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# GAP Enterprises, Ltd.

## Global Marketing Management

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*The issues identified with today's global  
commerce in spite of the speed and global reach  
of the Internet.*





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## THE ISSUES

Today we have the speed and global reach of the Internet and global communications. Yet we have Global Marketing Management issues, which can be summarized into four areas:

1. Communications, which includes sales & marketing.
2. Technology
3. Logistics and distribution.
4. Legal and financial.

## COMMUNICATIONS

Communications is the bane of expansion efforts by most companies. Often companies forget that folks in other countries speak a different language, have a different culture and often have issues with foreign-owned and foreign-directed management. Communications issues are anything that is involved with getting the message out about a company or product – public relations, advertising, marketing, product positioning – written, visual or spoken words. Surprisingly enough, English is “foreign” to many who speak English!

This is very common with many companies today. I have consulted with many global companies from Europe and Asia. Most have local management in countries where they have operations, but their senior executive team is from the parent company and the communications is often difficult. When we had senior-level meetings, those who spoke the native language of the parent (i.e., French or Chinese) had a distinct advantage.

Outside cultural issues also needs to be identified and addressed. One Chinese company where I consulted, went so far as to introduce Feng Shei, a cultural trait in China, into the US office, which guides the spiritual flow between people and processes and dictates how an office is to be staffed. It was not well-received in the U.S. In Saudi Arabia, women are not normally photographed, for fear of being seen without a veil, which affected Fuji Photo's marketing plans there. Gillette learned that while 80% of men in Indonesia shaved, the average was 5.5 times a month, compared to 12 times a month in Hong Kong and 26 in the U.S. In addition, Asian beards did not grow as fast as Caucasian or Latino beards.

Stories are rampant about the faux pas of companies when they expanded in foreign countries. American Airlines wanted to advertise its new leather first class seats in the Mexican market, it translated its' "Fly in leather" campaign literally, which meant "Fly naked" (vuela en cuero) in Spanish. When Gerber started selling baby food in Africa, they used the same packaging as in the US, with the smiling baby on the label. Later they learned that in Africa, companies routinely put pictures on the labels of what's inside, since many people can't read. Even U.S. President

John F. Kennedy did a major faux pas when speaking in Berlin he said “Ich bein ein Berliner” which he thought was “I am a Berliner” when in fact it was slang for “I am a jelly donut.”

**Sales and Marketing.** It doesn't matter whether companies are selling a product or service, the issues are the same. You need to first identify your target market, then tailor the marketing to that *local* market. In 1991 Mastercard wanted to expand their brand globally, so they chose to sponsor major soccer events. They were leery, since soccer is not so popular in the US, where they recently achieved significant gains (Olympic events are probably the only sporting event that has worldwide appeal). They made sure their local partners participated in the events with media buys directing folks to the events. The cost of this coordinated effort was \$493 million or 1 ½ cents per person, and the results were far better than what could be achieved with only media buys (direct mail, the perennial best method of attaining customers, averages just under \$1 per person). They reached a worldwide television audience of 31.2 billion. The average number of views per person varied between 7.3 in the U.S. to 12.4 in Germany to 15.7 in Brazil. And their brand exposure averaged 8 minutes 16 seconds over 52 matches.

When the Soviet Union collapsed, many companies saw Eastern Europe as the next big market. The people need goods and services. The problem is their income level is so low, that they do not have discretionary money to purchase products. And it will probably remain that way for the next decade. Today, one of our companies pays a top-level technology project manager in Belarus \$400 a month whereas his counterpart in the US is paid \$6,000 a month; in Australia \$4,000 a month! Yet the cost of living there is not much less than in the US.

In 1993, Bajaj Auto identified Eastern Europe as a good market, and expected it to become viable in 1997 with political changes. Unfortunately, it hasn't come to pass even today, as was discovered by US retailers who entered that market. Sergio Zyman, former CMO of Coca Cola he tells how they learned the hard way about discretionary spending in Russia. It didn't matter how many companies entered the market, they would all share the same pocket book. So, if Bajaj entered the market successfully, and was followed by one of the Chinese manufacturers, Bajaj's revenue would fall in proportion to the amount of sales by the other company. (Coca Cola pulled out of Russia after a couple of years).

How companies can expand in countries or industries without conducting focus groups or market research is incomprehensible. However, they often do the research and either ignore the results or read the results incorrectly. Or they tailor the questions to satisfy their pre-conceived notions. For example, Air Miles conducted focus groups in the US, and used the results to expand. However, they compared their air miles to coupons, and nowhere did they ask if the consumer would rather receive discounted merchandise rather than incentives. Consumers only responded to the questions asked. Fellow Atlantan Sergio Zyman (who was then CMO of Coca Cola) tells the story of how he quickly dropped the “New Coke” after misreading the focus group results. Sure the “New Coke” was great, but they forgot to ask if consumers wanted to replace their familiar coke.

