

10.5: Determinants of Global Brand Structure

Learning Objectives

After reading this section, students should be able to ...

1. outline the factors shaping a company's international brand structure
2. explain the role of firm-based, product-market, and market dynamic characteristics in global branding

The kinds of issues a company must resolve as it tries to shape a coherent global branding strategy reflect its globalization history—how it has expanded internationally and how it has organized its international operations. At any given point, the structure of a brand portfolio reflects a company's past management decisions as well as the competitive realities the brand faces in the marketplace. Some companies, such as P&G and Coca-Cola, expanded primarily by taking domestic “power” brands to international markets. As they seek to expand further, they must decide whether to further extend their power brands or to develop brands geared to specific regional or national preferences and how to integrate the latter into their overall brand strategy. Others, such as Nestlé and Unilever, grew primarily by acquisition. As a consequence, they relied mainly on country-centered strategies, building or acquiring a mix of national and international brands. Such companies must decide how far to move toward greater harmonization of brands across countries and how to do so. This issue is particularly relevant in markets outside the United States, which often are fragmented, have small-scale distribution, and lack the potential or size to warrant the use of heavy mass-media advertising needed to develop strong brands.

Specifically, a company's international brand structure is shaped by three sets of factors: (a) firm-based characteristics, (b) product-market characteristics, and (c) underlying market dynamics (Douglas, Craig, and Nijssen (2001).

Firm-Based Characteristics

Firm-based characteristics reflect the full array of past management decisions. First, a company's administrative heritage—in particular, its organizational structure—defines the template for its brand structure. Second, a firm's international expansion strategy—acquisition or organic growth—affects how its brand structure evolves over time. What is more, the use of strategic alliances to broaden the geographic scope of the firm's operations often results in a “melding” of the brand strategies of the partners. Third and fourth, the importance of corporate identity and the diversity of the firm's product lines and product divisions also determine the range and number of brands.

An appreciation of a company's administrative heritage is critical to understanding its global brand structure. Bartlett and Ghoshal (1989). A firm that has historically operated on a highly decentralized basis, in which country managers have substantial autonomy and control over strategy as well as day-to-day operations, is likely to have a substantial number of local brands. In some cases, the same product may be sold under different brand names in different countries. In others, a product may be sold under the same brand name but have a different positioning or formulation in different countries.

Firms with a centralized organizational structure and global product divisions, such as Panasonic or Siemens, are more likely to have global brands. Both adopted a corporate branding strategy that emphasizes quality and reliability. Product lines are typically standardized worldwide, with minor variations in styling and features for local country markets.

Firms that expand internationally by acquiring local companies, even when the primary goal is to gain access to distribution channels, often acquire local brands. If these brands have high local recognition or a strong customer or distributor franchise, the company will normally retain the brand. This is particularly likely if the brand does not occupy a similar positioning to that of another brand currently owned by the firm. Nestlé and Unilever are examples of companies following this type of expansion strategy.

Expansion is often accompanied by diversification. Between 1960 and 1990, Nestlé expanded by acquiring a number of companies in a range of different product-markets, mostly in the food and beverage segment. These acquisitions included well-known global brands such as Perrier and San Pellegrino (mineral water), confectionery companies such as Rowntree and Perugina, pet food companies and brands such as Spillers and Alpo, and grocery companies such as Buitoni, Crosse & Blackwell, and Herta. The resulting proliferation of brands created the need to consolidate and integrate company-branding structures (Douglas, Craig, and Nijssen (2001), p. 101).

Firms that have expanded predominantly by extending strong domestic, so-called power brands into international markets primarily use product-level brand strategies. P&G, for instance, has rolled out several of its personal products brands, such as Camay and Pampers, into international markets. This strategy appears most effective when customer interests and desired product attributes are similar worldwide and brand image is an important cue for the consumer.

The relative importance placed by the firm on its corporate identity also influences brand structure. Companies such as General Electric (GE) and Apple place considerable emphasis on corporate identity in the communications strategies. In the case of GE, “Imagination at Work” is associated with a corporate reputation dedicated to turning innovative ideas into leading products and services that help alleviate some of the world’s toughest problems. Equally, Apple uses its apple logo to project the image of a vibrant innovator in the personal computer market. Increasingly, companies use their corporate identity as a means of reassuring customers and distributors that the company is reliable and stands behind its products. As a result, even companies with highly diverse product lines—such as Samsung—rely on the corporate brand name (and its logo) to project an image of reliability.

A fourth determinant of a company’s brand structure is the diversity, or, conversely, the interrelatedness of the product businesses in which the firm is involved. Firms that are involved in closely related product lines or businesses that share a common technology or rely on similar core competencies often emphasize corporate brands. 3M Corporation, for example, is involved in a wide array of product businesses worldwide, ranging from displays and optics to health care products to cleaners to abrasives and adhesives. All rely heavily on engineering skills and have a reputation of being cutting-edge. The use of the 3M brand provides reassurance and reinforces the firm’s reputation for competency and reliable products worldwide.

✓ Mini Case: Pharmaceutical Companies Try Global Branding

In Paris, stomach ulcers are treated with Mopral; in Chicago, it is called Prilosec. These two products are, in fact, exactly the same drug. Prilosec is the U.S. brand of AstraZeneca’s omeprazole; Mopral is its French counterpart. Unlike manufacturers of consumer goods, the pharmaceutical industry traditionally has been wary of creating big, international brands. But that is about to change. Take a look at pharmacists’ shelves. Viagra is there. So are Celebrex for arthritis pain, the antidiabetic agent Avandia, and the anticoagulant Plavix.

It is perhaps surprising that companies did not consider global branding sooner because a drug works for everybody in the same way in every country. While the industry has become global from a technological and geopolitical perspective, few companies have mastered globally integrated marketing practices. But change is coming—and fast. As more people travel internationally and the Internet makes information—including drug advice—readily available for doctors and patients, companies want to avoid any brand inconsistencies while maximizing exposure. Another globalizing force is growing standardization of the regulatory environment. With the establishment of the European Medical Evaluations Agency, for example, which approves drugs for all the members of the European Union, the borders are coming down. Japan has also adapted its approval system to facilitate the entry of Western products.

And then there is direct-to-consumer (DTC) advertising. While doctors and health care professionals remained the targets for pharmaceutical marketing, consumer-style branding was unnecessary. But companies are preparing for the spread of DTC beyond the shores of the United States. The introduction of global branding anticipates the transition to a more consumer-driven market.

Pressure to cut or contain costs is perhaps the most powerful driver behind the industry’s move to global branding. Mega mergers were a way to contain the costs of research and development and find pipeline products, yet the big companies still need about five new blockbuster products each year to return the promised growth. Global branding promises reduced marketing costs and much faster and higher product rollout.

Local market conditions, such as reimbursement policies, however, may still override the benefits of global strategies and therefore inhibit the globalization of brands. Local flexibility will be key to success. Significant cost savings may therefore be slow in coming. Even with a centralized, global brand, most companies will still likely use local agencies for their marketing campaigns.

Product-Market Factors

Three product-market factors play an important role in brand architecture: the nature and scope of the target market, the product’s cultural associations, and the competitive market structure (Douglas, Craig, and Nijssen (2001), p. 103).

When companies target a global market segment with relatively homogeneous needs and preferences worldwide, global brands provide an effective means of establishing a distinctive global identity. Luxury brands such as Godiva, Moët and Chandon, and Louis Vuitton, as well as brands such as deBeers, Benetton, and L’Oreal are all targeted to the same market segment worldwide and benefit from the cachet provided by their appeal to a global consumer group. Sometimes it is more effective to segment international markets by region and target regional segments with similar interests and purchase behavior, such as Euro-consumers. This provides cost efficiencies when such segments are readily accessible through targeted regional media and distribution channels.

A critical factor influencing brand structure is the extent to which the product is associated with a particular culture, that is, the extent to which there are strong and deeply ingrained local preferences for specific products or product variants (think of beer) or the products are an integral part of a culture (think of bratwurst, soccer teams). The stronger the cultural association, the less likely it is that global product brands will thrive; instead, local branding may be called for.

✓ Student Example

In almost all of Mexico, global brands tend to struggle due to the price being a bit more than the products developed in their country. Many Mexican consumers tend to be loyal to one brand because of its price and because they already know the quality of the product. An example of this can be seen in baked goods. Mexico has a well-known brand called BIMBO, which they manufacture a variety of pastries and snacks. They are the Mexican version of the Hostess brand from the US. BIMBO is very popular among Mexican consumers and in any store, you’ll see BIMBO products. There are some stores in Mexico that sell pastries from other parts of the world, but they are usually priced higher and available in small quantities. Most Mexicans tend to stick to pastries that BIMBO makes, such as Mantecadas, Bimbunelos, Rebanadas, among many others. Since BIMBO is a Mexican company, they know the Mexican people better than any outside organization ever could.

Lucio Chavarria
Class of 2020

A third product-market driver of a company’s brand structure is the product’s competitive market structure, defined as the relative strength of local (national) versus global competitors in a given product market. If markets are fully integrated and the same competitors compete in these markets worldwide, as in aerospace, the use of global brands helps provide competitive differentiation on a global basis. If strong local, national, or regional competitors, as well as global competitors, are present in a given national or regional market, the use of a multitier branding structure, including global corporate or product brands as well as local brands, is desirable. Coca-Cola, for example, beyond promoting its power brands, has introduced several local and regional brands that cater to specific market tastes around the world.

✓ Mini Case: Use of Country of Origin Effects in Global Branding, Silverstein (2008, November 24)

Whether you prefer obscure imports or something mainstream, most beer brands like to invoke their country of origin. Guinness comes from Ireland, Corona is Mexican, Heineken and Amstel are Dutch, and Budweiser is a truly American brand.

The use of “country of origin effects” is an essential part of beer branding. Using the country of origin as part of the brand equity is free, so companies can avoid having to build an image from scratch over decades. For a long time, Foster’s used a kangaroo in its advertisements, while Lapin Kulta, from Lapland in Finland, relies heavily on its unusual provenance in its marketing. Images of Finland’s stark landscapes adorn communications material and bottle labels.

