Activity 19.1 – answer provided on Student’s CD-ROM.

Activity 19.2 (page 374): Zumo the energy drink

1. As a business analyst, write a report to Zumposa’s board of directors recommending an appropriate marketing strategy for this product in your country. It should contain: explanations of global marketing and localisation; advantages and disadvantages of both strategies for this product in your country; details of the changes you would recommend for the marketing strategy in your country. Don’t forget that your marketing strategy should be integrated. [20]

<table>
<thead>
<tr>
<th>Advantages</th>
<th>Disadvantages</th>
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<tbody>
<tr>
<td>Global marketing: A pan-global marketing strategy adopts common products,</td>
<td>• The brand name may not be suitable in all countries, e.g. Plop, a popular</td>
</tr>
<tr>
<td>branding and promotional campaigns across the world.</td>
<td>Swedish chocolate bar, would struggle in the UK market. Does this apply to</td>
</tr>
<tr>
<td>• There will be economies of scale as the product is the same in each</td>
<td>Zumo?</td>
</tr>
<tr>
<td>country. Therefore, purchasing economies of scale can be utilised. No</td>
<td>• Cultural and social differences exist between countries. Zumo may lose</td>
</tr>
<tr>
<td>need for different flavours of Zumo.</td>
<td>sales by trying to sell the same product in all countries.</td>
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<tr>
<td>• Promotional costs will be reduced as the same advertising is used</td>
<td>• Economic differences between countries are significant. Will Zumo be too</td>
</tr>
<tr>
<td>everywhere – thus no need to commission different adverts in different</td>
<td>expensive in less-developed countries?</td>
</tr>
<tr>
<td>countries. Advertising already used in Spain can simply be translated for</td>
<td>• Advertising may lack appeal if it is based on sports stars famous in Spain –</td>
</tr>
<tr>
<td>other markets.</td>
<td>these stars may be relatively unknown in Asia or South America. There are</td>
</tr>
<tr>
<td>• The economy is increasingly globalised and there are fewer and fewer</td>
<td>few globally recognised sports stars.</td>
</tr>
<tr>
<td>differences between tastes in countries around the world.</td>
<td></td>
</tr>
<tr>
<td>• The product may benefit from a common global identity. This has worked</td>
<td></td>
</tr>
<tr>
<td>well for Coca-Cola.</td>
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<table>
<thead>
<tr>
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<th>Disadvantages</th>
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<tbody>
<tr>
<td>Global localisation involves selling products on a global scale but being responsive to local needs. Thus, promotion would be adapted to local needs, as would price and promotion.</td>
<td>• The marketing mix will be more effective as it is adapted to the needs of the local market.</td>
</tr>
<tr>
<td>• Zumo is more likely to meet legal requirements in each country if it is not standardised. For example, laws in the USA regarding food labeling and additives are stronger than in Europe.</td>
<td>• There will be increased costs of adapting the product and marketing to the needs of the local market. Thus price may be higher.</td>
</tr>
<tr>
<td>• The product is less likely to face an anti-globalisation backlash from consumers.</td>
<td>• There is a reduced scope for economies of scale. Different flavours are being produced, reducing the scope for purchasing economies.</td>
</tr>
<tr>
<td>• Zumo is seen as a Spanish product. This may hinder sales in Asia and other parts of the world.</td>
<td></td>
</tr>
</tbody>
</table>

Your marketing strategy will need to identify the 4Ps:

**Product:**
- Is the current product suitable? Is there a need to introduce different flavours to meet the needs of customers in your market?
- How should the product be packaged? What is typical in your market?

**Pricing:**
- To what extent should the price be influenced by competition and the per capita income of the country?

**Promotion:**
- Which sports are popular in the country? Are there well-known sports personalities?
- Are there cultural factors essential to the advertising of the product?

**Place:**
- Should the product be exported directly or should intermediaries be used?

**Branding:**
- Is the name suitable or should a local brand be developed?

**Revision case study 1 (page 375): McDonald's – pan-global strategy or global localisation?**

1. **Explain the likely reasons why McDonald’s decided to enter international markets.**

   Reasons include:
   - Growth is a common objective for businesses to adopt. By operating in international markets, the potential for growth is increased. Growth rates in the
USA may have slowed by the 1970s, so in order to maintain McDonald’s sales growth it was necessary to move into international markets.

- The domestic market may have been saturated and offered no further prospect of growth.
- There would be a need to build shareholder value through increasing the size of the business.
- By entering international markets they would be spreading risks. A presence in international markets reduces the dependency of McDonald’s on the US market. Therefore, if there is a decline in sales in the USA due to worsening economic conditions, the business may still have good sales growth in other markets. For example, in 2008 McDonald’s growth rate was only 4.3% in the USA, whereas it was 9.9% in Asia, the Middle East and Africa.
- Foreign markets may offer opportunities for high-profit growth. Europe has high income levels and so would have been an attractive market. Further, there may not be much competition in new markets where this type of fast food has not been seen.

