
Resources	Many resources Internalization of resources Coordination of: – personnel – financing – market knowledge, etc.	Limited resources Externalization of resources (outsourcing of resources)
Formation of strategy/decision-making processes	Deliberate strategy formation (Mintzberg, 1987; Mintzberg and Waters, 1985) (see Figure 1.3) Adaptive decision-making mode in small incremental steps (logical incrementalism) (e.g. each new product: small innovation for the LSE) (see Figure 1.4)	Emergent strategy formation (Mintzberg, 1987; Mintzberg and Waters, 1985) (see Figure 1.3) The entrepreneurial decision-making model (e.g. each new product: considerable innovation for the SME) (see Figure 1.5) The owner/manager is directly and personally involved and will dominate all decision-making throughout the enterprise
Organization	Formal/hierarchical Independent of one person	Informal The owner/entrepreneur usually has the power/charisma to inspire/control a total organization
Risk-taking	Mainly risk-averse Focus on long-term opportunities	Sometimes risk-taking/sometimes risk-averse Focus on short-term opportunities
Flexibility	Low	High
Take advantage of economies of scale and economies of scope	Yes	Only limited
Use of information sources	Use of advanced techniques: – databases – external consultancy – internet	Information gathering in an informal manner and an inexpensive way: – internal sources – face-to-face communication

Formation of strategy/decision-making processes

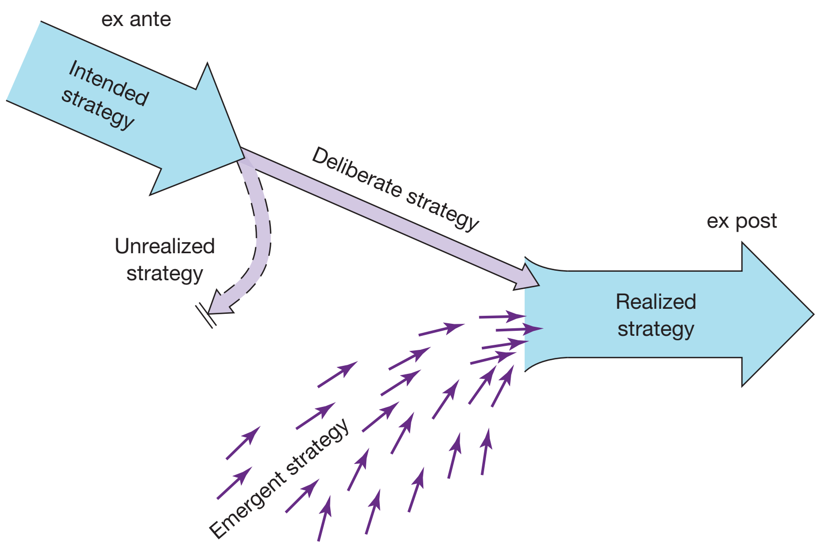
As is seen in Figure 1.3, the realized strategy (the observable output of an organization's activity) is a result of the mix between the intended ('planned') strategy and the emergent ('not planned') strategy. No companies form a purely deliberate or intended strategy. In practice, all enterprises will have some elements of both intended and emergent strategy.

In the case of the deliberate (planned) strategy (mainly LSEs), managers try to formulate their intentions as precisely as possible and then strive to implement these with a minimum of distortion.

This planning approach 'assumes a progressive series of steps of goal setting, analysis, evaluation, selection and planning of implementation to achieve an optimal long-term

Figure 1.3 The intended and emergent strategy

Source: Mintzberg (1987, p. 14). Copyright © 1987, by The Regents of the University of California. Reprinted from the *California Management Review*, Vol. 30, No. 1.



direction for the organization' (Johnson, 1988). Another approach for the process of strategic management is so-called *logical incrementalism* (Quinn, 1980), where continual adjustments in strategy proceed flexibly and experimentally. If such small movements in strategy prove successful then further development of the strategy can take place. According to Johnson (1988) managers may well see themselves as managing incrementally, but this does not mean that they succeed in keeping pace with environmental change. Sometimes the incrementally adjusted strategic changes and the environmental market changes move apart and a *strategic drift* arises (see Figure 1.4).

Exhibit 1.1 gives an example of strategic drift.

Figure 1.4 Incremental change and strategic drift

Source: based on Johnson, Whitington and Scoles' version of Strategic drift (Pearson, 2011).

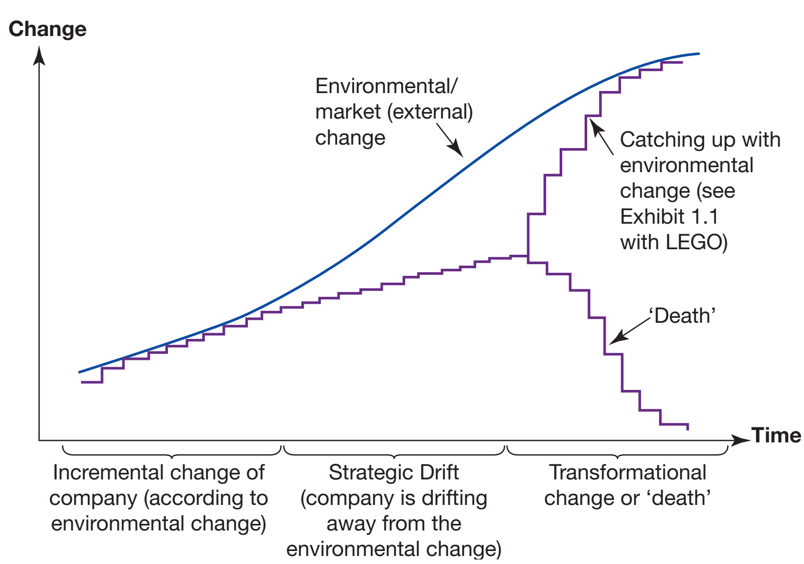


Exhibit 1.1
LEGO's strategic drift

LEGO inspired Christmas attraction at Times Square mall in Causeway Bay, Hong Kong

Today LEGO is among the three world's biggest toymakers, together with Hasbro and Mattel.

But things have not always been so rosy. In 2003, the firm suffered a net loss of approximately US$3.19 billion. LEGO strongly believed that its unique concept was superior to other products, but the company was under pressure in the competition for children's time. The famous LEGO bricks were under increasing competition from TV, videos, CD-ROM games and the internet. It seemed that in LEGO's case there was a 'strategic drift' around 2003 – the LEGO management's blind faith in its unique and pedagogical toys was not in harmony with the way in which the world was developing. Many working parents had less and less time to 'control' their children's play habits, and spectacular computer games were displacing the 'healthy' and pedagogical toys produced by LEGO. These fast-moving developments forced LEGO to re-evaluate its strategy regarding product programmes and marketing.

LEGO had been trying to extend its traditional concepts and values into media products for children aged 2–16 years. These new categories – including PC and console software, books, magazines, TV, film and music – aimed to replicate the feelings of confidence and trust already long established among children and their parents. It also went high-tech with products such as Mindstorms, and its Bionicles toys appeared in a full-length animated feature film.

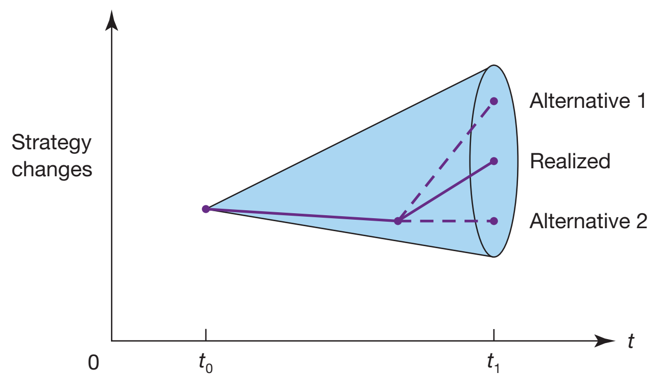
After the huge loss in 2003, LEGO returned to its former core concept. In order to ensure increased focus on the core business, in the autumn of 2004 the LEGO Group decided to sell off the LEGOLAND Parks. It would focus more on building bricks as its main product, concentrating on small kids' eagerness to assemble.

However, in 2019 LEGO decided to buy back the LEGOLAND Parks. Focusing on the re-establishment of a strong core business with classic construction toys, the LEGO Group expects to maintain its market position in 2020, and the years ahead.

Source: based on www.lego.com and other different public media.

On the other hand, the SME is characterized by the entrepreneurial decision-making model (Figure 1.5). Here more drastic changes in strategy are possible because decision-making is intuitive, loose and unstructured. In Figure 1.5 the range of possible realized strategies is determined by an interval of possible outcomes. SME entrepreneurs are noted for their propensity to seek new opportunities, and this natural propensity for change, inherent in entrepreneurs, can lead to considerable changes in the enterprise's growth direction. Because the entrepreneur changes focus, this growth is not planned or coordinated and can therefore be characterized by sporadic decisions that have an impact on the overall direction in which the enterprise is going.

Figure 1.5 The entrepreneurial decision-making model



Organization

Compared with LSEs, the employees in SMEs are usually closer to the entrepreneur and, because of the entrepreneur's influence, these employees must conform to his or her personality and style if they are to remain employees.

Risk-taking

There are, of course, different degrees of risk. Normally the LSEs will be risk-averse because of their use of a decision-making model that emphasizes small incremental steps with a focus on long-term opportunities.

In SMEs, risk-taking depends on the circumstances. It can occur in situations where the survival of the enterprise may be under threat, or where a major competitor is undermining the activities of the enterprise. Entrepreneurs may also be taking risks when they have not gathered all the relevant information, and thus may have ignored some important facts in the decision-making process.

On the other hand, there are, of course, some circumstances in which an SME will be risk-averse. This often occurs when an enterprise has been damaged by previous risk-taking and the entrepreneur is reluctant to take any kind of risk until confidence returns.

Flexibility

Because of the shorter communication lines between the enterprise and its customers, SMEs can react in a quicker and more flexible way to customer enquiries.

Economies of scale and economies of scope

Economies of scale

Economies of scale
Accumulated volume in production, resulting in lower cost price per unit.

Accumulated volume in production and sales will result in lower cost price per unit due to 'experience curve effects' and increased efficiency in production, marketing, etc. Building a global presence automatically expands a firm's scale of operations, giving it larger production capacity and a larger asset base. However, larger scale will create a competitive advantage only if the company systematically converts scale into **economies of scale**.

Exhibit 1.2

Economies of scale with Nintendo Game Boy

Having sold more than 300 million Game Boys (and its successor Nintendo DS: 'Developers' System' Nintendo hoped that the system would inspire innovative game design from developers; DS also stands for 'dual screen', the system's most obvious and distinctive feature) from 1989 to the end of 2012, Nintendo dominated the hand-held game market, even as it was losing market share in console systems to Sony and Microsoft. Over the 15 years, such companies as Sega, NEC, SNK and even cellphone manufacturer Nokia launched several competing portable game systems without much success.

The economies of scale primarily relate to the manufacturing of the hardware. In the software market, economies of scale are limited. Many different types of game have to be offered and the popularity of most of them is short-lived. This is especially so in the case of software linked to a film: the popularity of the game diminishes as the film ceases to be shown in cinemas.

Nintendo Game Boy

Source: Ian Leonard/Alamy Images.

Source: based on www.nintendo.com and various public sources.

In principle, the benefits of economies of scale can appear in different ways (Gupta and Govindarajan, 2001):

- Reducing operating costs per unit and spreading fixed costs over a larger volume due to experience curve effects.
- Pooling global purchasing gives the opportunity to concentrate global purchasing power over suppliers. This generally leads to volume discounts and lower transaction costs.
- A larger scale gives the global player the opportunity to build centres of excellence for the development of specific technologies or products. In order to do this, a company needs to focus a critical mass of talent in one location.

Because of size (bigger market share) and accumulated experience, the LSEs will normally take advantage of these factors (see Exhibit 1.2 about Nintendo's Game Boy). SMEs tend to concentrate on lucrative, small, market segments. Such market segments are often too insignificant for LSEs to target, but can be substantial and viable in respect of the SME. However, they will only result in a very limited market share of a given industry.

Economies of scope

Synergy effects and global scope can occur when the firm is serving several international markets: global scope is not taking place if an international marketer is serving a customer that operates in just one country. The customer should purchase a bundle of identical products and services across a number of countries. This global customer could source these products and services either from a horde of local suppliers or from a single global supplier (international marketer) that is present in all of its markets. Compared with a horde of local suppliers, a single global supplier (marketer) can provide value for the global customer through greater consistency in the quality and features of products and services across countries, faster and smoother coordination across countries and lower transaction costs.

Economies of scope
Reusing a resource from one business/country in additional businesses/countries.

The challenge in capturing the **economies of scope** at a global level lies in being responsive to the tension between two conflicting needs: the need for central coordination of most marketing mix elements, and the need for local autonomy in the actual delivery of products and services (Gupta and Govindarajan, 2001).

The LSEs often serve many different markets (countries) on more continents and are thereby able to transfer experience acquired in one country to another. Typically, SMEs serve only a very limited number of international markets outside their home market. Sometimes the SME can make use of economies of scope when it enters into an alliance or a joint venture with a partner who has what the particular SME is missing in the international market in question: a complementary product programme or local market knowledge.

Another example of economies of scale and scope can be found in the world car industry. Most car companies use similar engines and gearboxes across their entire product range so that the same engines or gearboxes can be installed in different models of cars. This generates enormous potential cost savings for companies such as Ford or Volkswagen. It provides both economies of scale (decreased cost per unit of output), by producing a larger absolute volume of engines or gearboxes, and economies of scope (reusing a resource from one business/country in additional businesses/countries). It is not surprising that the car industry has experienced a wave of mergers and acquisitions aimed at creating larger global car companies of sufficient size to benefit from these factors.

Use of information sources

Typically, LSEs rely on commissioned market reports produced by reputable (and well-paid!) international consultancy firms as their source of vital global marketing information. SMEs usually gather information in an informal manner through the use of face-to-face communication. The entrepreneur is able to synthesize this information unconsciously and use it to make decisions. The acquired information is mostly incomplete and fragmented, and evaluations are based on intuition and often guesswork. The whole process is dominated by the desire to find a circumstance that is ripe for exploitation.

Furthermore, the demand for complex information grows as the SME selects a more and more explicit orientation towards the international market and as the firm evolves from a production-oriented ('upstream') to a more marketing-oriented ('downstream') firm (Cafferata and Mensi, 1995).

As a reaction to pressures from international markets, both LSEs and SMEs evolve towards a globally integrated but market-responsive strategy. However, the starting points of the two firm types are different (see Figure 1.3). The huge global companies have traditionally based their strategy on taking advantage of economies of scale by launching standardized products on a worldwide basis. These companies have realized that a higher degree of market responsiveness is necessary to maintain competitiveness in national markets. On the other hand, SMEs have traditionally regarded national markets as independent of each other. However, as international competences have evolved, they have begun to realize that there is interconnectedness between their different international markets. They now recognize the benefits of coordinating the different national marketing strategies in order to utilize economies of scale in research and development (R&D), production and marketing.

1.4 Should the company internationalize at all?

Globalization
Reflects the trend of firms buying, developing, producing and selling products and services in most countries and regions of the world.

Internationalization
Doing business in many countries of the world, but often limited to a certain region (e.g. Europe).

In the face of **globalization** and an increasingly interconnected world, many firms attempt to expand their sales into foreign markets. International expansion provides new and potentially more profitable markets, helps to increase the firm's competitiveness, and facilitates access to new product ideas, manufacturing innovations and the latest technology. However, **internationalization** is unlikely to be successful unless the firm prepares in advance. Advance planning has often been regarded as important to the success of new international ventures (Knight, 2000).

Solberg (1997) discusses the conditions under which the company should 'stay at home' or further 'strengthen the global position' as two extremes (see Figure 1.6). The framework in Figure 1.3 is based on the dimensions industry globalism and preparedness for internationalization.

Industry globalism

In principle, the firm cannot influence the degree of industry globalism, as it is mainly determined by the international marketing environment. Here the strategic behaviour of firms depends on the international competitive structure within an industry. In the case of a high degree of industry globalism there are many interdependencies between markets, customers and suppliers, and the industry is dominated by a few large, powerful players (*global*), whereas the other end (*local*) represents a multidomestic market environment, where markets exist independently of one another. Examples of very global industries are those making smartphones, apps for smartphones, IT (software), films and aircraft (the two dominant players being Boeing and Airbus). Examples of more local industries are those that are more culture-bound, such as hairdressing, foods and dairies (e.g. brown cheese in Norway).

Figure 1.6 The nine strategic windows

Source: Solberg (1997, p. 11). Reprinted with kind permission. In the original article Solberg has used the concept 'globality' rather than 'globalism'.

		Industry globalism		
		Local	*Potentially global*	*Global*
Preparedness for internationalization	*Mature*	3. Enter new business	6. Prepare for globalization	9. Strengthen your global position
	Adolescent	2. Consolidate your export markets	5. Consider expansion in international markets	8. Seek global alliances
	Immature	1. Stay at home	4. Seek niches in international markets	7. Prepare for a buyout

Preparedness for internationalization

This dimension is mainly determined by the firm. The degree of preparedness is dependent on the firm's ability to carry out strategies in the international marketplace, i.e. the actual skills in international business operations. These skills or organizational capabilities may consist of personal characteristics (e.g. language, cultural sensitivity), managers' international experience or financial resources. The well-prepared company (*mature*) has a good basis for dominating the international markets and consequently it would gain higher market share.

In the global/international marketing literature the 'staying at home' alternative is not discussed thoroughly. However, Solberg (1997) argues that with limited international experience and a weak position in the home market there is little reason for a firm to engage in international markets. Instead the firm should try to improve its performance in its home market. This alternative is window number 1 in Figure 1.6.

If the firm finds itself in a global industry as a dwarf among large multinational firms, Solberg (1997) argues that it may seek ways to increase its net worth so as to attract partners for a future buyout bid. This alternative (window number 7 in Figure 1.6) may be relevant to SMEs selling advanced high-tech components (as subsuppliers) to large industrial companies with a global network. In situations with fluctuations in the global demand, the SME (with limited financial resources) will often be financially vulnerable. If the firm has already acquired some competence in international business operations, it can overcome some of its competitive disadvantage by going into alliances with firms that have complementary competences (window number 8). The other windows in Figure 1.6 are further discussed by Solberg (1997).

1.5 Development of the 'global marketing' concept

Basically 'global marketing' consists of finding and satisfying global customer needs better than the competition, and coordinating marketing activities within the constraints of the global environment. The nature of the firm's response to global market opportunities depends greatly on the management's assumptions or beliefs, both conscious and unconscious, about doing business around the world. This world view of a firm's business activities can be described according to the EPRG framework (Perlmutter, 1969; Chakravarthy and Perlmutter, 1985), the four orientations of which are summarized as follows:

1. *Ethnocentric*: the home country is superior and the needs of the home country are most relevant. Essentially the headquarters extends its ways of doing business to its foreign affiliates. Controls are highly centralized and the organization and technology implemented in foreign locations will be largely the same as in the home country.
2. *Polycentric* (multidomestic): each country is unique and should therefore be targeted in a different way. The polycentric enterprise recognizes that there are different conditions for production and marketing in different locations and tries to adapt to those different conditions in order to maximize profits in each location. The control is highly decentralized among affiliates, and communication between headquarters and affiliates is limited.
3. *Regiocentric*: the world consists of regions (e.g. Europe, Asia, the Middle East). The firm tries to integrate and coordinate its marketing programme within regions, but not across them.
4. *Geocentric* (global): the world is getting smaller and smaller. The firm may offer global product concepts but with local adaptation ('think global, act local').

The regio- and geocentric firm (in contrast to the ethnocentric and polycentric) seeks to organize and integrate production and marketing on a regional or global scale. Each international unit is an essential part of the overall multinational network, and communications and controls between headquarters and affiliates are less top-down than in the case of the ethnocentric firm.

Many international markets are converging, as communication and logistic networks are integrated on a global scale. At the same time, other international markets are becoming more diverse as company managers are encountering economic and cultural heterogeneity. This means that firms need to balance tensions in adapting to different demands from customers in divergent markets, which require different skills and resources while attempting to transfer knowledge and learning between the established markets and these new markets (Douglas and Craig, 2011).

This leads us to a definition of global marketing:

Global marketing is defined as the firm's commitment to coordinate its marketing activities across national boundaries in order to find and satisfy global customer needs better than the competition. This implies that the firm is able to:

- develop a global marketing strategy, based on similarities and differences between markets;
- exploit the knowledge of the headquarters (home organization) through worldwide diffusion (learning) and adaptations;
- transfer knowledge and 'best practices' from any of its markets and use them in other international markets.

There follows an explanation of some key terms:

- *Coordinate its marketing activities*: coordinating and integrating marketing strategies and implementing them across global markets, which involves centralization, delegation, standardization and local responsiveness.
- *Find global customer needs*: this involves carrying out international marketing research and analysing market segments, as well as seeking to understand similarities and differences in customer groups across countries.
- *Satisfy global customers*: adapting products, services and elements of the marketing mix to satisfy different customer needs across countries and regions.
- *Being better than the competition*: assessing, monitoring and responding to global competition by offering better value, lower prices, higher quality, superior distribution, great advertising strategies or superior brand image.

The second part of the global marketing definition is also illustrated in Figure 1.7 and further commented on in the following.

This global marketing strategy strives to achieve the slogan 'think globally but act locally' (the so-called '**glocalization**' framework) through dynamic interdependence between headquarters and subsidiaries. Organizations following such a strategy coordinate their efforts, ensuring local flexibility while exploiting the benefits of global integration and efficiencies, as well as ensuring worldwide diffusion of innovation (see Exhibit 1.5).

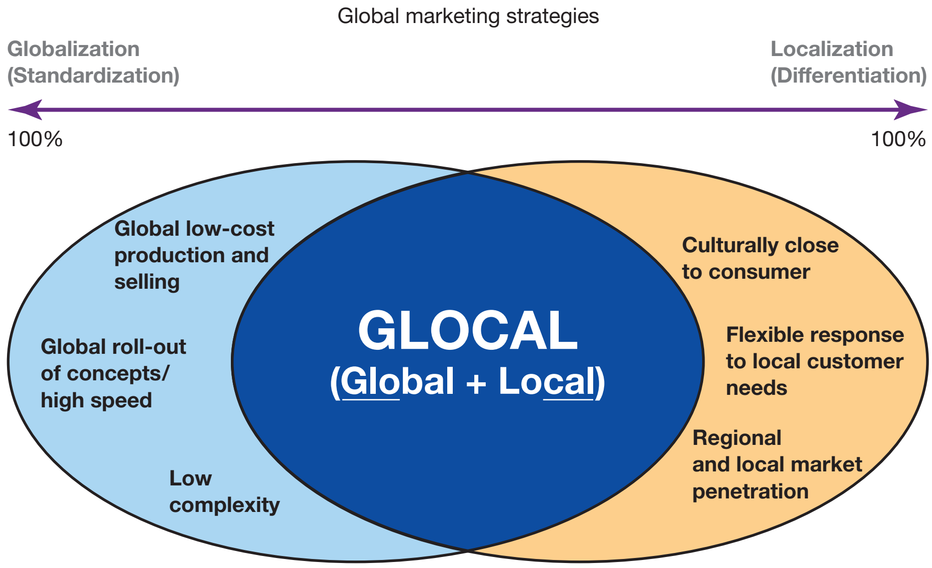
Glocalization
The development and selling of products or services intended for the global market, but adapted to suit local culture and behaviour. (Think globally, act locally.)

Principally, the value chain function should be carried out where there is the highest competence (and the greatest cost-effectiveness), and this is not necessarily at head office (Bellin and Pham, 2007).

The two extremes in global marketing, globalization and localization, can be combined into the 'glocalization' framework, as shown in Figure 1.7.

A key element in knowledge management is the continuous learning from experiences. In practical terms, the aim of knowledge management as a learning-focused activity across

Figure 1.7 The glocalization framework



borders is to keep track of valuable capabilities used in one market that could be used elsewhere (in other geographic markets), so that firms can continually update their knowledge. This is also illustrated in Figure 1.8 with the transfer of knowledge and 'best practices' from market to market. However, knowledge developed and used in one cultural context is not always easily transferred to another. The lack of personal relationships, the absence of trust and 'cultural distance' all conspire to create resistance, frictions and misunderstandings in cross-cultural knowledge management.

With globalization becoming a centrepiece in the business strategy of many firms – be they engaged in product development or providing services – the ability to manage the 'global knowledge engine' to achieve a competitive edge in today's knowledge-intensive economy is one of the keys to sustainable competitiveness. However, in the context of global marketing the management of knowledge is *de facto* a cross-cultural activity, whose key task is to foster and continually upgrade collaborative cross-cultural learning (**this will be further discussed in Chapter 14**). Of course, the kind and/or type of knowledge that is strategic for an organization and which needs to be managed for competitiveness varies depending on the business context and the value of different types of knowledge associated with it.

Figure 1.8 The principle of transferring knowledge and learning across borders

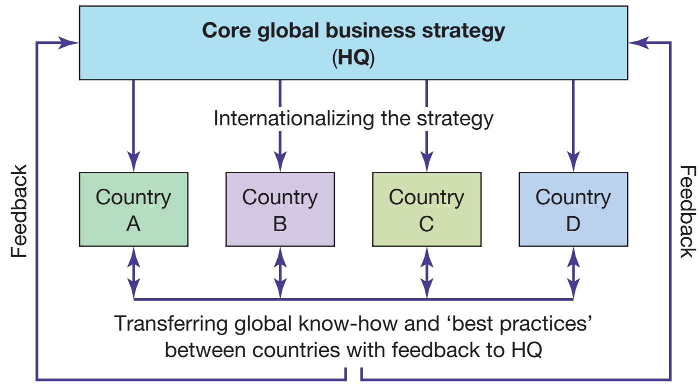


Exhibit 1.3

Helly Hansen uses 'localization' through geo-targeting technology

Brands are increasingly seeking to fine-tune their localization strategies by using the newest technology. In June 2015, outdoor apparel maker Helly Hansen from Norway revealed that it had grown sales in some countries by using geo-targeting technology to locate potential customers and lead them to the right Helly Hansen website.

The strategy consisted of pairing local weather forecasts with specific on-site experiences. When rain was forecasted over a five-day period in Germany, for example, the brand used geotargeting to present a rainwear banner on the homepage, rather than promoting winter skiwear. This resulted in a 52 per cent uplift in conversions from awareness of the brand to actual purchase.

Source: based on Bacon (2015).

Helly Hansen store

Source: Convery flowers/Alamy Images.

Exhibit 1.4

Persil Black and Persil Abaya = glocalization (same product, but different packaging and market communication)

Founded in 1876, Henkel holds globally leading market positions in both the consumer and industrial businesses with well-known brands such as Persil, Schwarzkopf and Loctite. With headquarters in Düsseldorf, Germany, Henkel has some 53,000 employees worldwide. In 2017, Henkel generated revenues of €20.0 billion and net profits of €2.5 billion.

Persil Abaya is a liquid detergent that Henkel introduced to the Saudi Arabian market in 2007 and later to the rest of the Gulf Cooperation Council markets. Henkel markets this liquid as a detergent specialized for black abayas and dark apparel. The abaya is the predominantly black overgarment worn by most Arab women. The liquid detergent combines true cleaning power with special colour protection for black and dark garments – particularly important if these are washed frequently.

While black is the traditional shade for women in the Africa/Middle East region, the popularity of black and dark clothing has also steadily risen in Western European markets over recent years. Therefore in June 2011, Persil Black was also introduced in Germany, Austria and Switzerland – catching the crest of this fashion wave.

Persil Black and Persil Abaya provide a good example of how the mix of common global

Persil Abaya Persil Black

Source: Henkel AG & Co KGaA.

technology and scale (low-cost production) can be combined with local market. The two Persil brands have similar product formulations, but regionally tailored product marketing, in the form of different packaging and market communication.

Persil Abaya was launched in the Gulf States through a mix of TV commercials and a very successful viral online marketing campaign. An interactive website was set up and Henkel also sponsored a reality TV designer competition, in order to show that the abaya has transcended from traditional garment to individual fashion statement. In the Western European markets, the consumer campaign for Persil Black relied mainly on classic TV advertising, complemented by social media activities such as a game on Facebook.

Sources: based on Henkel Annual Report 2011–2017 (*www.henkel.com*); Hollensen and Schimmelpfennig (2015).

1.6 Forces for global integration and market responsiveness

In Figure 1.9 it is assumed that SMEs and LSEs are learning from each other. The consequence of both movements may be an action-oriented approach, where firms use the strengths of both orientations. The following section will discuss the differences in the starting points of LSEs and SMEs in Figure 1.9, which illustrates the convergence of LSEs and SMEs into the upper-right corner ('glocal' strategy). An example of a LSE's movement from 'left' to 'right' is given in Exhibit 1.5, where McDonald's has adapted its menus to the local food cultures. SMEs have traditionally been strong on 'high degree of responsiveness', but their tendency to decentralization and local decision-making has made them more vulnerable to a low degree of coordination across borders (which, by contrast, is the strength of LSEs).

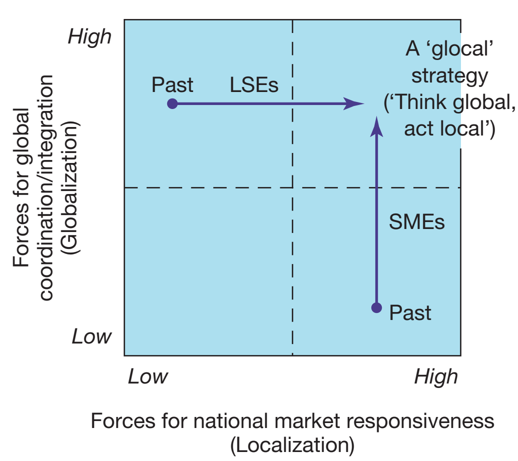
Global integration
Recognizing the similarities between international markets and integrating them into the overall global strategy.

Market responsiveness
Responding to each market's needs and wants.

The terms 'glocal strategy' and 'glocalization' have been introduced to reflect and combine the two dimensions in Figure 1.9: globalization (y-axis) and localization (x-axis). The glocal strategy approach reflects the aspirations of a global integrated strategy, while recognizing the importance of local adaptations/market responsiveness. In this way, glocalization tries to optimize the balance between standardization and adaptation of the firm's international marketing activities (Svensson, 2001, 2002; Bailey et al., 2015).

First let us try to explain the underlying forces for global coordination/**global integration** and **market responsiveness** in Figure 1.9.

Figure 1.9 The global integration/market responsiveness grid: the future orientation of LSEs and SMEs



Forces for 'global coordination/integration'

In the shift towards integrated global marketing, greater importance will be attached to transnational similarities for target markets across national borders and less on cross-national differences. The major drivers for this shift are as follows (Sheth and Parvatiyar, 2001; Segal-Horn, 2002):

- *Removal of trade barriers (deregulation).* Removal of historic barriers, both tariff (such as import taxes) and non-tariff (such as safety regulations), which have constituted barriers to trade across national boundaries. Deregulation has occurred at all levels: national, regional (within national trading blocs) and international. Thus deregulation has an impact on globalization, as it reduces the time, costs and complexity involved in trading across boundaries.
- *Global accounts/customers.* As customers become global and rationalize their procurement activities, they demand that suppliers provide them with global services to meet their unique global needs. Often this may consist of global delivery of products, assured supply and service systems, uniform characteristics and global pricing. Several LSEs, such as IBM, Boeing, IKEA, Siemens and ABB, make such 'global' demands on their smaller suppliers, typical SMEs. For these SMEs, managing such global accounts requires cross-functional customer teams, in order to deploy quality consistency across all functional units.
- *Relationship management/network organization.* As we move towards global markets it is becoming increasingly necessary to rely on a network of relationships with external organizations, for example, customer and supplier relationships to pre-empt competition. Firms may also have to work with internal units (e.g. sales subsidiaries) located in many and various parts of the world. Business alliances and network relationships help to reduce market uncertainties, particularly in the context of rapidly converging technologies and the need for higher amounts of resources to cover global markets. However, networked organizations need more coordination and communication.
- *Standardized worldwide technology.* Earlier differences in world market demand were due to the fact that advanced technological products were primarily developed for the defence and government sectors before being scaled down for consumer applications. However, today the desire for gaining scale and scope in production is so high that worldwide availability of products and services should escalate. As a consequence we may witness more homogeneity in the demand and usage of consumer electronics across nations. Today 'plug-and-play' modules are combined to create products very similar across markets. Examples of that are smartphones, that can be produced at good quality, not only by Apple and Samsung, but also by Chinese manufacturers, like Huawei, which has captured no. 1 position in the Chinese smartphone market, and is now expanding to other international markets.
- *Worldwide markets.* The concept of 'diffusions of innovations' from the home country to the rest of the world tends to be replaced by the concept of worldwide markets. Worldwide markets are likely to develop because they can rely on world demographics. For example, if a marketer targets its products or services to the teenagers of the world, it is relatively easy to develop a worldwide strategy for that segment and draw up operational plans to provide target market coverage on a global basis. This is becoming increasingly evident in soft drinks, clothing and sports shoes, especially in the internet economy.
- *'Global village'.* The term 'global village' refers to the phenomenon in which the world's population shares commonly recognized cultural symbols. The business consequence of this is that similar products and services can be sold to similar groups of customers in almost any country in the world. Cultural homogenization therefore implies the potential for the worldwide convergence of markets and the emergence of a global marketplace, in which brands such as Coke, Nike and Levi's are universally desired.
- *Worldwide communication.* New internet-based 'low-cost' communication methods (e.g. social media) ease communication and trade across different parts of the world. As a

result, customers within national markets are able to buy similar products and similar services across parts of the world.

- *Global cost drivers*. These are categorized as 'economies of scale' and 'economies of scope'. In the drive to reduce costs, many established multinationals have focused increasingly on activities with the highest returns. This means that lower-value activities are outsourced to emerging and developing countries with lower labour costs. The result is that once-closed value chains have been opened up, enabling local players to source 'plug-and-play' modular designs to big multinationals, or even to develop local brands themselves (Santos and Williamson, 2015).

Forces for 'market responsiveness'

These are as follows:

- *Cultural differences*. Despite the advent of the 'global village', cultural diversity clearly continues to exist. Cultural differences often pose major difficulties in international negotiations and marketing management. These cultural differences reflect differences in personal values and in the assumptions people make about how business is organized. Every culture has its opposing values. Markets are people, not products. There may be global products, but there are not global people.
- *Regionalism/protectionism*. Regionalism is the grouping of countries into regional clusters based on geographic proximity. These clusters (such as the European Union or the North American Free Trade Agreement) have formed regional trading blocs, which may represent a significant barrier to globalization, since regional trade is often seen as incompatible with global trade. In this case, trade barriers that are removed from individual countries are simply reproduced for a region and a set of countries. Thus all trading blocs create outsiders as well as insiders. Therefore one may argue that regionalism results in a situation where protectionism reappears around regions rather than individual countries.
- **Deglobalization** *trend*. More than 2,500 years ago the Greek historian Herodotus (based on observations) claimed that everyone believes their native customs and religion are the best. The big demonstrations accompanying conferences such as the World Economic Forum in Davos or the World Trade Organization (WTO) meetings show that there could be a return to old values, promoting barriers to the further success of globalization. Rhetorical words such as 'McDonaldization' and 'Coca-Colonization' describe in a simple way fears of US cultural imperialism.

Deglobalization
Moving away from the globalization trends and regarding each market as special, with its own economy, culture and religion.

Exhibit 2.4 presents an example of British Telecommunications' experience with de-internationalization of their American and Asian strategy (Turner and Gardiner, 2007).

Exhibit 1.5

McDonald's is moving towards a higher degree of market responsiveness

McDonald's (www.mcdonalds.com) has now expanded to about 37,000 restaurants in over 100 countries. Executives at the headquarters of McDonald's Corp. in Oak Brook, Illinois, have learned that despite the cost savings inherent in standardization, success is often about being able to adapt to the local environment. Here are some examples.

Japan

McDonald's first restaurant in Japan opened during 1971. At that time fast food in Japan consisted of either a bowl of noodles or miso soup.

With its first-mover advantage, McDonald's kept its lead in Japan. By 1997, it had over 1,000 outlets there, selling more food in Japan than any other restaurant company, including 500 million burgers a year.

Among the offerings of McDonald's Co. (Japan) Ltd are chicken tatsuta, teriyaki chicken and the Teriyaki McBurger. Burgers are garnished with a fried egg. Beverages include iced coffee and corn soup.

McDonald's in Japan imports about 70 per cent of its food needs, including pickles from the US and beef patties from Australia. High volumes facilitate bargaining with suppliers, in order to guarantee sourcing at a low cost.

India

McDonald's was launched in India in 1996, and in 2019 has approximately 400 restaurants. It has had to deal with a market that is 20–40 per cent vegetarian; meat eaters who dislike beef or pork; consumers with a hostility to frozen meat and fish; and a general Indian fondness for spice with everything.

The Big Mac was replaced by the Maharaja Mac, made from mutton, and the outlets also offer vegetarian rice-patties flavoured with vegetables and spice.

Other countries

In tropical markets, guava juice was added to the McDonald's product line. In Germany, McDonald's did well selling beer as well as McCroissants. Banana fruit pies became popular in Latin America and McSpaghetti noodles became a favourite in the Philippines. In Thailand, McDonald's introduced the Samurai Pork Burger with sweet sauce. Meanwhile, McDonald's in New Zealand launched the Kiwiburger served with beetroot sauce and optional apricot pie.

In Singapore, where fries came to be served with chilli sauce, the Kiasuburger chicken breakfast became a bestseller. Singapore was among the first markets in which McDonald's introduced a delivery service.

As indicated, McDonald's has achieved economies of scale and cost savings through standardization and in its packaging. In 2003, McDonald's announced that all its restaurants would soon be adopting the same brand packaging for menu items. According to a company press release, the new packaging would feature photographs of real people doing things they enjoy, such as listening to music, playing soccer and reading to their children. McDonald's global chief marketing officer was quoted as saying, 'It is the first time in our history that a single set of brand packaging, with a single brand message, will be used concurrently around the world.' Two years later, in 2005, the company had to pull back when it announced plans to *localize* its packages (Frost, 2006).

Sources: based on www.mcdonalds.com and a variety of public sources.

1.7 The value chain as a framework for identifying international competitive advantage

The concept of the value chain

Value chain
A categorization of the firm's activities providing value for the customers and profit for the company.

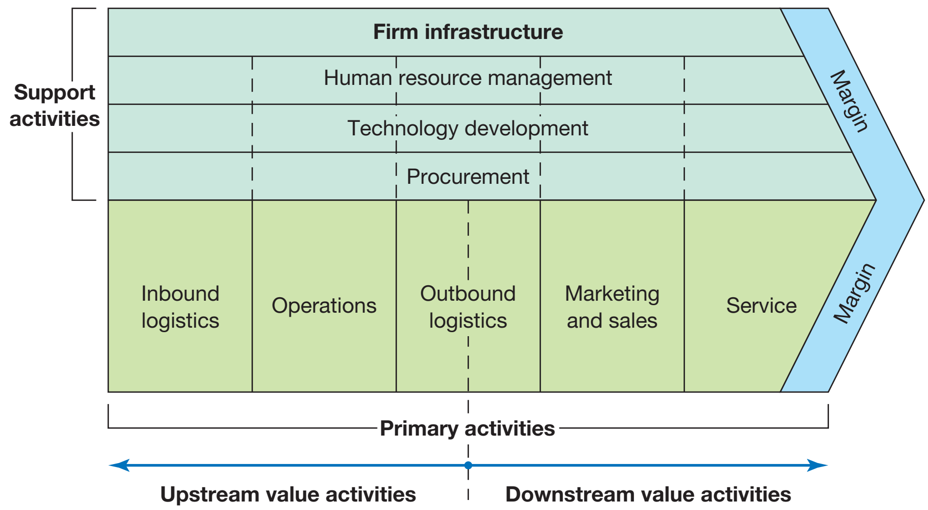
The **value chain** shown in Figure 1.10 provides a systematic means of displaying and categorizing activities. The activities performed by a firm in any industry can be grouped into the nine generic categories shown.

At each stage of the value chain there exists an opportunity to contribute positively to the firm's competitive strategy by performing some activity or process in a way that is better than and/or different from the competitors' offer, and so provide some uniqueness or advantage. If a firm attains such a competitive advantage, which is sustainable, defensible, profitable and valued by the market, then it may earn high rates of return, even though the industry structure may be unfavourable and the average profitability of the industry modest.

In competitive terms, value is the amount that buyers are willing to pay for what a firm provides them with (perceived value). The value chain includes both cost and value drivers. Drivers are the underlying structural factors that explain why the cost/value generated by a firm's activities differs from that of its rivals. Basically, a firm is profitable if the value it commands exceeds the costs involved in creating the product. Creating value for buyers that exceeds the cost of doing so is the goal of any generic strategy. Sometimes value, instead

Figure 1.10 The value chain

Source: adapted with the permission of The Free Press, a Division of Simon & Schuster, Inc. from *Competitive Advantage: Creating and Sustaining Superior Performance* by Michael E. Porter. Copyright © 1985, 1998 Michael E. Porter. All rights reserved.



of cost, must be used in analysing competitive position, since firms often deliberately raise their costs in order to command a premium price via differentiation. The concept of buyers' perceived value will be discussed further in Section 4.4.

Before going into the details of the various value chain activities, it is important to realize that the firm's value chain is embedded in a larger stream of network activities in the total supply chain. Suppliers, the firm itself and business customers all have their *own* value chain, starting from the basic raw materials and going right through to those engaged in the delivery of the final product and service to the final customer.

The Porter concept of the value chain

Porter's (1986) original value chain displays total value and consists of value activities and margin. Value activities are the physically and technologically distinct activities that a firm performs. These are the building blocks with which a firm creates a product valuable to its buyers. Margin is the difference between total value (price) and the collective cost of performing the value activities.

Competitive advantage is a function of either providing comparable buyer value more efficiently than competitors (lower cost), or performing activities at comparable cost but in unique ways that create more customer value than the competitors are able to offer and, hence, command a premium price (differentiation). The firm might be able to identify elements of the value chain that are not worth the costs. These can then be unbundled and produced outside the firm (outsourced) at a lower price.

Value activities can be divided into two broad types, primary activities and support activities. *Primary activities,* listed along the bottom of Figure 1.10, are the activities involved in the physical creation of the product, its sale and transfer to the buyer, as well as after-sales assistance. In any firm, primary activities can be divided into the five generic categories shown in the figure. *Support activities* support the primary activities and each other by providing purchased inputs, technology, human resources and various firm-wide functions. The dotted lines reflect the fact that procurement, technology development and human resource management can be associated with specific primary activities as well as supporting the entire chain. Firm infrastructure is not associated with particular primary activities, but supports the entire chain.

Primary activities

The primary activities of the organization are grouped into five main areas, as follows:

1. *Inbound logistics*. The activities concerned with receiving, storing and distributing the inputs to the product/service. These include materials, handling, stock control and transport.
2. *Operations*. The transformation of these various inputs into the final product or service, e.g. machining, packaging, assembly, testing.
3. *Outbound logistics*. The collection, storage and distribution of the product to customers. For tangible products this would involve warehousing, material handling and transport; in the case of services it may be more concerned with arrangements for bringing customers to the service if it is in a fixed location (e.g. sports events).
4. *Marketing and sales*. These provide the means whereby consumers/users are made aware of the product/service and are able to purchase it. This would include sales administration, advertising and selling. In public services, communication networks that help users access a particular service are often important.
5. *Service*. These are all the activities that enhance or maintain the value of a product/service. Asugman et al. (1997) have defined after-sales service as 'those activities in which a firm engages after purchase of its product that minimize potential problems related to product use, and maximize the value of the consumption experience'. After-sales service consists of the following: the installation and start-up of the purchased product, the provision of spare parts for products, the provision of repair services, technical advice regarding the product, and the provision and support of warranties.

