9 International and global brands and products

LEARNING OUTCOMES

After reading this chapter, you should be able to:

- Evaluate internationalisation strategies using OEM compared to OBM branding
- Construct a model of the main components of a brand
- Apply alternative approaches to naming and positioning brands in international markets
- Appreciate different perspectives of the nature of global brands
- Consider some key product issues across international markets

Introduction

Despite the huge focus on products and, particularly in the last decade, on brands there is much misunderstanding in this area. In various texts, branding has been discussed as part of marketing communications and sometimes as part of product management. In this chapter, branding and product issues are considered in an international setting. Ries and Ries (1998) argue that branding is the most important marketing objective of the marketing process and even that marketing is branding. Whilst this may be going too far, and while there are many uncertainties surrounding the future of branding, it remains a key issue for many firms.

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The relationship between products and brands is intriguing. Case 9.1 on JCB shows how, even in B2B markets brand and product may be treated with equal importance. However, there are many interpretations of what a brand is. Among these is the notion that a brand is a product with added values. In this way, a product only reaches its full potential to be a brand when further features and benefits have been added, but the product is still at the core of the brand. At the other extreme is the situation where a brand has been developed without any reference to a product. What is clear is that there are products and services which are not branded and brands that are not tied to particular products and services. Partly for this reason, and because branding can be considered a core strategic marketing issue, this chapter discusses branding first. On the whole, the chapter then deals with products rather than services, although branding issues apply to both. More reference to services in terms of service delivery in international and global markets will be dealt with in Chapter 12.

This chapter will explore a little further the relationship between products and brands and will discuss the planning of each in relation to international and global markets. It begins, however, by discussing whether some firms should brand their products at all in international markets. The question of whether to brand or not to brand is barely mentioned in most academic literature and yet it is a decision of fundamental importance for many firms, particularly those from emerging markets which are embarking on a process of internationalisation.

Case 9.1 JCB: 'the digger in the dictionary' global brand

Joseph Cyril Bamford launched the construction and agricultural equipment manufacturing company that bears his initials in 1945. In 1986, JCB entered the dictionary as the eponymous noun for a construction machine with a shovel on the front and an excavator arm on the back. Today, JCB employs some 4000 people and produces over 180 different models across 11 product groups and is the third largest manufacturer in the world after Caterpillar and Komatsu. Sixty per cent of UK production is exported to some 150 countries but JCB has also invested in foreign factories in India, where market share is higher than in the UK, and in the US, Brazil and China. JCB began production in Savannah, US in 2000 once sales had reached 5000 units. Conversely, production in China began in 2006 in preparation for future demand. With over 1000 dealers worldwide, JCB is a global brand which is still family owned.

Interestingly, one of the fundamental factors underpinning JCB's international growth has been the expansion of the product range which has allowed it to offer to its dealers more opportunities to sell. In the early 1990s, JCB had only 29 products but today has approaching 200. Many of these are highly innovative. Since the introduction of the world's first backhoe loader, other product innovations have included Teletruk, which was a revolution in the design of forklift trucks since its mast could reach forward rather than moving only vertically, and Fastrac, a four-wheel tractor which can operate safely at speed along ordinary roads as well as plough fields.

While JCB is clearly product driven, it is also marketing orientated, as reflected in its commitment to customers, its focus on beating competitors and the zeal with which it nurtures and promotes its brand. The Service, Parts and Attachments Division meets the demands of customers from five continents and 450 000 items are despatched every week. The World Parts Centre in the UK covers 300 000 square feet, with the parts warehouse stocking over 108 000 line items. Ninety-nine per cent of parts are despatched within 24 hours. There are also parts centres in Paris, Savannah, California and Singapore to support dealers throughout the world.

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JCB has always been image conscious and geared to exploiting PR opportunities. The famous logo first appeared in 1953 and has received minor updating since. JCB owns most of the number plate registrations between JCB 1 and 20. Its adverts are striking, always featuring a dominant photograph of a bold yellow machine and a masculine strapline such as 'Buy British Beef'. Digger demonstrations at trade exhibitions feature routines by the celebrated 'Dancing Diggers'. JCB's latest factory in India was opened in 2007 by British Conservative party leader, David Cameron, accompanied by performing elephants.

Behind the image are core brand values, which are rooted in high performance technology, stylish design, strength and hard work. Alongside these 'tough' values, JCB has also committed to a CSR agenda which includes support for charities such as the NSPCC, improving conditions in village life in India and safeguarding the habitats of wildlife in areas where it builds factories and parts centres. When natural disasters such as the Indian Ocean tsunami and the Pakistani earthquake strike, JCB often donates earth-moving machines and trains local drivers.

JCB has also innovated in component design and manufacture, having brought more of this in-house; it now manufactures diesel engines, for example. The fusion of product excellence and innovation with the brand-building skills of a top FMCG manufacturer is illustrated by the successful conclusion of the JCB Dieselmax project. Based on a standard JCB diesel engine, the Dieselmax was designed to break the existing world land speed record for a diesel-powered car. Included in the project team were Richard Noble, previous holder of the land speed record and Andy Green, the current holder, at 763 mph. This was achieved in Bonneville Salt Flats , Utah on 23 August 2006.

Capitalising on the 'masculinity' of a unique and instantly recognisable brand, JCB sells over £40 million consumer products, including leisurewear, power tools and 'toys for boys' of all ages. This brand stretch has given it access to high street retailers throughout Europe.

OEM and OBM branding strategies

As noted previously, in Chapters 4 and 7, OEM (original equipment manufacturing) branding refers to the strategy of a firm that manufactures goods and supplies them to another manufacturer, distributor or retailer for sale under the brand name of the latter. A recent example follows. In 2006, Huawei Technologies, a Chinese manufacturer of mobile phones, entered the European handset market by contracting to supply Vodafone branded 3G phones. Huawei has gained immediate access to 21 country markets, while Vodafone has reduced its costs compared to buying from Nokia, Motorola and Sony Ericsson.

OBM, on the other hand, refers to original or own brand manufacture, where the manufacturer markets under its own brand name. Please note that several writers use the term 'OEM' to refer to the Western brand owner. We have adopted the opposite approach here as the issue is being considered from the Chinese perspective and this is the nomenclature they use. A key international marketing decision for many firms is whether to internationalise on an OEM or OBM basis or whether to conduct both OEM and OBM business. If marketing on an OEM basis, the subsidiary decision is whether to market to a competitor manufacturer, a manufacturer of complementary products with appropriate marketing channels already established, a distributor or a retailer. Turkish white goods manufacturer Arcelik makes refrigerators and ovens for sale under its own Beko brand names, and also for sale to competitor manufacturers under their brand names and for sale direct to retailers under brand names that the retailers own (Quelch, 2001).

The OEM plus OBM option has the advantage of taking two bites at the market but raises the danger of the firm's strategy not being clear and also of inducing conflict with existing global brand owner (**GBO**) customers, if the same strategic business unit (SBU) is engaged in both

types of activity. This is because OEM requires an emphasis on low costs, while OBM requires additional expenditures usually necessary to create differentiation.

The managerial skills and employee attitudes are also necessarily different. The Taiwanese laptop computer firm Acer resolved the issue by deciding to focus on R&D and marketing and outsource its manufacturing to other OEM firms. A different approach was taken by Asus, which has now overtaken Acer as the market leader in Taiwan. It allocated its OEM business to a wholly owned subsidiary. Nevertheless, other Taiwanese firms such as Arima, Clevo, Elite and Twinhead continue to house OBM and OEM business in the same organisation (Yang, 2006).

A firm with an unknown brand name, perhaps based in a country with negative country of origin (COO) cues, will find it difficult to market to foreign countries. OEM branding is one strategy which by-passes these hurdles. It reduces the costs of marketing dramatically and endorses the product with the customer's brand name. Very importantly, the product is sold through the customer's already established marketing channels. There may be further advantages for the contract manufacturer if the customer provides assistance with technology or perhaps insists on quality controls which improve the manufacturer's quality standards.

Large-volume orders with programmed delivery schedules may also result in the manufacturer being able to sharpen up their processes so as to further reduce costs and become even more competitive. Relationships built will increase the manufacturer's learning about its customer and their markets. Ultimately all this learning, together with the credibility and references resulting from having already sold in the market, will make it much easier for the manufacturer to later supply the market on an OBM basis should it wish to.

This critical decision is one facing a number of emerging countries at this time. In 2002, the China Brand Strategy Promotion Commission was established to help advance top Chinese national brands. The reasons are clear. According to the *Business Week* 2003 Global 1000, the world's top 100 consumer and retail goods brands which rely on overseas production achieved sales of US$3500 billion and profits of US$228 billion. By contrast, the top 100 OEMs in the Asia-Pacific region, which supply those companies, achieved a sales turnover of only US$84 billion and profits of only US$14 billion. On average, the gross margin on OEM products was 19 per cent, while on OBM goods it was 27 per cent (www.chinadaily.com).

However, the costs of switching from OEM to OBM must not be underestimated. For example, the possible additional costs – both monetary and time – incurred in building a brand overseas, compared to contract manufacturing on an active or passive exporting basis are likely to include R&D, product development, name search and registration, international market selection, market entry mode selection, market supply (e.g. a sales subsidiary), marketing channel selection and management, marketing communications and marketing planning.

Wreden (2005) claims that many Asian firms considering switching from OEM to OBM need to develop a better understanding of branding and to see it as an investment rather than just a cost. He suggests that they tend to equate branding with advertising, rather than seeing it as the building of emotional and experiential relationships with customers.

Distribution is also a particular problem for new brands. In mature markets, intense competitive pressure makes product placement difficult. In emerging markets, the possible lack of a channel infrastructure makes marketing difficult. One Asian firm which has successfully made the transition is Samsung. An indication of the expenditure involved is provided by the following figures. In the late 1990s, Samsung is reputed to have spent more than US$7 million on R&D and more than US$1 billion on marketing communications.

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As well as the additional costs and benefits related to an OBM strategy, there are significant risks associated with an OEM strategy. A firm which supplies to other manufacturers or direct to other large customers will in general be marketing a larger volume of sales to a smaller number of customers. The loss of any such business, whether brought about by customer decline or a change in sourcing, could therefore have a major impact. Lee and Kim (2004) suggest that because they did not shift from an OEM to an OBM strategy, Korean toy producers have all but disappeared. From 700 OEMs a few years ago, only OBM Aurora and two others remain. They could not compete with Chinese OEM producers. A second risk is that low-margin business coupled with a possible reliance on the customer for product improvement means the manufacturer will lose the ability to create and maintain a product edge and become dependent on low prices for winning orders. Nevertheless, for some firms, the OEM approach may remain the best strategy. Even so, firms can still choose to use both OEM and OBM strategies. They can try to avoid conflict with existing customers by moving into new product sectors or segments and geographical markets which have not been pursued by their GBO customers (see Chapter 4).

Example 9.1 Galanz's OEM strategy

Chinese firm Galanz has successfully globalised, initially through an OEM strategy. In 1992, Galanz began making microwave ovens, targeting existing GBO manufacturers that wanted to lower costs without incurring the expense and risk of establishing their own factories in low-cost locations such as China. Galanz gained 70 per cent of the Chinese and 30 per cent of the global market. Galanz has subsequently added other home appliances to its product range but has now also begun to market microwaves on an OBM basis. Interestingly, it chose to begin this process in South America.

Source: Adapted from Gao et al. (2004))

Current stages theories of internationalisation ignore developments in branding strategy, which, particularly for firms from emerging markets, can be a crucial part of the process. It is frequently the OEM role as a contract manufacturer to foreign customers that introduces them to international markets. The learning from this experience and the desire for control encourage the shift to OBM. Although firms can shift from OEM to OBM without any reference to internationalisation, the process is often stimulated by the profit pool available in world markets, as well as the fear that there will always be lower cost competitors elsewhere in the world who can steal customers in what are essentially commodity markets. It can thus be seen that the OEM–OBM branding strategy choice and development is bound up with the process of internationalisation and is a key part of marketing strategy.

Task 9.1 OEM or OBM international market entry

You are marketing manager for an Indian firm manufacturing shirts. You have been approached by both an Australian retailer and an Australian shirt manufacturer to supply them on an OEM basis. Although you do not currently sell in Australia, you have considered trying to sell your own brand in the past in this market. Evaluate the advantages and disadvantages of proceeding with either an OEM option or of developing an OBM strategy in this case.

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Brands in an international context

As noted above, there are some doubts as to whether all firms are best advised to build brands. Viewed from the consumer's perspective, there may also be some doubts about the relevance of brands to some consumers in the world's poorest countries. Brand consciousness may not develop until income levels per head reach certain levels. Thereafter it is likely that attitudes towards brands change as income level rises, e.g. initially consumers buy particular brands to emulate people in richer countries but later they consume particular brands for variety and differentiation. Of course, even in the poorest countries, there will be niches for global luxury brands.

Research International Observer (*RID*) (2002) suggests that the role of brands differs in different parts of the world. The implications for marketers are that it may be necessary not only to adapt certain brand elements such as brand positioning but also to offer different brands specifically designed for the needs of mass markets in particular countries. In markets including parts of Africa, India and China, the main purpose of brands, according to *RIO*, is to reassure consumers of product quality, whereas in the more developed world, they may be used to demonstrate affiliation to a lifestyle group. Finally, amongst more urbane consumers in the developed world, brands may be used for personal projection. All these market characteristics can be discussed in terms of cultural dimensions. Reassurance is needed in high uncertainty avoidance cultures. Individualism is a precursor to personal projection, for instance.

Whilst the broad differences noted above provide a useful background to the study of brands in international contexts, some international marketers will need to take a very much closer look at the meaning of their brands in foreign countries, particularly in countries where there is significant social and cultural change. Tse (1996) suggests that, for example, in China, brands have a social function in that consumers use them in building social relationships and try to match status with appropriate brands. In highly collective cultures, brands will be used to display status to the community as an outward sign of doing well.

Eckhart and Houston (2002) found that the seating arrangements, menus and brand symbolism of McDonald's restaurants in China could lead to either positive or negative evaluations of the brand, depending on the way they were being used, even for the same people. Thus, as examples, the seating allows privacy for young couples whilst enjoying the status of being observed, but it allows too much noise from outside the group to be appropriate for more traditional family gatherings. The menus are good for demonstrating modernity but may result in loss of face for a family celebration. Foreignness may be 'cool' in one situation but inappropriate in another.

Modelling brands

De Chernatony and Dall'Olmo Riley (1997) have drawn attention to some of the different interpretations of a brand found in academic and trade literature. For example, a brand can be primarily viewed as a differentiating device, legal instrument, an identity system, an image, a personality, a relationship with consumers or a product with added value. To some extent, differences in emphasis reflect the fact that some brands relate to products which are mainly functional, while others have more of a self-representational role. There are also major differences in interpretations of brands amongst consumers, branding consultants and brand

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managers and significant differences of viewpoint expressed within each of these groups. Some definitions emphasise tangible brand aspects, such as visual features, while others focus on intangibles, such as values and vision.

De Chernatony and Dall'Olmo Riley conclude that a brand is a complex entity involving values and personality features. Simeon (2006: 464) defines a brand as a: 'consistent group of characteristics, images, or emotions that consumers recall or experience when they think of a specific symbol, product, service, organization or location.' This is a nice approach but ignores the impacts of the digital age and cultural differences on this consistency. For example, Bueno (2001) suggests that media fragmentation makes consistent brand meanings impossible. Indeed, they may not always be desirable. Certainly, as discussed later in the chapter, consumers in different countries may attach different meanings and associations to the same brands. On top of this, the power of individual consumers and consumer lobbies, harnessed through the web, has meant that brand meanings are influenced by them as well as the actions of the brand owners.

Sometimes the effect is negative but sometimes it raises and enhances brand awareness and image. International marketers can, of course, stimulate the formation of online brand communities in order to help shape brand positioning and personality. Italian scooter manufacturer Piaggio's US subsidiary has recently been encouraging US Vespa brand enthusiasts to establish two blogs, one aimed at celebrating the Vespa lifestyle and the other covering life issues in general.

Broadbent and Cooper (1987) describe the ingredients of a brand as consisting of the product, imagery associated with the product, user and occasion, when and where the product is used and the consumer themselves. Example 9.2 shows how this might apply to a long-established brand in a new market.

Example 9.2 **Bentley motor cars in China**

Bentley product imagery might be typified by hand-stitched leather upholstery and steering wheel covers. User imagery might be more difficult to define today than in the days of the 'Bentley Boys', hard-living, fast-driving celebrities of the 1930s, who were inextricably associated with wine, women and song, but David Beckham would be a modern-day equivalent. Occasion imagery for the Bentley Continental might be typified by famous footballers going to training. In terms of the consumer as an integral part of the brand, according to Bentley Beijing, people look at a Ferrari, but with a Bentley they also want to know who is inside.

Source: Wilson (2005)

In an alternative brand model, Hankinson and Cowking (1993) write that a brand is a product or service distinguished by its relative competitive positioning and its personality. Their interpretation of positioning is that it is determined by price and product usage. Price is certainly crucial in positioning cars. Interestingly, in China, the extra long Bentley was priced at 8 888 888 yuan. The strategy was based on two premises. First, in a market where status is important, there would be advantage in making Bentley the highest-priced brand in the market. Second, the number '8' is very auspicious in China, being associated with great prosperity.

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Product usage also has an important role to play. In China, the Bentley Continental will typically be used at weekends for fast driving or for going to the golf course.

The personality dimension of Hankinson and Cowking's model, perhaps unusually, consists of functional attributes as well as symbolic values. Thus, the personality of the brand would consist of the acceleration and luxury as well as sportiness in the case of the Continental. A different view of brand personality is expressed by Van Gelder (2003), who writes that brand personality is an assembly of the brand's underlying character or a transfer of user imagery. He suggests that it is shaped by the personality of a company's founder, as well as by organisational culture, history and structure.

Kashani (2000) proposed a model of brand building which referred to anchor values, customer value proposition (CVP) and positioning. Anchor values provide a blueprint for building a brand. The anchor values are translated into CVP, which provides customers with functional and emotional reasons for buying the brand.

Brand positioning

Brand positioning is a complex concept with many more interpretations than that provided above. The idea of positioning was promoted by Ries and Trout (1986), who said that it involved associating the product uniquely with a particular consumer benefit, and also against the competition, and that the choice of an appropriate brand name was crucial to this process. An influential paper by Aaker and Shansby (1982) echoed this approach. They said that brand position differed from brand image in that it implied a frame of reference, the reference point usually being the competition. They suggested six ways in which a brand could be positioned: by emphasising an attribute such as a product feature or benefit; by claiming a particular point on the price–quality continuum; by suggesting a product usage occasion or application; by suggesting particular types of users; by association with or differentiation from a particular product category; and by implicit or explicit comparison with competitors.

As noted in Chapter 6, it is sometimes necessary to re-position a brand. An example of re-positioning by emphasizing a different brand benefit is shown in Example 9.3.

Example 9.3 **Philips repositions with a new brand slogan**

Dutch electrical group Philips realigned its brand positioning in 2004, when President and CEO Gerard Kleisterlee claimed that Philips was not the only technology company to emphasise the need for simplicity but it is the first to take action on this basis. The previous Philips slogan was 'Let's make things better', which itself had succeeded 'Simply light years ahead'. The new positioning is captured by the slogan 'Sense and Simplicity'. Philip's target audience was described as affluent decision makers in the 35–55 age range and A/B+ social category, who dislike the unnecessary hassle often associated with new technology.

Source: Adapted from 'Philips realigns around new brand promise', www.philips.ca)

There are, however, other dimensions that could form part of a brand's positioning, for example country of origin, culture and heritage. These have particular significance in international marketing.

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Brands and Country of Origin

Country of origin (COO) was originally defined by the 'made in' label but now is a more complex issue. Products may be designed in one country and assembled in another from components sourced from yet other countries. Superimposed on this is the question of COO brand and COO design ownership as distinct from COO manufacture. COO also can mean the country where the product brand is conceived, where the company's HQ is located and/or the country with which the firm is associated.

Some studies have examined the importance of COO as a cue for quality (Al-Sulaiti and Baker, 1998). The important link between COO's impact on brand and product image is its connection to consumer attitudes, opinions of the product and brand, and ultimately willingness to buy. However, this is not to assume that, in all cases, planning market entry with an existing domestic brand will be dictated by COO cues. Many countries are not perceived to have COO effects on products and, in other cases, other factors will be more important. For example, in a study of the impact of changing the COO of a product, Broderick et al. (2004) found that brand values had more influence on brand perception than COO cues.

Many academics are divided over the impact of COO. Whilst some argue that a product's COO influences consumer evaluation of it, others argue that, in an age of globalisation, the COO manufacture takes on less significance for known brands particularly if the brand continues to have strong links such as head offices in the home country. Others argue that certain products classes are associated with particular countries, and consequently customers instinctively make judgements about product quality based on the COO cues. The impact on consumers would seem to depend on such factors as:

The type of product and the importance of functional quality and features
The perceived reputation and capabilites of the COO
The strength of the association between product and COO
The type of brand and its associations in different markets
The degree of consumer clarity about a brand's COO
The relative importance of brand values and COO cues

Where COO is being changed from one country to another, the perceived reputation and capabilities of the new COO in relation to the product class will also impact on consumer attitudes and behaviour.

To launch a brand in a foreign market means deciding whether to portray the brand as local, global or from one of its origins associated with the product capability. Alden et al. (1999) suggest that brands can be positioned in one of these three ways based on consumer culture (ccp). Local (Lccp) is where a brand is associated with the local culture of the destintion country. Kelloggs and Ford (US) have successfully established themselves as British products. This is particularly the case when branded products are produced in the destination market.

Foreign (Fccp) is where the brand is associated with a relevant country other than the destination. It could be the COO or a third country. Cartier is French and Gucci is Italian and both are positioned in foreign fashion markets as representing brands from expert COOs. Global (Gccp) is where brand associations are based on globally shared meanings and reinforce buyer self-image as cosmopolitan and modern. Brands in this category include Coca-Cola, Nike and Sony.

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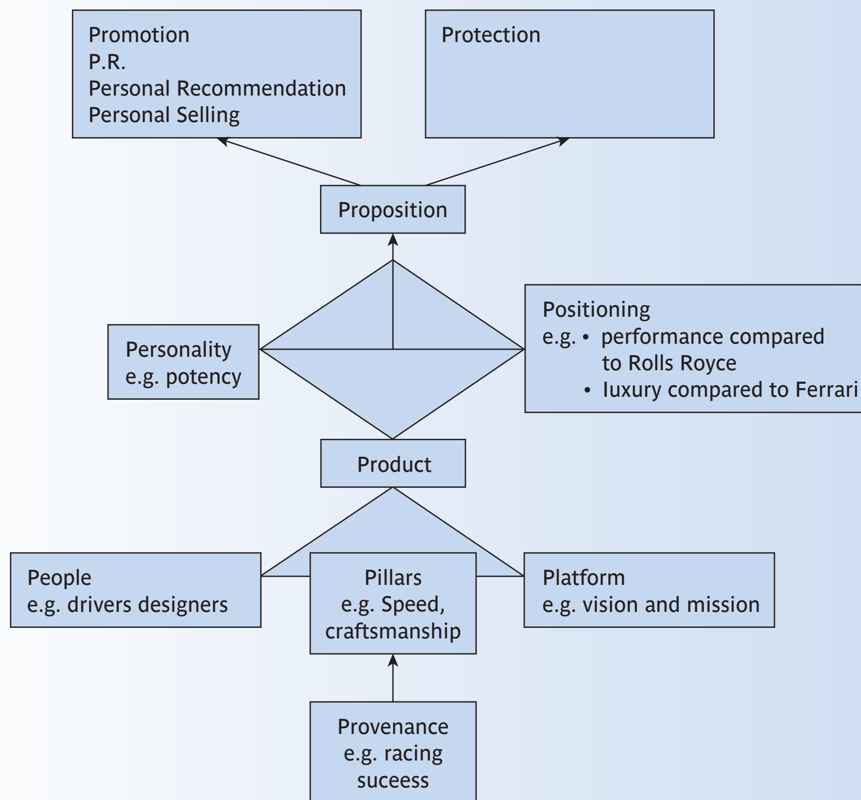
With increasing internationalisation, the number of situations involving changes in COO, whether referring to product brand ownership, conception, production or general associations, is increasing. Case 6.2 on Wedgwood is an example.

Task 9.2 Does Perrier water have to come from France?

Over recent years there has been much speculation as to whether Nestlé would transfer production and bottling of Perrier water from France to Eastern Europe or other lower cost locations. Analyse the country of origin (COO) and country of ownership effects and the likely impact you expect these to have on brand image and sales in (a) France and (b) international markets.

The figure in Task 9.3 serves as a model for the main components of the Bentley motor car brand. It should be noted that these inputs define the brand's **identity**, which may, however, be different from the brand **image** as perceived by consumers in different countries. To some extent brand image can be shaped by the brand owner, but it will also depend on knowledge and experience of the brand that consumers living in different cultural and competitive contexts have. This topic will be discussed later in the chapter.

Task 9.3 A model of the Bentley brand



Questions

1. Using the text so far, other sources and your own ideas, develop your own brand model for several brands of your choice. Ideally, you should include B2C, B2B, SME, service and online brands, and explain how you would expect the components of these to differ from the Bentley example (see Example 9.2).
2. Highlight the elements in your model that you think will need adaptation when marketing the brand in foreign countries.
3. How important do you think British manufacture is to the brand's success in India, Russia, China and the US? How do you think German ownership impacts on the brand?

Country branding

It is clear from the above discussion that a country's image can have a significant impact on the perception of product brands associated with it. France's association with luxury is matched by Germany's with engineering excellence and both country images help their respective product brands. Recognising this, and recognising that countries themselves are brands, leads to the conclusion that a country may need to develop suitable brand positioning. Based on its expertise in theatre, music and the arts, the UK tried to position itself as 'Cool Britannia', but found that this, while possibly helpful for encouraging inward tourism, was not necessarily an appropriate association for British engineering firms. In its bid to attract more foreign investment and to improve the status of Indian brands, India is positioning itself as, 'The world's fastest growing free market democracy'. This has one of the hallmarks of good positioning in that it clearly distances India from China, its BEM rival.

An improving country image will lead to an improving product brand image, where product capability is encapsulated in the positioning. Interestingly, the inverse is also true. Successful product brands cause consumers to re-evaluate the countries they emanate from. Anholt (2003) has proposed that the development of OBM marketing in less-developed countries will not only provide the benefits of higher prices and margins, greater consumer loyalty and more bargaining power with intermediaries but can also impact favourably on the COO of these brands. In this way, such countries may be able to stimulate a virtuous cycle in which strong OBM brands are part of a planned programme to support the country brand, which in turn supports product brands.

Brand name

For some authors, the naming decision is the most important one that marketers have to make (Ries and Trout, 1986). One reason is that, in many cases, the brand name is central to communicating the product's positioning and personality (Hankinson and Cowking, 1993). Other reasons include the impact of the name on consumers' ability to recognise, pronounce and remember it (Kotler and Armstrong, 1997) and to convey feelings by semantic associations (Collins, 1977).

Chan and Huang (2001) proposed that brand names should meet marketing, legal and linguistic criteria. They suggest that the linguistic criteria can be split into three components.

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Phonetically, brand names should be easy to pronounce (and in only one way across different languages), and pleasing when read or heard. In terms of semantics, names should be positive, contemporary, understandable and memorable. As to morphology, brand names should be short and simple.

Hart (1998) believes that the brand name is so important that it should not be changed, so requires very careful thought in the first instance. Ironically, today, brand names do seem to be changed frequently and it is the price paid to change a brand name as well as to acquire brand names that illustrates the value placed on them. An MNC will consider buying companies with established brand names as a way into the market. The local brand name is an important asset and ensures continuity of attitudes by consumers in that market.

The pressure to standardise brand names across international markets is intense. They include lower packaging and marketing communication costs; the advantages for global customers of being able to obtain preferred brands overseas; and the increase in the value of brands seen to have global reach. However, there are a number of obstacles to achieving this.

First, a brand name used in a domestic market may not be available in foreign markets because it has already been registered by a competitor in the same product category or by a brand owner in a completely different category. Second, an associative brand name may not be appropriate if those associations are not relevant in a foreign market. This could occur if the market has not developed as far or has developed in a different way. Third, the name may have meanings in a foreign language, that are quite different to those intended. Fourth, the name in a foreign language may not prompt fast and accurate recognition, be easy to pronounce or be memorable. Fifth, some international market expansion strategies call for the acquisition of existing brands and the benefits of retaining the existing brand franchise have to be weighed against those of replacing it with an existing name or even developing an entirely new name. If a firm joins a joint venture, the corporate brand name will generally reflect this. Sixth, some firms may wish to use a different name when they enter a new market in order not to carry over brand associations from the home market. There is also the possibility that, if a brand fails in a new country market, this will damage its position in the original country. To avoid this possibility, a different name may be chosen.

The naming decision facing international and global marketers breaks down into three basic options (McDonald and Roberts, 1990): localisation, standardisation or some combination of the two (adaptation). Each of these alternatives itself can also be associated with localisation, standardisation or an adaptation of both, or either, the product and the brand positioning. The general problems of brand name selection for foreign markets may be exacerbated in particular cases. See Example 9.4.

Example 9.4 **Naming brands in China and the Far East**

Western firms marketing to China and other countries in the Far East with similar language and writing styles may face brand naming problems. These countries and cultures use symbols and language so that names are constructed from meaningful words and include tones which are integral to the meaning. Also, their logographic style of writing has very different characteristics to other alphabets. In China, it is also legally required to have a character name.

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Another key issue is whether to transliterate or translate. The problem for foreign firms lies not only in finding a local name that has meanings relevant to the product, but also one that, ideally, conveys characteristics valued by the culture. For example, Confucian and Buddhist values, favoured by many cultures in this region, include goodness, luck, happiness, long life, prosperity and historical significance. There is a pre-occupation with lucky and unlucky numbers in many of these markets that means care has to be taken to ensure that any numbers in names are auspicious. In the Asia-Pacific region, folklore, taboos, superstitions and religious connotations conveyed by colours, numbers and symbols are important aspects to research when choosing a brand name.

Source: Adapted from Ang (1997), Chan and Huang (2001), Leventhal (1996), Lin (1994) and Tavassoli and Han (2002))

Wilson and Huang (2003) conducted research amongst a group of students in China to test their reactions to five alternative Chinese naming strategies for each of six imported wines. One example is shown below, where the original foreign name is 'Blue Nun':

– *Transliteration* Chinese characters sounding most similar to the foreign pronunciation of brand name without meaning in Chinese, e.g. *bu-lu-nan* for Blue Nun.
– *Transliteration with positive connotation (TPC)* Chinese characters sounding similar to the foreign pronunciation of brand name with positive meaning in Chinese, e.g. *pu-lu-nong*, which is similar to Blue Nun and means nutritious dew.
– *Translation* Meaning of the foreign brand name converted into the same meaning in Chinese (with a connotation of the generic product category where appropriate), e.g. *lan-ni* for Blue Nun, which is a direct translation of 'Blue Nun'.
– *Translation plus transliteration with positive connotation (TransTPC)* A combination of Translation and TPC, e.g. *Bi-lu* for Blue Nun, in which, *bi-lu* takes the pronunciation of Blue. At the same time, *bi* is the translation of blue and *lu* means dew (which has a positive connotation in Chinese).

The clear favourite was the translation plus transliteration plus positive connotation option, demonstrating the need to take account of a wide range of factors if naming strategies are to be helpful to brand success.

Global brands and the standardisation–localisation debate

A key issue in taking or maintaining brands overseas is the extent to which they can or should be standardised. The arguments for standardising brands across countries are largely based on two issues. First, the reduction in production and marketing costs they may allow. Second, the prevention of ambiguous brand positioning which may then result in consumer confusion and brand image dilution. The case against standardisation rests on two premises. First, that while human needs are universal, the expression of those needs is so significantly influenced by cultural differences that standardised brands cannot effectively cope with the variety. The second premise is that in order to avoid the largest dangers of standardisation, brands and

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particularly their communication are reduced to a lowest common denominator, which results in a lack of clarity and impact.

According to *RIO* (2002), the extent to which global brands need to be localised depends on, amongst other things, the nature of the brand. *RIO* has identified four types of brand:

- *Master brands*, e.g. Sony, Nike and Nokia are the original and genuine article. They are described as innovative, relevant and immortal, appealing to both the need to conform and, through limited editions or bespoke products, the need to stand out.
- *Super brands*, e.g. Gillette and Ford are high performing global brands but not always perceived as the original item.
- *Glocal brands*, e.g. Nestlé, Kleenex and Philips are seen as trustworthy but not relevant in an expressive sense. Although global, they are often perceived in individual country markets to be local.
- *Prestige brands*, e.g. Gucci and Mercedes, confer status. Their role is very much expressive and they are often built on provenance.

Master and prestige brands require the least degree of localisation and so are most amenable to a standardised global brand strategy.

Task 9.4 Global brand names

Marieke de Mooij (1998) has suggested that certain conditions favour the development of global brands, including:

- A brand whose identity is grounded in the product and its roots.
- A brand which bears the name of the creator.
- A brand built around a cultural stereotype.

Discussion questions

Find examples of global brands from the five continents.

1. Do they meet these criteria? If not, what else makes them so universally acceptable.
2. Would you add any other conditions to the list?
3. Do you think any of the three criteria above are irrelevant?

Give reasons for your answers.

Notwithstanding the above, the literature on global brand definitions is ambiguous. Johansson (2000) suggests that global brands are well known throughout the world's markets. Cateora et al. (2000) emphasise the visual aspects of branding by describing a global brand as using a recognisable name, term, sign, symbol, design or combination that identifies one company's products or services and differentiates them from those of competitors. Keegan and Green (2005, p. 333), explain the perspective adopted by most marketers, as 'having similar image and positioning throughout the world', a slight modification from an earlier description as 'positioned the same in every market and follows the same marketing approach in every market with the caveat that the marketing mix may vary'. Marieke de Mooij (1998, p. 16) has

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extended this perspective by defining a global brand as 'one which shares the same strategic principles, positioning and marketing in every market throughout the world although the marketing mix can vary. It carries the same brand name or logo. Its values are identical in all countries. It has a substantial market share in all countries and comparable brand loyalty. The distribution channels are similar'.

Knox (2000, p. 81–2), on the other hand, writes that 'Successful global marketers tend to standardise only the core elements.' For example, Bacardi, a premier global spirits brand, standardises its product formula, packaging and brand name. Its brand positioning, advertising, sales and pricing are adapted to local conditions. This suggests that, while positioning is still important, it is not a core part of the brand, and that adapting positioning between different country markets does not mean the brand cannot be considered global.

Wilson (2000) found that Coca-Cola was positioned differently in the minds of students of different nationalities, whether positioning was viewed in terms of COO, motivation for consumption, or the individual or social usage occasions on which it was consumed. It was nonetheless considered to be a global brand.

In their study of the relationship between brand meaning and a foreign traditional culture, especially where that culture is opening up to change, Eckhardt and Houston (2002) found that Chinese consumers could perceive the McDonald's experience in a positive or negative light. For example, in a family birthday celebration situation, the social space aspects of the restaurant can be perceived negatively. Compared to a birthday party in a Chinese restaurant where families are given their own section or room with special food and drinks, the McDonald's situation is too public. Also for an important occasion, McDonald's is not expensive enough and the host would lose face.

In a different scenario the two-person tables in McDonald's allow a young couple to be alone yet within what may be a noisy public space. It may provide the additional benefit for the male partner of allowing him to be seen on a date and the prestige associated with celebrating in a foreign style. In contrast, research has found that females in Shanghai and Bejing ordering in McDonald's alone have found it an empowering experience in a country where men normally perform this role (www.agsm.edu.au).

In a study of the way brand equity is built for motor cars, and of the extent to which it differs across four Latin American markets, Campana Carramenha (1999) concluded that brands attain their own individual personalities over time that are partly a result of the market context, so that one global brand positioning strategy is not strong enough to achieve success in all markets. Aaker and Joachimsthaler (1999) make a similar point about the Honda brand: it means quality and reliability in the US but speed, youth, and energy in its home market of Japan.

A further complication in international marketing is that consumers in different countries may attach different meanings to what are ostensibly the same attributes. In a positioning study for BMW, for example, Kern et al. (1990) found that customers from different countries who were seeking *exclusiveness* differed in how they expected this to be manifested in a car. Thus, Dutch customers looked for intrinsic qualities such as solid interior fittings, while Austrians attached more importance to external presentation.

The world's best global brands

Interbrand conducts an annual study of changes in the value of the world's best brands. Value is defined as the net present value (NPV) of the expected future earnings of the brand. These are

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obtained from a variety of sources, including published accounts, financial analysts' reports and market research organisations. Since brand is only one of several drivers of consumer behaviour, Interbrand estimates the role of the brand in each case. For example, where it believes brand is a key purchase criterion, such as in fragrances, it might use a high percentage of intangible earnings in its valuation. Where other factors are more important, such as Microsoft installations which make software change difficult, the brand valuation will be lower. NPV itself is calculated by a discount rate that reflects both the time value of money and the risk that the forecast earnings will not materialise.

In order to qualify for Interbrand's study, brands have to meet the following criteria:

- More than one-third of sales outside its home market.
- Available in many countries.
- Seventy per cent of the brand must be consistent and 30 per cent flexibility allowed between markets.
- Availability of public financial data for commercial organisations.

According to Interbrand, the best global brands share the following characteristics:

- High recognition amongst consumers and opinion leaders.
- High degree of standardisation of visual, verbal, auditory and tactile identity, but with appropriate adaptation.
- Strong emotional resonance which cuts across cultural differences.
- Unique positioning.

Task 9.5 The world's best global brands

Visit www.interbrand.com/surveys.asp and analyse the rankings of the world's best global brands.

Discussion questions

1. To what do you think they owe their position?
2. How vulnerable are they and what may undermine them?
3. Analyse the top brands in two different countries and consider their chances of becoming global brands. What barriers/impediments may they experience?

International brand portfolios

Many of the world's largest companies own a large number of brands in a number of countries, a position that can be developed in a variety of ways. For some firms, the principal route to brand internationalisation has been to take an existing brand to foreign countries, perhaps with some degree of adaptation. According to Barwise and Robertson (1992), this method of *organic geographical extension* is slow, requires a medium level of investment but offers high control.

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A second associated route is to develop new brands with a world market in mind and then to expand in the same way.

A third route is by forming *foreign brand alliances*, which offer a combination of moderately speedy expansion, low investment but also low control. One example is Cereal Partners Worldwide, which is an alliance between Swiss Nestlé and American General Mills, one objective of which was to use Nestlé's strength in the Chinese market to boost sales of breakfast cereals. This type of strategic alliance was also discussed in Chapter 7 as a form of market entry mode strategy.

A fourth route is *foreign brand licensing*, whereby a firm can pay a fee to use an available brand name on particular products for sale in eligible markets for a specified period. In recent years, some Asian brands have used this strategy to allow them to use recognised, but often redundant, western brand names to help their sales in Europe and the US. In a combination of the third and fourth routes, the Sunrise alliance between Dutch Heineken and Danish Carlsberg has recently acquired UK brewer Scottish and Newcastle. This has strengthened Carlsberg's position in Russia, France, Greece, China and Vietnam, and Heineken's leadership in Europe.

A fifth route is the *acquisition of foreign brands*, which has the advantage of speed but requires high investment costs and offers only medium control since it is usually difficult to fully integrate acquisitions in terms of values, cultures and systems. The acquired brands may then either be left alone or adapted. Increasingly, Asian firms are now acquiring western brands. A recent example is the Indian conglomerate Tata, which acquired the Jaguar and Land Rover brands from Ford, thus providing it with credible offerings in the luxury vehicle sector and an instant presence in many country markets. Again, when used to enter a foreign country, this is an investment form of market entry mode strategy.

Several firms which have grown extensively by acquisition have found that many of these brands do not have an identifiable role in the total portfolio. In 1999, Unilever began a programme of culling over 1000 brands which did not meet criteria it established in terms of current and future brand appeal and scale to justify large investments in technology and communication. The remaining 400 brands were classified into three types (www.unilever.com):

- International brands with a common appeal to consumers in many countries, enabling standardised brand positioning and advertising campaigns. Examples include Lipton tea, Magnum ice-cream, Dove soap and personal care products, Omo fabric detergent, CloseUp toothpaste and Calvin Klein fragrances.
- International brand positionings, where the marketing mix is focused on achieving the same consumer positions, but where the brand names, for many reasons, are different. Examples in foods are Becel (Germany, Netherlands) and Flora (UK), spreads which are both positioned in the heart-health segment. Also, PG Tips (UK), Bushells (Australia), Home Cup (Africa) and Ting Hua (China) are all positioned as the archetypal tea brand in their particular market.
- Local jewels, which are brands with a strong and often unique position and generally a long history in particular countries or regions. Examples are Oxo stock cubes and Persil detergent (UK), Wishbone salad dressing (US), Joko tea (Africa) and Unox and Andrelon shampoo (Netherlands).

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The objective of this so-called Path to Growth programme was to focus attention on the brands with the best prospects of delivering faster growth and better returns to shareholders. Brands can be expected to be shifted amongst the above categories as circumstances change. For example, CloseUp, whose large markets include India, Indonesia and Nigeria, was expected to be re-classified from an international brand to a local jewel (www.thehindubusinessline.com).

Electrolux is another firm which has recently culled brands and is shifting more business through its master brand. In 2000, the Electrolux brand accounted for 10 per cent of sales but by 2006 this proportion had reached about 50 per cent. However, Electrolux still retains a significant number of other brands which have strong positions in particular geographical and product markets. Straberg (quoted in Knudsen, 2006) claims that the development of the Electrolux global brand has brought about a strong corporate culture within the group.

Brand protection

Clearly, much focus is on brand growth in international markets, but at the same time attention to brand protection is very important. Action to safeguard the brand's intellectual property and its meaning and value for customers can be taken in a number of ways and is crucial when marketing on an international scale. Here, we shall consider the protection of brand names and geographical indications and the problems of counterfeiting. Chapter 8 considered the issue of parallel importing, which can be a major challenge to brand planning in international markets. Any action taken to curb or mitigate the effects of parallel importing are therefore also important elements in protecting the brand.

Brand name ownership

The high cost of developing new products and brands implies that care needs to be taken in registering ownership of these. Equally the acquisition or sale of existing brands requires care. For example, when VW acquired Rolls-Royce Motors, most commentators believed that it was buying both Bentley and Rolls-Royce. However, the Rolls-Royce brand name belonged to a different part of Rolls-Royce and it was sold separately to BMW. In another motor industry case, there was confusion when Chinese Nanjing Automotive purchased the famous old British MG brand. MG Rover Nederland claimed to own the rights to sell MG in 14 European countries, plus Morocco. In an interesting aside, whilst the MG name derived from Morris Garages, Nanjing wants MG to stand for Modern Gentleman in China.

The role of geographical indications (GIs)

An increasing number of firms, particularly in the European food and drink industry, are attempting to develop, underpin and protect *brand positioning by place* by securing GI status for their products and brands. The GI system has three slightly different classifications (www.foodnavigator.com):

1. **PDO** (Protected Designations of Origin) is where the characteristics of a product essentially or exclusively derive from a particular geographical environment, including its natural and

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human factors. An example is French Roquefort cheese, which must be produced, processed and prepared in a given area using a specified method.

2. **PGI** (Protected Geographical Indication) is where a product has a specific quality, reputation or other characteristic attributable to that geographical region. An example is Newcastle Brown Ale from England, where there is a link between at least one stage of production, processing or preparation and the place, region or country of origin.
3. **TSG** (Traditional Speciality Guaranteed) refers to a traditional composition or traditional method of processing or preparing a product, as in the Belgian cherry-flavoured beer.

Perhaps the best-known and most frequent users of the GI system have been the producers of the French champagne industry, which claims that in the US, for example, as much as four times as much sparkling wine incorrectly labelled 'Champagne' is sold as real champagne made in Champagne, France. The French industry has been ruthless in its political and legal battles to protect the name of champagne from usurpation by both foreign wine producers and makers of non-wine products (www.champagnemagic.com). In 2003, a new weapon was added to the armoury. A consumer advertising campaign incorporating five book mark-sized teasers have posed such questions as, 'Washington apples from Nevada?' and 'Alaska salmon from Florida?'. The questions are answered in full page adverts explaining why champagne can only come from Champagne (www.champagne.fr).

Licensing brand names

Care when licensing out and a planned approach to brand extension and stretching are key to brand protection in general but they can have particular applications in international marketing, as Example 9.5 shows.

Example 9.5 Michelin Lifestyle Ltd

Michelin Lifestyle Ltd (MLL) is a subsidiary of the Michelin Group. It was created in 2000 in order to enhance the image of Michelin and extend the brand into new products and services at the same time by licensing out its name. Today, MLL has 75 licensing partners around the world and over 30 000 points of sale in over 85 countries. Products need to be innovative and include automotive accessories, clothing for work and leisure and gifts based on Michelin's heritage. Michelin inputs all stages of product development and marketing. MLL licensees are selected on the basis of their commitment to the brand, quality of products and processes and the strength of their marketing and distribution.

Counterfeiting

Whether in B2B or B2C, counterfeiting is a major challenge to big brands. For example, the World Customs Organisation estimates that around 200 billion counterfeit cigarettes are produced each year. Many of these are made in China, resulting in lost sales by brands such as Philip Morris in both China and European markets. Poor product quality also disappoints

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consumers and leads to a decline in brand image. International marketing is a stimulus to counterfeiting in that it makes the profit opportunity more obvious. Conversely, the possibility that products may be copied is a significant disincentive to market to such countries as China, which is believed to produce two-thirds of the world's fake goods.

Some estimates suggest that counterfeits may account for around 10 per cent of China's GDP. The range of counterfeit products varies from Nike shirts, Prada handbags, Gillette razors, Galloway golf clubs, Bosch power drills, mobile phones, pharmaceutical products and SKF rolling bearings. According to Kearney (2005), the Chery QQ motor car, which imitates General Motor's Chevy Spark, has damaged the GM brand in China and is also expected to sell well in the US at prices 30 per cent below US car prices. Kearney (2006) suggests several strategies to attempt to reduce the problem, including:

- Increasing the pace of new product development so that the copycats quickly become out of date.
- Keeping critical components and processes confidential by manufacturing in-house and only shipping abroad for final assembly of modules.
- Pressing governments at home and abroad to make counterfeiting difficult.
- Pursuing offenders through the courts at every opportunity.
- Offering contracts to potential offenders to manufacture the products under licence before they are copied.

Clearly, such steps can only hope to reduce the problem since there are many vested interests in maintaining counterfeit production. Yet counterfeiting does not just threaten global companies and brands. It undermines consumer confidence, destroys brand equity and reputation, reduces revenues, changes competitive environments, increases costs that include combating infringements and threatens consumer health and safety as well as livelihoods. Veloutsou and Bian (2008) also clarify the distinction between deceptive and non-deceptive counterfeits, the former being bought under the impression they are originals and the latter being bought known to be counterfeits.

Product planning for international markets

For a firm that operates in multiple product markets, a key decision is whether to market all products in all country markets. At the early stages of internationalisation, it is most unlikely that this would be the case. In an interesting study of the packaged food market in China, Hexter et al. (1998) found that successful firms were making wise decisions by choosing which product categories to focus on. They suggested that firms should enter markets with structurally advantaged product categories. Such a category was defined by three characteristics: a high speed of consumer acceptance, an affordable product and robust economics. The speed of consumer adoption depends on whether the product simply upgrades an existing competitive offering, replaces a category or requires consumers to change from home-made to packaged product. Adoption also depends on whether it is an entirely new product category in the market, with new taste, texture and usage occasions.

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With each extra level of variation of existing consumer behaviour, trial and adoption could be expected to be slower. Affordability was largely governed by price per purchase unit. Hence soft drinks and biscuits could easily be made affordable, while it was more difficult for cereals and packaged cheese. Robust economics depended on factors such as level of capacity and cost of marketing.

Even for firms with a long history of internationalisation, some products may not be offered in some markets for a number of different reasons. As shown in Case 6.2, Wedgwood sell tea in Japan but not in other countries. In Japan, Wedgwood has built a strong association between its tableware products and British culture, as exemplified through the drinking of English tea in a formal setting. This has become an integral part of the brand experience in Japan but this brand extension has not so far been thought as relevant in other country markets.

In other cases, special circumstances may result in products being withdrawn from markets. A good example is that of Dasani which was introduced by Coca-Cola into the UK market in 2004. The label displayed the descriptor 'Pure, Still Water' and did not claim to be a spring water. However, when it was widely revealed to be purified tap water, it also 'tapped' into the British psyche. A well-known episode of the iconic TV sitcom 'Only Fools and Horses' had shown the lovable rogue trader Del Boy selling bottled water from his own source – Peckham tap water – and passing it off as natural spring water. This, coupled with a fault in the process leading to an excess of bromate, resulted in a PR disaster, which ended with the withdrawal of the product. Dasani, however, continues to be marketed in other countries, although it is sourced in different ways in different countries.

Decisions about the product–market mix in different countries need to be based on an examination of a variety of firm and country factors, as well as perceived product attributes. Firm factors include the level of resources available to support the products and the strengths of the product vis-à-vis competition in different countries. Country factors which affect the viability of products include:

- The stage of market maturity, which will influence knowledge of the product category and consumption rates. As seen in Chapter 5, this may reflect country economic development or simply cultural differences.
- Product form preferences, such as in the case of washing machines, which are mainly front-loaders in Europe and the US and top-loaders in China.
- Purchasing criteria, which may emphasise product attributes in which the firm cannot develop superior customer value.

Speed to market

A feature of international product development in today's world is the speed with which players enter and leave product markets. This results from several factors, such as rethinking the traditional model of new product development, and the increased use of outsourcing and of different forms of partnering. All of these, of course, have been made even more effective by the improvements in communication made possible by Internet technology (see Chapter 2).

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Example 9.6 Virgin Comics?

Virgin is a company which introduces – and eliminates – whole new product markets and businesses very rapidly. It only took from February 2005 until January 2006 for Virgin to establish Virgin Comics, a collaboration between Sir Richard Branson, writer Deepak Chopra and filmmaker Shekhar Kapur. The purpose of the partnership is to create original comic stories and characters based on a vast repertoire of Indian myths, heroes and villains. Ultimately, the product range is planned to include novels, films, TV, animation, gaming, online merchandise and more.

The partnership is intended to marry the awareness of and associations with Virgin's brand and its media presence to the artistic creativity rooted in Indian culture. The Indian market alone is potentially enormous, with an estimated 550 million people aged under 20. On top of this, the current fashion for Indian popular art, such as Bollywood, in the western world suggests a much wider potential.

Source: Adapted from Hamm (2006))

For many years it has generally been believed that the Japanese develop and introduce products more quickly than in the West. One reason is that the Japanese carry out several stages of product development in parallel, rather than sequentially. They also use expeditionary marketing by making the commercial roll-out stage a pilot phase to generate consumer-led product improvements, This has been particularly the case in electronic consumer durables. The product is either successful or it is not. If not, it is rapidly replaced by an alternative variant. Successful products tend to be rapidly imitated and improved upon, leading to a process known as **product churn**.

The growth in outsourcing has made possible reductions in both the cost and timescale of NPD but also increases in the variety of products. This chapter has discussed the OEM–M–OBM paradigm in the context of branding strategy, i.e. we have discussed the issues from the perspective of whether a manufacturer of products should build their own brands or simply make them for other firms to brand under their name. Looked at from the perspective of the brand owner, the maker becomes the outsource supplier. An ability to establish a network of such suppliers in low-cost locations which can produce either complete products or sub-assemblies can provide the brand owner with new products rapidly. Where the maker has introduced ODM operations, the brand owner may also benefit from the NPD activity of its supplier.

Global outsourcing has been a key factor behind the success of retail chains such as H&M, which has more than 700 manufacturing suppliers worldwide. Some US retailers such as Zara and Mango are fighting back on the basis of *fast fashion* but are reversing the international outsourcing process. California-based Hot Kiss is now producing more of its clothes in the US, meaning that it can supply US retailers in 45 days compared to the 120–150 days taken when sourcing from China. The trade-off is some increase in price and it is likely that US clothing suppliers will tend to outsource increasingly from Central America in order to achieve the joint benefits of speed to market, lower cost and minimal regulatory hurdles. Most Central American countries are members of the Central American Free Trade Agreement, which has a trade agreement with the US.

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Product design and variety for international markets

Dyson is a firm synonymous with a focus on innovative product design, which has succeeded in shaking up foreign markets in the same way it did in its home UK market. Dyson began its activity in Japan in 1999 and has localised its products. Thus its vacuum cleaners have hand-operated on–off switches compared to the usual foot-operated switches. In order to avoid damage to tatami mats, plastic heads are used instead of steel ones.

The Dyson DC12 was designed specifically with Japanese consumers in mind. In order to build a vacuum cleaner small enough to fit in the average-size kitchen in Tokyo, Dyson developed the first digital motor to be used in a domestic appliance. This allowed the vacuum cleaner to be half the size and weight and thus to appeal greatly to the Japanese appetite for new technology and miniaturisation as well as be easily stored on a shelf. The DC12 is also claimed to result in cleaner air and the history of the cleaner can apparently be fed to a Dyson call centre via a mobile phone.

Dyson has built a multi-million pound business in Japan, although it still only has a small overall market share. However, it does target the very highest price points in the market, making it, probably, the world's most expensive domestic vacuum cleaner.

Japanese fondness for new technology and increasingly for payment via mobile phone has also brought forth product delivery innovation. Coca-Cola has over 1 million vending machines in Japan and has announced plans to upgrade 20 per cent of these to accept payment through Felicia credit cards on mobile phones. The cost of the drinks will be added to the mobile phone bill. As with many firms, Coca-Cola has found that a presence in the Japanese market has forced it to innovate at a much higher rate than elsewhere and that it is now attempting to use this experience to develop new products in other markets more quickly.

At any point in time it has around 200 brands in Japan compared to around 20 in the UK, and about 20–30 per cent are replaced each year. Examples include Water Salad, Love Body herbal tea, Marocha green tea, Qoo children's juice and its Real Gold hangover cure. It also introduced Georgia Coffee in ten varieties and the associated marketing campaign allowed consumers to log on to a fake company website, get fake jobs and attend fake meetings, a concept that appears to pre-date 'second life' marketing by some years.

Coke, in Japan, is able to place a new product on shop shelves within three months of developing the concept. All this is carried out independently from Coke's Atlanta HQ except for final approval and financial backing (Steventon, 2002). However, it is probable that this approach to rapid NPD will have to be adopted by Coke's marketing organisation in the US and many of its foreign subsidiaries. Part of this results from the recognition that Coca-Cola itself does not have the same supreme strength of former times. It is meeting strong competition from Wahaha in China, for example.

Steventon summarises the international product challenge for Coke as follows:

> Here's the legend of capitalism, this world beater, this icon of American enterprise, and now it's forced to keep track of what girls in Peru drink for breakfast, which tiny juice line in Poland it needs to buy out; whether women in Indonesia want milk in their coffee, or sugar or both.

This suggests that Coca-Cola, once famed for its standardised marketing, has now migrated through 'Think Global, Act Local' to 'Think Local, Act Global' to 'Think Local, Act Local' approaches.

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Product trends in international markets

Many countries have witnessed a trend towards luxury versions of products. This has been to the advantage of car makers such as BMW and Mercedes and has encouraged volume market brands such as Ford to acquire prestige brands to exploit this opportunity. The trend has even occurred within what are already luxury product markets, such as champagne, where the most prestigious houses have gained the most.

In parallel with this trend, the growth in demand from consumers in emerging country markets and the rise of manufacturers in these countries has resulted in the demand for and supply of products at the low cost or value end of the market. This is exemplified by the launch by Indian manufacturing giant Tata of its small car, selling for the equivalent of £1300. Straberg (quoted in Knudsen, 2006) refers to these two trends as market polarisation, since the middle market is shrinking. This was the ground occupied by firms in the domestic appliance sector such as Electrolux. In this crisis, Electrolux executives role-played their opposite numbers in firms such as LG and Samsung in order to understand how they would compete and therefore how Electrolux should respond.

Electrolux developed a product and branding strategy that allowed it to abandon traditional segmentation approaches based on price and a 'good–better–best' categorisation and constructed 20 product positions relevant to the lifestyles of different consumer segments. Now steam ovens are marketed to health-orientated consumers, whilst compact dishwashers are marketed to those interested in washing dishes more frequently.

Product adaptation in retail industries

Chan and Cheung (2006) observe that foreign retailers that have entered the Chinese market recently have generally made three errors, reflecting a failure to adapt to Chinese consumer needs, which have also added to costs. First, they have installed high-end flooring and ceilings and other features which have almost doubled the investment per square metre of selling space and led to a perception that prices will be too high. The investment would have had a much better impact had it been channelled into more product demonstrations or extra checkout facilities.

Second, they failed to notice the different needs of suburban consumers compared to those shopping in the centres. Specifically, suburbanites are predominantly either poorer people who cannot afford to live in the centre or wealthy people who work in the centre – and shop for high-end items there – but have moved out for more space. The need is thus for lower prices and a higher proportion of non-food items to take advantage of the lack of department stores in the suburbs. Third, as foreign retailers move beyond the first-tier cities, they have not adjusted to the need to provide a wide range of products in the face of lower incomes and lower population densities. However, one retailer noted for its willingness to adapt its offering to international markets is the French multinational, Carrefour, as shown in Example 9.7.

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Example 9.7 French supermarket Carrefour

Carrefour benefited from an early understanding of Chinese culture through its entry into Taiwan in 1988. Seven years later it opened its first store on the mainland and had 73 hypermarkets spread across 29 cities by 2006. It is Europe's largest retailer and second only to Wal-Mart in the global market. It is the ninth largest retailer in China and the only foreign retailer amongst China's top ten. Some 95 per cent of Carrefour's sales in China is sourced locally and most of the hypermarkets have Chinese managers.

Chinese customers prefer to buy from a hypermarket frequently, combined with shopping at wet markets. Carrefour's approach to product adaptation is typified by the way they sell fish. In contrast to the US, where fish tends to be filleted and packed, and France, where it is kept whole on ice, in China it is displayed live. However, in middle and western China, it is displayed frozen, rather than fresh, since the source of fresh fish is so far from the stores that consumers have more confidence in frozen fish.

Source: Adapted from Chan and Cheung (2006))

Even greater adaptation to the Chinese market has been demonstrated by UK retailer B&Q, which entered the Chinese market in 1996. Some years later, B&Q introduced a decorating service in which it provided not only the materials with which to decorate but also a team of tradespeople to do the job. This fitted well with the needs of many consumers who had purchased new flats as a shell and did not have DIY experience. The B&Q proposition gave them the confidence that the materials were genuine, that the tradespeople were competent and prices were transparent.

Summary

This chapter has explored the nature of brands and how brands are viewed and used in different international contexts. It has considered the impact of a brand's country of origin on its perception and considered the use of geographical indications as both a brand positioning strategy and a means of brand protection. The importance of carefully examining different approaches towards the selection of brand names for different markets was discussed in some depth and the chapter touched on issues such as the concept of countries as brands, cultural drivers of brand and product acceptance, and the threats posed by fake brands. Importantly, it discussed the relationship between OEM and OBM branding strategies in the process of internationalisation. Finally, the chapter explored international product issues such as adaptation of products, design trends and speed to market. The next step in the international planning process is to consider all-important revenue-generating pricing decisions that also help to position products and services successfully in foreign markets.

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Case 9.2 Tesco plans to make life fresh and easy for Americans

The UK's largest retailer, Tesco, has a multi-part strategy for growth and extra profitability. This includes selling more of its current product range to current customers; appealing to new customers by extending its range of sub-brands targeted at different segments; extending its own retail brands; adding new non-food product and service lines; adding new retail formats to access new customers and buying occasions; and, very importantly, expanding sales in foreign markets.

Historically, international marketing has been a disaster for retailers. Kingfisher has recently withdrawn its B&Q Home brand from South Korea, despite its joint venture in Taiwan being the market leader. Tesco, itself, has experienced some failures. It sold its French grocery business in 1997 after five largely unsuccessful years and withdrew from Taiwan, reflecting its inability to establish a leadership position. The US has been particularly difficult, as Marks & Spencer found when it sold Brooks Brothers in 2001 for one-third of the price it paid to acquire the American clothing retailer in 1988.

Tesco first entered foreign markets in the 1990s and proceeded warily until well into the mid-2000s, by which time it was opening over 200 foreign stores per annum. It now operates over 800 stores, accounting for over £10 billion sales and more than half its total floor space. As the world's third largest grocery retailer, after Wal-Mart and Carrefour, entry into the US market has been likely for some years. Sir Terry Leahy, CEO, has commented that China could be a transformational market for Tesco but it is a long-term proposition. On the other hand, the US is a shorter-term route to success. In most countries, the retailer has started by opening a small number of very large hypermarkets and, having built awareness and sales, developed other formats such as convenience stores. For example, using this strategy, despite only entering Thailand in 1997, it is now the market leader, with 55 hypermarkets and more than 100 Express convenience stores.

In many markets, regulations have required Tesco to work with local partners and, generally, the partner's store identity has been retained. Where this is not the case, company policy differs in different countries. Thai hypermarkets are branded Tesco Lotus and, in Turkey, the Kipa brand it acquired has been retained. This contrasts with many other retailers, who replace the foreign brand name with their own. It is also widely credited with adapting its formats to local tastes.

Finally, Tesco decided to enter the US market at the end of 2007. Leahy enthused that it was a tremendously exciting move for Tesco, adding a new leg to international expansion. The US is the largest economy in the world, with strong forecast growth and a sophisticated retail market. He said that they researched the market extensively for many years and finally committed serious resources to developing a format that hopefully would be popular with American consumers.

More than two years were spent researching the US market, examining potential competitors and suppliers and with a particular focus on learning why the widespread growth in small format food retailing had apparently not reached the US. They knew there was a gap in the market but did not know if there was a market in the gap. A dummy store was constructed in a warehouse under the guise of a film set and the responses of more than 200 focus groups were studied.

In order to further preserve secrecy, it was stocked with groceries sourced from the East Coast of the US. The final stage of the research involved 50 senior staff shopping, eating and socialising with West Coast American families, which confirmed that there was an opportunity for a one-stop local neighbourhood store, they claimed.

From a product positioning perspective, Tesco has selected a format, based on adaptations to the Tesco Express model, range and service, which allows them to offer the convenience of a local store with the prices of a Wal-Mart. Their Fresh & Easy branded stores are 10 000 square feet convenience

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supermarkets, which fill the format void that exists in the South West US market between small, impulse-focused convenience stores and 40 000+ square foot full-service supermarkets.

Some 50 per cent of products are private label and there is a wide range of fresh, chilled ready-meals, a category far less developed in the US than the UK. Unable to find suitable local suppliers, Tesco built its own factory to make pizzas, sandwiches and burritos in addition to ready meals. Much fruit and vegetable produce is prepacked in a market where hand-stacked pyramids of loose apples are common and the stores are entirely self-service in that customers scan their own shopping, in a country where high service levels are renowned.

Having opened 13 stores initially, the company has stated that it plans to open 200 stores by February 2009 but the fact that it is in the process of acquiring a second distribution centre suggests it could support 1000 stores. The West Coast location may have been influenced by the high percentage of one-store owners compared to multiples and the format choice may have reflected, to some extent, the wish to avoid a head-on conflict with Wal-Mart and other supermarkets. This WFOE FDI market entry mode strategy in the US has been funded from cash flow generated in other countries and break-even is forecast to be reached by the end of the second year of operation.

Part of the reason for this organic growth strategy in the US may result from the relatively easy availability of retail sites. In contrast, Tesco has said that any entry into Japan would probably follow Wal-Mart's acquisition model.

Source: Adapted from Fletcher (2007) and Stamp (2007))

Discussion Questions

1. What are the arguments for and against Tesco's different approaches to brand name strategy in different countries?
2. Tesco is believed to adapt its offering to different countries more than most other grocery retailers. Evaluate the strengths and weaknesses in this approach.
3. Referring to Chapter 4, what criteria would you use to determine which country markets to prioritise for future entry?
4. Referring to Chapter 6, to what extent do you think Tesco's foreign market strategy is indicative of an international or a global approach?
5. Referring to Chapter 7, which are the main factors that determine Tesco's international market entry mode strategy and which strategies do they suggest?

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