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Welcome to VangoNotes for a framework for marketing management third edition by Philip Kotler and Kevin Lane Keller

Chapter eighteen managing marketing in the global economy

Section one big ideas

Remember the Avon lady selling cosmetics? Well, times have changed. From Birmingham, to Bosnia, to Beijing Avon is known for its personal care products and its support of good causes. Avon has pursued growth by entering Russia, China, and Eastern European markets. Today with five million representatives selling in more than one hundred and twenty countries, it has annual sales of eight billion dollars. Although each country has a local marketing team, a brand president who reports to Avon’s president has overall responsibility from managing the global branding strategy. The company also sponsors fund-raising events and sells merchandise to raise money for causes like breast cancer research. Although the opportunities for companies like Avon to enter and compete in foreign markets are significant, the risks can also be high. So why go global? Companies in global industries have to internationalize operations. Avon, for example, competes with such global rivals, like the French cosmetics giant, L’Oreal. Many firms have marketed internationally for decades, like Nestle, but as global competition intensifies, domestic companies are finding foreign rivals in their own backyard. This occurs because global firms plan, operate, and coordinate their activities on a worldwide basis. For example, Ford’s world truck has a European made cab and a North American chassis and is assembled in Brazil and imported into the United States for sale. A firm may also find that some foreign markets offer higher profit opportunities such as Walmart found in Mexico. Or a company may need a larger customer base like China to achieve economies of scale. Some firms need international service for their current customers that are going abroad, for example the oil field supply companies that supply pipe to Exxon Mobile. Other firms may go global to reduce their dependence on any one market. Finally, the company’s domestic market may face attacks from global firms that offer better products or lower prices. Before going abroad, a firm must weigh the risks. Perhaps it doesn’t fully understand foreign customer preferences, business culture, or regulations. It may lack managers with International experience and the other country might change its commercial laws, devalue the currency, or undergo a political revolution and seize foreign property. The company must also define its marketing objectives. Researchers argue that a company should enter fewer countries when market entry, control, and product adaptation and communication costs are high, when population and income size and growth are high, and when it can set up barriers to entry. A company must also decide on the types of countries to enter based on product, geography, income and population, and political climate. For example, some companies change marketing practices when entering developing countries. Unilever’s
four cent packages of detergent and shampoo have been successful in rural India where seventy percent of that country’s population lives. Next, the firm must determine the best strategy for entering a foreign market. Companies usually start with indirect and direct exporting, like exhibiting at overseas tradeshows. Then, in increasing order of commitment, risk, and profit potential, companies may license a product for the use of its trademark like Disney’s Mickey Mouse, join local investors to create a joint venture, or engage in direct investment such as General Motor’s investment in foreign auto manufacturers like Fiat Auto Holdings. Once abroad, how much should the firm adapt its strategy to local conditions? At one extreme is a globally standardized marketing mix like Coca-Cola uses, which keeps costs low, allows for brand image consistency, and enables the firm to carry out ideas quickly and efficiently. At the other extreme is an adaptive marketing mix, which Campbell Soups uses to adjust its marketing program to each target market. Some products travel better across borders than others. Food and beverage marketers have to contend with varying tastes. Communications can run the same marketing communications program as in the home market or change them for each local market. A process called communication adaptation. If it adapts both the product and the communications, the company engages in dual adaptation. For example, one approach is to use the same message everywhere varying the language and colors. Another is to use one theme globally and adapt the copy to each local market like a Camay soap commercial showing a woman bathing in the U S ad but a man in Venezuela. Companies also have to adapt the media abroad because availability varies from country to country and so does the regulation of media advertising featuring products such as tobacco and alcohol. When a company sells abroad, it faces a price hike problem because it must add transportation costs, tariffs, an importer, wholesaler, and retailer mark ups and consider currency risks as well. Many multinational companies must deal with the problem of the gray market in which products like software sell in unauthorized distribution channels. Let’s look at the way marketing departments are organized and how they work effectively. Marketing departments are organized functionally, geographically, by product or brand, by market, in a matrix, or by corporate division. In a functional organization, specialists such as the sales manager and marketing research manager, report to a vice president who coordinates their activities. The main advantage of a functional organization is simplicity. However, this form loses effectiveness as its products and markets increase. In a geographic organization, the salesforce organizes along geographic lines, reporting to regional and local marketing managers. McDonald’s spends fifty percent of its advertising budget regionally. Companies producing many products often establish a product or brand management organization to concentrate on developing a cost-effective marketing mix for each product. However, this organization leads to conflict and frustration so companies like Colgate are moving to category management in which they focus on product categories like toothpaste to manage their brands. When customers fall into different user groups with distinct buying preferences, a market management organization is effective. Cannon sells fax machines to consumer, business, and
government markets and companies that produce many products for many markets may adopt a matrix organization. DuPont had separate product managers for rayon and other fibers plus separate market managers for men’s wear and other markets. As multiproduct, multimarket companies grow, they often convert larger product or market groups into separate divisions with their own departments and services. Let’s look next at marketing implementation, which turns marketing plans into action. Companies can apply four types of control, annual plan, profitability, and strategic control. For example, efficiency control focuses on increasing efficiency in the sales force in advertising, sales promotion, and distribution. Strategic control assesses the company using effectiveness reviews as well as the marketing audit. In addition, companies evaluate whether they are practicing ethical and socially responsible marketing like Avon.

That’s the end of this section.

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Section two practice questions

Okay, here are some practice questions on the material in chapter eighteen. Ready? I’ll give you the question, then two possible answers, A or B, and then I’ll pause a few seconds while you think about your answer. Then I’ll give you the correct answer with an explanation. Let’s go.

Question number one, do global firms A plan, operate, and coordinate their activities on a worldwide basis or B advertise, promote, and deliver goods in one country? [pause] The answer is A. Global firms plan, operate, and coordinate their activities on a worldwide basis.

Question number two, do firms enter the International market because A they have a consumer orientation or B they discover that some foreign markets offer higher profit opportunities? [pause] The answer is B. Firms enter the international market because they discover that some foreign markets offer higher profit opportunities.

Question number three, before deciding to go abroad, a firm must weigh several risks. Are these risks that A the company might not understand the foreign customer’s preferences or B it might have to switch to product teams? [pause] The answer is A. The risks are that a company might not understand the foreign customer’s preferences.

Question number four, should a company enter fewer countries when A market entry and market control costs are high or B product and communication costs are low? [pause] The answer is A. A company should enter fewer countries when market entry and market control costs are high.
Question number five, at one extreme companies use a globally standardized marketing mix worldwide; what do they use as the other extreme? A shared ownership and control or B an adapted marketing mix adjusted to each target market? [pause] The answer is B. Instead of a standardized marketing mix, companies use an adapted marketing mix.

Question number six, when a company sells abroad, it faces a price escalation because A it must add the cost of transportation or B it must deal with social issues. [pause] The answer is A. A company faces a price escalation abroad because it must add the cost of transportation.

Let’s do some true and false questions. Ready?

Question number seven, companies typically start with indirect exporting, working through independent intermediaries that will sell their products. True or false? [pause] The answer is true.

Question number eight, many companies not only invent new products for overseas markets, they lift products from international operations and bring them home. True or false? [pause] The answer is true.

Question number nine, companies don’t have to adapt their use of the media abroad. True or false? [pause] The answer is false. The use of the media abroad does require international adaptation.

Question number ten, much foreign retailing is in the hands of small, independent retailers whose markups are high and whose real price results from haggling. True or false? [pause] The answer is true.

Question number eleven, a product management organization does not make sense if the company’s products are quite different or if the number of products is beyond the ability of a functional organization to handle. True or false? [pause] The answer is false. A product management organization does make sense if the company’s products are quite different and numerous.

Question number twelve, a brand management team consists of key representatives from major functions affecting the brand’s performance. True or false? [pause] The answer is true.

Question number thirteen, companies review marketing goals and effectiveness and check for customer philosophy, integrated marketing, adequate marketing information, strategic organization, and operational efficiency. True or false? [pause] The answer is true.

Let’s try an essay question. Ready?

Question number fourteen, discuss the way companies perform strategic marketing control. [pause] From time to time companies need to undertake a critical review of overall marketing goals and effectiveness. One way to do this is with a marketing
effectiveness review, which examines the degree to which a company maintains the five major attributes of a marketing orientation: customer philosophy, integrated marketing, organization, adequate marketing information, and operational efficiency.

That’s the end of this section.

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Section three key terms

Here’s how this section works. I’ll give you a term and let you give the definition. After a pause, I’ll give you the correct definition of the term from the chapter.

Question number one, what is a global industry? [pause] A global industry is one in which the strategic positions of competitors in major geographic or national markets are fundamentally affected by their overall global positions.

Question number two, what is a global firm? [pause] A global firm operates in two or more countries and gains advantages in research and development, production, logistics, marketing, finance, costs, and reputation that are not available to purely domestic competitors.

Question number three, what is a joint venture? [pause] Foreign investors may join with local investors to create a joint venture company in which they share ownership and control. One drawback is that the partners might disagree over investment, marketing, or other policies.

Question number four, what is a straight extension? [pause] Straight extension means introducing a product in the foreign market without any change.

Question number five, what is product adaptation? [pause] Product adaptation means altering the product to meet local conditions or preferences. The company might develop a regional version of its product, a country version, a city version, or different retailer versions.

Question number six, what is product invention? [pause] Product invention consists of creating something new. Backward invention is reintroducing earlier product forms that are adapted to a foreign country’s needs. Forward invention is creating a new product to meet a need in another country.

Question number seven, what is communication adaptation? [pause] Companies run the same marketing communications programs as in the home market or change them for each local market. A process called communication adaptation. If it adapts both the product and the communications, the company engages in dual adaptation.
Question number eight, what is the gray market? [pause] In the gray market, branded products are diverted from authorized distribution channels in the country of product origin or across international borders.

Question number nine, what is a marketing audit? [pause] A marketing audit is a comprehensive, systematic, independent, and periodic examination of a company’s marketing environment.

Question number ten, what is indirect and direct exporting? [pause] Companies typically start with indirect exporting, working through independent intermediaries that will sell their products. Eventually companies may decide to directly handle their own exports.

Question number eleven, what is licensing? [pause] The licensor issues a license to a foreign firm to use a manufacturing process, trademark, patent, trade secret, or other item of value in return for a fee or royalty.

Question number twelve, what is direct investment? [pause] The ultimate form of foreign involvement is direct investment, when a firm buys all or part of a foreign based assembly or manufacturing facility, or builds its own facilities.

Question number thirteen, what is marketing implementation? [pause] Marketing implementation is the process that turns marketing plans into action assignments and ensures that such assignments are executed in a manner that accomplishes the plan’s stated objectives.

Question number fourteen, what is a marketing controller? [pause] Marketing controllers work out of the controller’s office but specialize in the marketing side of the business.

That’s the end of this section.

Are you ready for the test? Well, in this section, we’ll find out. I’ll give you a question and two possible answers and pause for only a couple of seconds. Then I’ll give you the correct answer. Ready? Here goes.

Question number one, when customers fall into different user groups with distinct buying preferences and practices, which type of organization is desirable? Is it A a market management organization or B a customer management organization? [pause]
The answer is A. When customers fall into different user groups with distinct buying preferences and practices a market management organization is desirable.

Question number two, do companies that produce many products flowing into many markets adopt A a geographic organization or B a matrix management organization? [pause] The answer is B. Companies that produce many products flowing into many markets adopt a matrix management organization.

Question number three, at the corporate level, is the role of marketing A to promote a culture of customer orientation and assess market attractiveness or B to appoint product managers and associate product managers? [pause] The answer is A. At the corporate level, the role of marketing is to promote a culture of customer orientation and assess market attractiveness.

Question number four, do the skills for implementing marketing programs include A the ability to adapt sales promotion tools or B diagnostic skills to determine what went wrong? [pause] The answer is B. Skills for implementing marketing programs include diagnostic skills to determine what went wrong.

Question number five, do area market specialists who are regional or local marketing managers, A support the sales efforts in high volume distinctive markets or B coordinate marketing with finance? [pause] The answer is A. Area market specialists are regional or local marketing managers who support the sales efforts in high-volume, distinctive markets.

Question number six, are the types of marketing control A annual plan, profitability, efficiency, and strategic control or B product communication and dual adaptation? [pause] The answer is A. The types of marketing control are annual plan, profitability, efficiency, and strategic control.

Now let’s try some true and false questions.

Question number seven, the marketing audit looks at the macro environment and the task environment, the marketing strategy, organization, systems, productivity, and marketing function, the four Ps. True or false? The answer is true.

Question number eight, cause related marketing can improve social welfare and create differentiated brand positioning. True or false? The answer is true.

Question number nine, the attractiveness of a foreign country is not influenced by geography income and population, and political climate. True or false? The answer is false. The attractiveness of a foreign country is influenced by geography, income and population, and political climate.

Question number ten, direct investment has currency risks. True or false? The answer is true.
Question number eleven, profitability control considers where the company is making and losing money. True or false? The answer is true.

Question number twelve, multinationals prevent the operation of gray markets by policing distributors and raising prices paid to lower cost distributors. True or false? The answer is true.

Good job!

Now you can try a few fill in the blank questions.

Question number thirteen, firms link their contributions to a designated cause in what? [pause] The answer is cause-related marketing.

Question number fourteen, a what consists of specialists such as the sales manager and marketing research manager, who report to a marketing vice president. The answer is functional organization.

That’s the end of this section.

This concludes the VangoNotes for a framework for marketing management third edition by Philip Kotler and Kevin Lane Keller

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