2 Discuss the advantages and disadvantages to McDonald’s of initially using a pan-global marketing strategy for its restaurants. [10]

<table>
<thead>
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<tbody>
<tr>
<td>Pan-global marketing: A pan-global marketing strategy adopts common products, branding and promotional campaigns across the world.</td>
<td>Cultural and social differences exist between countries. McDonald’s products may be less popular in countries where vegetarian diets are prevalent. Thus, McDonald’s would benefit from adapting menus to suit local needs. The case refers to problems in India where restaurant windows were smashed as Hindus objected to the use of beef fat.</td>
</tr>
<tr>
<td>There will be economies of scale as the product is the same in each country. Therefore, purchasing economies of scale can be utilised. Promotional costs will be reduced as the same advertising is used everywhere – thus no need to commission different adverts in different countries. The economy is increasingly globalised and there are fewer and fewer differences between tastes in countries around the world. The product may benefit from a common global identity. The McDonald’s arches are one of the best-known icons in the world. Thus, they are a powerful marketing tool for the business. The highly standardised product will appeal to many tourists travelling the world.</td>
<td>Economic differences between countries are significant. McDonald’s can appear very expensive in some less-developed countries. McDonald’s is closely associated with the USA. This can act as a constraint on success in some countries. For example, in France there is a particularly strong desire to protect French culture and identity; this made it very difficult for McDonald’s to build its market share. In other countries, there is opposition to what is seen as American business/cultural imperialism and the homogenisation of goods.</td>
</tr>
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</table>
Assume that a new McDonald’s restaurant is planning to open in your town. Evaluate how and why you might adapt the company’s marketing strategy to suit local market conditions. [14]

Any reasonable answer.

Answers should try to identify local conditions that make a change in the marketing strategy worthwhile.

Possible changes to strategy may include:

Product:
- Is there a need to design different menus due to cultural or religious constraints?
- Are there a significant number of vegetarians in the population? Many Hindus are strict vegetarians and, generally, Hindus do not eat beef. Most Muslims require halal meat.
- Will demographics influence demand? For example, a high proportion of older people may require that McDonald’s changes its external signs and seating in the restaurant.
- If the restaurant is to be situated in an historic town, will the external appearance of the premises need to be different from the standard McDonald’s look? There may be strict planning guidelines in some localities.

Price:
- Is the product affordable to local people?
- How much competition is there from established fast-food outlets in the location?

Promotion:
- Can the product be advertised to children? In some countries there may be restrictions on advertising as McDonald’s is seen as contributing to the rise in childhood obesity.
- Does McDonald’s need to distance itself from its American roots?

Essay

1 a  Analyse the impact of increasing globalisation on a business in your country. [10]

Answer should be business specific.

In general, answers may include comment on the following.

Definition of globalisation: this is the trend towards a single world market in goods.
- Increased competition – this can be a significant threat. General Motors, the American car manufacturer, has faced increased competition due to globalisation. As a result of that competition, and the global recession of 2008/09, General Motors was on the verge of collapse. Competition puts pressure on firms to reduce costs and improve products to remain competitive.
• Increased investment opportunities – firms have increased opportunities to invest abroad, e.g. Dyson building factories in other countries. Western European firms such as VW have invested heavily in Eastern Europe following the collapse of communism; VW bought Skoda, the Czech auto manufacturer.

• Increased market size – firms are no longer constrained by the size of the domestic market. For example, Starbucks has expanded rapidly throughout the world. Firms can benefit from economies of scale as a result.

• Impact on operations management – many firms have been forced to move production abroad or to outsource production, leaving the firm to focus on product design. This has happened in the European textile industry, which outsources the labour-intensive activities to Asia, but is more in touch with market trends. Costs are significantly lower in other countries and legal restrictions may be less onerous.

• Supplies – firms can source components and raw materials more easily from around the world. Thus, they are able to cut the costs of production.

• Global shocks – businesses may be increasingly affected by global shocks to the economic system. The financial crisis, which started in the USA in 2007, quickly spread to the rest of the world and has affected most firms.

• Takeovers – firms are increasingly at risk of takeover. For example, Saab, the Swedish car producer, was taken over by General Motors (although in the economic crisis of 2009, General Motors severed its ties with Saab).

• Globalisation – this is not just about trade; it also refers to the migration of workers. This has benefited Australia, which still suffers from a skills shortage in the healthcare, engineering, financial services and IT sectors.

b Evaluate the potential advantages and difficulties a business might experience when selling its products in international markets for the first time. [15]

Advantages:
• There may be the opportunity to profitably expand sales.
• There may be the benefits of economies of scale, e.g. production, purchasing and marketing economies.
• It may be possible to spread risks. A firm’s success becomes less dependent on the domestic economy.
• It may offer the opportunity to break free from saturated domestic markets. As a domestic market reaches saturation, the opportunity for sales growth recedes.
• International markets may not be at the same stage of the business cycle. Thus, if the domestic market is in recession the firm may be able to look to international markets to maintain sales.

Difficulties:
• Cultural differences may require changes to the marketing mix. The example of the changes that McDonald’s has had to make to succeed in France is an excellent example (see Revision case study 1).
• The firm may lack local knowledge to guide its marketing decisions. Acquiring information may be expensive.
• There may be legal differences. Products may need to be modified to conform to standards in the international market. Product safety standards are very high in the USA compared with many other countries.
• Firms may face tariffs and quotas, making it difficult to compete effectively.
• Securing appropriate distribution channels may be difficult and decisions must be made about the best route to the market: Direct export? Through agents? Franchising? Establishing retail outlets?

Further reading
Love, John F., 1995 McDonald’s Behind the Arches. Bantam

Articles on McDonald’s
Business Week:
http://www.businessweek.com/globalbiz/content/jul2008/gb20080717_293203.htm?chan=search

New York Times:

Fortune: