Chapter 2

Global, Ethical, and Sustainable Marketing

Objective Outline

1. Understand the big picture of international marketing and the decisions firms must make when they consider globalization pp. 34–36
   TAKE A BOW: MARKETING ON THE GLOBAL STAGE p. 34

2. Explain how both international organizations such as the World Trade Organization (WTO) and economic communities and individual country regulations facilitate and limit a firm’s opportunities for globalization pp. 37–38
   UNDERSTAND INTERNATIONAL, REGIONAL, AND COUNTRY REGULATIONS p. 37

3. Understand how factors in a firm’s external business environment influence marketing strategies and outcomes in both domestic and global markets pp. 39–49
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6. Explain the role of sustainability in marketing planning pp. 60–63
   SUSTAINABILITY: MARKETERS DO WELL BY DOING GOOD p. 60

Check out the Chapter 2 Study Map on page 65.

Keith Sutter

A Decision Maker at Johnson & Johnson

Keith Sutter is the senior product director for sustainable brand marketing at Johnson & Johnson. In that role, Keith leads Johnson & Johnson’s 250 operating companies in developing sustainable products, business, and marketing strategies. He translates the value of Johnson & Johnson’s extensive product stewardship and environmental successes to the company’s trade customers and consumers, including championing the Earthwards® process.

Keith began his career at Johnson & Johnson in 2001 as a marketing associate. He subsequently held positions of increasing responsibility as a brand marketer on brands such as Band-Aid®, Neutrogena®, Lactaid®, and Ludens®.

Keith has a BS in economics from the Wharton School at the University of Pennsylvania and an MBA from the S.C. Johnson Graduate School of Management at Cornell University. He lives in Center City, Philadelphia, with his wife, Amy, and two sons, Leo and Charlie.

What I do when I’m not working?
Triathlons and other outdoor sports.

First job out of school?
Marketing associate at Johnson & Johnson on the Decorated Band-Aid® Brand bandages, which was a great job working with licensees and cartoon characters like SpongeBob SquarePants and Elmo.

Business book I’m reading now?
David & Goliath by Malcom Gladwell.

What drives me?
New business opportunities and innovative new products and business models.

My management style?
Pacesetting, I like to set a good example for my team while allowing them the freedom to develop innovative solutions to our business problems that drive results.

Don’t do this when interviewing with me?
Neglect to provide detailed examples of results you drove when asked for specific experiences.

What I do when I’m not working?
Triathlons and other outdoor sports.

First job out of school?
Marketing associate at Johnson & Johnson on the Decorated Band-Aid® Brand bandages, which was a great job working with licensees and cartoon characters like SpongeBob SquarePants and Elmo.

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Don’t do this when interviewing with me?
Neglect to provide detailed examples of results you drove when asked for specific experiences.
Here’s my problem...

Real People, Real Choices

Johnson & Johnson is one of the world’s leading manufacturers of health care products. It sells many familiar consumer brands such as Band-Aid®, Neutrogena®, Listerine®, Splenda®, and Tylenol®, as well as medical devices and prescription drugs. Within this global company, the Earthwards® approach motivates employees to improve the sustainability of products. It defines how Johnson & Johnson thinks about and addresses its environmental and social impacts and challenges its people to design innovative and more sustainable solutions across a product’s life cycle—from formulation and manufacturing to product use and safe disposal.

When Johnson & Johnson launched the Earthwards® process in 2009, Keith and his team used it to encourage J&J’s product teams to make significant improvements to 60 products. Today, Johnson & Johnson has integrated and expanded the original process across the company. It uses the Earthwards® approach to drive continuous innovation by doing the following:

Requiring every new product to:

- Meet product stewardship requirements. Every new product must achieve regulatory compliance and deliver on Johnson & Johnson’s high standards.
- Understand life cycle impact areas. The life cycle impacts of products are reviewed at the category level, and opportunities to drive improvements are considered at the design, procurement, manufacturing, and marketing stages of a product’s development.

Inviting every product team to:

- Implement and validate improvements. Product teams collaborate with sustainability experts to implement recommended improvements, and environmental marketing claims are reviewed and approved in accordance with applicable guidelines.

Encouraging the most sustainable product teams to:

- Achieve Earthwards® recognition, an honor celebrating our most innovative and improved products. If a product achieves at least three significant improvements across seven impact areas (materials used, packaging, energy reduction, waste reduction, water reduction, positive social impact or benefit, and product innovation), a board of internal and external experts determines if the product warrants Earthwards® recognition and provides suggestions for additional improvements. Teams who receive Earthwards® recognition are publicly congratulated on Earthwards.com and rewarded for their innovations by Johnson & Johnson leadership.

As he considered the best strategy to promote Earthwards®, Keith knew that one of his biggest challenges was to convince J&J’s 127,000 employees around the globe to buy in to the idea. He needed a way to drive awareness and interest in the Earthwards® approach to sustainable product development across Johnson & Johnson. Generating awareness, understanding, and adoption of the process across J&J’s business units was a key performance metric against which his team would be measured.

Keith had only limited resources to accomplish this objective.

Keith considered his Options 1. 2. 3

1. **Option**

Continue a successful tactic from the early roll-out of Earthwards®. Host regional green marketing conferences to bring together key stakeholders once per year. These meetings would showcase key tools and resources available that would then be distributed as requested by e-mail to other employees. This is high touch and engaging but hard to scale effectively across such a large company.

2. **Option**

Develop a customer intranet site, including an online scorecard to take Earthwards® submissions from an Excel spreadsheet to an online database accessible by all employees. The site would also house all the tools and materials Keith and his team had developed to date to explain Earthwards® and drive its adoption across J&J’s varied businesses. This solution is low-touch and not very engaging, but it is efficient because everyone in the company can access it easily. This database would free up resources that Keith and his team could use to further develop the Earthwards® program both internally and in the marketplace.

3. **Option**

Develop a high-touch strategy of identifying 20 to 30 influential leaders within Johnson & Johnson. Then set up multiple in-person meetings and training sessions with the goal of making the case for adoption of Earthwards® into each leader’s business process and then encouraging each of these leaders to drive adoption of the program within J&J. This option would really engage people, but its impact would be hard to measure.

Now, put yourself in Keith’s shoes. Which option would you choose, and why?

You Choose

Which Option would you choose, and why?

1. □ YES □ NO
2. □ YES □ NO
3. □ YES □ NO

See what option Keith chose on page 64

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Take a Bow: Marketing on the Global Stage

Here’s an important question: Do you primarily see yourself only as a resident of Smalltown, USA, or as a member of a global community? The reality is that you and all your classmates are citizens of the world and participants in a global marketplace. It is very likely that you eat bananas from Ecuador, drink beer from Mexico, and sip wine from Australia, South Africa, or Chile. When you come home, you may take off your shoes that were made in Thailand, put your feet up on the cocktail table imported from Indonesia, and watch the World Cup football (soccer) match being played in Brazil or Canada on your HDTV made in China. Hopefully, you have some knowledge and concern for important world events such as the Arab Spring and recent developments in Crimea. And you may even be looking for an exciting career with a firm that does business around the globe.

Of course, living in a global community creates both opportunities and challenges. Many consumers and world leaders argue that the development of free trade and a single global marketplace will benefit us all because it allows people who live in developing countries to enjoy the same economic benefits as citizens of more developed countries. Others express concern for the loss of manufacturing in the U.S. and other developed nations as factories relocate where labor and materials are less expensive. The recent downturn in the global economy has reignited demands for greater government protection for domestic industries. Today there is increasing concern around the world about problems such as global warming and the need for international agreements that would force industries and governments to develop and adhere to environmental standards to protect the future of the planet.

The global marketing game is exciting, the stakes are high—and it’s easy to lose your shirt. Competition comes from both local and foreign firms, and differences in national laws, customs, and consumer preferences can make your head spin. Like many American companies that feel they can significantly improve their growth by expanding into global markets, U.S. auto manufacturer Ford is aggressively working to expand its international presence, especially in China, which in 2013 surpassed the U.S. as the largest market for autos in the world. But you can be sure that when Ford’s planners plot future growth, they’re keenly aware of competitors in their external environment who have other ideas. Although Ford—with its Ford Focus—had the top-selling passenger vehicle in China and in the world in 2013, other carmakers, like GM and Volkswagen, had more market share in China overall—and you can bet they’ll be working hard to stay on top.

In his best-selling book The World Is Flat: A Brief History of the Twenty-First Century, Thomas Friedman argues that technology creates a level playing field for all countries and that marketers must recognize that national borders are not as important as they once were. Today, even very small businesses must seek new and improved ways to attract customers down the street and around the globe in order to stay relevant. In this section, we will first discuss the status of world trade today and then look at the decisions firms must make as they consider their global opportunities.

World Trade

World trade refers to the flow of goods and services among different countries—the total value of all the exports and imports of the world’s nations. In 2009, the world suffered a global economic crisis that resulted in dramatic decreases in worldwide exports. Today, we
see increasing growth in world trade with world exports of merchandise increasing from $12 trillion in 2009 to nearly $18 trillion in 2012.

Of course, not all countries participate equally in the trade flows among nations. Understanding the “big picture” of who does business with whom is important to marketers when they devise global trade strategies. Figure 2.1 shows the amount of merchandise North American countries traded with major partners around the world in 2012.

It’s often a good thing to have customers in remote markets, but to serve their needs well requires flexibility because you have to run your business differently to adapt to local social and economic conditions. For example, you often have to accommodate the needs of trading partners when those foreign firms can’t pay cash for the products they want to purchase. Believe it or not, the currencies of as many as 100 countries—from the Albanian lek to the Uzbekistan sum—are not convertible; you can’t spend or exchange them outside the country’s borders. In other countries, because sufficient cash or credit simply is not available, trading firms work out elaborate deals in which they trade (or barter) their products with each other or even supply goods in return for tax breaks from the local government. This countertrade accounts for as much as 25 percent of all world trade.¹

Our ever-increasing access to products from around the world does have a dark side: The growth in world trade in recent years has been accompanied by a glut of unsafe products, like toys tainted with lead, many of which have come from China. In 2014, the European Commission’s early warning system for dangerous products (RAPEX) reported a notable increase in alerts of unsafe products; of the more than 2,000 alert issues the commission received, almost two-thirds of the unsafe products came from China.² Although most Chinese manufacturers make quality products, some unscrupulous producers have damaged the reputation of Chinese manufacturers and prompted U.S. and European officials to increase their inspections of Chinese imports.

**Should We Go Global?**

Figure 2.2 shows that when firms consider going global they must think about this in four steps:

- **Step 1.** “Go” or “no go”—is it in our best interest to focus exclusively on our home market or should we cast our net elsewhere as well?

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¹ Armenia, Azerbaijan, Belarus, Kazakhstan, Kyrgyzstan, Republic of Moldova, Russian Federation, and Ukraine

² Although most Chinese manufacturers make quality products, some unscrupulous producers have damaged the reputation of Chinese manufacturers and prompted U.S. and European officials to increase their inspections of Chinese imports.
• **Step 2.** If the decision is “go,” which global markets are most attractive? Which country or countries offer the greatest opportunity for us?

• **Step 3.** What market-entry strategy and, thus, what level of commitment is best? As we’ll see, it’s pretty low risk to simply export products to overseas markets. On the other hand, while the commitment and the risk is substantial if the firm decides to build and run manufacturing facilities in other countries, the potentially greater payoff may be worth the extra risk.

• **Step 4.** How do we develop marketing mix strategies in these foreign markets—should we standardize what we do across all the countries where we operate or develop a unique localized marketing strategy for each country?

We’ll look at the first of these decisions now—whether or not to go global.

Although the prospect of millions—or even billions—of consumers salivating for your goods in other countries is very tempting, not all firms can or should go global, and certainly not all global markets are alike. When they make these decisions, marketers need to consider a number of factors that may enhance or detract from their success abroad. Let’s review some of the largest ones now: domestic demand and the competitive advantage of the firm.

### Look at Domestic and Global Market Conditions

Many times, a firm decides it’s time to go global because domestic demand is declining while demand in foreign markets grows. For example, Starbucks has served coffee to just about every American who drinks coffee. To expand its business, Starbucks is now going after the Chinese market, expected to become its second largest in 2014, where the new middle class has extra yuan (the official currency) to spend. But Starbucks isn’t just in growing in China. Take a spin around the globe—you can find a Starbucks in more than 50 countries. That’s a lot of lattes.

### Identify Your Competitive Advantage

In Chapter 1, we saw how firms hope to create a competitive advantage over rivals. When firms enter a global marketplace, this challenge is even greater. There are more players involved, and typically local firms have a “home-court advantage.” It’s like soccer—increasing numbers of Americans play the game, but they are up against an ingrained tradition of soccer fanaticism in Europe and South America, where kids start dribbling a soccer ball when they start to walk.

If it wants to go global, a firm needs to examine the competitive advantage that makes it successful in its home country. Will this leg up “travel” well to other countries? As we just discussed, Starbucks is experiencing great growth overseas as well as strong sales in the U.S. Long known for its product quality, superior customer service, and fair treatment of employees (whom it calls partners), all of these values translate successfully around the world. As Starbucks continues to conquer the globe, product variety and innovation will become increasingly important components of its success.
Understand International, Regional, and Country Regulations

Even the most formidable competitive advantage does not guarantee success in foreign markets. Many governments participate in activities that support the idea that the world should be one big open marketplace where companies from every country are free to compete for business. The actions of others frequently say the reverse. In many countries, the local government may “stack the deck” in favor of domestic competitors. Often, they erect roadblocks (or at least those pesky speed bumps) designed to favor local businesses over outsiders that hinder a company’s efforts to expand into foreign markets.

Initiatives in International Cooperation and Regulation

In recent years, a number of international initiatives have diminished barriers to unfettered world trade. Most notably, after World War II, the United Nations established the General Agreement on Tariffs and Trade (GATT), which did a lot to establish free trade among nations. During a meeting in 1984 known as the Uruguay Round, GATT created the World Trade Organization (WTO). With 159 members (and over 20 more countries negotiating membership now), the WTO member nations account for 95 percent of world trade. The WTO has made giant strides in creating a single, open world market and is the only international organization that deals with the global rules of trade between nations. Its main function is “to ensure that trade flows as smoothly, predictably and freely as possible.”

If you spend any time in Asia, you immediately notice the huge numbers of luxury watches, leather bags, and current music CDs that sell for ridiculously low prices. Who can resist a Rolex watch for $20? Of course, there is a catch: They’re fake or pirated illegally. Protection of copyright and patent rights is a huge headache for many companies, and it’s a priority the WTO tries to tackle. Pirating is a serious problem for U.S. companies because illegal sales significantly erode their profits. All too often, we see news headlines from New York, Rome, or Dubai about police confiscating millions of dollars’ worth of goods—from counterfeit luxury handbags to fake Viagra.

Protected Trade: Quotas, Embargoes, and Tariffs

While the WTO works for free trade, some governments adopt policies of protectionism when they enforce rules on foreign firms to give home companies an advantage. Many governments set import quotas on foreign goods to reduce competition for their domestic industries. Quotas can make goods more expensive to a country’s citizens because the absence of cheaper foreign goods reduces pressure on domestic firms to lower their prices.

We can look at Russia as an example. As the economy of the country has improved, the demand for meat has increased much faster than the production capacity of Russian meat producers. To protect the local industry and to encourage its growth, Russia instituted protectionism. A policy adopted by a government to give domestic companies an advantage.

import quotas

Limitations set by a government on the amount of a product allowed to enter or leave a country.
import quotas. In 2014, Russia’s import quotas on meat products allowed a maximum of 364,000 tons of foreign poultry, 570,000 tons of beef, and 430,000 tons of pork to make their way to Russian dinner tables.

An embargo is an extreme quota that prohibits commerce and trade with a specified country altogether. Much to the distress of hard-core cigar smokers in the U.S., the U.S. government prohibits the import of Cuban cigars as well as rum and other products because of political differences with its island neighbor.

Governments also use tariffs, or taxes on imported goods, to give domestic competitors an advantage in the marketplace by making foreign competitors’ goods more expensive than their own products. For example, in November 2012, the U.S. Commerce Department ruled in favor of imposing tariffs on Chinese imports of solar panels in order to protect American jobs in that industry. This tariff came after Chinese manufacturers were accused of selling the solar panels at below cost in order to drive U.S. manufacturers out of business—and, in fact, about a dozen U.S. manufacturers had gone bankrupt or made significant job cuts in the previous year.6

**Economic Communities**

Groups of countries may also band together to promote trade among themselves and make it easier for member nations to compete elsewhere. These economic communities coordinate trade policies and ease restrictions on the flow of products and capital across their borders. Economic communities are important to marketers because they set policies in areas such as product content, package labeling, and advertising regulations. The U.S., for example, is a member of the North American Free Trade Agreement (NAFTA), which includes the U.S., Canada, and Mexico. The European Union (EU) represents 490 million consumers, over 300 million of whom use the euro as their currency. Table 2.1 lists the world’s major economic communities.

<table>
<thead>
<tr>
<th>Community</th>
<th>Member Countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>Andean Community (<a href="http://www.comunidadandina.org">www.comunidadandina.org</a>)</td>
<td>Bolivia, Colombia, Ecuador, Peru</td>
</tr>
<tr>
<td>Association of Southeast Asian Nations (ASEAN) (<a href="http://www.aseansec.org">www.aseansec.org</a>)</td>
<td>Brunei, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand, Vietnam</td>
</tr>
<tr>
<td>Central American Common Market (CACM)</td>
<td>Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua</td>
</tr>
<tr>
<td>European Union (EU) (<a href="http://www.europa.eu.int">www.europa.eu.int</a>)</td>
<td>Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovak Republic, Slovenia, Spain, Sweden, U.K.</td>
</tr>
<tr>
<td>MERCOSUR (<a href="http://www.mercosur.org">www.mercosur.org</a>)</td>
<td>Brazil, Paraguay, Uruguay, Argentina</td>
</tr>
<tr>
<td>SAPTA South Asian Preferential Trade Arrangement (SAPTA) (<a href="http://www.saarc-sec.org">www.saarc-sec.org</a>)</td>
<td>Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, Sri Lanka</td>
</tr>
</tbody>
</table>
Analyze the Marketing Environment: Internal and External Scans

Whether or not you’ve decided to venture into a foreign market, it’s essential to understand your external environment. For firms that choose to limit themselves to their domestic market, having a sharp picture of the marketing environment allows them to make good decisions about marketing strategies. If you’ve decided to go global, understanding local conditions in a potential new country or in regional markets helps you to figure out where to go. Figure 2.3 provides a snapshot of these different external environments. In this section, we’ll look at economic, competitive, technological, political/legal, and sociocultural factors in the external environment.

The Economic Environment

After several rocky years of economic stumbling caused by the Great Recession of 2008–2009, the global economy is finally starting to make a comeback. It’s slow—the global economy is expected to grow by only 3.0 percent in 2014 and 3.3 percent in 2015—but it’s a comeback nonetheless. Not surprisingly, some of the developing countries are expected to be the biggest drivers of growth. Even though countries like China, India, and Brazil continue to experience economic slowdowns, these countries continue to grow at a rate that exceeds the global average. Marketers need to understand the state of the economy from two different perspectives: (1) the overall economic health and level of development of a country and (2) the current stage of its business cycle. Let’s take a look at each now.

Figure 2.3 | Snapshot | Elements of the External Environment

It’s essential to understand elements of the firm’s external environment to succeed in both domestic and global markets.
Indicators of Economic Health

Just as a doctor takes your temperature during a medical checkup, companies need to know about the overall “health” of a country’s economic environment before they conduct a more detailed exam. You can easily find information about most countries in the World Factbook of the Central Intelligence Agency (CIA) (no, you don’t need high-level security clearance to access this information online).

The most commonly used measure of economic health is a country’s gross domestic product (GDP): the total dollar value of goods and services it produces within its borders in a year. Table 2.2 shows the GDP and other economic and demographic characteristics of a sampling of countries. In addition to total GDP, marketers may also compare countries on the basis of per capita GDP: the total GDP divided by the number of people in a country. The per capita GDP is often the better indicator of economic health since it is adjusted for the population size of each country.

Still, these comparisons may not tell the whole story. Per capita GDP can be deceiving because the wealth of a country may be concentrated in the hands of a few while most of its citizens don’t have the means to obtain basic necessities. Furthermore, the costs of the same goods and services are much lower in some global markets. This is why it’s important for companies that want to enter a foreign market to consider exchange rates as well.

The foreign exchange rate, also referred to as the forex rate, is simply the price of a nation’s currency in terms of another currency. For example, if we want to know how much a U.S. dollar is worth in countries that are members of the European Union, we might find that it is only worth 72 cents in Europe ($1 = €0.72). If our neighbors in Europe look at the same exchange rate with the euro as the base currency, they would find that a euro is worth over one-third more in the U.S. (i.e., the forex rate would be €1 = $1.38). Why does the exchange rate matter? The rate determines the price of a product in a different country and thus a firm’s ability to sell outside its borders. If the dollar becomes stronger so that you can get more euros for your dollars, then a dollar will buy more French wine or escargot, and customers in the U.S. will buy more of it. If the dollar drops in value compared to the euro, then the dollar will buy less when you hike through Italy, while European tourists will flock to the U.S. for a “cheap” vacation.

The Economist magazine developed its Big Mac Index based on the theory that with purchasing power parity, the exchange rate would equalize prices for goods and services. The Big Mac Index shows that a McDonald’s Big Mac, which costs an average of $4.62 in the U.S., would cost nearly $8.00 in Norway, over $5.00 in Brazil, and $2.16 in South Africa, while the Maharaja Mac is around a $1.50 in India.8

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**Table 2.2** | Selected Comparisons of Economic and Demographic Characteristics

<table>
<thead>
<tr>
<th></th>
<th>U.S.</th>
<th>China</th>
<th>Japan</th>
<th>Spain</th>
<th>Hungary</th>
<th>Ecuador</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total GDP</strong></td>
<td>$16.72 trillion</td>
<td>$13.37 trillion</td>
<td>$4.73 trillion</td>
<td>$1.389 trillion</td>
<td>$196.6 billion</td>
<td>$157.6 billion</td>
</tr>
<tr>
<td><strong>Per capita GDP</strong></td>
<td>$52,800</td>
<td>$9,800</td>
<td>$32,100</td>
<td>$30,100</td>
<td>$19,800</td>
<td>$10,600</td>
</tr>
<tr>
<td><strong>Population below poverty level</strong></td>
<td>15.1%</td>
<td>13.4%</td>
<td>16.0%</td>
<td>21.1%</td>
<td>14%</td>
<td>27.3%</td>
</tr>
<tr>
<td><strong>Inflation rate</strong></td>
<td>1.5%</td>
<td>2.6%</td>
<td>0.2%</td>
<td>1.8%</td>
<td>1.9%</td>
<td>2.6%</td>
</tr>
<tr>
<td><strong>Unemployment rate</strong></td>
<td>7.3%</td>
<td>6.4%</td>
<td>4.1%</td>
<td>26.3%</td>
<td>10.5%</td>
<td>4.9%</td>
</tr>
<tr>
<td><strong>Population</strong></td>
<td>318.9 million</td>
<td>1.4 billion</td>
<td>127.1 million</td>
<td>47.7 million</td>
<td>9.9 million</td>
<td>15.7 million</td>
</tr>
<tr>
<td><strong>Birthrate per 1,000 population</strong></td>
<td>13.42</td>
<td>12.17</td>
<td>8.07</td>
<td>9.88</td>
<td>9.26</td>
<td>18.87</td>
</tr>
<tr>
<td><strong>Population growth rate</strong></td>
<td>0.77%</td>
<td>0.44%</td>
<td>-0.13%</td>
<td>0.81%</td>
<td>-0.21%</td>
<td>1.37%</td>
</tr>
<tr>
<td><strong>Population aged 0–14</strong></td>
<td>19.4%</td>
<td>17.1%</td>
<td>13.2%</td>
<td>15.4%</td>
<td>14.8%</td>
<td>28.5%</td>
</tr>
<tr>
<td><strong>Population aged 15–64</strong></td>
<td>68.1%</td>
<td>71.5%</td>
<td>73.6%</td>
<td>73.1%</td>
<td>71.1%</td>
<td>64.4%</td>
</tr>
<tr>
<td><strong>Population aged 65 and over</strong></td>
<td>13.9%</td>
<td>9.4%</td>
<td>24.8%</td>
<td>17.5%</td>
<td>17.5%</td>
<td>6.7%</td>
</tr>
</tbody>
</table>

Of course, GDP and exchange rates alone do not provide the information marketers need to decide if a country’s economic environment makes for an attractive market. They also need to consider whether they can conduct “business as usual” in another country. A country’s economic infrastructure refers to the quality of its distribution, financial, and communications systems. For example, as we saw earlier countries with less developed financial institutions may still operate on a cash economy in which consumers and business customers must pay for goods and services with cash rather than with credit cards or checks. In poorer countries without good road systems, sellers may use donkey carts, hand trucks, or bicycles to deliver goods to the many small retailers who are their customers.

Level of Economic Development
When marketers scout the world for opportunities, it helps to consider a country’s level of economic development. Economists look past simple facts such as growth in GDP to decide this; they also look at what steps the country is taking to reduce poverty, inequality, and unemployment. Analysts also take into account a country’s standard of living, an indicator of the average quality and quantity of goods and services a country consumes. They describe the following three basic levels of development:

1. A country at the lowest stage of economic development is a least developed country (LDC). In most cases, its economic base is agricultural. Analysts consider many nations in Africa and South Asia to be LDCs. In LDCs, the standard of living is low, as are literacy levels. Opportunities to sell many products, especially luxury items such as diamonds and caviar, are minimal because most people don’t have enough spending money. They grow what they need and barter for the rest. These countries are attractive markets for staples such as rice and inexpensive goods such as shoes and fabrics from which people can make clothing. They may export important raw materials, such as minerals or rubber and even diamonds, to industrialized nations.

2. When an economy shifts its emphasis from agriculture to industry, standards of living, education, and the use of technology rise. These countries are developing countries. In such locales, there may be a viable middle class, often composed largely of entrepreneurs working hard to run successful small businesses. Because more than 8 of 10 consumers now live in developing countries, the number of potential customers and the presence of a skilled labor force attract many firms to these areas. Marketers see these developing countries as the future market for consumer goods like skin care products and laundry detergents.

Within these LDCs and developing countries is a group of consumers known as the bottom of the pyramid (BOP), which is the collective name for the group of over 4 billion consumers throughout the world who live on less than $2 a day. These BOP consumers represent a potentially huge marketing opportunity with purchasing power parity of $5 billion. They also present a big challenge for marketers, as unlike other consumer groups, they generally are unable to afford to purchase “inventory,” such as a bottle of shampoo. Procter & Gamble, Unilever, and other companies meet these needs when they offer cleaning products, fabric softeners, shampoo, etc., for sale to consumers in least developed and developing countries.

Companies like Unilever and Procter & Gamble sell small amounts of personal care products such as shampoos in individual-use sachet packaging.

Companies like Unilever and Procter & Gamble sell small amounts of personal care products such as shampoos in individual-use sachet packaging.
developed countries
A country that boasts sophisticated marketing systems, strong private enterprise, and bountiful market potential for many goods and services.

Group of 8 (G8)
An informal forum of the eight most economically developed countries that meets annually to discuss major economic and political issues facing the international community.

business cycle
The overall patterns of change in the economy—including periods of prosperity, recession, depression, and recovery—that affect consumer and business purchasing power.

A developed country boasts sophisticated marketing systems, strong private enterprise, and bountiful market potential for many goods and services. Such countries are economically advanced, and they offer a wide range of opportunities for international marketers.

In 1976, the most economically developed countries in the world—France, West Germany, Italy, Japan, the U.K., and the U.S.—formed what became known as the Group of Six, or G6. Later with the addition of Canada in 1976 and Russia in 1998, the G6 became the Group of Eight (G8). The purpose of the G8 is to provide a way for these countries, democracies with highly developed economies, to deal with major economic and political issues that the countries and the international community face. In 2014, Russia’s membership was revoked due to its involvement in the Crimean crisis.10 In addition to topics of the world economy and international trade, G8 summits have more recently included discussions of other issues, such as energy, terrorism, unemployment, the information highway, crime and drugs, arms control, and the environment.11

The Business Cycle
The business cycle describes the overall pattern of changes or fluctuations of an economy. All economies go through cycles of prosperity (high levels of demand, employment, and income), recession (falling demand, employment, and income), and recovery (gradual improvement in production, lowering unemployment, and increasing income). A severe recession is a depression, a period during which prices fall but there is little demand because few people have money to spend and many are out of work.

Inflation occurs when prices and the cost of living rise while money loses its purchasing power because the cost of goods escalates. For example, between 1960 and 2004, prices increased over 5 percent per year so that an item worth $1.00 in 1960 would cost over $6.00 in 2004. During inflationary periods, dollar incomes may increase, but real income—what the dollar will buy—decreases because goods and services cost more.

The business cycle is especially important to marketers because of its effect on customer purchase behavior. During times of prosperity, consumers buy more goods and services. Marketers try to grow the business and maintain inventory levels and even to develop new products to meet customers’ willingness to spend. During periods of recession, such as that experienced by countries all over the globe beginning in 2008, consumers simply buy less. They may also “trade down” as they substitute less expensive or lower-quality brands in order to stretch a dollar (or euro etc.).

The challenge to most marketers during a recession is to maintain their firm’s level of sales by convincing the customers who do buy to select their firm’s product over the competition. Of course, even recessions aren’t bad for everyone. The Great Recession of 2009 actually was pretty great for some businesses, including dollar stores and frozen foods manufacturers (as more people chose to skip eating out and to cook at home to save money).

The Competitive Environment
A second important element of a firm’s external environment is the competitive environment. For products ranging from toothpaste to sport-utility vehicles, firms must keep abreast of what the competition is doing so they can develop new product features, new pricing schedules, or new advertising to maintain or gain market share. As we will see, marketers need to understand their competitive position among product alternatives in their microenvironment and in the structure of their industries, that is, their macroenvironment.

Analyze the Market and the Competition
Before we can create a competitive advantage in the marketplace, we need to know who our competitors are and what they’re doing. Like players in a global chess
game, marketing managers size up their competitors according to their strengths and weaknesses, monitor their marketing strategies, and try to predict their next moves.

An increasing number of firms around the globe engage in competitive intelligence (CI) activities where they gather and analyze publicly available information about rivals from such sources as the Internet, the news media, and publicly available government documents, such as building permits and patents. Banks continually track home loan, auto loan, and certificate of deposit (CD) interest rates of their competitors. Major airlines change hundreds of fares daily as they respond to competitors’ price cuts or increases. Successful CI means that a firm learns about a competitor’s new products, its manufacturing processes, or the management styles of its executives. Then the firm uses this information to develop superior marketing strategies (we’ll learn more about collecting marketing intelligence in Chapter 4).

**Competition in the Microenvironment**

Competition in the microenvironment means the product alternatives from which members of a target market may choose. We think of these choices at three different levels:

1. As competition for consumers’ discretionary income, or the amount of money people have left after they pay for necessities such as housing, utilities, food, and clothing. Do we plow “leftover” money into a new MP3 player, donate it to charity, or turn over a new leaf and lose those extra pounds by investing in a healthy lifestyle?

2. As product competition, where competitors offer different products, attempting to satisfy the same consumers’ needs and wants. So, for example, if a couch potato decides to use some discretionary income to get buff, joining a health club or buying a Soloflex machine and pump iron at home might be a good idea.

3. As brand competition, where competitors offer similar goods or services, vying for consumer dollars. So, our flabby friend who decides to join a gym still must choose among competitors within this industry, such as between Gold’s Gym and the YMCA, or may forgo the exercise thing altogether and count on the South Beach diet to work its magic by itself—or just buy bigger pants.

**Competition in the Macroenvironment**

When we talk about examining competition in the macroenvironment, we mean that marketers need to understand the big picture—the overall structure of their industry. This structure can range from one firm having total control to numerous firms that compete on an even playing field.

1. No, it’s not just a board game: A monopoly exists when one seller controls a market. Because the seller is “the only game in town,” it feels little pressure to keep prices low or to produce quality goods or services. In most U.S. industries today, the government attempts to ensure consumers’ welfare by limiting monopolies through the prosecution of firms that engage in activities that would limit competition and thus violate antitrust regulations. For example, when the giant cable operator Comcast attempted to buy Time Warner in 2014, the government examined the consequences of this acquisition very closely.

2. In an oligopoly, there are a relatively small number of sellers, each holding substantial market share, in a market with many buyers. Because there are few sellers, the actions of each directly affect the others. Oligopolies most often exist in industries that require substantial investments in equipment or technology to produce a product. The airline industry is an oligopoly. It is pretty hard for an entrepreneur with little start-up cash to enter—that’s left to billionaires like Richard Branson, who can afford to launch a start-up like Virgin Airlines.

3. In a state of monopolistic competition, many sellers compete for buyers in a market. Each firm, however, offers a slightly different product, and each has only a small share of the market. For example, many athletic shoe manufacturers, including Nike,
New Balance, Under Armour, vigorously compete with one another to offer consumers some unique benefit—even though only Adidas (at least for now) offers you a $250 computerized running shoe that senses how hard the ground is where you are running and adapts to it.

4. Finally, perfect competition exists when there are many small sellers, each offering basically the same good or service. In such industries, no single firm has a significant impact on quality, price, or supply. Although true conditions of perfect competition are rare, agricultural markets (in which there are many individual farmers, each producing the same corn or jalapeno peppers) come the closest. Even in the case of food commodities, though, there are opportunities for marketers to distinguish their offerings. Egg-Land’s Best Inc., for example, says it feeds its hens a high-quality, all-vegetarian diet, so the eggs they lay contain less cholesterol and six times more vitamin E than regular eggs. It brands each egg with a red “EB” seal. The company scrambled the competition when it created an “egg-straordinary” difference where none existed before.

The Technological Environment

The technological environment profoundly affects marketing activities. Of course, the Internet is the biggest technological change in marketing within recent times. It allows consumers to buy virtually anything they want (and even some things they don’t want) without ever leaving home. Increasingly, marketers use social media such as Facebook and Twitter to have two-way conversations with customers and prospective customers. And distribution has improved because of automated inventory control afforded by advancements such as bar codes, RFID (radio frequency identification) chips, and computer light pens. RFID chips are electronic tags or labels that can be placed on objects, people, or even a pet to relay identifying information to an electronic reader by means of radio waves. RFID tags, like bar codes, are used to identify items, but unlike bar codes, they can be embedded within packages or items and can be read even when hidden in the back of a stockroom or high on a shelf.

Successful marketers continuously scan the external business environment in search of ideas and trends to spark their own research efforts. When inventors feel they have come across something exciting, they usually want to protect their exclusive right to produce and sell the invention by applying for a patent. This is a legal document that grants inventors exclusive rights to produce and sell a particular invention in that country.

The Political and Legal Environment

The political and legal environment refers to the local, state, national, and global laws and regulations that affect businesses. Legal and regulatory controls can be prime motivators for many business decisions. Although firms that choose to remain at home have to worry about local regulations only, global marketers must understand more complex political issues that can affect how they are allowed to do business around the world.

American Laws

Laws in the U.S. governing business generally have two purposes. Some, such as the Sherman Antitrust Act and the Wheeler-Lea Act, make sure that businesses compete fairly with each other. Others, such as the Food and Drug Act and the Consumer Products Safety Commission Act, make sure that businesses don’t take advantage of consumers. Although some businesspeople argue that excessive legislation only limits competition, others say that laws ultimately help firms because they maintain a level playing field for businesses and support troubled industries.

Table 2.3 lists some of the major federal laws that protect and preserve the rights of U.S. consumers and businesses. Federal and state governments have created a host of regulatory
### Table 2.3 Significant American Legislation Relevant to Marketers

<table>
<thead>
<tr>
<th>Law</th>
<th>Purpose</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sherman Antitrust Act (1890)</td>
<td>Developed to eliminate monopolies and to guarantee free competition. Prohibits exclusive territories (if they restrict competition), price fixing, and predatory pricing.</td>
</tr>
<tr>
<td>Food and Drug Act (1906)</td>
<td>Prohibits harmful practices in the production of food and drugs.</td>
</tr>
<tr>
<td>Clayton Act (1914)</td>
<td>Prohibits tying contracts that require a dealer to take other products in the seller's line. Prohibits exclusive dealing if it restricts competition.</td>
</tr>
<tr>
<td>Robinson-Patman Act (1936)</td>
<td>Prohibits price discrimination (offering different prices to competing wholesalers or retailers) unless cost justified.</td>
</tr>
<tr>
<td>Wheeler-Lea Amendment to the FTC Act (1938)</td>
<td>Revised the FTC Act. Makes deceptive and misleading advertising illegal.</td>
</tr>
<tr>
<td>Lanham Trademark Act (1946)</td>
<td>Protects and regulates brand names and trademarks.</td>
</tr>
<tr>
<td>Fair Packaging and Labeling Act (1966)</td>
<td>Ensures that product packages are labeled honestly.</td>
</tr>
<tr>
<td>Consumer Credit Protection Act (1968)</td>
<td>Protects consumers by requiring full disclosure of credit and loan terms and rates.</td>
</tr>
<tr>
<td>Fair Credit Reporting Act (1970)</td>
<td>Regulates the use of consumer credit reporting.</td>
</tr>
<tr>
<td>Prescription Drug Marketing Act (1987)</td>
<td>Prevents introduction and retail sale of substandard, ineffective, or counterfeit drugs.</td>
</tr>
<tr>
<td>Children's Television Act (1990)</td>
<td>Limits the amount of TV commercials aired on children's programs.</td>
</tr>
<tr>
<td>Nutrition Labeling and Education Act (1990)</td>
<td>Requires that new food labeling requirements be set by the Food and Drug Administration.</td>
</tr>
<tr>
<td>National Do Not Call Registry (2003)</td>
<td>Established by the Federal Trade Commission to allow consumers to limit number of telemarketing calls they receive.</td>
</tr>
<tr>
<td>Controlling the Assault of Non-Solicited Pornography and Marketing Act of 2003 (CAN-SPAM)</td>
<td>While it makes spam legal, the CAN-SPAM Act regulates commercial e-mail and makes misleading e-mail illegal.</td>
</tr>
<tr>
<td>Credit Card Accountability, Responsibility, and Disclosure Act of 2009</td>
<td>Bans unfair rate increases, prevents unfair fee traps, requires disclosures be in plain language, and protects students and young people.</td>
</tr>
<tr>
<td>The Affordable Care Act of 2013</td>
<td>Mandates health care coverage for Americans who do not receive benefits through an employer. Revises insurance regulations by eliminating denial of coverage for preexisting conditions, ending lifetime limits on coverage, and so on.</td>
</tr>
<tr>
<td>Data Broker and Accountability Act of 2014 (DATA Act)</td>
<td>Gives consumers access to files of personal information a data broker compiles, the ability to correct inaccuracies, and the chance to opt out of the sale of that data to other companies.</td>
</tr>
</tbody>
</table>
Table 2.4 | U.S. Regulatory Agencies and Responsibilities

<table>
<thead>
<tr>
<th>Regulatory Agency</th>
<th>Responsibilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumer Product Safety Commission (CPSC)</td>
<td>Protects the public from potentially hazardous products. Through regulation and testing programs, the CPSC helps firms make sure their products won’t harm customers.</td>
</tr>
<tr>
<td>Environmental Protection Agency (EPA)</td>
<td>Develops and enforces regulations aimed at protecting the environment. Such regulations have a major impact on the materials and processes that manufacturers use in their products and thus on the ability of companies to develop products.</td>
</tr>
<tr>
<td>Federal Communications Commission (FCC)</td>
<td>Regulates telephone, radio, and TV. FCC regulations directly affect the marketing activities of companies in the communications industries, and they have an indirect effect on all firms that use broadcast media for marketing communications.</td>
</tr>
<tr>
<td>Federal Trade Commission (FTC)</td>
<td>Enforces laws against deceptive advertising and product labeling regulations. Marketers must constantly keep abreast of changes in FTC regulations to avoid costly fines.</td>
</tr>
<tr>
<td>Food and Drug Administration (FDA)</td>
<td>Enforces laws and regulations on foods, drugs, cosmetics, and veterinary products. Marketers of pharmaceuticals, over-the-counter medicines, and a variety of other products must get FDA approval before they can introduce products to the market.</td>
</tr>
<tr>
<td>Interstate Commerce Commission (ICC)</td>
<td>Regulates interstate bus, truck, rail, and water operations. The ability of a firm to efficiently move products to its customers depends on ICC policies and regulations.</td>
</tr>
</tbody>
</table>

agencies—government bodies that monitor business activities and enforce laws. Table 2.4 lists some of the agencies whose actions affect marketing activities.

Sometimes firms learn the hard way that government watchdog activities can put a stop to their marketing plans. The Federal Trade Commission (FTC), for example, cried foul over ads from the makers of four weight-loss products in a sting aptly titled “Operation Failed Resolution.” While the makers of Sensa advertised that users could simply sprinkle the product on their food, eat, and lose weight, the FTC charged that there was no competent or reliable scientific evidence to back up the claims. Now it’s Sensa that’s on the end of a losing battle. In addition to settling with the FTC and paying a $26.5 million fine, the product’s manufacturer is banned from making such statements in the future unless it can produce two clinical trials that provide evidence to back up the product’s claims.14

Political Constraints on Trade

Global firms know that the political actions a government takes can drastically affect their business operations. At the extreme, of course, when two countries go to war, the business environment changes dramatically.

Short of war, a country may impose economic sanctions that prohibit trade with another country (as the U.S. has done with several countries, including Cuba, North Korea, and, more recently, Russia) so that access to some markets may be cut off. In some situations, internal pressures may prompt the government to take over the operations of foreign companies that do business within its borders. Nationalization occurs when the domestic government reimburses a foreign owned company (often not for the full value) for its assets after taking it over. One of the more famous examples of nationalization occurred when Egyptian president Gamal Abdel Nasser nationalized the Suez Canal Company in 1956. Similarly, following World War II, Germany and other European countries nationalized privately owned businesses.

Expropriation is when a domestic government seizes a foreign company’s assets without any reimbursement (and that firm is just out of luck). In 1959, following the Cuban Revolution, the Cuban government expropriated all foreign-owned private companies, most of which were owned by U.S. companies or individuals. To keep track of the level of political stability or instability in foreign countries, firms often engage in formal or informal analyses.

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**nationalization**
When a domestic government reimburses a foreign company (often not for the full value) for its assets after taking it over.

**expropriation**
When a domestic government seizes a foreign company’s assets without any reimbursement.
of the potential political risk in various countries or hire specialized consulting firms to do this for them. Today, many firms are monitoring the stability of the governments in the Middle East where governments have changed due to the revolutions of the Arab Spring.

**Regulatory Constraints on Trade**

Governments and economic communities regulate what products are allowed in the country, what products should be made of, and what claims marketers can make about them. Other regulations ensure that the host country gets a piece of the action. **Local content rules** are a form of protectionism that stipulates that a certain proportion of a product must consist of components supplied by industries in the host country or economic community. For example, Brazil has recently tightened its local content rules regarding the manufacture and assembly of wind turbines. Under these rules, a minimum of 70 percent of the steel plates and 100 percent of the cement used to build the towers must be of Brazilian origin. In addition, the tower’s nacelles (the assemblies that house the machinery) must be assembled locally. Such rules ensure that Brazil is able to create more domestic manufacturing jobs for its citizens.

**Human Rights Issues**

Some governments and companies are vigilant about denying business opportunities to countries that mistreat their citizens. They are concerned about conducting trade with local firms that exploit their workers or that keep costs down by employing children or prisoners for slave wages or by subjecting workers to unsafe working conditions, like locked factory doors. Nike, once the poster child for unsafe labor practices, has spent almost two decades admitting to and correcting its formerly abusive practices with increased wages and factory audits, among others, and is now a company others can learn from and look up to.

The **U.S. Generalized System of Preferences (GSP)** is a program Congress established to promote economic growth in the developing world. GSP regulations allow developing countries to export goods duty free to the U.S. The catch is that each country must constantly demonstrate that it is making progress toward improving the rights of its workers. On the other side of the coin, the low wages that U.S. firms can pay to local workers often entices them to expand or entirely move their operations overseas. Although they provide needed jobs, some companies have been criticized for exploiting workers when they pay wages that fall below local poverty levels, for damaging the environment, or for selling poorly made or unsafe items to consumers.

**The Sociocultural Environment**

The **sociocultural environment** refers to the characteristics of the society, the people who live in that society, and the culture that reflects the values and beliefs of the society. Whether at home or in global markets, marketers need to understand and adapt to the customs, characteristics, and practices of its citizens. Basic beliefs about cultural priorities, such as the role of family or proper relations between the sexes, affect people’s responses to products and promotional messages in any market.

**Demographics**

The first step toward understanding the characteristics of a society is to look at its **demographics**. These are statistics that measure observable aspects of a population, such as population size, age, gender, ethnic group, income, education, occupation, and family structure. The information
Applying Sustainability

Keith knows that creating enthusiasm and support for the Earthwards® process will not be easy. Johnson & Johnson’s 127,000 employees around the globe represent a wide variety of cultural values and norms. While sustainability may be important to developed countries such as the U.S., employees in LDCs and developing countries may not see much value in sustainable product development.

Cultural values
A society’s deeply held beliefs about right and wrong ways to live.

Collectivist cultures
Cultures in which people subordinate their personal goals to those of a stable community.

Individualist cultures
Cultures in which people tend to attach more importance to personal goals than to those of the larger community.

Social norms
Specific rules dictating what is right or wrong, acceptable or unacceptable.

demographic studies reveal is of great value to marketers when they want to predict the size of markets for many products, from home mortgages to brooms and can openers. We’ll talk more about how demographic factors impact marketing strategies in Chapter 7.

Values
Every society has a set of cultural values, or deeply held beliefs about right and wrong ways to live, that it imparts to its members. Those beliefs influence virtually every aspect of our lives, even the way we mark the time we live them. For example, for most Americans, punctuality is a core value; indeed, business leaders often proclaim that “time is money.” For countries in Latin America and other parts of the world, this is not at all true. If you schedule a business meeting at 10:00, you can be assured most people will not arrive until around 10:30—or later.

These differences in values often explain why marketing efforts that are a big hit in one country can flop in another. Italian housewives spend about five times as many hours per week as do their American counterparts on household chores. On average, they wash their kitchen and bathroom floors at least four times a week. Their dedication to cleaning is reflected in their support for the Earthwards® process will not be easy. Johnson & Johnson’s 127,000 employees around the globe represent a wide variety of cultural values and norms. While sustainability may be important to developed countries such as the U.S., employees in LDCs and developing countries may not see much value in sustainable product development.

Marketers often “borrow” imagery from other cultures to communicate with local customers. This ad is for a Mexican restaurant in Brazil.

Social Norms
Values are general ideas about good and bad behaviors. From these values flow social norms, or specific rules that dictate what is right or wrong, acceptable or unacceptable, within a society. Social norms indicate what ways to dress, how to speak, what to eat (and how to eat), and how to behave.

A custom dictates the appropriate hour at which the meal should be served—many Europeans, Middle Easterners, and Latin Americans do not begin dinner until around 9:00 p.m. or later, and they are amused by American visitors whose stomachs growl by 7:00 p.m. Customs tell us how to eat the meal, including such details as the utensils, table etiquette, and even the appropriate apparel for dinnertime (no thongs at the dinner table!).

Conflicting customs can be a problem when U.S. marketers try to conduct business in other countries where executives have different ideas about what is proper or expected. These difficulties even include body language; people in Latin countries tend to stand much closer to each other than do Americans, and they will be insulted if their counterpart tries to stand farther away. In many countries, even casual friends greet each other with a kiss (or two) on the cheek. In the U.S., one should kiss only a person of the opposite sex—and one kiss only, please. In Spain and other parts of Europe, kissing includes a kiss on each cheek for both people of the same and the opposite sex, while in the Middle East, unless a very special friend, it is unacceptable for a man to kiss a woman or a woman to kiss a man. Instead, it is the norm to see two men or two women holding hands or walking down the street with their arms entwined.
Language

The language barrier is one obvious problem that confronts marketers who wish to break into foreign markets. Travelers abroad commonly encounter signs in tortured English, such as a note to guests at a Tokyo hotel that said, “You are invited to take advantage of the chambermaid”; a notice at a hotel in Acapulco that proclaimed, “The manager has personally passed all the water served here”; or a dry cleaner in Majorca that urged passing customers to “drop your pants here for best results.”

These translation snafus are not just embarrassing. They can affect product labeling and usage instructions, advertising, and personal selling as well. It’s vital for marketers to work with local people who understand the subtleties of language to avoid confusion.

Consumer Ethnocentrism

Ethnocentrism refers to the belief that one’s own national or ethnic group is superior to others. Similarly, consumer ethnocentrism refers to consumers’ beliefs about products produced in their country versus those from another. Consumers may feel that products from their own country are superior, or they may feel it is wrong, immoral, or unpatriotic to buy products produced in another country. Consumer ethnocentrism can cause consumers to be unwilling to try products made elsewhere. For example, the French tend to be a bit finicky about their cuisine, and they evaluate food products from other countries critically. However, the upscale British department store Marks & Spencer is making inroads in France by selling English-style sandwiches, such as egg and watercress on whole-wheat bread, and ethnic dishes, such as chicken tikka masala. Young office workers view these as convenience foods, and they are less expensive than the traditional French loaf split down the middle and lathered with butter and ham or Camembert cheese.

Is the World Flat or Not?

How “Global” Should a Global Marketing Strategy Be?

Going global is not a simple task. Even a company known for its keen marketing prowess can make blunders when it reaches beyond its familiar borders. Disney, for example, learned several lessons from mistakes it made when it opened Hong Kong Disneyland:20

• Bigger is better. Unlike giant American parks, which Chinese visitors are accustomed to, Hong Kong Disneyland is Disney’s smallest park, easily seen in a single day.

• Cinderella who? Chinese visitors know characters from recent movies like Toy Story, but they didn’t grow up hearing about Cinderella, so that emotional connection to Disney’s traditional characters is lacking, even though they’re seen throughout the park.

• Speak the language. Songs, like those from The Lion King, are sung in Cantonese and English but not Mandarin. That means a significant number of young visitors not only get left out but also are left feeling lost.

If a firm decides to expand beyond its home country, it must make important decisions about how to structure its business and whether to adapt its product marketing strategy to accommodate local needs. First, the company must decide on the level of its commitment, which dictates the type of entry strategy it will use. Is the firm better off to simply export to another country, to partner with another firm, or to go it alone in the foreign market? It also has to make specific decisions about the marketing mix for a particular product. In this final
section, we’ll consider issues related to these two crucial aspects of global strategy: decisions at the company level and the product level.

Company-Level Decisions: The Market Entry Strategy

Just like a romantic relationship, a firm must determine the level of commitment it is willing to make to operate in another country. This commitment ranges from casual involvement to a full-scale “marriage.” At one extreme the firm simply exports its products, while at the other extreme it directly invests in another country by buying a foreign subsidiary or opening its own stores or manufacturing facility. This decision about the extent of commitment entails a trade-off between control and risk. Direct involvement gives the firm more control over what happens in the country, but its risk also increases if the operation is not successful.

Let’s review four globalization strategies representing increased levels of involvement: exporting, contractual arrangements, strategic alliances, and direct investment. Table 2.5 summarizes these options.

Table 2.5  Market-Entry Strategies

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Exporting Strategy</th>
<th>Contractual Agreements</th>
<th>Strategic Alliances</th>
<th>Direct Investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Level of risk</td>
<td>Low</td>
<td>Medium</td>
<td>Medium</td>
<td>High</td>
</tr>
<tr>
<td>Level of control options</td>
<td>Low</td>
<td>Medium</td>
<td>Joint venture, where firm and local partner pool their resources</td>
<td>High</td>
</tr>
<tr>
<td>Options</td>
<td>Sell on its own</td>
<td>Licensing</td>
<td>Local franchisee avoids barriers to entry</td>
<td>Complete ownership often buying a local company</td>
</tr>
<tr>
<td></td>
<td>Rely on export merchants</td>
<td>License a local firm to produce the product</td>
<td>Limit financial investment and risk</td>
<td>Avoid import restrictions</td>
</tr>
<tr>
<td>Advantages</td>
<td>Low investment, so presents the lowest risk of financial loss</td>
<td>Franchising</td>
<td>Easy access to new markets</td>
<td>Preferential treatment by governments and other entities</td>
</tr>
<tr>
<td></td>
<td>Can control quality of product</td>
<td>A local firm adopts your entire business model</td>
<td>Limit financial investment and risk</td>
<td>Maximum freedom and control</td>
</tr>
<tr>
<td></td>
<td>Avoid difficulties of producing some products in other countries</td>
<td>Local franchisee avoids barriers to entry</td>
<td>Limit financial investment and risk</td>
<td>Avoid import restrictions</td>
</tr>
<tr>
<td>Disadvantages</td>
<td>May limit growth opportunities</td>
<td>Lose control over how product is produced and marketed, which could tarnish company and brand image</td>
<td>Franchisee may not use the same-quality ingredients or procedures, thus damaging brand image</td>
<td>High level of financial risk</td>
</tr>
<tr>
<td></td>
<td>Perceived as a “foreign” product</td>
<td>Potential unauthorized use of formulas, designs, or other intellectual property</td>
<td></td>
<td>Highest level of commitment and financial risk</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Potential for nationalization or expropriation if government is unstable</td>
</tr>
</tbody>
</table>

Choosing a market-entry strategy is a critical decision for companies that want to go global. Decisions vary in terms of risk and control.
Exporting

If a firm chooses to export, it must decide whether it will attempt to sell its products on its own or rely on intermediaries to represent it in the target country. These specialists, or export merchants, understand the local market and can find buyers and negotiate terms. An exporting strategy allows a firm to sell its products in global markets and cushions it against downturns in its domestic market. Because the firm actually makes the products at home, it is able to maintain control over design and production decisions.

Contractual Agreements

The next level of commitment a firm can make to a foreign market is a contractual agreement with a company in that country to conduct some or all of its business there. These agreements take several forms. Two of the most common are licensing and franchising:

1. In a licensing agreement, a firm (the licensor) gives another firm (the licensee) the right to produce and market its product in a specific country or region in return for royalties on goods sold. Because the licensee produces the product in its home market, it can avoid many of the barriers to entry that the licensor would have encountered. However, the licensor also loses control over how the product is produced and marketed, so if the licensee does a poor job, this may tarnish the company’s reputation. Often licensors must provide the licensee with its formulas, designs, or other intellectual property, thus risking unauthorized use for production of copied products.

2. Franchising is a form of licensing that gives the franchisee the right to adopt an entire way of doing business in the host country. Again, there is a risk to the parent company if the franchisee does not use the same-quality ingredients or procedures, so firms monitor these operations carefully. McDonald’s, perhaps the best known of all franchises, has over 34,000 restaurants that serve nearly 70 million people in more than 100 countries daily. In India, where Hindus do not eat beef, the McDonald’s menu features vegetarian specialties such as McAloo Tikki (a spiced-potato burger); in Morocco, you can order a McArabia (a pita bread sandwich); and in Malaysia, you can sample some Bubur Ayam (chicken strips in porridge).

Strategic Alliances

Firms that choose to develop an even deeper commitment to a foreign market enter a strategic alliance with one or more domestic firms in the target country. These relationships often take the form of a joint venture: Two or more firms create a new entity to allow the partners to pool their resources for common goals. Strategic alliances also allow companies easy access to new markets, especially because these partnerships often bring with them preferential treatment in the partner’s home country. For example, after a business partnership in which lifestyle company Hakkasan Group (founded in London) opened a successful restaurant and nightclub at Las Vegas hotel and casino MGM Grand, the two companies decided to extend their partnership. And so with the union of MGM Resorts International and Hakkasan Group, MGM Hakkasan Hospitality, was born. The new company, which includes the Bellagio, Hakkasan, MGM Grand, and Skylofts brands, aims to build luxury, nongaming hotels across the globe, starting with developments in the Americas and the United Arab Emirates.

Direct Investment

An even deeper level of commitment occurs when a firm expands internationally through ownership, often when it buys a business in the host country outright. Instead of starting from scratch in its quest to become multinational, buying part or all of a domestic firm allows a foreign firm to take advantage of a domestic company’s political savvy and market position in the host country.
Sometimes firms have no option other than to invest directly in a local business. In most countries, McDonald’s purchases its lettuce and pickles from local farms. When the company entered Russia in 1990, there were no private businesses to supply the raw ingredients for its burgers. McDonald’s had to build its own facility, the McComplex, outside Moscow. As the country’s economy booms, however, domestic businesses develop to take up the slack. Today, McDonald’s purchases 80 percent of its ingredients from local farmers, some of whom have become millionaires as a result.24

The Marketing Mix Strategies
In addition to “big-picture” decisions about how a company will operate in other countries, managers must decide how to market their product in each country. Do they need to modify or create new four Ps—product, price, promotion, and place—to suit local conditions?

Standardization versus Localization
When they go global, marketers ask such questions as these:

1. To what extent will the company need to adapt its marketing communications to the specific styles and tastes of each local market?
2. Will the same product appeal to people there?
3. Will it have to be priced differently?
4. And, of course, how does the company get the product into people’s hands?

Let’s consider each of these questions in turn. The executive in charge of giant VF Corporation’s overseas operations recently observed that when most American brands decide to branch out to other countries, they “tend to take every strategy used in their home market—products, pricing, marketing—and apply it in the same way.” VF, which owns several fashion brands, including Tommy Hilfiger and Nautica, discovered that this doesn’t necessarily work very well because local tastes can differ so dramatically. On the other hand, Spanish fashion retailer Zara, which prides itself on being able to design, manufacture, and deliver new clothing designs to its stores within just two weeks, provides trendy consumers the same designs worldwide.25

So which strategy is right? Advocates of standardization argue that the world has become so small that basic needs and wants are the same everywhere. A focus on the similarities among cultures certainly is appealing. After all, if a firm doesn’t have to make any changes to its marketing strategy to compete in foreign countries, it will realize large economies of scale because it can spread the costs of product development and promotional materials over many markets. Widespread, consistent exposure also helps create a global brand because it forges a strong, unified image all over the world—Coca-Cola signs are visible on billboards in London and on metal roofs deep in the forests of Thailand.

In contrast, those in favor of localization feel that the world is not that small; you need to tailor products and promotional messages to local environments. These marketers argue that each culture is unique, with a distinctive set of behavioral and personality characteristics. For example, Egyptians like their beverages very sweet, but alcoholic beverages are prohibited for Muslims. When the Al Ahram Beverage Company introduced its Farouz brand beer alternative—a super-sweet nonalcoholic malt...
beverage—the local firm enjoyed surprising success. In less than five years, Farouz captured a 12 percent market share from giants Coke and Pepsi.

To P or Not to P: Tweak the Marketing Mix
Once a firm decides whether it will adopt standardization or a localization strategy, it is time to plan for the four Ps.

Product Decisions
One company in China is betting on the success of its TV series Fei Cheng Wu Rao (If You Are the One) in international markets such as Italy and Spain. The popular dating show, which is known for its ability to “arouse public interest in many contemporary issues,” has already toured Australia, the U.S., South Korea, and France. Whether it will truly take off across the globe is yet to be seen, but the show’s producers are hopeful.

A firm has three localization/standardization choices when it decides on a product strategy:

1. Sell the same product in the new market.
2. Modify it for that market.
3. Develop a brand-new product to sell there.

A straight extension strategy retains the same product for domestic and foreign markets. The Apple iPod is a good example of a straight extension strategy. No matter where you go in the world, every iPod is basically the same. A product adaptation strategy recognizes that in many cases people in different cultures do have strong and different product preferences. Sometimes these differences can be subtle yet important. In South Korea, for example, the familiar pink and orange neon Dunkin’ Donuts sign beckons customers inside to sample its gourmet coffee and traditional glazed donuts, but also on the menu is more Korean fare, such as black rice donuts, jalapeño sausage pie donuts, and rice sticks.27

A product invention strategy means a company develops a new product as it expands to foreign markets. In some cases, a product invention strategy takes the form of backward invention. For example, there are still nearly one and a half billion people or over 20 percent of the world’s population who have no access to reliable electricity, primarily in Africa, Asia, and the Middle East. This provides a challenge for firms to develop products such as refrigerators and air-conditioning systems that can operate without electric power.28

Many of these people use kerosene lamps for light that are hazardous to both themselves and the environment. Here are just a few startling statistics:

• Fumes from kerosene lamps kill approximately 1.5 million African women and children annually.

• More than 1.5 million people in India suffer burns from kerosene lamps each year.

• Kerosene lamps burn fossil fuels and emit carbon dioxide (over two pounds annually when used daily for four hours), contributing to greenhouse gas emissions.29

To combat these and other serious problems cocreators Jim Reeves and Martin Riddiford developed the $5 GravityLight, a small, batteryless LED that is powered by gravity. The light, which is attached to a bag filled with up to 28 pounds of sand, dirt, or rock (or whatever you

Local customs provide opportunities for product invention strategies. Most American consumers would not be familiar with this Indian product: Cooling hair oil.
have handy), works when the bag is hoisted into the air. As gravity pulls the weight of the bag downward, a notched belt spins a series of gears that drives the motor for the light. After you’ve used up approximately 25 minutes of light, you simply raise up the weight for another go. As long as you’ve got a little muscle, you’ve got sustainable light. Gravity-Lights are currently being tested in 25 countries around the world.

Promotion Decisions
Marketers must also decide whether it’s necessary to modify how they speak to consumers in a foreign market. Some firms endorse the idea that the same message will appeal to everyone around the world, while others feel the need to customize it. Unilever, maker of Lipton tea, is doing a bit of both in its first-ever global ad campaign to encourage its current and would-be tea drinkers to “Be More Tea”—that is, to “get off autopilot.” The ads, which star Kermit the Frog from The Muppets, target both hot-tea and iced-tea drinkers. While all of the global ads will include the same “Be More Tea” slogan (or translations thereof), only those global markets where The Muppets is well known will feature ads starring Kermit.

Price Decisions
It’s often more expensive to manufacture a product in a foreign market than at home. This is because there are higher costs stemming from transportation, tariffs, differences in currency exchange rates, and the need to source local materials. To ease the financial burden of tariffs on companies that import goods, some countries have established free trade zones. These are designated areas where foreign companies can warehouse goods without paying taxes or customs duties until they move the goods into the marketplace.

One danger of pricing too high is that competitors will find ways to offer their product at a lower price, even if they do so illegally. Gray market goods are items that are imported without the consent of the trademark holder. While gray market goods are not counterfeit, they may be different from authorized products in warranty coverage and compliance with local regulatory requirements. The Internet offers exceptional opportunities for marketers of gray market goods ranging from toothpaste to textbooks. But, as the saying goes, “If it seems too good to be true, it probably is.” Consumers may be disappointed when they find that gray market goods may not be of the same quality, so the deal they got may not look as good after they take delivery.

Another unethical and often illegal practice is dumping, through which a company prices its products lower than it offers them at home. This removes excess supply from home markets and keeps prices up there. And dumping isn’t relegated to just retail products like the solar panels we discussed earlier—agricultural products can be dumped, too. For example, starting in late 2012, one Chinese company “flooded” the U.S. market with 60 million pounds of “cheap garlic.” California, a large U.S. grower of garlic, said it just couldn’t compete with Chinese prices because of the state’s high property values and U.S. food safety laws. Now that’s a stinky situation!

Place/Distribution Decisions
Getting your product to consumers in a remote location can be quite a challenge. It’s essential for a firm to establish a reliable distribution system if it’s going to succeed in a foreign market. Marketers used to dealing with a handful of large wholesalers or retailers in their domestic market may have to rely instead on thousands of small “mom-and-pop” stores or distributors, some of whom transport goods to remote rural areas on oxcarts, wheelbarrows, or bicycles. In LDCs, marketers may run into problems when they want to package, refrigerate, or store goods for long periods.

Even the retailing giant Walmart occasionally stumbles when it expands to new markets. In 2013, Walmart backed out of its joint venture to open several new retail stores in
India. In India, investment rules mandate that foreign retailers, like Walmart, purchase 30 percent of their products from local small businesses, for example. Rather than face fines for being noncompliant, Walmart put its India expansion plans on hold.33

Ethics Is Job One in Marketing Planning

It’s hard to overemphasize the importance of ethical marketing decisions. Businesses touch many stakeholders, and they need to do what’s best for all of them where possible. On a more selfish level, unethical decisions usually come back to bite you later. The consequences of low ethical standards become very visible when you consider the number of highly publicized corporate scandals that have made news headlines since the turn of the century. In the past few years alone, Walmart was the target of an investigation by the U.S. Department of Justice regarding bribes it allegedly made to get its hands on permits to open new stores in Mexico, JPMorgan Chase shelled out almost $1 billion in fines as a result of its “London Whale” scandal, and pharmaceutical company GlaxoSmithKline plead guilty to the promotion of its drugs for unapproved uses, failure to report safety data, and improper reporting.

The fallout from these and other cases raises the issue of how damaging unethical practices can be to society at large. The business press is filled with articles about accountability, corporate accounting practices, and government regulation as the public and corporate worlds rethink what we define as ethical behavior. When major companies defraud the public, everyone suffers. Thousands of people lose their jobs, and in many cases the pensions they counted on to support them in retirement vanish overnight.

Other stakeholders are punished as well, including stockholders who lose their investments and consumers who end up paying for worthless merchandise or services. Even confidence in our political system suffers, as was the case with the 2007–2008 government bailouts of major financial institutions while some of these same firms continued to pay managers healthy performance bonuses.34

While these examples of unethical businesses make headlines, there are many examples of highly ethical companies. Since 2011, Forbes magazine has published the Ethisphere Institute’s list of the world’s most ethical companies. Of the 600 companies nominated in 2013, only 144 made the list. Some shining examples from the U.S. include 3M Company (the maker of Post-It Notes), Kellogg Company, Microsoft Corporation, UPS, and Visa. What did these companies have to do to earn their way onto the list? To start, companies had to have robust corporate compliance programs as well as strong corporate social responsibility programs, and they had to be free of any pending legal charges. Other stringent requirements made sure that only the best of the best made the list.

Ethical Philosophies

Of course, what constitutes ethical behavior is often different for different people. We can point to various ethical philosophies and look at how each guides people to make their decisions. Table 2.6 presents a few of these different philosophies and how they reflect on ethical decision making.

For example, if one uses utilitarianism as a means of making a decision on different safety features to include in a new product, the ethical choice is the one that provides the most good and the least harm. As another example, the fairness or justice approach suggests that the ethical decision about employee compensation is to pay everyone the same or to be able to justify why one salary is higher than another.
Of course, there are other factors that influence behavior. Ethical relativism suggests that what is ethical in one culture is not necessarily the same as in another culture. In other words, what is right or wrong is relative to the moral norms within the culture. Business leaders who have experienced a sheltered life in American companies are often shocked to find that they cannot expect the same ethical standards of others in the global community. Westerners, for example, are often painfully honest. If an American business contact cannot meet a deadline or attend a meeting or provide the needed services, he or she will normally say so. In other cultures the answer, even if untrue, will always be “yes.” Westerners see such dishonest answers as unethical, but in some areas of the world, people just believe saying “no” to any request is extremely rude—even if there’s no way they intend to honor the request.

### Codes of Business Ethics

Ethics are rules of conduct—how most people in a culture judge what is right and what is wrong. Business ethics are basic values that guide a firm’s behavior. These values govern all sorts of marketing planning decisions that managers make, including what goes into their products, where they source raw materials, how they advertise, and what type of pricing they establish. Developing sound business ethics is a major step toward creating a strong relationship with customers and others in the marketplace.

With many rules about doing business—written and unwritten—floating around, how do marketers know what upper management, investors, and customers expect of them? In order to answer this question definitively, many firms develop their own code of ethics—written standards of behavior to which everyone in the organization must subscribe—as part of the planning process. These documents eliminate confusion about what the firm considers to be ethically acceptable behavior by its people and also set standards for how the organization interacts with its stakeholders. For example, AT&T’s Code of Business Conduct, an 11-page document available via its Web site at www.att.com, details its commitments to honesty.

### Table 2.6 | Some Common Ethical Philosophies

<table>
<thead>
<tr>
<th>Ethical Philosophy</th>
<th>Description of the Ethical Decision</th>
<th>Questions for Decision Making</th>
</tr>
</thead>
<tbody>
<tr>
<td>Utilitarian approach</td>
<td>The decision that provides the most good or the least harm (i.e., the best balance of good and harm).</td>
<td>Which option will produce the most good and do the least harm?</td>
</tr>
</tbody>
</table>
| Rights approach                  | The decision that does the best job of protecting the moral rights of all affected. These include the following:  
  - The rights to decide what kind of life to lead  
  - The right to be told the truth  
  - The right not to be injured  
  - The right to privacy | Which option best respects the rights of all who have a stake?                                    |
| Fairness or justice approach     | The decision that treat all human beings equally—or, if unequally, then fairly based on some standard that is defensible. | Which option treats people equally?                                                               |
| Common good approach             | The decision that contributes to the good of all in the community.                                  | Which option best serves the community as a whole, not just some members?                        |
| Virtue approach                  | The decision is in agreement with certain ideal virtues. Honesty, courage, compassion, generosity, tolerance, love, fidelity, integrity, fairness, self-control, and prudence are all examples of virtues. | Which option leads me to act as the sort of person I want to be?                                  |

**utilitarian approach**
Ethical philosophy that advocates a decision that provides the most good or the least harm.

**rights approach**
Ethical philosophy that advocates the decision that does the best job of protecting the moral rights of all.

**fairness or justice approach**
Ethical philosophy that advocates the decision that treats all human beings equally.

**common good approach**
Ethical philosophy that advocates the decision that contributes to the good of all in the community.

**virtue approach**
Ethical philosophy that advocates the decision that is in agreement with certain ideal values.

**ethical relativism**
Suggests that what is ethical in one culture is not necessarily the same as in another culture.

**business ethics**
Basic values that guide a firm’s behavior.

**code of ethics**
Written standards of behavior to which everyone in the organization must subscribe.
and to each other (to act with integrity and create a safe workplace), to the business and its shareholders (to work lawfully and to protect physical assets and intellectual property), to its customers (to follow ethical sales practices and guard customer communications), to its communities (to be responsible for the environment), to others (to maintain integrity in recording and reporting and to comply with antitrust laws), and to the code itself.35

To help marketers adhere to ethical behavior in their endeavors, the American Marketing Association (AMA) developed the code of ethics that we reproduce in Table 2.7. Note that this code spells out norms and expectations relating to all aspects of the marketing process, from pricing to marketing research.

Table 2.7 Statement of Ethics

<table>
<thead>
<tr>
<th>Ethical Norms and Values for Marketers</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>PREAMBLE</strong></td>
</tr>
<tr>
<td>The American Marketing Association commits itself to promoting the highest standard of professional ethical norms and values for its members (practitioners, academics, and students). Norms are established standards of conduct that are expected and maintained by society and/or professional organizations. Values represent the collective conception of what communities find desirable, important, and morally proper. Values also serve as the criteria for evaluating our own personal actions and the actions of others. As marketers, we recognize that we not only serve our organizations but also act as stewards of society in creating, facilitating, and executing the transactions that are part of the greater economy. In this role, marketers are expected to embrace the highest professional ethical norms and the ethical values implied by our responsibility toward multiple stakeholders (e.g., customers, employees, investors, peers, channel members, regulators, and the host community).</td>
</tr>
</tbody>
</table>

| **ETHICAL NORMS**                     |
| As Marketers, we must:                |
| 1. **Do no harm.** This means consciously avoiding harmful actions or omissions by embodying high ethical standards and adhering to all applicable laws and regulations in the choices we make. |
| 2. **Foster trust in the marketing system.** This means striving for good faith and fair dealing so as to contribute toward the efficacy of the exchange process as well as avoiding deception in product design, pricing, communication, and delivery of distribution. |
| 3. **Embrace ethical values.** This means building relationships and enhancing consumer confidence in the integrity of marketing by affirming these core values: honesty, responsibility, fairness, respect, transparency, and citizenship. |

| **ETHICAL VALUES**                    |
| **Honesty**—to be forthright in dealings with customers and stakeholders. To this end, we will: |
| • Strive to be truthful in all situations and at all times. |
| • Offer products of value that do what we claim in our communications. |
| • Stand behind our products if they fail to deliver their claimed benefits. |
| • Honor our explicit and implicit commitments and promises. |
| **Responsibility**—to accept the consequences of our marketing decisions and strategies. To this end, we will: |
| • Strive to serve the needs of customers. |
| • Avoid using coercion with all stakeholders. |
| • Acknowledge the social obligations to stakeholders that come with increased marketing and economic power. |
| • Recognize our special commitments to vulnerable market segments such as children, seniors, the economically impoverished, market illiterates, and others who may be substantially disadvantaged. |
| • Consider environmental stewardship in our decision making. |
| **Fairness**—to balance justly the needs of the buyer with the interests of the seller. To this end, we will: |
| • Represent products in a clear way in selling, advertising, and other forms of communication; this includes the avoidance of false, misleading, and deceptive promotion. |
| • Reject manipulations and sales tactics that harm customer trust. |
| • Refuse to engage in price fixing, predatory pricing, price gouging, or “bait-and-switch” tactics. |
| • Avoid knowing participation in conflicts of interest. |
| • Seek to protect the private information of customers, employees, and partners. |

(continues)
Is Marketing Unethical?

Most marketers want to be ethical. Some behave ethically because it’s the right thing to do, while others are motivated by a desire not to get into trouble with consumers or government regulators. Still there are examples of questionable or unethical marketing. We’ll discuss some of these criticisms here:

1. **Marketing serves the rich and exploits the poor:** Many marketers are concerned about their bottom line, but they also want to provide a better quality of life for all consumers, that is, the societal marketing concept that we discussed in Chapter 1. But there are exceptions. For example, because of decreasing sales of cigarettes in developed countries, tobacco companies target smokers in LDCs and developing countries and thus contribute to the health problems of those populations. In Indonesia, there is limited regulation of tobacco products, so cigarette ads run freely on TV and litter billboards, and cartoon characters show up on packaging—all practices that are banned in developed countries like the U.S.36

2. **Products are not safe:** Whether marketers are truly dedicated to providing their customers with the safest products possible or because of the fear of government regulation and liability issues, most firms do make safe products and, if they find a problem, quickly notify customers and recall the defective product. GM, however, in 2014 found

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### Ethical Norms and Values for Marketers

**Respect**—to acknowledge the basic human dignity of all stakeholders. To this end, we will:

- Value individual differences and avoid stereotyping customers or depicting demographic groups (e.g., gender, race, sexual orientation) in a negative or dehumanizing way.
- Listen to the needs of customers and make all reasonable efforts to monitor and improve their satisfaction on an ongoing basis.
- Make every effort to understand and respectfully treat buyers, suppliers, intermediaries, and distributors from all cultures.
- Acknowledge the contributions of others, such as consultants, employees, and coworkers, to marketing endeavors.
- Treat everyone, including our competitors, as we would wish to be treated.

**Transparency**—to create a spirit of openness in marketing operations. To this end, we will:

- Strive to communicate clearly with all constituencies.
- Accept constructive criticism from customers and other stakeholders.
- Explain and take appropriate action regarding significant product or service risks, component substitutions or other foreseeable eventualities that could affect customers or their perception of the purchase decision.
- Disclose list prices and terms of financing as well as available price deals and adjustments.

**Citizenship**—to fulfill the economic, legal, philanthropic, and societal responsibilities that serve stakeholders. To this end, we will:

- Strive to protect the ecological environment in the execution of marketing campaigns.
- Give back to the community through volunteerism and charitable donations.
- Contribute to the overall betterment of marketing and its reputation.
- Urge supply chain members to ensure that trade is fair for all participants, including producers in developing countries.

**IMPLEMENTATION**

We expect AMA members to be courageous and proactive in leading and/or aiding their organizations in the fulfillment of the explicit and implicit promises made to those stakeholders. We recognize that every industry sector and marketing sub-discipline (e.g., marketing research, e-commerce, Internet selling, direct marketing, and advertising) has its own specific ethical issues that require policies and commentary. An array of such codes can be accessed through links on the AMA Web site. Consistent with the principle of subsidiarity (solving issues at the level where the expertise resides), we encourage all such groups to develop and/or refine their industry and discipline-specific codes of ethics to supplement these guiding ethical norms and values.

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The American Marketing Association helps its members adhere to ethical standards of business through its Code of Ethics.

**Source:** Copyright © American Marketing Association.
itself embroiled in a huge scandal after it chose in 2005 not to recall 2.6 million cars with ignition switches that were known to be faulty. Instead, GM continued to use the switches, which could cut off power to the engine, disabling the airbags and power steering and brakes. The faulty switches were linked to at least 13 deaths.37

3. Poor-quality products: Many people bemoan the loss of U.S. manufacturing, feeling that imported products such as textiles and furniture are of poor quality. Product quality, however, is determined by what consumers want in a product. Do you want a refrigerator that lasts 50 years? Home appliance manufacturers could design and sell that, but would consumers be willing to pay what it would cost? Until consumers are willing to pay for higher quality, marketers have to provide products at the prices consumers want.

4. Planned obsolescence: In order to remain profitable, marketers must offer new products after an existing product has been on the market a period of time. For example, just when we all decided we had to trade in our old HCD TV for an LED smart TV, the OLED (organic light-emitting diode) TVs are hitting the market at prices beginning around $5,000. For many people, this is a good thing, as it increases their pleasure and enjoyment of TV. Others who can’t tell the difference in picture quality can choose to spend their hard-earned money on other things.

5. Marketing creates interest in products that pollute the environment: Yes, it is true that those gas-guzzling SUVs remain on the market and that commercial fertilizers, pesticides, and insecticides continue to pollute the environment as farmers try to produce more and better food. Many would argue, however, that those chemicals would not be available unless there were a demand for them.

6. Easy consumer credit makes people buy things they don’t need and can’t afford: Many are concerned about businesses such as payday loan and car title loan companies that charge interest rates that can exceed 400 percent annually. Their customers typically are people with limited financial resources and even less knowledge about how to manage their money. We even know of an entrepreneur who leases tires to consumers who can’t afford to buy them. Of course, by the time the tires are paid off, the customer has spent enough to buy several sets of tires.

When Is a Bribe Not a Bribe? Ethical Issues for Global Business

Whether the organization operates in one’s own home market or in a global environment, marketers face ethical dilemmas on an almost daily basis. Thus, understanding the environment where you do business means you need to stay on top of the ethical values and norms of the business culture in the marketplace—often not an easy task. Indeed, there are vast differences in what people around the world consider ethical business behavior.

In many LDCs and developing countries, salaries for midlevel people are sadly very low; the economy runs on a system we would call blatant bribery. Some of these “payments” are only petty corruption, and the “favors” are inconsequential, while others may involve high-level government or business officials and can have devastating consequences. If you need to park your car or your delivery truck illegally where there is no parking space, you give a little money to the policeman. If the shopkeeper wants the policeman to watch out for his store, he gives the policeman a shirt from his stock once in a while. If an importer wants to get her merchandise out of customs before it spoils, she pays off the government worker who can hold up her shipment for weeks. And if someone wants the contract to build a new building or wants an unsafe building to pass inspection—well, you get the idea.

**Bribery** occurs when someone voluntarily offers payment to get an illegal advantage. **Extortion** occurs when someone in authority extracts payment under duress. Some
businesspeople give bribes to speed up required work, secure a contract, or avoid having a contract canceled. Such payments are a way of life in many countries because many people consider them as natural as giving a waiter a tip for good service. The Foreign Corrupt Practices Act of 1977 (FCPA), however, puts U.S. businesses at a disadvantage because it bars them from paying bribes to sell overseas. The FCPA does, however, allow payments for “routine governmental action . . . such as obtaining permits, licenses, or other official documents; processing governmental papers, such as visas and work orders; [and] providing police protection.” But the FCPA does not permit payment to influence “any decision by a foreign official to award new business or to continue business with a particular party.”

So under U.S. rules, bribes are out.

Transparency International, an anticorruption organization, publishes an annual survey, the Bribe Payers Index, that measures the propensity of firms from 30 various countries to pay bribes. Table 2.8 provides the results of a recent survey and shows that even among developed countries, there is great variation in the frequency of this practice. Top countries include the Netherlands, Switzerland, Belgium, Germany, and Japan. The most likely to engage in bribery abroad are China and Russia.

Table 2.8 The Transparency International 2011 Bribe Payers Index: Some Winners and Some Losers

<table>
<thead>
<tr>
<th>2011 Country Rank</th>
<th>Country</th>
<th>2011 BPI Score*</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Netherlands</td>
<td>8.8</td>
</tr>
<tr>
<td>1</td>
<td>Switzerland</td>
<td>8.8</td>
</tr>
<tr>
<td>3</td>
<td>Belgium</td>
<td>8.7</td>
</tr>
<tr>
<td>4</td>
<td>Germany</td>
<td>8.6</td>
</tr>
<tr>
<td>4</td>
<td>Japan</td>
<td>8.6</td>
</tr>
<tr>
<td>10</td>
<td>U.S.</td>
<td>8.1</td>
</tr>
<tr>
<td>15</td>
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*A lower score such as those for China and Russia indicates a higher propensity to pay bribes.


Sustainability: Marketers Do Well by Doing Good

In Chapter 1, we saw that many firms today have adopted a triple-bottom-line orientation. These firms don’t just look at their financial successes but also focus on how they contribute to their communities (their social bottom line) and create sustainable business practices (the environmental bottom line). Today, many believe that sustainability is no longer an option. It’s necessary, it’s happening, and it will continue to be a part of strategic planning into the future.
Why are sustainable business practices so important? It’s really simple. All of the things we need today or in the future to maintain life as we know it depend on the natural resources of our planet—air, water, our mineral resources in the earth, and ore reserves that we mine. Today, our earth’s population continues to grow at staggering rates. Economic growth, especially the growth in developing countries, means we consume our natural resources at higher rates. The massive growth of developing countries like China and India doesn’t just provide expanding marketing opportunities; the growing middle classes in these countries look at the lives the consumers of developed countries and want that same life, thus creating even greater levels of unsustainable consumption.

**Sustainability Is a Sensible Business Decision**

To understand sustainable marketing better, we might go back to the marketing concept: identifying and satisfying consumer needs to ensure the organization’s long-term profitability. Sustainability adds to this the need of the firm to sustain itself and the long-term future of society. Sustainable companies that satisfy the long-term needs of customers will survive. Those organizations that fail to meet customer needs or that intentionally or unintentionally harm consumers, harm others in society, and/or the needs of future generations will not be around for long.

Today we see an increasing number of firms moving toward greater sustainability by increasing operational efficiencies, decreasing use of raw materials, conserving energy, increasing the use of recycled materials, and preventing the discharge of wastes into the natural and social environment. General Mills, for example, stopped using genetically modified organism (GMO) crops in Cheerios. IKEA launched an ad campaign in the U.K. to get consumers to swap incandescent light bulbs for LEDs to save energy. Levi-Strauss, Walmart, and Nike are working to clean up their industries. Levi-Strauss not only practices sustainability in cotton fields and its supply chain but designs its products this way as well. Levi’s Wasteless jeans are made from recycled plastic bottles. Nike’s FlyKnit shoes use yarn instead of leather uppers, which also creates less waste.

**Ripped from the Headlines**

**Ethical/Sustainable Decisions in the Real World**

You’re headed out to the store to purchase a new pair of denim jeans. But where do you go? And what do you do with the old ones you no longer wear? Why not go to H&M and trade in your worn-out jeans for a discount?

H&M, the world’s second-largest clothing retailer, rolled out a global garment recycling program that allows consumers with a conscience to bring in a bag of their old clothes—any brand, any condition—in exchange for a 15 percent discount on the next item they purchase.

But H&M’s green efforts don’t just stop as it saves used clothing from ending up in landfills (more than 7.7 million pounds of unwanted wares have been collected so far). In its latest initiative, the company used recycled fibers to launch a new line of jeans and other denim products. These items contain up to 20 percent recycled cotton.

H&M is the epitome of a company “doing well while doing good.” Sales after the launch of its recycling program actually increased because the discount encouraged shoppers to buy even more jeans and other apparel from the store.

**Ethics Check**: Find out what other students taking this course would do and why at mymktlab.com.

Are you more likely to shop at a store that offers recycling?

☐ YES ☐ NO
Developing a Sustainable Marketing Mix

We can examine how some companies already implement sustainable marketing practices to gather some clues about the best ways to do that as we tweak our target marketing and Four Ps to do well by doing good:

- **Target marketing strategies**: Marketers need to understand the attitudes of their customers toward sustainability. What is the potential market for sustainability-focused goods and services? What environmentally friendly products will consumers be likely to purchase, and which will they not? Then they can successfully target **green customers**—those consumers who are most likely to actively look for and buy products that are eco-friendly.

- **Product strategies**: Sustainable product strategies include the production of more environmentally friendly products, such as electric automobiles, and the use of environmentally friendly and recycled materials in products and in packaging. Long-term sustainability requires that marketers also understand how consumers use, store, and dispose of products. Some firms also strive to choose **fair trade** suppliers. This term refers to companies that pledge to pay a fair price to producers in developing countries, to ensure that the workers who produce the goods receive a fair wage, and to ensure that these manufacturers rely where possible on environmentally sustainable production practices.

- **Price strategies**: Many consumers would like to buy green products, but they don’t because the price is higher than comparable traditional products. Sustainable marketing practices aim to establish prices for green products that are the same or close to the prices of other products. A truly sustainable strategy actually reduces prices in the long term because it encourages more efficiency and less waste.

- **Place/distribution strategies**: Sustainable distribution strategies can include retailers who focus on a reduction in the use of energy in order to benefit from both monetary savings and the loyalty of green consumers. Both producers and retailers can choose to buy from nearby suppliers to reduce dependence on long-haul trucking, which is a major source of air pollution. Within the food industry in particular, the growing trend of **locavorism** means that many shoppers actively look for products that come from farms within 50 to 100 miles of where they live.

- **Promotion strategies**: The most obvious sustainable promotion strategies are those that inform customers of the firm’s commitment to the planet and future generations through advertising and other messages. But there are other opportunities. The cost of creating a TV commercial is enormous and may take two or three days of shooting to complete. Some firms have begun to “reuse” old commercials while letting customers know that this is their way of practicing sustainability.

Sustainable Customer Behavior

A sustainability approach doesn’t end with an improvement in manufacturing processes. Marketers also need to understand what will motivate customers to seek out, pay for, and use sustainable options. Many but certainly not all consumers, like corporations, do buy products that minimize the use of natural resources; encourage the use of recycled, reused, and repurposed products; purchase fair trade and organic food; use environmentally friendly cleaning products and toiletries not tested on animals; and
share cars, even at the expense of higher prices, less convenience, and lower product performance. Consumers can be an important part of sustainable marketing practices when they do the following:

- Become knowledgeable about environmental concerns, product offerings that are more environmentally friendly, and firms that have a focus on sustainability
- Purchase and use green products and choose products that come in green packaging, including these:
  - Products that use less energy and less water
  - Products made from recycled materials
- Use products such as detergents in the amounts suggested or less
- Reuse products when possible
- Recycle clothing, appliances, household items, and even larger items, such as automobiles, by giving them to organizations that will distribute them for use by others rather than consigning them to a junkyard
- Dispose of all products—including hazardous ones—in an appropriate manner

Sustainability metrics are tools that measure the benefits an organization achieves through the implementation of sustainability. Unfortunately, unlike many widely used financial metrics, today there is no standardized method of measuring the other two elements of the triple bottom line. Hence, it is extremely hard to compare one company working toward sustainability with another. The social capital metrics are possibly the hardest set of metrics to develop—there are simply too many variables to measure societal progress, and, as a result, it is extremely difficult to develop standardized metrics. Nevertheless, here are five examples of fairly common sustainability metrics:

- Material intensity: Pounds of material wasted per unit of organizational output
- Energy intensity: Net fuel energy in BTUs consumed to provide organizational heat and power requirements
- Water consumption: Gallons of fresh water consumed per unit of organizational output
- Toxic emissions: Pounds of toxic materials emitted in the process of creating organizational output
- Pollutant (greenhouse gas) emissions: Pounds of pollutants emitted in the process of creating organizational output

Complementary metrics within each of these categories can be developed by a firm to customize a dashboard of metrics to meet its needs.

Apply the Metrics

1. Today most large firms have a section on their website that points to their sustainability initiative. Select any large company that manufactures products (i.e., not a purely service firm like a bank or retail store). Review their website and find their section on sustainability (if the first firm you select doesn’t have one, pick another firm to investigate).
2. What are several of the key specific activities the firm points to as evidence that they are engaged in sustainability-related activities?
3. What specific evidence do they report (i.e., what metrics do you find reported) that quantify their level of success in sustainability?
Why do you think Keith chose option 2?

Keith chose option 2, as he decided it was the most scalable solution; that is, it would be able to communicate about the program to the maximum number of Johnson & Johnson employees. By developing a custom online resource, branding it effectively (www.earthwards.jnj.com), and making the tools more approachable and easier to use, Keith's team drove 100 percent gains in awareness from 7 percent in 2012 to 14 percent of all J&J employees in 2013.

How Johnson & Johnson Measures Success

The Earthwards® intranet site was one of the first in the company to integrate Google analytics tracking. This means the group is able to track visitors, visits, downloads, and other key metrics it combines into a weighted average it tracks monthly called Website Engagement. This engagement index increased by 84 percent from 2012 to 2013.

Table 2.9 summarizes actual visits to the intranet site during this period. These metrics allow Keith and his team to assess on an ongoing basis how effective their efforts are to drive changes in sustainability marketing across a huge company.

| Metrics                  | 2012 Average | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sept | Oct | Nov | Dec | 2013 Average | Change (%) | Weight (%) | Weighted Average |
|--------------------------|--------------|-----|-----|-----|-----|-----|-----|-----|-----|------|------|-----|-----|-----|--------------|------------|------------|-----------------|
| Visits                   | 440          | 760 | 472 | 670 | 1,155 | 764 | 801 | 854 | 690 | 795  | 1019 | 816 | 650 | 787          | 78.90       | 30         | 23.67           |
| Visitors                 | 197          | 313 | 209 | 279 | 489  | 270 | 269 | 354 | 290 | 328  | 467  | 366 | 320 | 330          | 67.26       | 30         | 20.18           |
| New Visitors (%)         | 29.1         | 27.8 | 25  | 28.5 | 30.6 | 24.1 | 22.7 | 26.6 | 29.97| 28   | 34.45 | 31.71| 30.1 | 28           | 28.45       | 10         | 84.28           |
| Pageviews                | 1,940        | 2,931 | 1,873 | 3,492 | 7,495 | 4,945 | 7,071 | 5,895 | 2,777 | 5,432 | 5,022 | 3,983 | 2,600 | 4458         | 129.77      | 30         | 38.93           |
| Avg. Time on Site (s)    | 358          | 297 | 433 | 544 | 473  | 545  | 592 | 495 | 419 | 584  | 396  | 372 | 368 | 460          | 28.45       | 10         | 2.84            |
| Bounce Rate (%)          | 36.08        | 46.63 | 44.07 | 37.22 | 34.81 | 30.5 | 30.1 | 38.6 | 39.47| 41.37 | 47.51 | 41.23 | 47.5 | 40           | 10.64       | -10        | -1.06           |
| Mon. Click through rate  |              | 41% | 33% | NA  | NA  | 27% | 20% | 13% |

Refer back to page 32 for Keith’s story.

MyMarketingLab™

Go to mymktlab.com to complete the problems marked with this icon as well as additional Marketing Metrics questions only available in MyMarketingLab.
1. Objective Summary (pp. 34–36)
Understand the big picture of international marketing and the decisions firms must make when they consider globalization.

The increasing amount of world trade—the flow of goods and services among countries—may take place through cash, credit payments, or countertrade. A decision to go global often comes when domestic market opportunities dwindle and the firm perceives likelihood for success in foreign markets due to a competitive advantage. After a firm has decided to go global, they must consider which markets are most attractive, what market-entry strategy is best, and how to best develop the marketing mix.

Key Terms

world trade, p. 34
countertrade, p. 35

2. Objective Summary (pp. 37–38)
Explain how both international organizations such as the World Trade Organization (WTO) and economic communities and individual country regulations facilitate and limit a firm’s opportunities for globalization.

Established by the General Agreement on Tariffs and Trade (GATT) in 1984, the World Trade Organization with its 159 members seeks to create a single open world market where trade flows “smoothly, predictably and freely as possible.” Some governments, however, adopt policies of protectionism with rules designed to give home companies an advantage. Such policies may include trade quotas, embargoes, or tariffs that increase the costs of foreign goods. Many countries have banded together to form economic communities to promote free trade.

Key Terms

General Agreement on Tariffs and Trade (GATT), p. 37
World Trade Organization (WTO), p. 37
protectionism, p. 37
import quotas, p. 37
embargo, p. 38
tariffs, p. 38
economic communities, p. 38

3. Objective Summary (pp. 39–49)
Understand how factors in a firm’s external business environment influence marketing strategies and outcomes in both domestic and global markets.

The economic environment refers to the economic health of a country that may be gauged by its gross domestic product (GDP) and its economic infrastructure, its level of economic development, and its stage in the business cycle. Marketers use competitive intelligence to examine brand, product, and discretionary income competition in the microenvironment. They also consider the structure of the industry that is competition in the macroenvironment. A country’s political and legal environment includes laws and regulations that affect business. Marketers must understand any local political constraints, that is, the prospects for nationalization or expropriation of foreign holdings, regulations such as local content rules, and labor and human rights regulations. Because technology can affect every aspect of marketing, marketers must be knowledgeable about technological changes, often monitoring government and private research findings. Marketers also examine a country’s sociocultural environment, including demographics, values, social norms and customs, language, and ethnocentricity. The ethical environment in some countries can cause problems for marketers if they do not understand the differences in the ethical perspective of such things such as honesty. In many least developed and developing countries, corruption is a major stumbling block for Western businesses. Bribery and extortion present ethical dilemmas for U.S. companies who must abide by the Foreign Corrupt Practices Act of 1977 (FCPA).

Key Terms

gross domestic product (GDP), p. 40
foreign exchange rate (forex rate), p. 40
economic infrastructure, p. 41
level of economic development, p. 41
standard of living, p. 41
least developed country (LDC), p. 41
developing countries, p. 41
bottom of the pyramid (BOP), p. 41
sachet, p. 41
BRIC countries, p. 41
developed countries, p. 42
Group of 8 (G8), p. 42
4. Objective Summary (pp. 49–55)

Explain some of the strategies and tactics that a firm can use to enter global markets.

Different foreign-market-entry strategies represent varying levels of commitment for a firm. Exporting of goods entails little commitment but allows little control over how products are sold. Contractual agreements such as licensing or franchising allow greater control. With strategic alliances through joint ventures, commitment increases. Finally, the firm can choose to invest directly by buying an existing company or starting a foreign subsidiary in the host country. Firms that operate in two or more countries can choose to standardize their marketing strategies by using the same approach in all countries or choose to localize by adopting different strategies for each market. The firm needs to decide whether to sell an existing product, change an existing product, or develop a new product. In many cases, the promotional strategy, the pricing strategy, the place/distribution strategy, and the product itself must be tailored to fit the needs of consumers in another country.

Key Terms

export merchants, p. 51  
franchising, p. 51  
strategic alliance, p. 51  
joint venture, p. 51  
straight extension strategy, p. 53

5. Objective Summary (pp. 55–60)

Understand the importance of ethical marketing practices.

Ethical business practices are important in order for the firm to do the best for all stakeholders and to avoid the consequences of low ethical standards the firm and to society. Differing philosophies of ethics provide different results in ethical decision making. Business ethics, values that guide a firm, are often used to develop a business code of ethics. While most marketers do make ethical decisions, there are examples of actions that justify some of the criticisms of marketing. In many countries, bribery and extortion are an accepted way of doing business.

Key Terms

utilitarian approach, p. 56  
rights approach, p. 56  
fairness or justice approach, p. 56  
common good approach, p. 56  
virtue approach, p. 56  
ethical relativism, p. 56  
business ethics, p. 56  
code of ethics, p. 56  
bribery, p. 59  
 extortion, p. 59

6. Objective Summary (pp. 60–63)

Explain the role of sustainability in marketing planning.

With growing world populations and increasing demand for products, sustainable business practices are necessary for life in the future. Many firms practice sustainability when they develop target marketing, product, price, place/distribution, and promotion strategies designed to protect the environment and the future of our communities.

Key Terms

green customers, p. 62  
fair trade, p. 62  
locavorism, p. 62  
sustainability metrics, p. 63
Chapter 2 | Global, Ethical, and Sustainable Marketing

Chapter Questions and Activities

Concepts: Test Your Knowledge

2-1. Describe the market conditions that influence a firm’s decision to enter foreign markets.

2-2. Explain what world trade means. What is the role of the WTO and economic communities in encouraging free trade? What is protectionism? Explain import quotas, embargoes, and tariffs.

2-3. Explain how GDP, the categories of economic development, and the business cycle influence marketers’ decisions in entering global markets. What are the BRIC countries? What is the Group of Eight (G8)?

2-4. Explain the types of competition marketers face: discretionary income competition, product competition, and brand competition.

2-5. What are a monopoly, an oligopoly, monopolistic competition, and pure competition?

2-6. What aspects of the political and legal environment influence a firm’s decision to enter a foreign market? Why are human rights issues important to firms in their decisions to enter global markets?

2-7. What do marketers mean when they refer to technological and sociocultural environments? What is RFID, and how does it improve marketing? Why do they need to understand these environments in a global marketplace?

2-8. What is ethnocentrism? What is consumer ethnocentrism?

2-9. Describe the four levels of involvement that are options for a firm: exporting, contractual agreements, strategic alliances, and direct investment.

2-10. What are the arguments for standardization of marketing strategies in the global marketplace? What are the arguments for localization? What are some ways a firm can standardize or localize its marketing mix?

2-11. Describe the utilitarianism, rights, fairness or justice, common good, and virtue approaches to ethical decision making. What is ethical relativism?

2-12. Why is it increasingly important that firms engage in sustainability? What are some ways strategies for the four Ps can include sustainability?

Activities: Apply What You’ve Learned

2-13. In Class, 10–25 Minutes for Teams Tide laundry detergent, McDonald’s food, and Dell computers are very different U.S. products that are marketed globally. Develop ideas about why the marketers for each of these products

   a. Standardize product strategies.

   b. Localize product strategies.

   c. Standardize promotion strategies.

   d. Localize promotion strategies.

2-14. Creative Homework/Short Project You work for a company that manufactures and sells low-cost mobile phones. Think about how the firm’s offering in the product category would need to differ for LDCs, developing countries, and developed countries. Develop a proposal that provides recommendations for the product, pricing, promotion, and placement/distribution in each of these different markets.

2-15. In Class, 10–25 Minutes for Teams Consider the pros and cons of localization and standardization of marketing strategies. Are the advantages and disadvantages different for different products? In different countries? Organize a debate in your class to argue the merits of the standardization perspective versus the localization perspective.

2-16. In Class, 10–25 Minutes for Teams Assume you are the director of marketing for a firm that produces tablets. Your firm is considering going after the Indian market and is faced with the decision of the best entry strategy. Should they simply export their products, or would a strategic alliance, licensing, or a joint venture be a better choice? Develop your ideas for a best entry strategy. Be specific in your recommendations for a strategy, how to implement the strategy, and your reasons for your recommendations.

2-17. Creative Homework/Short Project Consumer ethnocentrism is the tendency for individuals to prefer products from one’s own culture. Sometimes people think products made at home are better than imported goods. Develop a small study to find out what students at your university think about products made at home and abroad. Develop a survey that asks other students to evaluate 10 or more products (not brands) that are imported versus made at home. You might wish to ask if they feel the domestic or imported products are superior in quality and which they would purchase. Prepare a report on your study for your class.

2-18. In Class, 10–25 Minutes for Teams Some people argue that our environment is not in jeopardy and that sustainability efforts will only make products more expensive. Plan a debate in your class with two teams, one arguing for sustainability efforts and one against.

2-19. For Further Research (Individual) Your sporting equipment company is looking to purchase raw materials from either a U.K.-based or a Japan-based supplier. Determine the current forex rate for both countries as well as what the average forex rate is for the past five years. Based solely on the information you collect about the forex rate, explain which supplier you would choose to do business with and why.

2-20. For Further Research (Groups) You are part of an up-and-coming coffeehouse chain in the U.S., and you know that you need to participate in competitive intelligence activities to learn more about your competitors. Using the Internet, collect at least five distinct pieces of information about either Starbucks or Dunkin’ Donuts that will enable you to improve your marketing strategy.

Apply Marketing Metrics

Many Western firms see their futures in the growing populations of developing countries, where 8 out of 10 consumers now live. Consumers from the BRIC countries—Brazil, Russia, India, and China—offer new opportunities for firms
because growing numbers of them are accumulating significant amounts of disposable income. Firms such as worldwide cosmetics giant Beiersdorf, the producer of Nivea products, are adapting their products and their marketing activities to meet the needs of these populations. Often this means selling miniature or even single-use sachet packages of shampoo, dishwashing detergent, or fabric softer for only a few cents. The huge Swiss company Nestlé sells shrimp-flavored instant soup cubes for two cents each in Ghana, while the financial company Allianz, in a joint program with CARE, sells microinsurance for five cents a month to the very poor in India.

How do these firms measure their success in these new markets? Firms in developed countries normally use standard marketing metrics such as customer awareness, customer satisfaction, increases in market share or profits, or return on customer investment or return on marketing investment. But these metrics are based on standard market-entry strategies with full-size products and correspondingly typical pricing and promotional strategies—very different from the approach just described. Hence, these metrics are likely not too useful for the new markets in the developing world, where many millions of people buy streamlined versions of a firm’s products at a fraction of their usual price.

2-21. Do you think the approach described above is effective for entering BRIC markets to appeal to consumers with small but growing disposable income?

2-22. How would the success of this approach be better measured—that is, what metrics would be more useful than the typical metrics used in developed countries? Be creative and develop a list of several possible metrics that firms might use to measure their success in these new developing markets. Hint: Keep closely in mind what firms hope to accomplish by increasing their presence and sales in those markets.

**Choices: What Do You Think?**

2-23. Critical Thinking What role has technology played in the globalization of businesses? Has technology leveled the economic playing field, or has it merely increased the distance between the “haves” and the “have-nots”? Give at least one example of each and explain your position.

2-24. Ethics Do you think U.S. firms should be allowed to use bribes to compete in countries where bribery is an accepted and legal form of doing business? Why or why not?

2-25. Critical Thinking Some countries have been critical of the exporting of American culture by U.S. businesses. What about American culture might be objectionable? Can you think of some products that U.S. marketers export that can be objectionable to some foreign markets?

2-26. Critical Thinking The WTO seeks to eventually remove all barriers to world trade. Do you think this will ever be a reality? What do you think are the positive and negative aspects of a totally free marketplace? Which countries will win and which will lose in such a world?

2-27. Critical Thinking In 1999, several single European nations banded together to form the European Union and converted their individual monetary systems over to the euro. Do you believe there will ever be other economic communities that would follow this path? Explain your reasoning and, if necessary, provide some possible examples. What about the possibility of a single world currency? Could this happen? Why or why not?

2-28. Ethics Ethical relativism suggests that what is ethical in one culture may not be considered ethical in another. What should the attitude of businesses be when differences occur? Should businesses follow the ethical values and practices of their own country or of the host country? What should governments do about this if anything? What is the role of the WTO?

2-29. Ethics Review the AMA Code of Ethical Norms and Values for Marketers, provided in the chapter. Which of the areas represented within the document do you anticipate are the most challenging for marketers to consistently follow? What makes these issues particularly troublesome? Do you think marketing in general does a good job adhering to the AMA Code? Provide specific evidence from your knowledge and experience to support your position.

**Miniproject: Learn by Doing**

The purpose of this miniproject is to gain experience in understanding what it takes to move a product that is successful in its home market into a global market in which it will continue to be successful. Assume that you oversee a number of up-and-coming hair salons and have decided to take your services global.

2-30. Describe your local competitive advantage and why you believe this competitive advantage will serve you globally.

2-31. Determine which global market(s) is most attractive for your service. Will you target a single country or an economic community? Describe your reasoning.

2-32. Decide which market-entry strategy you will pursue. Again, explain your reasoning.

2-33. Describe your marketing mix strategy:
- How might you need to adapt your services?
- What product decisions do you need to make?
- How will you promote your services?
- How will you price your services?
- What place/distribution decisions must you consider?

Prepare a short presentation to share with your class.

**Marketing in Action Case**

**Real Choices at Mattel**

In 1945, Mattel’s founders, Ruth and Elliot Handler, were manufacturing picture frames out of a garage workshop. The couple also ran a side business making dollhouse furniture from the frame scraps; this became so successful that they turned to making toys. Ten years later, Mattel began advertising its toys through the Mickey Mouse Club TV show and thus revolutionized the way toys were sold. In 1959, Ruth Handler, noting her own daughter Barbara’s love for cutout paper dolls, created the idea of a three-dimensional paper doll. Barbie was born and very quickly propelled Mattel to the forefront of the toy industry.
industry. The 1960s saw Mattel grow with such new products as Barbie’s boyfriend Ken, See-and-Say toys, and Hot Wheels toy cars. Mattel became a global company in the 1980s with the purchase of Hong Kong–based ARCO industries; Corolle, SA, a maker of collector-quality dolls based in France; a British company, Corgi Toys Ltd; and a joint venture with Japan’s largest toy company, Bandai.

The company’s responsibility mission states, “Mattel’s Corporate Responsibility mission is to positively impact our people, our products and our planet by playing responsibly. This commitment resonates in our actions and through our company values each and every day.” In 2013, Mattel was ranked number two among Corporate Responsibility magazine’s “100 Best Corporate Citizens.” Mattel and the Mattel Children’s Foundation made a total cash donation of $750,000 for multiyear disaster support to Save the Children and the American Red Cross. In addition, over 10,000 Mattel employees have engaged in social impact activities to make a meaningful difference in the lives of children globally.

Nevertheless, despite Mattel’s actions to support children and the resulting recognition, there are some problems with Mattel’s corporate responsibility record. In 2007, Mattel commissioned Chinese companies to produce its products. By August, Mattel was forced to recall 1.5 million of its Fisher-Price toys, including such favorites as Elmo and Big Bird, because they were suspected of containing hazardous levels of lead paint. Later in August, Mattel recalled over 19 million more Chinese-made toys because they contained magnets that could be swallowed by children or because they were made with dangerous lead paint. In 2010, Mattel recalled over 10 million of its Fisher-Price products, including about 7 million Fisher-Price Trikes and Tough Trikes. The tricycles have a plastic handle key near the seat that kids can sit or fall on, potentially leading to injuries. This also included recalls of its little People Wheelies Stand ‘n Play Rampway due to a possible choking hazard.

In 2011, Mattel’s Fisher-Price recalled for repair its Little People Builders’ Load ‘n Go Wagons due to a possible laceration hazard. Both the play rampway and the wagons were manufactured in Mexico and sold in mass-merchandise retail stores nationwide. In 2013, Mattel voluntarily announced a recall to inspect its Fisher-Price Newborn Rock ‘n Play Sleeper. It was discovered that “mold can develop between the removable seat cushion and the hard plastic frame of the sleeper when it remains wet/moist or is infrequently cleaned.”

Such product recalls can damage a firm’s reputation and its bottom line. Mattel must continue to work hard to recover from these incidents. Are apologies and claims for new safety regulations enough? Because some but not all of the recalls were due to production in other countries, should the company stop producing its toys in China and other developing countries where costs are low? Or should Mattel return to its roots and produce the millions of Polly Pockets, “Sarge” toy cars, and Barbie play sets in the U.S., where costs are substantially higher but standards are tougher? How should Mattel protect its social responsibility reputation into the future?

You Make the Call

2-34. What is the decision facing Mattel?
2-35. What factors are important in understanding this decision situation?
2-36. What are the alternatives?
2-37. What decision(s) do you recommend?
2-38. What are some ways to implement your recommendation?


MyMarketingLab™

Go to mymktlab.com for Auto-graded writing questions as well as the following Assisted-graded writing questions:

2-39. Creative Homework/Short Project. As a marketing manager, you must consider whether to delay the production and introduction of a new automobile because of a small problem with the door locks—they could become nonfunctional when temperatures drop very low. Using (1) the utilitarian approach, (2) the rights approach, and (3) the common good approach, what would the different decisions be?

2-40. Ethics. Some companies have been criticized for moving their manufacturing to other countries where laws protecting the environment are more lenient and goods can be produced more cheaply because the firms do not have to invest in ways to protect the environment. What do you think of this practice? What can governments and/or consumers do to prevent such actions?