Each of these groups of primary activities is linked to support activities.

Support activities

These can be divided into four areas:

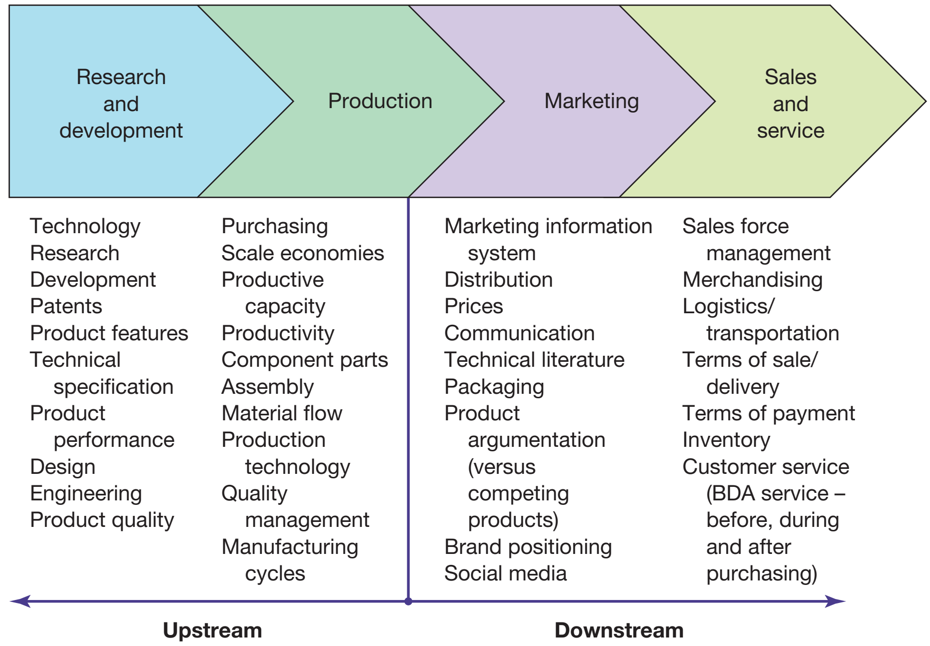
1. *Procurement*. This refers to the process of acquiring the various resource inputs to the primary activities (not to the resources themselves). As such, it occurs in many parts of the organization.
2. *Technology development*. All value activities have a 'technology', even if it is simply 'know-how'. The key technologies may be concerned directly with the product (e.g. R&D, product design), with processes (e.g. process development) or with a particular resource (e.g. raw material improvements).
3. *Human resource management*. This is a particularly important area that transcends all primary activities. It is concerned with the activities involved in recruiting, training, developing and rewarding people within the organization.
4. *Infrastructure*. The systems of planning, finance, quality control, etc. are crucially important to an organization's strategic capability in all primary activities. Infrastructure also consists of the structures and routines of the organization that sustain its culture.

As indicated in Figure 1.10, a distinction is also made between the production-oriented, 'upstream' activities and the more marketing-oriented, 'downstream' activities.

Figure 1.11 shows a simplified version of the value chain in Figure 1.10. This simplified version, characterized by the fact that it contains only the primary activities of the firm, will be used in most parts of this book.

Although value activities are the building blocks of competitive advantage, the value chain is not a collection of independent activities, but a system of interdependent activities. Value activity is related by horizontal linkages within the value chain. Linkages are relationships between the way in which one value activity is dependent on the performance of another.

Figure 1.11 A simplified version of the value chain



Furthermore, the chronological order of the activities in the value chain is not always as illustrated in Figure 1.11. In companies where orders are placed before production of the final product (build-to-order), the sales and marketing function takes place before production.

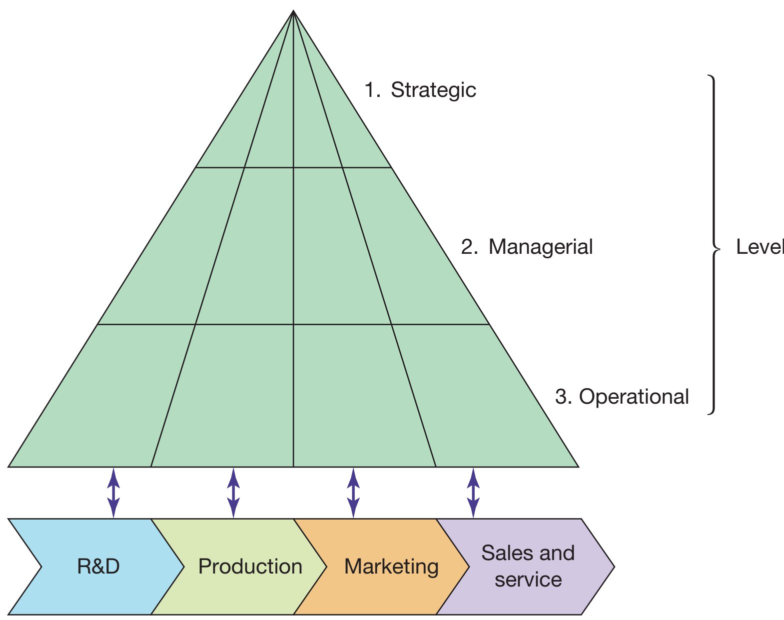
In understanding the competitive advantage of an organization, the strategic importance of the following types of linkage should be analysed in order to assess how they contribute to cost reduction or value added. There are two kinds of linkage:

1. *Internal linkages* between activities within the same value chain, but perhaps on different planning levels within the firm;
2. *External linkages* between different value chains 'owned' by the different actors in the total value system.

Internal linkages

There may be important links between the primary activities. In particular, choices will have been made about these relationships and how they influence value creation and strategic capability. For example, a decision to hold high levels of finished stock might ease production scheduling problems and provide a faster response time to the customer. However, it will probably add to the overall cost of operations. An assessment needs to be made of whether the added value of 'stocking' is greater than the added cost. Suboptimization of the single value chain activities should be avoided. It is easy to miss this point in an analysis if, for example, the marketing activities and operations are assessed separately. The operations may look good because they are geared to high-volume, low-variety, low-unit-cost production. However, at the same time the marketing team may be selling quickness, flexibility and variety to the customers. When put together these two potential strengths are weaknesses because they are not in harmony, which is what a value chain requires. The link between a primary activity and a support activity may be the basis of competitive advantage. For example, an organization may have a unique system for procuring materials. Many international

Figure 1.12 The value chain in relation to the strategic pyramid



hotels and travel companies use their computer systems to provide immediate 'real time' quotations and bookings worldwide from local access points.

As a supplement to comments about the linkages between the different activities, it is also relevant to regard the value chain (illustrated in Figure 1.11 in a simplified form) as a thorough-going model on all three planning levels in the organization.

In purely conceptual terms, a firm can be described as a pyramid as illustrated in Figure 1.12. It consists of an intricate conglomeration of decision and activity levels, having three distinct levels, but the main value chain activities are connected to all three strategic levels in the firm:

1. The *strategic level* is responsible for formulation of the firm's mission statement, determining objectives, identifying the resources that will be required if the firm is to attain its objectives, and selecting the most appropriate corporate strategy for the firm to pursue.
2. The *managerial level* has the task of translating corporate objectives into functional and/or unit objectives and ensuring that resources placed at its disposal (e.g. in the marketing department) are used effectively in the pursuit of those activities that will make the achievement of the firm's goals possible.
3. The *operational level* is responsible for the effective performance of the tasks that underlie the achievement of unit/functional objectives. The achievement of operational objectives is what enables the firm to achieve its managerial and strategic aims. All three levels are interdependent, and clarity of purpose from the top enables everybody in the firm to work in an integrated fashion towards a common aim.

External linkages

One of the key features of most industries is that a single organization rarely undertakes all value activities from product design to distribution to the final consumer. There is usually a specialization of roles, and any single organization usually participates in the wider value system that creates a product or service. In understanding how value is created it is not enough to look at the firm's internal value chain alone. Much of the value creation will occur in the supply and distribution chains, and this whole process needs to be analysed and understood.

Suppliers have value chains that create and deliver the purchased inputs used in a firm's chain (the upstream part of the value chain). Suppliers not only deliver a product, but can also influence a firm's performance in many other ways. For example, Benetton, the Italian fashion company, managed to sustain an elaborate network of suppliers, agents and independent retail outlets as the basis of its rapid and successful international development during the 1970s and 1980s.

In addition, products pass through the value chain channels on their way to the buyer. Channels perform additional activities that affect the buyer and influence the firm's own activities. A firm's product eventually becomes part of its buyer's value chain. The ultimate basis for differentiation is a firm and its product's role in the buyer's value chain, which is determined by buyer needs. Gaining and sustaining competitive advantage depend on understanding not only a firm's value chain, but also how the firm fits into the overall value system.

There are often circumstances where the overall cost can be reduced (or the value increased) by collaborative arrangements between different organizations in the value system. It will be seen elsewhere (**Chapter 10**) that this is often the rationale behind downstream collaborative arrangements, such as joint ventures, subcontracting and outsourcing between different organizations (e.g. sharing technology in the international motor manufacture and electronics industries).

Internationalizing the value chain

All internationally oriented firms must consider an eventual internationalization of the value chain's functions. The firm must decide whether the responsibility for the single value chain function is to be moved to the export markets or is best handled centrally from head office. Principally, the value chain function should be carried out where there is the highest competence (and the most cost-effectiveness), and this is not necessarily at head office.

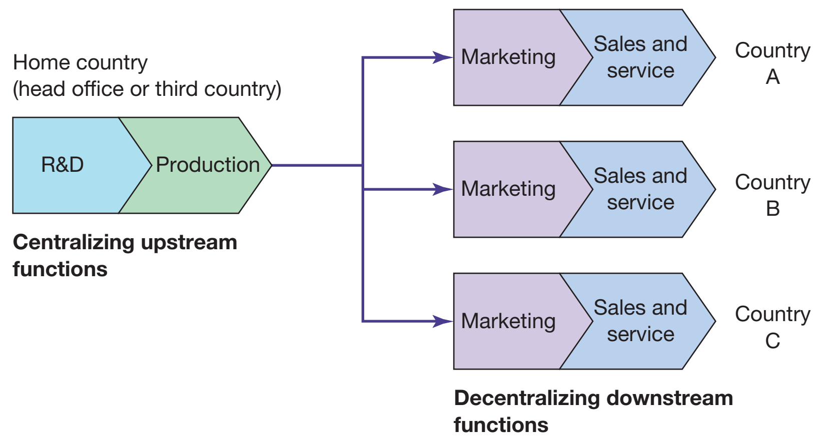
A distinction immediately arises between the activities labelled downstream in Figure 1.11 and those labelled upstream activities. The location of downstream activities, those more related to the buyer, is usually tied to where the buyer is located. If a firm is going to sell in Australia, for example, it must usually provide services in Australia, and it must have salespeople stationed there. In some industries it is possible to have a single sales force that travels to the buyer's country and back again; other specific downstream activities, such as the production of advertising copy, can sometimes also be performed centrally. More typically, however, the firm must locate the capability to perform downstream activities in each of the countries in which it operates. By contrast, upstream activities and support activities are more independent of where the buyer is located (Figure 1.13). However, if the export markets are culturally close to the home market, it may be relevant to control the entire value chain from head office (home market).

This distinction carries some interesting implications. First, downstream activities create competitive advantages that are largely country-specific: a firm's reputation, brand name and service network in a country grow largely out of its activities and create entry/mobility barriers largely in that country alone. Competitive advantage in upstream and support activities often grows more out of the entire system of countries in which a firm competes than from its position in any single country.

Secondly, in industries where downstream activities or other buyer-tied activities are vital to competitive advantage, there tends to be a more multidomestic pattern of international competition. In many service industries, for example, not only downstream activities but frequently upstream activities are tied to buyer location, and global strategies are comparatively less common. In industries where upstream and support activities such as technology development and operations are crucial to competitive advantage, global competition is more common. For example, there may be a large need in firms to centralize and coordinate the production function worldwide to be able to create rational production units that are able to exploit economies of scale. Today it is very popular among companies to outsource production to the Far East, e.g. China.

Figure 1.13 Centralizing the upstream activities and decentralizing the downstream activities

Source: Hollensen, S. (2008) *Essentials of Global Marketing*, FT/Prentice Hall, p. 17. Copyright © Pearson Education Limited.



Furthermore, as customers increasingly join regional cooperative buying organizations, it is becoming more and more difficult to sustain a price differentiation across markets. This will put pressure on the firm to coordinate a European price policy. This will be discussed further in Chapter 11.

The distinctive issues of international strategies, in contrast to domestic, can be summarized in two key dimensions of how a firm competes internationally.

The first is called the *configuration* of a firm's worldwide activities, or the location in the world where each activity in the value chain is performed, including the number of places. For example, a company can locate different parts of its value chain in different places – for instance, factories in China, call centres in India and retail shops in Europe.

The second dimension is called *coordination,* which refers to how identical or linked activities performed in different countries are coordinated with each other (Porter, 1986).

1.8 Value shop and the 'service value chain'

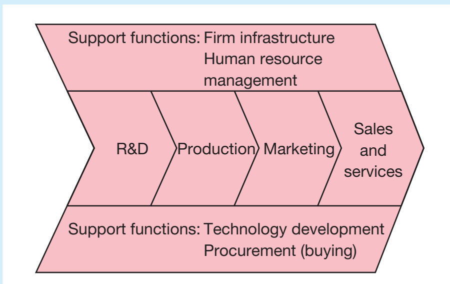
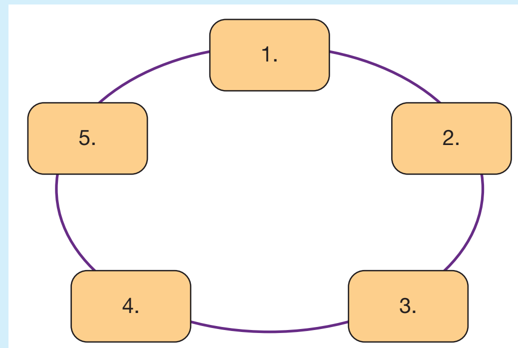
Michael Porter's value chain model claims to identify the sequence of key generic activities that businesses perform in order to generate value for customers. Since its introduction in 1985, this model has dominated the thinking of business executives. Yet a growing number of service businesses, including banks, hospitals, insurance companies, business consulting services and telecommunications companies, have found that the traditional value chain model does not fit the reality of their service industry sectors. Stabell and Fjeldstad (1998) identified two new models of value creation – **value shops** and **value networks**. Fjeldstad and Stabell argue that the value chain is a model for making products, while the value shop is a model for solving customer or client problems in a service environment. The value network is a model for mediating exchanges between customers. Each model utilizes a different set of core activities to create and deliver distinct forms of value to customers.

Value shops
A model for solving problems in a service environment, similar to workshops. Value is created by mobilizing resources and deploying them to solve a specific customer problem.

Value networks
The formation of several firms' value chains into a network, where each company contributes a small part to the total value chain.

The main differences between the two types of value chains are illustrated in Table 1.2. Value shops (as in workshops, not retail stores) create value by mobilizing resources (e.g. people, knowledge and skills) and deploying them to solve specific problems such as curing an illness, delivering airline services to the passengers or delivering a solution to a business problem. Shops are organized around making and executing decisions – identifying and assessing problems or opportunities, developing alternative solutions or approaches,

Table 1.2 The traditional value chain versus the service value chain

Traditional value chain model	Service value chain ('value shop') model
Value creation through transformation of inputs (raw material and components) to products.	Value creation through customer problem-solving. Value is created by mobilizing resources and activities to resolve a particular and unique customer problem. Customer value is not related to the solution itself but to the value of solving the problem.
Sequential process ('first we develop the product, then we produce it, and finally we sell it')  	Cyclical and iterative process. 
The traditional value chain consists of primary and support activities. **Primary activities** are directly involved in creating and bringing value to customers: upstream (product development and production) and downstream activities (marketing and sales and service). **Support activities** enable and improve the performance of the primary activities, e.g. procurement, technology development, human resource management and firm infrastructure.	The **primary activities** of a value shop are: **1.** *Problem-finding*: activities associated with the recording, reviewing and formulating of the problem to be solved and choosing the overall approach to solving the problem. **2.** *Problem-solving*: activities associated with generating and evaluating alternative solutions. **3.** *Choice*: activities associated with choosing among alternative problem solutions. **4.** *Execution*: activities associated with communicating, organizing and implementing the chosen solution. **5.** *Control and evaluation*: activities associated with measuring and evaluating to what extent implementation has solved the initial statement.
Examples: production and sales of furniture, consumer food products, electronic products and other mass products.	*Examples*: banks, hospitals, insurance companies, business consulting services and telecommunications companies.

Source: based on Stabell and Fjeldstad (1998).

choosing one, executing it and evaluating the results. This model applies to most service-oriented organizations such as building contractors, consultancies and legal organizations. However, it also applies to organizations that are primarily configured to identify and exploit specific market opportunities, such as developing a new drug, drilling a potential oilfield or designing a new aircraft.

Different parts of a typical business may exhibit characteristics of different configurations. For example, production and distribution may resemble a value chain; research and development a value shop.

Value shops make use of specialized knowledge-based systems to support the task of creating solutions to problems. However, the challenge is to provide an integrated set of applications that enable seamless execution across the entire problem-solving or opportunity–exploitation process. Several key technologies and applications are emerging in value shops – many focus on utilizing people and knowledge better. Groupware, intranets, desktop videoconferencing and shared electronic workspaces enhance communication and collaboration between people, essential to mobilizing people and knowledge across value shops. Integrating project planning with execution is proving crucial, for example, in pharmaceutical development, where bringing a new drug through the long, complex approval process a few months early can mean millions of dollars in revenue. Technologies such as inference engines and neural networks can help to make knowledge about problems and the process for solving them explicit and accessible.

The term 'value network' is widely used but imprecisely defined. It often refers to a group of companies, each specializing in one piece of the value chain, and linked together in some virtual way to create and deliver products and services. Stabell and Fjelstad (1998) define value networks quite differently – not as networks of affiliated companies, but as a business model for a single company that mediates interactions and exchanges across a network of its customers. This model clearly applies best to telecommunications companies, but also to insurance companies and banks, whose business, essentially, is mediating between customers with different financial needs – some saving, some borrowing, for example. Key activities include operating the customer-connecting infrastructure, promoting the network, managing contracts and relationships, and providing services.

Some of the most IT-intensive businesses in the world are value networks – banks, airlines and telecommunications companies, for instance. Most of their technology provides the basic infrastructure of the 'network' to mediate exchanges between customers. But the competitive landscape is now shifting beyond automation and efficient transaction processing to monitoring and exploiting information about customer behaviour.

The aim is to add more value to customer exchanges through better understanding of usage patterns, exchange opportunities, shared interests and so on. Data mining and visualization tools, for example, can be used to identify both positive and negative connections between customers.

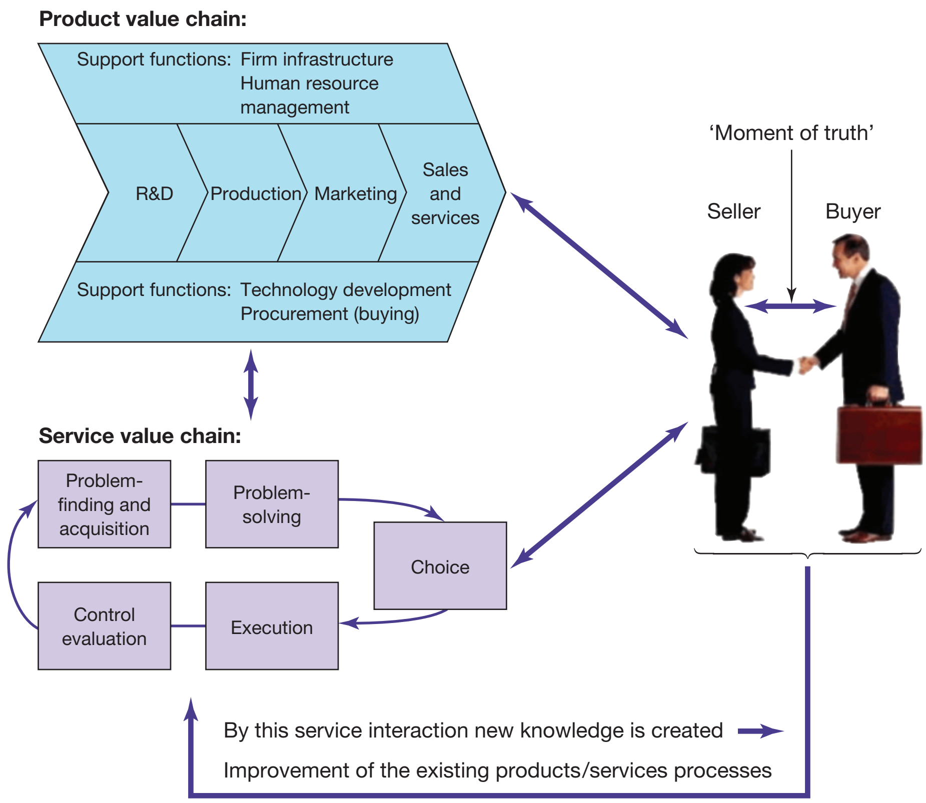
Competitive success often depends on more than simply performing your primary model well. It may also require the delivery of additional kinds of complementary value. Adopting attributes of a second value configuration model can be a powerful way to differentiate your value proposition or defend it against competitors pursuing a value model different to your own. It is essential, however, to pursue another model only in ways that leverage the primary model. For example, Harley-Davidson's primary model is the chain – it makes and sells products. Forming the Harley Owners Group (HOG) – a network of customers – added value to the primary model by reinforcing the brand identity, building loyalty and providing valuable information and feedback about customers' behaviours and preferences. Amazon.com is a value chain like other book distributors, and initially used technology to make the process vastly more efficient. Now, with its book recommendations and special interest groups, it is adding the characteristics of a value network. Our research suggests that the value network, in particular, offers opportunities for many existing businesses to add more value to their customers, and for new entrants to capture market share from those who offer less value to their customers.

Combining the product value chain and the service value chain

Blomstermo et al. (2006) make a distinction between *hard* and *soft services*. Hard services are those where production and consumption can be decoupled. For example, software services can be transferred into a CD or some other tangible medium, which can be mass-produced, making standardization possible. With soft services, where production and consumption occur simultaneously, the customer acts as a co-producer, and decoupling is not viable. The soft-service provider must be present abroad from its first day of foreign operations. Figure 1.14, showing the combination of the product and service value chains, is mainly

Figure 1.14 Combining the product value chain and the service value chain

Source: Photodisc/Getty Images.



valid for soft services, but at the same time in more and more industries we see that physical products and services are combined.

Most product companies offer services to protect or enhance the value of their product businesses. Cisco, for instance, built its installation, maintenance and network-design service business to ensure high-quality product support and to strengthen relationships with enterprise and telecom customers. A company may also find itself drawn into services when it realizes that competitors use its products to offer services of value. If it does nothing, it risks not only the commoditization of its own products – something that is occurring in most product markets, irrespective of the services on offer – but also the loss of customer relationships. To make existing service groups profitable – or to succeed in launching a new embedded service business – executives of product companies must decide whether the primary focus of service units should be to support existing product businesses or to grow as a new and independent platform.

When a company chooses a business design for delivering embedded *services* to customers, it should remember that its strategic intent affects which elements of the delivery life cycle are most important. If the aim is to protect or enhance the *value* of a product, the company should integrate the system for delivering it and the associated *services* in order to promote the development of product designs that simplify the task of *service* (e.g. by using fewer subsystems or integrating diagnostic software). This approach involves minimizing the footprint of *service* delivery and incorporating support into the product whenever possible. If the company wants the *service* business to be an independent growth platform, however, it should focus most of its delivery efforts on constantly reducing unit costs and making the *services* more productive (Auguste et al., 2006).

In the 'moment of truth' (e.g. in a consultancy service situation), the seller represents all the functions of the focal company's product and service value chain – at the same time. The seller (the product and service provider) and the buyer create a service in an interaction process: 'The service is being created and consumed as it is produced.' Good representatives on the seller's side are vital to service brands' successes, being ultimately responsible for delivering the seller's promise. As such, a shared understanding of the service brand's values needs to be anchored in their hearts and minds to encourage brand-supporting behaviour. This internal brand-building process becomes more challenging as service brands expand internationally, drawing on workers from different global domains.

Figure 1.14 also shows the cyclic nature of the service interaction ('moment of truth') where the post-evaluation of the service value chain gives input for the possible redesign of the 'product value chain'. The interaction shown in Figure 1.14 could also be an illustration or a snapshot of a negotiation process between seller and buyer, where the seller represents a branded company, which is selling its projects as a combination of 'hardware' (physical products) and 'software' (services).

One of the purposes of the 'learning nature' of the overall decision cycle in Figure 1.14 is to pick up the best practices among different kinds of international buyer–seller interactions. This would lead to a better set-up of:

- the service value chain (value shop);
- the product value chain;
- the combination of the service and product value chain.

Johansson and Jonsson (2012) emphasized the knowledge transfer between the product value chain and the value shop, by looking at value creation and utilizing the synergies between them. This is especially relevant to consider in business to business (B2B) project selling.

1.9 Global experiential marketing

The previous section describes and explains value creation as a result of both the product and service offerings. However, as services increasingly become commoditized – think of smartphone services sold solely on price – 'experiences' have emerged as the next step in providing 'customer value'. This process of generating customer value from a product solution, services and finally customer experiences is shown in Figure 1.15. A **customer experience** occurs when a company intentionally uses products in combination with services to engage individual customers in a way that creates a *memorable* event (Pine and Gilmore, 1998).

Customer experience
The use of products in combination with services to engage the individual customer in a way that creates a memorable event. This can be characterized into one of four groups: entertainment, educational, aesthetic or escapist.

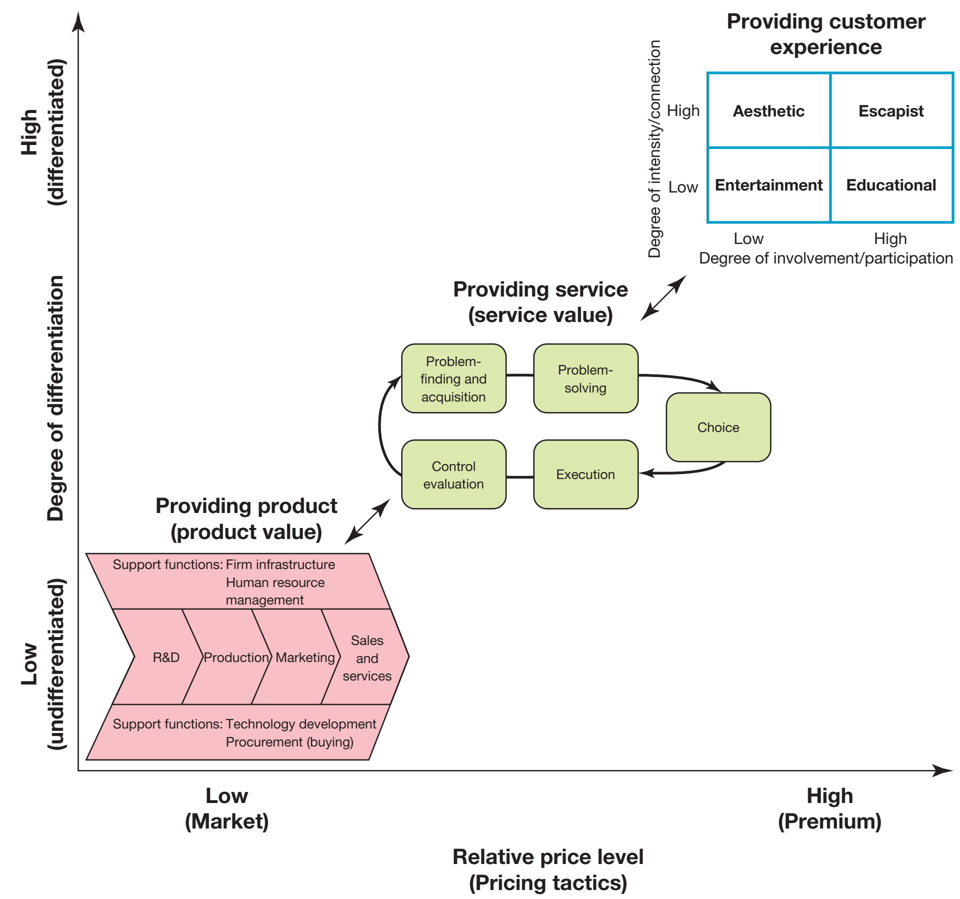
Experiential marketing is a growing trend worldwide, evident in most sectors of the global economy. The term essentially describes marketing initiatives that give customers in-depth, tangible experiences in order to provide them with sufficient information to make a purchasing decision. It has evolved as a response to a perceived transition from a service economy to one personified by the experiences in which consumers participate.

Unless companies want to be in a commoditized business, they will be compelled to upgrade their offerings to the next stage of customer value creation: customer experience. This applies to both B2C (business to consumer) and B2B businesses.

B2C businesses

It is increasingly the case that consumers are involved in the processes of both defining and creating value, and the co-created experience of consumers through the holistic brand value structure becomes the very basis of marketing.

Figure 1.15 Providing customer value – also through customer experience
Sources: based on Pine and Gilmore (1998); Atwal and Williams (2009).



Pine and Gilmore (1998) suggest that we think about experiences across two bi-polar constructs:

- *Involvement/participation*. This dimension refers to the level of interactivity between the supplier and the customer. At 'low degree' there is passive participation, where the participants experience the event as observers or listeners, e.g. classical symphony-goers. At the other end of the spectrum lies 'active participation' in which customers play key roles in creating the performance or event, e.g. going to a rock concert.
- *Intensity/connection*. This dimension refers to the strength of feeling towards the interaction. Watching a film in the cinema (e.g. an IMAX theatre) with an audience, 3-D screen and advanced sound is associated with a 'high degree' of intensity/connection compared with watching the same film at home on a DVD.

We can sort experiences into four broad categories according to where they fall along the spectra of the two dimensions:

Entertainment

Entertainment can be defined as something that amuses, pleases or diverts (especially a performance or show), or as the pleasure afforded by being entertained and amused. For example, fashion shows in designer boutiques and upmarket department stores, involving a low degree of customer involvement and intensity, would qualify as 'entertainment'.

Educational

Activities in the *educational* zone involve those in which participants are more actively involved, but the level of intensity is still low. In this zone, participants acquire new skills or increase those they already have. Many company offerings include educational dimensions. For example, cruise ships often employ well-known authorities to provide semi-formal lectures as part of their itineraries, a concept commonly referred to as 'edutainment'. Likewise, the Ferrari Driving Experience is a two-day precision driving school designed to narrow the gap between driving ability and a Ferrari's performance capability (Atwal and Williams, 2009).

This type of experience typically involves active participation by the consumer in educational activities of a stimulating nature, thus ensuring that the event provides an experience.

Aesthetic

When the element of activity is reduced to a more passive involvement, the event becomes *aesthetic*. Admiring the architectural or interior design of designer boutiques, for example, involves a high degree of intensity but it has little effect on its environment.

In this category customers are involved in very intense experiences (e.g. a tourist viewing the Grand Canyon from its rim), but they are not personally involved in the event (such as climbing down the Grand Canyon as they might in the escapism category). Luxury brand activity is of an aesthetic nature, with customers immersing themselves in the experience but with little active participation. Watching a Cirque du Soleil show (**see case 7.1**) is a customer experience of this kind.

Escapism

Escapism can be defined as a tendency to escape from daily realities or routines by indulging in daydreams, fantasies or entertainment that provide a break from reality. *Escapist* activities are those that involve a high degree of both involvement and intensity, and are clearly a central feature of much of luxury consumption and lifestyle experiences, often connected to the fitness trend. This is clearly evident in the luxury tourism and hospitality sector, with the growth of specialized holiday offerings, in which customers are closely involved in co-creating their experiences. Joining a Zumba dance course (**see case 3.1**) is similar to this kind of customer experience.

B2B businesses

Like B2C companies, B2B businesses also need to continuously innovate how they attract, engage and excite customers by finding new possibilities for creating value. Leading industrial equipment suppliers, for instance, are learning that creation of customer value needs to be based on how customers experience the job they need to do now or how they prepare to transform themselves to succeed in the future.

Mass customization
Mass customization can be viewed as collaborative efforts between customers and manufacturers to jointly search for solutions that best match customers' individual specific needs with manufacturers' customization capabilities. This combines the low unit costs of mass production processes with the flexibility of individual customization.

Mass customization

One of the best ways to create customer value is to engage customers and create experience by mass customizing goods and services for them. One of the benefits of digital technology is that B2B companies can mass customize offerings, efficiently serving customers uniquely, differentiating offerings from any competition and locking customers in. This is because mass customizing a product automatically turns it into a service. An integrated part of the **mass customization** process is the intangible service of helping customers figure out exactly what it is they want. So when B2B companies mass customize a product, they compete in the service business of helping their individual business customers define their needs, and then make and deliver customized products to meet those needs for each of their customers.

Furthermore, mass customizing a service turns it into an experience because, when businesses design a custom service that is just right for a particular customer at a particular point in time, the result is an inherently personal, and memorable, interaction.

More and more customers seek out suppliers that want to become partners in their customers' success, that help customers help their customers and that think beyond the value of the equipment they sell to the far greater value that accrues from helping customers use that equipment effectively. B2B businesses need to realize that customers don't really want just products, systems or even solutions. They want a better business. Customers that are growing and adapting to their markets do not just buy industrial equipment today because they want the equipment; it is always a means to create a better and more profitable business. The 'Case Construction' exhibit (Exhibit 1.6) illustrates this point.

Exhibit 1.6

Case Construction Equipment is using experiential marketing

In 1999, CNH (Case New Holland) was established as a result of a merger between Case and New Holland. CNH manufactures its products (agricultural and construction equipment and machines) in 60 facilities throughout the world and distributes its products in approximately 180 countries through approximately 12,000 full line dealers and distributors. One of the brands under CNH is Case Construction Equipment (www.casece.com).

In North America, Case Construction Equipment operates its Tomahawk Experience Center in Northern Wisconsin so potential business customers can try out its excavators, loaders, forklifts, backhoes and other equipment in a multi-day experience. It lets construction company owners and managers who grew up in the business get back in touch with their inner operator again, provides the opportunity for Case's experts to answer whatever questions they have and enables dealers to form close relationships with these customers.

The Tomahawk Customer Center has been serving customers for more than 60 years. The facility stands on the site of the Drott Manufacturing proving grounds, which date back to the early 1900s. After acquiring Drott in 1968, Case transformed the property into a world-class facility dedicated to serving Case customers.

Today's Tomahawk Customer Center features state-of-the-art training, a line-up of more than 60 pieces of new equipment to operate, log cabin-style lodges for comfortable accommodation and memorable hospitality.

The outcome?

Case has experienced that when a normal potential customer heads to a dealer it has about a 20 per cent chance of getting the business, but when the dealer brings the customer to Tomahawk, the close rate goes up to 80 per cent.

Case Tomahawk Customer Center

Source: CNH Industrial America LLC.

Case Tomahawk Customer Center

Source: CNH Industrial America LLC.

Sources: based on www.cnh.com, www.casese.com; Pine (2015).

Augmented Reality (AR)

Augmented Reality (AR) Argmented Reality is a live view of a physical, real-world environment whose elements are augmented (or supplemented) by computer-generated sensory input such as sound, video, graphics or GPS data. AR technology allows consumers to virtually interact with three-dimensional product visualizations displayed on users' screens.

The way in which **Augmented Reality (AR)** has been used in marketing campaigns can be seen as a form of experiential marketing because it focuses not only on a single product/service, but also on an entire experience created for the customers. The technology enhances the customer's current perception of reality. By contrast, virtual reality replaces the real world with a simulated one. With the help of advanced AR, information about the surrounding real world of the user becomes interactive and digitally manipulable.

Experiential marketing is recognized as an important means of creating value for the end consumer, who will be motivated to make faster and more positive purchasing decisions. Consequently AR experiential marketing is considered as mainly affecting the pre-purchase stage due to the fact that AR has the most impact at the pre-purchase stage. At this stage the consumer is evaluating their choices before taking the final purchase decision and AR has the power to 'put the product in the hand of the users' giving them the opportunity to test the product as if they already own it. Furthermore, AR has the potential to provide customers with an experience they appreciate and that they will tell their friends about.

In conclusion, whereas traditional marketing frameworks view consumers as rational decision-makers focused on the functional features and benefits of products, experiential marketing views consumers as emotional beings, focused on achieving memorable experiences. In this connection the use of new technologies, such as social media, has also increased the potential for experiential marketing. This is of particular relevance given the increasing significance of the internet as a communication and distribution channel within the luxury sector.

Finally, the more a company engages all five senses in the creation of a customer experience, the more effective and memorable it can be.

Exhibit 1.7
IKEA's use of AR

In the 2014 catalogue, IKEA introduced an interactive online catalogue based on AR, in which viewers can actually see a piece of furniture in their home before buying it. Viewers can accelerate their decision-making by easily dragging an item from the catalogue and placing it anywhere in the simulated space on their smartphone or tablet screen, and then immediately taking a screenshot of that selection. Such technology allows for more personally interactive catalogues and enhances playfulness and convenience, as well as stimulating consumers buying intentions and impressions of a brand.

See also: http://www.youtube.com/watch?v=vDNzTasuYEw

Source: based on Lung-Huang and Liu (2014).

IKEA online catalogue based on AR

Source: used with the permission of Inter IKEA Systems B.V.

1.10 Information business, 'Big Data' and the virtual value chain

Big Data
The vast collection of data from traditional and digital sources (inside and outside the company). It refers to the marketer's ability to aggregate, segment and use these data sets to ensure that the right message is being delivered to the right segment of customers.

Virtual value chain
An extension of the conventional value chain, where the information processing itself can create value for customers.

Most business managers would agree that we have recently entered a new era, 'the information age', which differs markedly from the industrial age. What have been the driving forces for these changes?

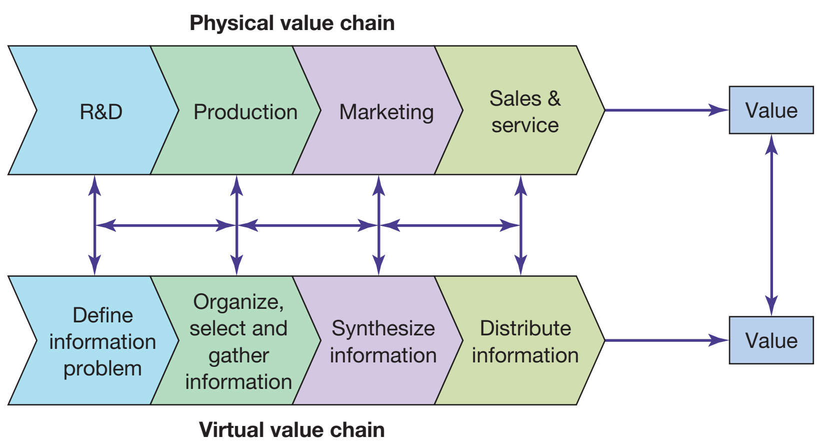
A key feature of today's market environment is market turbulence, which refers to the unpredictability of customer needs and preferences. In dynamic markets customer needs shift rapidly and it is difficult to forecast such changes. Today, marketers are being challenged by the huge volume of data (**Big Data**) that is well beyond the capacity of their organizations to comprehend and use. The accelerating diversity of market demands must be met with a set of appropriate and matching capabilities to deal with them. The greater the mismatch between the increasingly fluctuating demands of the market and the relatively immobile and homogeneous resources of the firm, the greater the capability gap (Day, 2011).

The volume of digital data accessible for the marketer is now growing at an exponential rate. The use of Big Data – large pools of data that can be brought together and analysed to discern patterns and make better decisions – will become the basis of competition and growth for individual companies (McAfee and Brynjolfsson, 2012).

For example, manufacturers can analyse incoming data and, in some cases, automatically repair software damage. In the retailing sector it will be possible to track the behaviour of individual customers from internet click streams, update the customers' preferences and model their likely behaviour in real time. When the customers are then nearing the purchase decision regarding a specific product in the store, the retailer may automatically offer a bundle of products (cross-selling), together with reward programme benefits. Another example is McDonald's, which has equipped some stores with devices that gather operational data as they track customer interactions, traffic in stores and ordering patterns. Researchers can model the impact of variations in menus, restaurants designs and training, among other things, on sales and profitability.

One way of understanding the strategic opportunities of information and 'Big Data' is to consider the **virtual value chain** as a supplement to the physical value chain (Figure 1.16).

Figure 1.16 The virtual value chain as a supplement to the physical chain
Source: based on Rayport and Sviokla (1996).



By introducing the *virtual value chain*, Rayport and Sviokla (1996) have made an extension to the conventional value chain model, which treats information as a supporting element in the value-adding process. They show how information in itself can be used to create value.

Fundamentally, there are four ways of using data and information to create business value (Marchand, 1999):

1. *Managing risks*. In the twentieth century the evolution of risk management stimulated the growth of functions and professions such as finance, accounting, auditing and controlling. These information-intensive functions tend to be major consumers of IT resources and people's time.
2. *Reducing costs*. Here the focus is on using information as efficiently as possible to achieve the outputs required from business processes and transactions. This process view of information management is closely linked with the re-engineering and continuous improvement movements of the 1990s. The common elements are focused on eliminating unnecessary and wasteful steps and activities, especially paperwork and information movements, and then simplifying and, if possible, automating the remaining processes.
3. *Offering products and services*. Here the focus is on knowing one's customers, and sharing information with partners and suppliers to enhance customer satisfaction. Many service and manufacturing companies focus on building relationships with customers and on demand management as ways of using information. Such strategies have led companies to invest in point-of-sale systems, account management, customer profiling and service management systems.
4. *Inventing new products*. Finally, companies can use information to innovate – to invent new products, provide different services and use emerging technologies. Companies such as Intel and Microsoft are learning to operate in 'continuous discovery mode', inventing new products more quickly and using market intelligence to retain a competitive edge. Here, information management is about mobilizing people and collaborative work processes to share information and promote discovery throughout the company.

Every company pursues some combination of the above strategies.

In relation to Figure 1.16, each of the physical value chain activities might make use of one or all four information-processing stages of the virtual value chain, in order to create extra value for the customer. This is the reason for the horizontal double arrows between the different physical and virtual value chain activities in the figure. In this way information can be captured at all stages of the physical value chain. Obviously such information can be used to improve performance at each stage of the physical value chain and to coordinate elements across it. However, it can also be analysed and repackaged to build content-based products or to create new lines of businesses.

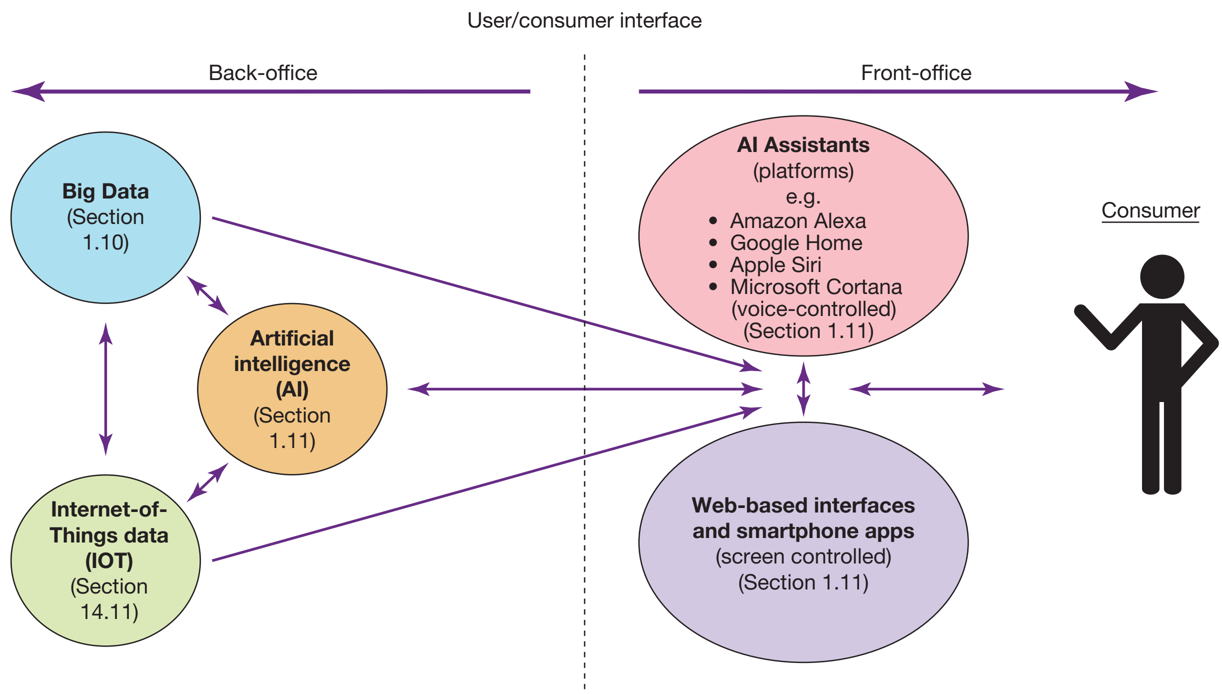
Artificial intelligence (AI) The development of a computer system that is able to perform tasks normally requiring human intelligence. AI emphasizes the creation of intelligent machine learning where information is turned into creating a more customer engaging customer experience

A company can use its information to reach out to other companies' customers or operations, thereby rearranging the value system of an industry. The result might be that traditional industry sector boundaries disappear. The CEO of Amazon.com, Jeff Bezos, clearly sees his company as being not in the book-selling business but in the information-broker business.

1.11 Artificial intelligence (AI) and its influence on global marketing

Artificial intelligence (AI) in relation to marketing is the use of machine learning in combination with human creativity, to create a more engaging customer experience on an individual level, in order to attract, engage and retain the customer's interest and business.

Figure 1.17 IT connections between back- and front-office in the information value chain towards consumers



AI-driven sentiment analysis tools are helping marketing, sales, and customer support teams use image recognition technology to better connect with their global customers.

Consequently, AI can improve the customer experience. Figure 1.17 shows how AI – in the back-office – is used together with Big Data and Internet-of-Things (IoT) to create user-interfaces with the consumer, in form of:

1. AI Assistants (platforms) – voice-controlled
2. Web-based interfaces and smartphone apps – screen-controlled

AI assistants and the corresponding platforms can handle personal queries through an audio-only interface between user and AI. The rise of AI Assistants (e.g. Amazon Alexa / Echo, Google Home, Apple Siri, Microsoft Cortana) and the use of advanced voice-recognition technology change the way companies present information to target groups. The competition and consolidation among AI platforms will mean that only a few will be left standing, but the remaining will get a lot more power and attention. It is expected that the focus of many brands should shift: From reinforcing direct relationships with consumers to optimizing their positions on AI Assistants (platforms). Push marketing (getting platforms to promote a brand) will become more important, while pull marketing (persuading consumers to seek products) becomes less so (Dawar and Bendle, 2018).

AI helps pinpoint a one-off problem or identify a growing issue faster than individuals manually can do. This makes it much easier for those teams to focus on key business decisions and proactive customer service before there is a PR or social media backlash.

AI may help in identifying potential problems quickly and respond accordingly. Some of the new solutions will trigger alerts and automatically respond to customers to solve these issues. Rather than simply responding to random inquiries, companies can build up IA models that anticipate what the consumer wants and subsequently respond proactively. Once customers purchase a product, companies can present them with similar items that may interest them as well. Companies like Amazon and Netflix have invested a lot of time and money into this kind of personalization and had a lot of success with it (Korzeniowski, 2018).

A customer may also take a photo of a product and use it to create a negative social media post without naming the brand. AI-driven sentiment analysis can not only identify the product, but it can understand the level of customer dissatisfaction, analyze the impact to the brand, notify the internal customer experience team, initiate a remedy, and log all this data automatically. In the era of influencer marketing, the ability to automatically sense and respond to customer interactions will enable companies with this capability to achieve a competitive advantage.

AI can look at data points such as these:

- Are global customers engaging on social media?
- Are global customers responsive to their emails?
- Are they clicking or engaging with marketing content, including looking at specific pages on a website or clicking on links in emails?
- Are there frequent calls or emails between the seller and the customer?
- Did a key influencer leave the company?

AI can tie this data together to form a true customer forecast and determine how likely a potential buyer is to buy. If there are gaps between a seller's predictions and the AI solution's findings, the personal sales force can be proactively alerted to help.

AI will not replace the sales team, but it can help your sales reps to carry out responsibilities that are time-intensive and help them to perform more effectively.

1.12 Summary

Global marketing is defined as the firm's commitment to coordinate its marketing activities across national boundaries in order to find and satisfy global customer needs better than the competition does. This implies that the firm is able to:

- develop a global marketing strategy based on similarities and differences between markets;
- exploit the knowledge of the headquarters (home organization) through worldwide diffusion (learning) and adaptations;
- transfer knowledge and 'best practices' from any of its markets and use them in other international markets.

Porter's original value chain model was introduced as a framework model for major parts of this book. In understanding how value is created, it is not enough to look at the firm's internal value chain alone. In most cases the supply and distribution value chains are interconnected, and this whole process needs to be analysed and understood before considering an eventual internationalization of value chain activities. This also involves decisions about configuration and coordination of the worldwide value chain activities.

As a supplement to the traditional (Porter) value chain, the service value chain (based on the so-called 'value shop' concept) has been introduced. Value shops create value by mobilizing resources (people, knowledge and skills) and deploying them to solve specific problems. Value shops are organized around making and executing decisions in the specific service interaction situation with a customer – identifying and assessing service problems or opportunities, developing alternative solutions or approaches, choosing one, executing it and evaluating the results. This model applies to most service-oriented organizations.

Many product companies want to succeed with embedded services: as competitive pressures increasingly commoditize product markets, services will become the main differentiator of *value* creation in coming years. However, companies will need a clearer understanding of the strategic rules of this new game – and will have to integrate the rules into their operations – to realize the promise of these fast-growing businesses.

Today, the right combination of the product value chain and the service value chain is not a sufficient competitive differentiator. Adding 'customer experiences' occurs when a company intentionally uses products in combination with services, to engage individual customers in a way that creates a memorable event that can be characterized in one of four groups: entertainment, educational, aesthetic or escapist.

Engaging the customer and adding customer experiences are further exemplified by the use of augmented reality (AR), which is a digital way of putting the product in the hands of the users and giving them the opportunity to test the product without paying for it. Consequently, AR is especially effective in the pre-purchase stage of the buying process.

The use of artificial intelligence (AI) helps the marketer segment the audience into smaller target groups and it also helps with creating more personalized marketing campaigns and ads for consumers and lead in the market. The traditionally crucial manufacturer assets, such as capability and brands, will become less important as consumers' attention shifts to AI assistants, and value of consumer data and AI's predictive ability will be more important.

In the end, the virtual value chain was introduced as a supplement to the physical value chain, thus using information ('Big Data') to create further business value.

Case Study 1.1

Green Toys, Inc.: a manufacturer of eco-friendly toys goes international

In 2006, Robert von Goeben, a venture capitalist and an electronic toy designer in San Francisco, contemplated shifting course again. Instead of making more toys that required electricity and intricate parts, he listened to his wife and created a simpler line that would appeal to parents who identified with the green movement. More and more parents are starting to look at toys like they look at food. A toy used to be a plastic thing and parents did not question what was in it. Now green has gone mainstream, and parents want to know what is in their toys.

In August 2006, Mattel Inc. recalled more than 10 million Chinese-made toys, including the popular Barbie and Polly Pocket toys, because of lead-paint hazards and tiny magnets that could be swallowed. The US government warned parents to make sure that children would not play with any of the recalled toys.

As questions about toy safety made more headlines in 2007 with recall of more than 17 million Chinese-made toys, von Goeben partnered with former marketing executive Laurie Hyman, a business acquaintance. Green Toys Inc. was profitable from its first year on.

Together Robert von Goeben and Laurie Hyman founded Green Toys Inc. and started right away with manufacturing of eco toys from recycled plastic milk jugs.

In November 2013 the private investment firm, The Friend Group (represented by the businessman Howard Friend), bought a majority stake in Green Toys Inc. but Von Goeben and Hyman continued their duties.

The founders of Green Toys Inc.

The two co-founders of Green Toys – Robert von Goeben (responsible for product) and Laurie Hyman (responsible for marketing) – have different backgrounds and competences:

- Robert von Goeben was the founder of Propellerhead Studios, a leading Silicon Valley design studio specializing in electronic toys and games. At Propellerhead Studios, he worked with many major toy companies, including Mattel and Wild Planet. Before that, he was the founder and managing director of Starter Fluid, a seed-stage venture capital fund backed by institutional and corporate investors, including Compaq computers and the University of Chicago. Von Goeben's career began in the entertainment industry where he started and managed the online division of Geffen Records. He has an MBA from the University of Southern California and a BA in Mathematics from the State University of New York. He holds two US patents in the field of toys and games.
- Laurie Hyman used to work as a marketing executive for several online consumer-marketing companies, including, most recently, Ingenio,

a pioneer in combining the power of the internet and phone to connect buyers and sellers. Before that, she was the first member of the marketing team at Webvan, where she managed relationships with some of the world's largest consumer packaged goods companies, including P&G, Nestlé, Coca-Cola, Kraft, General Mills and Pillsbury. Hyman also served as the director of marketing at Goodcompany.com, one of the internet's first online social networks. She has an MBA from the University of Southern California and a BA in Business from Indiana University.

Green Toys Inc. today

Green Toys Inc. makes a line of classic children's toys constructed from recycled plastic and other environmentally friendly materials. This helps reduce fossil fuel use and greenhouse gas emissions, improving the overall health of the planet. In 2018, the company had a turnover of approximately US$8 million. The average number of employees was 20.

Unlike its half-dozen eco-friendly competitors that manufacture or buy raw materials for their toys overseas, Green Toys contracts only with companies in California. Sourcing locally means burning less fossil fuel and creating or maintaining more US jobs. Green Toys can also track the chemical content of toys better than its counterparts.

Source: Green Toys Inc.

Source: Green Toys Inc.

Green Toys' customers and marketing strategy

Green Toys' key customer segment consists of parents between the ages of 25 and 40, and they are predominantly female. The largest part of these mothers is well-educated and online. The whole world of bloggers, especially parents who are blogging and searching online about products and trends for their children, is huge.

Green Toys' products are about 30 per cent more expensive than similar toys from major players. Green Toys should be able to narrow that price difference by at least two-thirds as the company grows and it can utilize 'economies of scale', though it is unclear how popular its market segment will become. In 2018 eco-friendly toys generated just US$60 million in sales, a fraction of the US$25 billion for the US toy industry as a whole.

Green Toys' products are sold in 3,000 US stores, including Pottery Barn, Barnes & Noble, Whole Food and Buy Buy Baby. Some of the biggest Green Toys retailers are also selling online. Consequently, the majority of the Green Toys' marketing budget is spent online.

Green Toys' internationalization strategy

Green Toys also has distributors in 25 countries, but until now 90 per cent of Green Toys' sales have been from the US market. Until now Green Toys has had no plans to move production out of the US. However, in the future it does not exclude the possibility of manufacturing abroad with local sourcing of materials.

The following report explains current and future trends in the global toy industry.

The global toy industry

In 2018 the size of the global toy market was US$ 88 billion.

Development of Green Toys' end-customers: the world's children

The global child population has been declining due to falling family sizes and birth rates. As of 2010, 0–14-year-olds made up 26 per cent of the global population compared with 35 per cent in 1980 (see Table 1). This is expected to fall to 24 per cent in 2020.

This trend reflects cultural and social changes towards smaller family sizes in both developed and developing markets. Regionally, Eastern Europe has seen the largest decrease in the child population, at an annual average rate of 2 per cent between 2000 and 2020, which is partly due to large-scale migration to Western Europe.

However, many of the world's developing countries still have sizeable and rising child populations. The child population in some developed countries is also rising.

The overall downturn in the child population globally has meant smaller household sizes and greater consumer expenditure per child, which has created more allowance for discretionary spending on non-essentials for children. This has important implications for toys and games companies targeting parents of 0–14-year-olds. The number of 65+ year-olds rose so this group is forecast to account for 10 per cent of the global population.

In absolute terms, Asia-Pacific and the Middle East and Africa are the biggest regions in terms of 0–14-year-olds, followed by Latin America.

Table 1 The global population by age group, 1980–2020

Age groups (years)	1980 (%)	1990 (%)	2000 (%)	2010 (%)	2020 (%)
0–14	35	33	30	26	24
15–64	59	61	63	66	66
65+	6	6	7	8	10
Total	100	100	100	100	100

Source: based on euromonitor.com, statista.com and other public sources.

By contrast, in the ageing developed markets of EU, USA, China and Japan, the birth rate is low, at just 8–12 births per 1,000 inhabitants in 2018.

For a number of years, birth rates have been falling around the world, as women wait longer before having children. Young adults can now afford interests and lifestyles that are not compatible with large families, not only in more affluent countries, but also in a number of developing countries. They often choose to postpone childbirth, in favour of building a career or simply enjoying their freedom.

The oldest mothers at first childbirth in the world are in Western Europe, specifically the UK, Germany, Switzerland and the Netherlands. By contrast, the average age of women at first childbirth in the US is relatively low, at 26 years in 2018. This is partly due to the importance of the Hispanic population, which tends to have larger families from an earlier age.

Spending on Green Toys' target end-consumers: the world's 0–3-year-olds

The distribution of total spending on 0–3-year-olds (baby care, infant clothing, baby food, nappies/diapers and toys) is shown in Table 2.

There are 'two worlds' of spending: the markets of Western Europe, North America and Japan where, despite low birth rates, spending is high, and the fast-growing markets of Asia-Pacific, Latin America and Middle East and Africa, where children are plentiful and spending is much lower. The top five countries (Germany, UK, France, Japan and US) all recorded over US$1,500 per-capita spending on 0–3- year-olds.

When fewer babies are born into a family, they are often more cherished, with more money spent on them by both parents and grandparents alike. One of the best examples of this is the so-called 'little emperor' syndrome in China. Children in China tend to get spoiled with toys and clothing when they are young (according to Table 2, toys for 0–3-year-olds represent 26 per cent of total spending for this age group). As they get older they are spoilt in different ways, including with mobile phones, education and leisure activities. That said, there are many, especially in rural areas, who are not spoilt at all.