There is no one marketing or advertising campaign that is better than others. Companies need to combine the various platforms in order to get their products seen by the masses as many times as possible. Hence successful companies embark on a far-flung marketing program. Smart CMO's know what works and what doesn't, and they capitalize on success. Sergio Zyman pulled Coke's award-winning “Mean Joe Greene” advertisements for a simple reason – it didn't increase sales! Too many advertising firms are more interested in awards than results.

A company with a limited budget, can spread ads over a period of time, and make it appear as if they are everywhere. For example, with one of our clients, we learned there are four periodicals in their industry. So we placed three ads in each of the periodicals, spaced over a year. That gives them an ad once a month for a year – very effective.

Some companies have built a brand and can capitalize on that brand via licensing their products. Disney, Warner Brothers, celebrities and sports figures are examples of licensing opportunities, where they will license to manufacturers or distributors in a country. Since licensing is intellectual property, negotiations are individualized for the particular agreement. They have the same issues as any company – protection of their trademarks or copyrights. Product rip-offs are common, and

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in at least one country (China) intellectual property is ignored. Hence pirates operate without any legal recourse.

**Ideal Products.** While there is no such thing as a perfect product that is accepted worldwide, cosmetics comes pretty close. Women the world over spend money on cosmetics, more so than on any other discretionary product. Companies like Mary Kay cosmetics, Avon and newer upstarts like Nuways thrive in every country they enter. My former partner Andy Sventy, who was President of Avon in Asia and managed their manufacturing and distribution facilities, loves to tell how that market was second only to the U.S.

One common factor with these companies is their distribution methods – network marketing or multi-level marketing (MLM) – which works very well in that industry. Women show women how great a product, and are paid on a performance basis – commissions for what is sold. Hence, the cost of distribution is low. And the workforce can be part- or full-time. MLMs appeal to housewives seeking extra income. Hence they also work well in poorer regions of the world. In the US, Salt Lake City is probably the MLM capital of the world, with at least twenty MLM companies represented.

Books are also an ideal product, especially romance novels like Harlequin Romance. People like to dream in good times and bad. And romance novels help women escape, especially in emerging market countries like Eastern Europe.

**Pricing.** Establishing selling prices is a science in itself. There are two strategies: price leadership or market response. The former means premium pricing with higher value-added services; the latter means pricing based on the local market and competitive pressure. DHL uses a very sophisticated pricing module called PRISM. Historically 20% - 40% higher than competitors, they establish a tariff book for rates in a particular country, which is often patterned by competitors when they enter that country. Multi-national customers want one price for delivery of goods, no matter where in the world it does. We have a contract with DHL to deliver a product (letter-size envelope) overnight, anywhere in the world for a flat \$18. This makes our business model and technology needs very simple. No need to have a complicated delivery charge lookup. They have two choices: normal delivery (two day) for \$18 or overnight for \$32 – a simple check box.

Too often companies establish a price then discount off that price for certain customers or events. While that may be accepted in retailing products, it doesn't work with services like delivery services (DHL) or consulting services (McKinsey). Once you establish a discount, that becomes the expected price. And if you position your company as offering quality, value-added services, discounts results in a perceived cheapening of the service. My Managing Partner at one of the top 20 CPA firms in the country where I was a partner, used to tell us partners that we had to provide value to our customers, and if they perceived good value, they will pay higher fees. Hence we were the most expensive and most profitable firm of the top 100. Firms who lower their fees to fill capacity will fail!

## TECHNOLOGY

Technology is mandatory for successful expansion and to effectively control the flow of products and information in other countries. Does one use a centralized technological model or distributed processing? I strongly urge companies to have the Chief Technology Officer report directly to the C.E.O. of a company and not fall under the financial and accounting functions as it often does. The technologist needs to **coordinate** all technology issues worldwide, and he/she must be able to act quickly to new and demanding needs. No longer do companies enjoy the luxury of 7-10 year life with technology. Rather it is more like 2-4 years!

In the early 1980's McKinsey & Company built a knowledge base combining information from the many disciplines of this management consulting firm. Having been a partner at one of the top 20 CPA/consulting firms in the US, I can appreciate the effort and need for such a venture. Partners at consulting firms control their own clients and engagements, and often a partner doesn't even know what the partner in the next office is doing. The knowledge base gives their staff the search

capabilities to find similar clients or engagements which helps them sell and execute an engagement and provides a level of comfort to the client that they know what they are doing (an old saying in the consulting business is the client who asks the major consulting firm “yes, but have you done a shoe store on this side of the street?”).

Qualcomm is a leader in the trucking industry worldwide with a unique product that tracks trucks and goods. They have 480,000 installed devices on trucks in the US, using proprietary software, which empowers fleet owners to know at a glance where their trucks are at all times. Don Schneider, Chairman of Schneider Trucking was the first to employ this technology after 19 other companies passed on it. The results – Schneider is now the largest trucking company in the US!

Global Positioning Systems (GPS) installed in automobiles is another technological advance that is supposed to revolutionize the world. Yet it is not expanding as expected. In 1995, the units sold for USD \$2,000, the same as today, which is too costly for the average person (a map costs USD \$5). In the US, GPS systems will not be as popular as other parts of the world, since the U.S. highway system is well-defined and mapped. And today, with companies like Mapquest online, it is much easier to have them produce a personalized map, which can be printed and at no cost to the user.

Today, the cost of entry into technology is very low. And with the speed and connectivity of the Internet, a company who is not online will suffer with expansion efforts. Retailers in the US (and some other parts of the world) demand that suppliers be linked to them using Electronic Data Interchange (EDI), which is a standard method of entering orders, receiving advanced delivery notices and receiving invoices. This technological advance, combined with bar code reading technology has reduced the amount of time and money required to process orders, receive goods and record purchases into inventory. The order is placed via EDI, which is received by the supplier. The order enters the suppliers ordering system and is processed. Bar code labels are attached to the products, the cartons and the boxes. An advanced shipping notice (ASN) is sent to the retailer, who records the information into their system. When goods are received, the retailer scans the ASN number, and the system tells them what they are receiving. The goods are scanned into inventory and the bin locations are stored in the system. And when sold at the point-of-sale (POS) the goods are scanned and inventory reduced automatically.

Companies who have good systems reduce costs internally and externally, as Certified (or Chartered) Public Accounting firms will accept the computerized systems rather than performing an audit.

## **LOGISTICS AND DISTRIBUTION**

How do I get products distributed to other countries? It may be easy to manufacture products locally, but how does a company get those products to another country and how does one distribute in that country? The laws that govern selling in a country also affect logistics. For example, in Germany one must state the landed cost to the consumer, including all duties, freight and taxes, which therefore implies real-time technology that can handle global pricing.

Distribution of products may be possible from one country where products are shipped by the container-load to customers. But that won't work if you are selling to independent retailers (which represent 70% of the US and European market) who don't have the capacity to accept a container load. Do you setup a warehouse in a country? Use a public warehouse? Manufacture in a country, or is it cheaper to export to that country? Partner with an importer?

Successful companies establish long-term relationships with suppliers and business partners. Ikea went so far as to support its suppliers financially and technically, even to the point of designing their factories. While it may sound like an extreme, it is wise in the long run, as Ikea's success is dependent on having product available to sell. It is costly to find new customers, and you don't want them walking out and never returning simply because you had a stock out. Today's successful retailers like Home Depot and Wal-Mart use capacity, or the availability of product as the main criteria for selecting a vendor, not price or even the products themselves.

Manufacturers need to know the countries where they plan to expand to learn how products are distributed. Distribution of products can be by independent distributors (low cost-low control), rep office, licensed manufacturing, joint venture, investment and/or acquisition (high cost-high control). In the U.S., manufacturer's reps distribute products in many industries like giftware, apparel and tools. The customers in those markets are small, independent retailers ("Mom and Pop" stores), and it is cost prohibitive to service them. Hence manufacturers must partner with the reps, and the reps are very careful about carrying new product lines, as they have long relationships with existing suppliers. Manufacturer's reps will not push a product. Rather they provide what the customer wants. It was because of this that AB Sandvik needed to hire a sales force to sell to industrial customers and "big box" retailers in the U.S. Great control in the long run, but very costly point of entry, especially if they are not successful.

The criteria for expansion used to be capital, whereas today it is information, knowledge and expertise, to which I would add and the ability to marshal those resources effectively.

Large companies like Reebok first use local distributors, then try acquiring a controlling interest once they reach critical mass. But how do companies who are trying to expand for the first time control the resources? One way is to hire competent executives, with proven track records who can move the company in the right direction. Often, the founder of the company suffers with the Peter Principle where they reach their level of incompetence, but are too proud (or dumb) to admit it.

How fast a company can get product to market affects sales, profits and customer satisfaction. Let's look at Gillette who took 50 days to process an order from placement of order to delivery of finished product. Let's assume the order was for \$800,000 and the costs were \$500,000. That means it costs \$10,000 a day to process the orders. So, when they cut the order cycle to 43 days, they could have realized a savings of \$70,000, or 8 ¾% increase in profit, which goes directly to the bottom line. Obviously in real life the savings aren't so cut and dry, however, most executives do use factors like this to calculate potential savings, i.e. cost per unit of measure.

## LEGAL AND FINANCIAL

What are the legal and moral or ethical issues in other countries? Many countries have restrictions on ownership of a business in that country, with many requiring local ownership. This means global corporations need to partner with locals if they are going to operate. Often they will create joint ventures (JVs) with local companies to expand in a particular country.

JVs will work if everybody knows who is doing what and how the results are controlled and the profits allocated. There are issues that need to be addressed – like trade secrets, ownership of the functions used to produce the results, control of the resources, financial controls, etc. What happens if you split with your partner and they own the distribution facilities? Worse yet, what if they own the manufacturing capacity, including the patents? JVs need to be structured very carefully, and **needs legal representation** in the local country. Often a country will favor the local entity in a conflict. There are law firms who will help you establish a presence in a foreign country, and/or you can contact the International Chamber of Commerce <http://www.iccwbo.org/> or the Association for International Business <http://www.aib-world.org/>

In many countries companies need to address the moral or ethical or religious issues within that country. For example, Muslims live by the Koran, which is a religion that also directs the way business is conducted. The Koran states that interest received or charged is forbidden ("forty times worse than having sex with your mother"). Hence, doing business with Muslims using a bank or finance company would be an issue (and there are 1.4 billion Muslims worldwide).

But it's far more than that. Proctor & Gamble's first true global innovation – liquid detergent – ran into issues in Europe with the use of phosphates. Why wasn't that checked before the expansion? Bajaj Auto ran into regulations in Europe for selling their products. And any auto distributor in the US needs to comply with strict safety regulations – safety glass, emission control, etc.

Then combinations of legal restrictions may affect how you do business. For example, we have an office in Cozumel, MX and our cost of operation there is very reasonable (approx 20% of what it is in the US). However, as soon as we want to move money out of Mexico, we have a 35% tax issue to contend with.

In other cases, it is easier to establish a location in another country to service a target country. For example, our second largest market is Japan. It is expensive, and legally challenging to establish an office there to support our customers. So we opened one in Honolulu with Japanese-speaking staff who service Japan. The wise company will look at all alternatives.

**Paying For Merchandise.** How does one pay for products and services? Even today, methods of payment are limited to letters of credit, wire transfers, check or credit cards. Online digital currency is making headway, but is not readily accepted due to the perceived security issues associated with this method of payment. But that will be changing.

It is difficult to get money out of some countries, i.e., China, India. And in other countries there are taxes for sending money out of that country, i.e., Mexico at 35% and Sweden at 13%. These restrictions make it difficult, if not impossible to do business, or the costs are built into the consumer retail price.

We must keep in mind that banking is local or regional, not global. It's easy to do business in one's country, but very difficult to do so worldwide. Companies normally use Letters of Credit, Guaranteed Insurance Contract (GIC) endorsed by the International Chamber of Commerce or wire transfers to pay for merchandise. This therefore presumes that only companies with adequate resources will consider global expansion.

Digital currency is becoming popular, especially gold-backed digital currency. The end of this year there will be a new theory on the market authored by yours truly which describes a new payment arena.

## SUMMARY

Global expansion today is no different than in the past when one wanted to open a new store in another part of town. The key ingredient is still **PEOPLE**. All the technology and products in the world will never replace that one valuable resource. In my decades of experience, and meetings with top level people worldwide, I can honestly say that I have known less than 20 people who were tops in their field – less than 1/100<sup>th</sup> of all people I have met. Those who were most successful understood their shortcomings, capitalized on their strengths and knew how to marshal resources.

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## ABOUT THE AUTHOR.

George Matyjewicz is the Chief Global Strategist for GAP Enterprises, Ltd. responsible for defining strategy for global expansion for the firm's clients. He is a multi-faceted Senior Executive with expertise in business development, management, marketing, sales, operations, finance/accounting, and information systems. His major strength is the ability to analyze a situation and develop a simple, cost-effective solution. Mr Matyjewicz will be completing his doctoral dissertation this year in Global Marketing. He is a columnist for Gifts & Dec magazine, moderates E-Tailer's Digest and is called on by the media worldwide for expert opinions. You may reach him at [georgem@gapent.com](mailto:georgem@gapent.com)