Swiss watchmakers certainly know the value of their “Swiss made” brand. The Federation of the Swiss Watch Industry actively polices all uses of the term and has strict guidelines on how it may be used on clocks and watches. In a similar vein, the French leverage their reputation for good wine, cooking, and fashion and the Italians view themselves as the masters of style.

German companies have been particularly effective in leveraging country effects. Of Interbrand’s Top 100 Global Brands in 2008, 10 were German brands—five automobile brands (BMW, Porsche, Mercedes-Benz, Volkswagen, and Audi), while brands in technology (SAP and Siemens), clothing (Adidas), financial services (Allianz), and cosmetics (Nivea) were also represented. Together, this group of German brands is valued at over \$98 billion. Germany was second only to the United States in the number of brands making the Top 100 list.

It should come as no surprise, then, that Germany itself was ranked the best overall “country brand” in the 2008 Anholt-GfK Roper Nation Brands Index, which measures the world’s perception of each nation as if it were a public brand. Fifty nations

were measured in the study. The United States, the world's leading branding powerhouse, ranked seventh. So what is it about German brands, and the country that produces them, that is so special? Two words might be all the explanation that's required: discipline and quality.

German companies are highly disciplined in their approach to creating, introducing, and selling brands. They have the ability to consistently produce exceptional-quality products that are of lasting value. "German engineering" is a term closely associated with the country's automobile industry, which has seen a level of global success second only to the Japanese automakers. In fact, between 1990 and 2000, Mercedes-Benz and BMW more than doubled their sales in the United States alone.

Why do customers like German brands? German companies are widely admired for their intense focus on product quality and service, thought to be less interested in competing on price and strict about adhering to safety and other government standards.

BMW, a maker of premium automobiles, is one such revered brand. Founded in 1917 in Munich, Germany, as "Bavarian Motor Works," BMW produced aircraft engines during World War I, then built motorcycles in 1923 and went on to make cars in 1928. In recent years, BMW has been recognized as much for its innovative, quality marketing as for its high-performance cars.

But Germany's branding power extends well beyond automobiles. NIVEA, whose name comes from the Latin for "snow white," was created in late 1911. From its origins as a simple cream, NIVEA has now grown into a global manufacturer of a broad range of cosmetic and personal care products. NIVEA was voted the most trusted skin-care brand in 15 countries in the Reader's Digest survey of European Trusted Brands 2007.

Adidas, named after its founder Adolf (Adi) Dassler (Das), is an 80-year-old company that today is a global leader in sports footwear, apparel, and accessories. In 1996, Adidas equipped 6,000 Olympic athletes from 33 countries with its athletic gear. "Adidas athletes" won 220 medals, including 70 gold, and apparel sales increased 50%.

SAP, founded in 1972, is the world's largest business software company and the third-largest software supplier overall. The company employs almost 52,000 people and serves more than 76,000 customers in over 120 countries.

Other well-known global brands, from Bayer (pharmaceuticals) to Becks (beer) to Boss (clothing) to Braun (consumer products), are a testament to the fact that Germany is, and will continue to be, a prolific producer of some of the world's finest products. It is Germany's disciplined approach to quality that inspires consumer loyalty to German brands.

Market Dynamics

Finally, while the firm's history and the product markets in which it operates shape its brand structure, market dynamics—including ongoing political and economic integration, the emergence of a global market infrastructure, and consumer mobility—shape and continually change the context in which this evolves (Douglas, Craig, and Nijssen (2001), p. 104).

Increasing political and economic integration in many parts of the world has been a key factor behind the growth of international branding. As governments remove tariff and nontariff barriers to business transactions and trade with other countries, and as people and information move easily across borders, the business climate has become more favorable to the marketing of international brands. Firms are less frequently required to modify products to meet local requirements or to develop specific variants for local markets and increasingly can market standardized products with the same brand name in multiple country markets. In many cases, harmonization of product regulation across borders has further facilitated this trend.

The growth of a global market infrastructure is also a major catalyst to the spread of international brands. Global and regional media provide economical and effective vehicles for advertising international brands. At the same time, global media help lay the groundwork for consumer acceptance of, and interest in, international brands by developing awareness of these brands and the lifestyles with which they are associated in other countries. In many cases, this stimulates a desire for the brands that consumers perceive as symbolic of a coveted lifestyle.

The globalization of retailing has further facilitated and stimulated the development of international manufacturer brands. As retailers move across borders, they provide an effective channel for international brands and, at the same time, increase their power. This forces manufacturers to develop strong brands with an international appeal so that they can negotiate their shelf position more effectively and ensure placement of new products.

A final factor shaping the context for international branding is increased consumer mobility. While global media provide passive exposure to brands, increasing international travel and movement of customers across national boundaries provides active exposure

to brands in different countries. Awareness of the availability and high visibility of an international brand in multiple countries enhances its value to consumers and provides reassurance of its strength and reliability. Increased exposure to, and familiarity with, new and diverse products and the lifestyles and cultures in which they are embedded also generate greater receptivity to products of foreign origin or those perceived as international rather than domestic. All these factors help create a climate more favorable to international brands.

Source

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