

13.2: Fundamentals of Global Marketing

Learning Objectives

1. Understand the four Ps of marketing and how they differ in international marketing.
2. Know how to segment international markets.
3. Be able to explain how gray and counterfeit markets can be harmful to companies.

The Four Ps

As we saw in the opening case, KFC has had great success in China after a first failed attempt. Why did KFC try again after its first failure? For the same reason that most companies market their products globally. Specifically, companies expand internationally to reach more customers, gain higher profit opportunities, balance sales across countries in case one country experiences problems, and compete with other brands that are expanding internationally and with global firms in their home markets.

Reaching new consumers is often the main reason for international expansion. The rising standards of living in the developing world, especially BRIC countries (i.e., Brazil, Russia, India, and China) mean billions of new consumers. MIT Center for Transportation and Logistics, “Crossroads of Supply Chain and Strategy Symposium 2008” (symposium, MIT, Cambridge, MA, March 27, 2008). In fact, 80 percent of the world’s population lives in emerging-market countries. Companies based in the mature economies of the West are attracted by the potential for double-digit growth in emerging markets.

What is the best way to reach those international customers? You begin with the core of marketing knowledge—the **four Ps**—product, price, promotion, and place. While you likely learned this framework in your marketing class, it’s important to recognize how this essential tool will help you think about marketing in the context of international business. In a flat world, the answers to questions about the four Ps are all the same; however, because the world isn’t really that flat, country differences will have important implications for how product, price, promotion, and place play out when an organization takes its offerings across borders.

The first P—**product**—refers to any physical good or intangible service that’s offered for sale. For example, the product could be physical, like a laser printer, or it could be a service, like printing or photocopying services. The product could also be access to information, such as stock-market reports. Given the differences between countries (e.g., language, culture, laws, and technology standards), a company’s products may need to be adapted to different countries. Some products, like Coca-Cola or Starbucks coffee, need little, if any, modification. But even these companies create product variations to suit local tastes. For example, Starbucks introduced a green tea Frappuccino in China. The new flavor was very successful there. We’ll learn more about product standardization and customization in the next section.

Did You Know?

Innovation at Starbucks

Annie Young-Scriver, Starbucks’s chief marketing officer, described her company’s plans for innovation and international expansion. “We continue to have very solid plans for China,” Young-Scriver said. “As we expand outside of the U.S. and get more depth in [international] markets, we’re finding lots of best practices and innovation that we can bring back. There are so many examples of creativity, like flat white [a milk and espresso beverage] in the U.K., black sesame [and] green tea Frappuccino in China. Green tea Frappuccino came from an international market and we launched it here. The local relevance became a tipping point for innovation in other markets for the brand.” Emily Bryson York, “The Global CMO Interview: Annie Young-Scriver, Starbucks: ‘Local Relevance Became a Tipping Point for Innovation in Other Markets,’” *Advertising Age*, June 14, 2010, accessed November 4, 2010, adage.com/cmstrategy/article?article_id=144390.

The second P—**price**—is the amount of money that the consumer pays for the product. Pricing can take different forms. For example, pricing can be by item (e.g., a can of corn), by volume (e.g., gasoline), by subscription (e.g., monthly cable service), by usage (e.g., cell-phone minutes), or by performance (e.g., paying more for overnight delivery versus two-day delivery).

Let’s spend a little more time on price, because pricing has even more nuances when applied to international products. For example, emerging-market countries often have a less-developed financial system and limited credit available to local consumers and businesses. Some of the biggest challenges in selling to emerging markets involve making the product affordable. In Brazil, 26

percent of the population lives below the poverty line. However, companies have devised ways to help even the poorest consumers afford products. Let's see how Casas Bahia has succeeded in selling to the bottom-of-the-pyramid (BOP) consumers in Brazil.

Did You Know?

Casas Bahia—Selling to BOP Consumers

Some consumers in developing countries are very poor. Often called the *bottom of the pyramid (BOP)* on income scales, they are the four billion people who live on less than \$2 a day. Would you market products to these people? Surprisingly, the answer may be yes in many instances. According to C. K. Prahalad, BOP consumers are a viable market segment to target. C. K. Prahalad, *The Fortune at the Bottom of the Pyramid* (Upper Saddle River, NJ: Wharton School Publishing, 2004). The key is having the right market mix of product, price, promotion, and place. Let's see how it works.

Casas Bahia is a retailer in Brazil that sells appliances and furniture. It successfully sells to the BOP. In fact, 45 percent of its appliance and furniture products are sold to BOP consumers. First, consider *product*. You might think that a refrigerator is a luxury item for these consumers. In a tropical country like Brazil, however, a refrigerator becomes more of a necessity. Second, *price*: obviously, keeping costs low is key. Casas Bahia does this by buying products in huge volumes to get huge discounts. It has built large warehouses capable of storing much more inventory than a typical retailer would, in order to handle the large volumes. But low prices alone are not enough, as Walmart learned in its failed expansion into Brazil. Indeed, 70 percent of Casas Bahia customers have no formal or consistent income. How are these customers able to pay for their purchases? Casas Bahia helps them by giving them a passbook—similar to a credit card but with important differences. First, Casas Bahia hires credit analysts and trains them extensively, so that they can accurately assess how much a customer can afford to pay. These credit analysts help steer a customer away from products that may be too expensive for them and instead suggest a more modest model. Second, unlike credit-card statements that come in the mail and are easy to ignore, customers must make passbook payments directly inside the Casas Bahia store. This direct approach builds a personal relationship between the customer and the friendly store employees. Rates of default on passbooks are much lower than they are on credit cards. To recap, many of Casas Bahia's *products* are seen as more of a necessity than a luxury. Low *prices* coupled with credit assessment and friendly employees encourage monthly payments. Selling in retail stores (*place*) reduces the need for external *promotions*, because customers return monthly to make payments, which gives Casas Bahia an opportunity to sell them additional products.

The third P—**promotion**—refers to all the activities that inform and encourage consumers to buy a given product. [\[citation redacted per publisher request\]](#). Promotions include advertising (whether print, broadcast radio, television, online, billboard, poster, or mobile), coupons, rebates, and personal sales. Like products, promotions are often customized to a country to appeal to local sensibilities. One obvious mistake to avoid is a language translation that misses the nuances of native speakers. For example, a straight translation of Clairol's "Mist Stick" curling iron into German misses the nuance that "mist" in German is slang for manure. Likewise, Coors' "turn it loose" slogan, when translated into Spanish, is interpreted by some locals as "suffer from diarrhea." Richard P. Carpenter, "What They Meant to Say Was...", *Boston Globe*, August 2, 1998, M5. Less obvious, but important to know, are the different countries' regulations affecting advertising. For example, as discussed in Chapter 8, [Section 8.2](#), regulations in Germany prohibited discounts, free gifts, or money-back guarantees with purchase. When US clothier Lands' End expanded into Germany, it was taken to court for its guarantee that "If you're not satisfied with any item, simply return it to us at any time for an exchange or refund of its purchase price." Only recently have these German laws been repealed to bring them in line with European Union laws. Jan Peter Heidenreich, "The New German Act against Unfair Competition," *German Law Archive*, accessed August 9, 2010, <http://www.iuscomp.org/gla/literature/heidenreich.htm#D3c>.

The final P—**place**—refers to the location at which a company offers its products for sale. The place could be a small kiosk in a village, a store in town, or an online website. Place poses a particular challenge when selling internationally. Many of the things we take for granted in the United States—national retailers, grocery stores, and extensive railways and roadways to reach them—aren't prevalent everywhere. [Section 14.4](#) discusses how to overcome these challenges.

Products reach consumers through a **channel of distribution**, which is a series of firms or individuals who facilitate the movement of the product from the producer to the final consumer. The shortest channel, called the **direct channel**, consists of just the producer and the consumer. In this case, the consumer buys directly from the producer, such as when you buy an apple from a local farmer. An **indirect channel**, in contrast, contains one or more intermediaries between the consumer and the producer. These intermediaries include distributors, wholesalers, agents, brokers, and retailers. In international business, the number of intermediaries can expand due to the regulations affecting import and export across national boundaries. Agents, brokers, international freight forwarders, and trading companies may get involved. Then, once a company's product is in the foreign country, that country may have its own wholesalers who get involved. The firm must pay all these intermediaries for their services,

which increases the cost of the product. Firms must raise prices or accept lower margins when confronting these added channel costs.

Even when sales are direct, as with Internet sales, place differences can affect marketing. For example, as mentioned previously, laws in Germany prohibit retailer Lands' End from advertising its unconditional money-back guarantee because returns are allowed only up to fourteen days. Charles W. Lamb, Joseph F. Hair Jr., and Carl McDaniel, *Essentials of Marketing* (Mason, OH: South-Western Cengage Learning, 2009), 131.

Ethics in Action

The Case of International Marketing

Major international marketing ethical problems derived from applied research are presented with their short definitions as follows:

- Traditional Small Scale Bribery—involves the payment of small sums of money, typically to a foreign official in exchange for him/her violating some official duty or responsibility or to speed routine government actions (grease payments, kickbacks).
- Large Scale Bribery—a relatively large payment intended to allow a violation of the law or designed to influence policy directly or indirectly (e.g., political contribution).
- Gifts/Favors/Entertainment—includes a range of items such as: lavish physical gifts, call girls, opportunities for personal travel at the company's expense, gifts received after the completion of transaction and other extravagant expensive entertainment.
- Pricing—includes unfair differential pricing, questionable invoicing—where the buyer requests a written invoice showing a price other than the actual price paid, pricing to force out local competition, dumping products at prices well below that in the home country, pricing practices that are illegal in the home country but legal in host country (e.g., price fixing agreements).
- Products/Technology—includes products and technology that are banned for use in the home country but permitted in the host country and/or appear unsuitable or inappropriate for use by the people of the host country.
- Tax Evasion Practices—used specifically to evade tax such as transfer pricing (i.e., where prices paid between affiliates and/or parent company adjusted to affect profit allocation) including the use of tax havens, where any profit made is in low tax jurisdiction, adjusted interest payments on intra-firm loans, questionable management and service fees charged between affiliates and /or the parent company.
- Illegal/Immoral Activities in the Host Country—practices such as: polluting the environment, maintaining unsafe working conditions; product/technology copying where protection of patents, trademarks or copyrights has not been enforced and short-weighting overseas shipments so as to charge a country a phantom weight.
- Questionable Commissions to Channel Members—unreasonably large commissions of fees paid to channel members, such as sales agents, middlemen, consultants, dealers and importers. Recep Yücel, Halil Elibol, and Osman Dagdelen, "Globalization and International Marketing Ethics Problems," *International Research Journal of Finance and Economics*, no. 26 (2009): 100–101, accessed October 22, 2010, www.eurojournals.com/irjfe_26_08.pdf.
- Cultural Differences—between cultures involving potential misunderstandings related to the traditional requirements of the exchange process (e.g., transactions) may be regarded by one culture as bribes but be acceptable business practices in another culture. These practices include: gifts, monetary payments, favors, entertainment and political contributions.
- Involvement in Political Affairs—related to the combination of marketing activities and politics including the following: the exertion of political influence by multinationals, engaging in marketing activities when either home or host countries are at war and illegal technology transfers.

The Marketing Mix

The four Ps together form the **marketing mix**. Because the four Ps affect each other, marketers look at the mix of product, price, promotion, and place. They fine-tune and adjust each element to meet the needs of the market and to create the best outcome for the company. Promotion has an impact on the other Ps because a product's price, for example, may be lowered during a promotional event. Likewise, holding a special promotional event like a two-for-one deal on a product impacts place, because the company must ensure that it supplies stores with enough product to meet the anticipated demand. Finally, the promotion might affect the product's packaging, such as bundling a shampoo and conditioner together.

A company's marketing mix will often be different for different countries based on

- a country's culture and local preferences,
- a country's economic level,
- what a country's consumers can afford, and

- a country's distribution channels and media.

Market Segmentation

Market segmentation is the process of dividing a larger market into smaller markets that share a common characteristic. The characteristics might be demographics, such as segments divided by age groups (e.g., eighteen to twenty-four year-olds), genders, or household incomes. Segmentation can also be done on the basis of geographic location or by lifestyle (e.g., new moms of different ages might have more in common with each other than they have with identically aged nonmothers.) The purpose of segmentation is to give the company a concrete vision of its customers, so that it can better understand how to market to that customer. Segmentation helps companies target their marketing efforts more effectively.

For example, geographic segmentation is important for language differences. Sometimes, the segmentation must be done even more granularly than at the country level. Some parts of Mexico, for instance, don't use Spanish as the primary language. Because of this, Walmart Mexico's stores in Juchitán conduct business in the local Zapotec tongue. Its female employees wear traditional skirts, and the morning company cheer is in Zapotec. "Supply Chain Strategies in Emerging Markets" (roundtable discussion at the MIT Center for Transportation and Logistics, MIT, Cambridge, MA, March 7, 2007).

Each country may have its own cultural groups that divide the country or transcend national boundaries. For example, the northern coast of Colombia is culturally more similar to the Caribbean than it is to the interior of its own country because the Andes Mountains split the country into two regions: east and west. Historically, these regions had been cut off from each other.

Understanding Your Target Customers

Foreign markets are not just copies of US markets; they require products suitable to the local population. Although European and developed country markets are more similar to the United States, emerging markets like the BRIC countries have important differences. Products must meet local needs in terms of cost, quality, performance, and features and, in order to be successful, a company must be aware of the interplay between these factors. Let's look at consumers in emerging countries to get a feel for these differences.

Rising Middle Class

The number of middle-class people in emerging countries has been growing, partly because of Western companies hiring low-cost labor (directly or through outsourcing agreements) in these regions. Providing jobs in these countries has improved household incomes. These fast-rising incomes, especially in urban areas, create vast new pools of disposable income. Eight of the ten largest cities in the world are in emerging markets. Their populations are young, and they're just beginning to adopt the full range of consumer goods found in the developed world.

In some cases, these middle-class consumers will buy more expensive branded goods, if the brands resonate with the interests of the local crowd. Consider the relative sales ratio of \$60 Nike basketball shoes versus \$120 Yao Ming-branded Nike basketball shoes. In the United States, sales might be 20 percent for the higher priced shoe. In mainland China, it might be 5 percent for the Yao Ming shoe due to cost; but in more prosperous Hong Kong, the sales might be 50 percent for the shoes. "Supply Chain Strategies in Emerging Markets" (roundtable discussion at the MIT Center for Transportation and Logistics, MIT, Cambridge, MA, March 7, 2007). Middle-class populations are reading about Western goods and want branded items, but pricing can be an issue depending on the local level of affluence.

Millionaires Are Everywhere

Just because the average income is much lower in emerging markets doesn't mean that no one can afford high-end luxury goods. Some automobile manufacturers, for example, track the number of millionaires in the country as an indicator of the very affluent segment. By recent estimates, China has approximately 477,000 millionaires, "Number of Millionaires Grows in China," *Digital Journal*, June 24, 2010, accessed November 25, 2010, www.digitaljournal.com/article/293790. Brazil has approximately 143,000, "World Now Has 10 Million Millionaires," *MSN Money*, June 25, 2008, accessed November 25, 2010, articles.moneycentral.msn.com/Investing/Extra/WorldNowHasTenMillionMillionaires.aspx. Russia has approximately 136,000, "World Now Has 10 Million Millionaires," *MSN Money*, June 25, 2008, accessed November 25, 2010, articles.moneycentral.msn.com/Investing/Extra/WorldNowHasTenMillionMillionaires.aspx. and India has approximately 126,000. "Asian Millionaires Overtake Europeans in World Wealth Game," *Hindustan Times*, June 23, 2010, accessed November 25, 2010, www.hindustantimes.com/Asian-millionaires-overtake-Europeans-in-world-wealth-game/Article1-562154.aspx. These very high net-worth individuals explicitly want the same products that are sold in the West, not down-market versions. Specific

cities in emerging-market countries may have a concentration of affluent consumers. In Monterrey, Mexico, for example, the costs of consumer goods are comparable to those of New York City.

Emerging Markets for Business Customers

Business-to-business (B2B) opportunities also abound, as emerging-market businesses grow to serve export or internal markets. Just as with consumers, businesses in emerging markets are different from developed markets. For example, companies in emerging markets may be smaller and less sophisticated and may have lower budgets than their Western counterparts. They may lack the level of automation and information technology that prevails in the developed world. This is especially true in the retail industry. Many developing countries have a predominance of small mom-and-pop stores.

Global Market Research

Global market research includes understanding the market's culture and social trends, because these factors impact which products consumers will like and which advertising appeals will resonate with them.

Some of the same techniques of market research used in the United States can be applied internationally. For example, Procter & Gamble (P&G) uses a variety of focus-group testing and in-home research to understand why people buy the products they buy. P&G researchers watch how consumers use products and ask about what features they might want in the future. The company has learned from past experience that just because a product sells well in one market doesn't imply that it will sell well in another market. For example, although Bounty paper towels sell well in the United States, the European launch of Bounty paper towels did well in only two of twelve markets. Why? P&G quickly learned that Germans found the entire concept of paper towels to be too wasteful and, therefore, didn't buy them.

Dealing with Gray and Counterfeit Markets

The **gray market** exists because of price discrepancies between different markets. For example, consumer packaged-goods companies may price their products higher in Austria than in the neighboring Czech Republic due to the Austrian citizens' higher income levels. As a result, Austrians might order their goods from Czech retailers and simply drive over the border to pick up the products. The goods in the Czech stores are legitimate and authentic, but the existence of this gray-market activity hurts the producer and their channel partners (e.g., distributors and retailers) in the higher-priced country.

In contrast to gray markets, which are legitimate but—legally—in a gray area, **counterfeit markets** purposely deceive the buyer. For example, counterfeiters slightly alter the Sony logo to Bony in a way that makes it hard to distinguish without careful inspection.

Counterfeit markets hurt companies that have invested in building intellectual assets such as unique product designs, technological developments, costly media content, and carefully crafted brands. Together, these intellectual assets represent an investment of millions or billions of dollars. If a company's product, technology, or brand is counterfeited, both the company's reputation and financial security suffers. All of its channel partners (i.e., distributors, retailers, and licensing partners) are affected as well. For example, an executive traveling in Hong Kong saw unique styles of Nike shoes. When he asked about them, he was told the shoes were only available in size nine. This fact led him to realize that the shoes were probably prototype samples from a local factory that had been smuggled out of the factory to be sold. Some industries have tried to limit the scope of the counterfeiting and copying of DVDs through regionalized encoding, but even this is too easy to circumvent. That's why musical and entertainment giant Bertelsmann avoids expansion into emerging-market countries that have lax enforcement of intellectual property rights.

Counterfeiters may also tamper with branded products. For example, Intel processor chips vary in price based on their processing speed: the higher the speed, the higher the price of the chip. Counterfeiters buy (or steal) low-end chips, repaint a few numbers on them, and then sell them as high-end chips. The high-end chips sell for \$100 or \$200 more than the low-end chips. Customers looking for a bargain may unwittingly buy these chips. For Intel, these remarked chips not only cannibalize sales of the higher-margin, high-performance chips, but they also create higher warranty costs because customers turn to Intel when these chips fail. The counterfeiting can also damage the brand's reputation. To defeat counterfeiters, Intel implemented a long list of product-security measures. It replaced removable painted numbers with more-permanent, laser-etched numbers; developed retail packages with holograms and other hard-to-copy markings; and created software to detect any mismatch between the chip's internal rating and operating speed.

Strategically, Intel executives debated whether to even use the Intel name on products at the low end of the spectrum that were sold in emerging markets. Not using the Intel name would prevent the low-priced goods from re-entering Western markets. The

downside of that strategy, however, is less brand recognition in the developing country.

KEY TAKEAWAYS

- The fundamentals of global marketing begin with the core of marketing knowledge, the four Ps. The four Ps refer to product, price, promotion, and place. When put together, the four Ps form the marketing mix.
- One or more of the four Ps can differ from country to country. For example, the product can differ from country to country if a company chooses to adapt its product to local tastes or to create a new product specifically for local tastes. Thus, Starbucks introduced a green tea Frappuccino in China.
- The second P, price, refers to the amount of money that the consumer pays for the product. Price represents a special challenge when companies sell to emerging markets because consumers' income levels in these countries are much lower than in developed countries. In addition, the channel of distribution often gets longer when companies sell to international markets. Rather than a direct channel in which a company sells directly to a consumer, intermediaries (i.e., distributors, wholesalers, agents, brokers, retailers, international freight forwarders, and trading companies) between the consumer and the producer often characterize the international-market distribution chain. Companies must pay each of these intermediaries, which increases the cost of the product.
- The third P, promotion, refers to the activities that inform and encourage consumers to buy a given product. Companies often customize these promotions to use images and wording that resonate with local markets.
- The final P, place, refers to where a company offers its products for sale. Many emerging countries may lack national retail chains, which means that companies may need to sell their products through a much more fragmented system of small storefronts or kiosks.
- Market segmentation refers to the process of dividing a larger market into smaller markets that share a common characteristic, such as age or lifestyle. It's important to note that not all citizens of a given country can be marketed to uniformly, because besides demographic differences there may be regional differences within each country as well.
- Price discrepancies between markets can cause the development of gray markets. These price discrepancies are hard to avoid because income levels differ in different countries. Companies want to charge prices that locals in different countries can afford. The result, however, is that consumers in wealthier countries may buy the product in a less-affluent country for a cheaper price. Counterfeit markets deceive customers into buying what they think is a branded product at a bargain price.

EXERCISES

(AACSB: Reflective Thinking, Analytical Skills)

1. Why might a company's marketing mix be different for different countries?
2. What problems can gray or counterfeit markets cause for companies?
3. What are some characteristics of emerging-market customers?
4. Explain some ways to segment international markets.
5. Name the four Ps and how they might differ in international marketing.

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