Many parents in Asia believe that pre-school toys can increase a child's intelligence and improve cognitive ability, benefiting the child at school later on. Most parents in cities pay much more attention to the role of toys and games in supporting their children's

Table 2 Breakdown of average total spending on 0–3-year-olds, by product category, in 2014

	France (%)	UK (%)	Germany (%)	Russia (%)	US (%)	Brazil (%)	South Africa (%)	China (%)	Japan (%)	India (%)
Baby care	5	5	5	6	4	18	3	4	5	12
Infant clothing	18	35	30	12	35	16	30	10	20	6
Baby food	35	18	20	37	22	18	22	40	18	45
Nappies/diapers	22	26	27	37	22	40	40	20	40	15
Toys	20	16	18	8	17	8	5	26	17	22
Totals	100	100	100	100	100	100	100	100	100	100

Source: based on euromonitor.com, statista.com and other public sources.

education and stimulating their intellectual development, encouraging manufacturers to develop a plethora of toys for the pre-school age group.

China is the most fragmented traditional toys and games market in the world. Although overall unit prices recorded a decline in 2014, thanks to the 'little emperors', more expensive toys have been gaining ground. Almost all multinational players, including Mattel, Namco Bandai, LEGO and Hasbro, enjoyed very high growth in their sales in China.

In countries where the average number of children per household is higher than one, spending on traditional toys and games per child does not exceed US$50 in a given year.

Overall, the older the average age of a woman at childbirth, the higher the spend on traditional toys and games per child. As modern mothers continue to work, for various reasons, the limits on parental time require products that can fill this gap.

Single-parent households tend to be among the poorest, creating a need for cheaper products. Low-priced, high-volume toys tend to find success in markets where single-parent households are more common.

Distribution of toys

Supermarkets/hypermarkets have continued to expand their toy and game offerings and their private label portfolios. However, sales of toys and games through store-based retailers are being affected by the growing popularity of new distribution channels, such as the internet retailing and TV home shopping.

In North America, the strength of retail giants Walmart and Target greatly contributed to the large share held by mixed retailers in 2018. The increase in Walmart's market share slowed in 2018 as supermarkets, drug stores, hardware retailers and online outlets expanded their offerings of traditional toys and games.

Store-based retailers are increasingly backing up their brick-and-mortar sales efforts by offering online shopping. They have found that online sites help them to promote niche brands and gain wider market exposure. Online sites also help consumers compare prices and features of new toys and games. In Japan, the rapid growth of internet retailing has helped drive sales of the newest video game releases.

The convenience of home shopping appeals to a wide range of consumers, especially older consumers. For distributors this channel is growing in importance, as it helps build brand image.

Generally there is an increasing share of grocery retailers in the toys and games sector in many countries. Grocery retailing is slowly becoming the most popular channel in the Western European retail sector.

Italians still prefer making in-store product purchases. The only significant development in the country's distribution channels over the past ten years has been the rise of grocery retailers, who have increasingly varied their non-grocery offerings, including toys and games. In France, the fastest-growing channel has been leisure and personal goods retailers, with growth driven by the development of specialized toys and video games centres.

The leading toy distribution channel in Germany is also leisure and personal goods retailers. Though online shopping has increased in Germany, most consumers still prefer to see and feel the products they are buying. In addition, consumers welcome the opportunity to get professional opinions and advice on product quality and features from in-store staff.

In Russia specialist retailers are developing rapidly. The most popular places to buy toys and games are retail chains, followed by shopping centres. Specialist distribution channels are more popular in the main cities of Russia where the population is generally, 1 million and more. In smaller cities, non-store distribution is still popular.

In Latin America, hypermarkets and other grocery retailers enjoyed increased toy sales, especially during the end-of-the-year holidays and Children's Day, when important advertising campaigns are conducted and discounts and special deals are increasingly offered.

In Brazil, specialist stores control an important part of the market due to the expansion of toy stores in large cities. The concentration of this format has strengthened the competitive environment, encouraged a greater variety in product offerings and lessened the impact of the seasonality on sales.

Generally, in Latin America specialist toy retailers remain the most important channel, based on their offering a greater variety of products. Also, they are easy to find as they are located in a greater number of retail venues, particularly shopping centres.

Competition in the toy industry

The world's top 10 toys and games companies accounted for nearly half of the global total value of sales from 2010 to 2015. Mattel, LEGO and Namco Bandai held the top three positions.

Summary and future trends

Infant and pre-school toys will remain recession-proof as parents continue to invest in their children's enjoyment and education.

Environmentally friendly, hazard-free features will continue to be among the main selling points of traditional toys and games.

Multinational companies will weather the storm brought about by the global financial crisis. Consolidation is expected in the sector, with mergers and acquisitions of small and independent companies likely.

Sales via internet retailers are expected to grow dramatically over the forecast period, particularly in light of the demise of small and independent toys and games retailers.

Based on this case and the toy industry trends, answer the following questions.

Questions

1. What are the key success factors in the world toy industry?
2. What are Green Toys' key competitive advantages in the international toy market?
3. Should Green Toys Inc. consider a higher degree of international expansion of their products?
4. If yes, which countries/regions should they target and how?

Source: based on www.greentoys.com and other public sources.

Case Study 1.2

Hunter Boot Ltd: the iconic British brand is moving into exclusive fashion

The Hunter boot brand (www.hunter-boot.com) has become a symbol of British country life and celebrity fashion. Hunter boots, designed over 150 years ago, were originally created to deal with Britain's rugged and unpredictable weather. Today, Hunter is firmly established as a fashion brand beloved by Hollywood celebrities.

Arthur Wellesley, the first Duke of Wellington, instructed his shoemaker, Hoby of St James Street, London, to modify his eighteenth-century boot. They designed the boots in soft calfskin leather, removed the trim and made the cut closer around the leg. It was hard to wear the new boots in battle but it was said that the Duke of Wellington wore the boots at the famous Battle of Waterloo in 1815. The boots were dubbed 'Wellingtons' or 'wellies' and the name stuck.

Wellingtons quickly caught on with patriotic British gentlemen eager to emulate their war hero. The original Wellington boots were made of leather; however, in America, where there was more experimentation in shoemaking, producers were beginning to manufacture using rubber. One such entrepreneur, Mr Henry Lee Norris, moved to Scotland in search of a suitable site to produce rubber footwear. Eventually he found it on the farm of the Castle Mill in Edinburgh. Norris began his boot-making company, the North British Rubber Company (the company changed its name to the Hunter Rubber Company in 2004), in 1856. Committed to fit, comfort, durability and performance Hunter Wellington boots bear two rare and coveted stamps of approval of the British royal family.

Production of the Wellington boot was dramatically boosted with the advent of World War I, due to the demand for a sturdy boot suitable for the conditions in flooded trenches. This made the wellies a functional necessity.

By the end of World War I, the North British Rubber Company had produced more than 1.8 million pairs of boots for soldiers. Shoe production ran 24 hours a day.

Again the Wellington made an important contribution during World War II. At the outbreak of war in September 1939, although trench warfare was not a feature, those forces assigned the task of clearing Holland of the enemy had to work in terrible flooded conditions. By the end of the war, the Wellington had become popular among men, women and children for wear in wet weather. The boot had developed to become far roomier with a thick sole and rounded toe. Also, with the rationing of shoes at that time, labourers began to use them for daily work.

Colored Hunter boots
Source: Jeffrey Blackler/Alamy Images.

The company's most famous welly, the original Green Wellington, was made over 50 years ago in the winter of 1955. It was launched alongside the Royal Hunter – another boot that remains in Hunter's range today.

From 1966 to 2005 a number of ownership changes took place, and in 2006, the Hunter Rubber Company was placed into administration as a result of cash flow problems. In spite of a reported turnover of over £5 million, accountants from KPMG said the firm suffered from high manufacturing costs, including fuel costs, and made a loss from the expansion of its business to the US. Hunter reported a loss of £600,000 from September 2003 to the end of February 2005, when it had a net debt of £2.03 million.

In 2006, a private consortium led by Lord Marland, Peter Mullen and Julian Taylor bought Hunter out of administration and Hunter Boot Ltd was born. After rapid restructuring of the company, new supply routes and distribution partners were found in the UK and the US and the Hunter portfolio was rationalised to core products exhibiting the key skills and tradition of the company.

Hunter re-established itself as a major player in the traditional country and leisure footwear market in the UK in the aftermath of the 2006 acquisition and positioned itself as a strong contender in the US – opening showrooms on Seventh Avenue in New York and Carnaby Street in London. A new management team was also put in place.

One Hunter Wellington tall boot is made from 28 individual parts. Each part is individually tailored and assembled by hand to support specific parts of the foot, calf and ankle. Hunters continue to be made and finished by hand from natural rubber. Because of this degree of 'handmade' in the production of Hunter boots, the management moved manufacturing from Scotland to China to cut production cost. Retail prices were also increased by 20 per cent, and modern ranges in a selection of colours and textures were added.

A major breakthrough for Hunter in the realm of fashion, as opposed to farms, came in 2006 when Kate Moss was seen wearing an Original pair in black at the Glastonbury music festival. Since then, the Hunter boot has become a familiar sight among celebrities, on catwalks and on high streets, as well as in the countryside.

In September 2008, following the 2008 Olympics in Beijing, China, Hunter Boot Ltd sent specially made gold Wellington boots to every member of the Great Britain Olympic team who had won a gold medal at the Games.

In 2010 the UK Prime Minister David Cameron bought pink and purple pairs of Hunter boots for his US trip, as gifts for Barack Obama's daughters.

Hunter Boot Ltd today

Since the downturn in 2006, Hunter has expanded its sales and profits rapidly, but in 2016 Hunter sales saw a nearly 10 per cent drop to £102.9 million, down from £113.7 million in 2015. The number of employees is approximately 150.

Development of profits was worse, dropping over a third from £14.1 million in 2015 to £9.2 million in 2016, the second consecutive year of decline for the retailer. The designer of the boots brand stated that its figures were in line with expectations and remained optimistic about the year ahead, hailing investment in new products and 'direct to consumer' operations as the driving force.

Hunter has seen strong growth with international distribution in 30 countries. It is moving into alliances with exclusive fashion designers. In January 2009, Hunter announced that it would be collaborating with London-based luxury fashion designer Jimmy Choo for a limited-edition black Wellington boot, embossed with signature Jimmy Choo crocodile print and containing gold rivets and a leopard-print lining. Another boot was then launched in 2011. The boots cost £250 and were sold exclusively online at www.jimmychoo.com (the original version normally costs around £80).

Jimmy Choo and Hunter Boot Ltd received a tremendous reaction from customers; the online waiting list opened on 1 May, and by 16 May more than 4,000 fashion-conscious customers had already

British Flag Hunter boots

Source: Buzz Photo/Rex Features/Shutterstock.

joined it. Today, the luxurious Wellington boots have become a classic lifestyle item at Jimmy Choo and can be purchased regardless of the season, and not only in traditional black, but in several variations.

In March 2012, J. Mendel and Hunter – two iconic brands dating back to the nineteenth century – joined forces in a special collaboration to produce the most glamorous of Wellington boots: exclusive to North America, these limited-edition boots brought together the sumptuous look and feel of J. Mendel with the timeless functionality of Hunter Boot. The boots went on sale in November 2012 and retail at from \$585 (£366) to \$795 (£497) at Saks, Nordstrom, Gorsuch and hunter-boot.com.

Questions

1. What are the main reasons for the recent international marketing success of the Hunter Boot?
2. Recently Hunter has added outerwear (leather footwear and hand-bags) to its international product range. What are the pros and cons of extending the product range in this way? Should Hunter Boots Ltd include further products like eyewear and watches?

Sources: based on www.Hunter-boot.com; bevan2bade's Blog: 'Hunter Wellington Boots and Celebrities' (http://bevan2bader.blogs.experienceproject.com/770875.html).

Case Study 1.3

Nivea

Nivea (www.nivea.com) is Beiersdorf's (www.beiersdorf.com) largest brand in terms of sales, product and geographical reach. The brand is the market leader in a number of product areas, including skin care and sun care, especially in Europe.

Questions

1. Which degree of market responsiveness and global coordination/integration does Nivea represent?
2. Which marketing problems does Nivea anticipate when penetrating the US market?

Case Study 1.4

Uber

Uber Technologies Inc. (www.uber.com) is an American international transportation network company headquartered in San Francisco, California. The company develops, markets and operates the Uber mobile app, which allows consumers with smartphones to submit a trip request which is then routed to Uber drivers who use their own cars. Uber now operates in 600 cities in 65 countries, providing more than 10 million rides each day. By the end of 2018, Uber's market value was around US$72 billion, with expected revenues for 2018 around US$10 billion. However, since it began operation in 2012, Uber's net income has been negative.

It is estimated that worldwide there are 75 million 'loyal' Uber passengers, who are served by 3 million Uber drivers worldwide, 0.75 million in the US, and 2.25 million drivers in the rest of the world.

Consumers appreciate Uber, and rival services like Lyft in the US, Didi Kuaidi in China and GrabTaxi in South-East Asia, because they tend to be cheaper than conventional taxis, cleaner and more reliable. Uber's freelance drivers typically pay Uber around 20 per cent of their fares. For many of Uber's freelance drivers, flexible working hours and being spared the formalities of qualifying as a conventional cabbie are an advantage.

Uber is a case study in how to construct a 'platform', a digital service on top of which other businesses can be built. As it arrives in a city, it launches a vigorous recruiting programme for drivers, offering them incentives to sign up. Its fares are 'dynamic'– they undercut conventional taxis most of the time, but go up when it rains, or when there is some other reason why demand for rides is high.

This encourages more of its drivers onto the roads when they are most needed. This in turn means that customers can always get a car quickly, even if it sometimes costs a bit more. This encourages them to keep using Uber, in turn providing lots of work for its drivers. In recent years Uber has moved into new fields and diversified its core offering, by introducing peer-to-peer rides through UberPOP,

Uber in use

Source: Bloomberg/Getty Images.

ride sharing through Uber Pool and various levels of luxury options. Furthermore, Uber has also started funding research into autonomous cars.

Uber's presence in cities has provoked a reaction among regulators. Taxi drivers have also taken on the company with protest and violence against Uber drivers.

Source: based on www.uber.com and other different public sources.

Questions

1. What are the basic principles in the 'sharing economy'?
2. Explain the competitive advantage of Uber.
3. Why is it so important for Uber to get into so many countries so fast?

Questions for discussion

1. What is the reason for the 'convergence of orientation' in LSEs and SMEs?
2. How can an SME compensate for its lack of resources and expertise in global marketing when trying to enter export markets?
3. What are the main differences between global marketing and marketing in the domestic context?
4. Explain the main advantages of centralizing upstream activities and decentralizing downstream activities.
5. Explain how a combination of the product value chain and the service value chain can create further customer value.
6. How is the virtual value chain different from the conventional value chain?

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