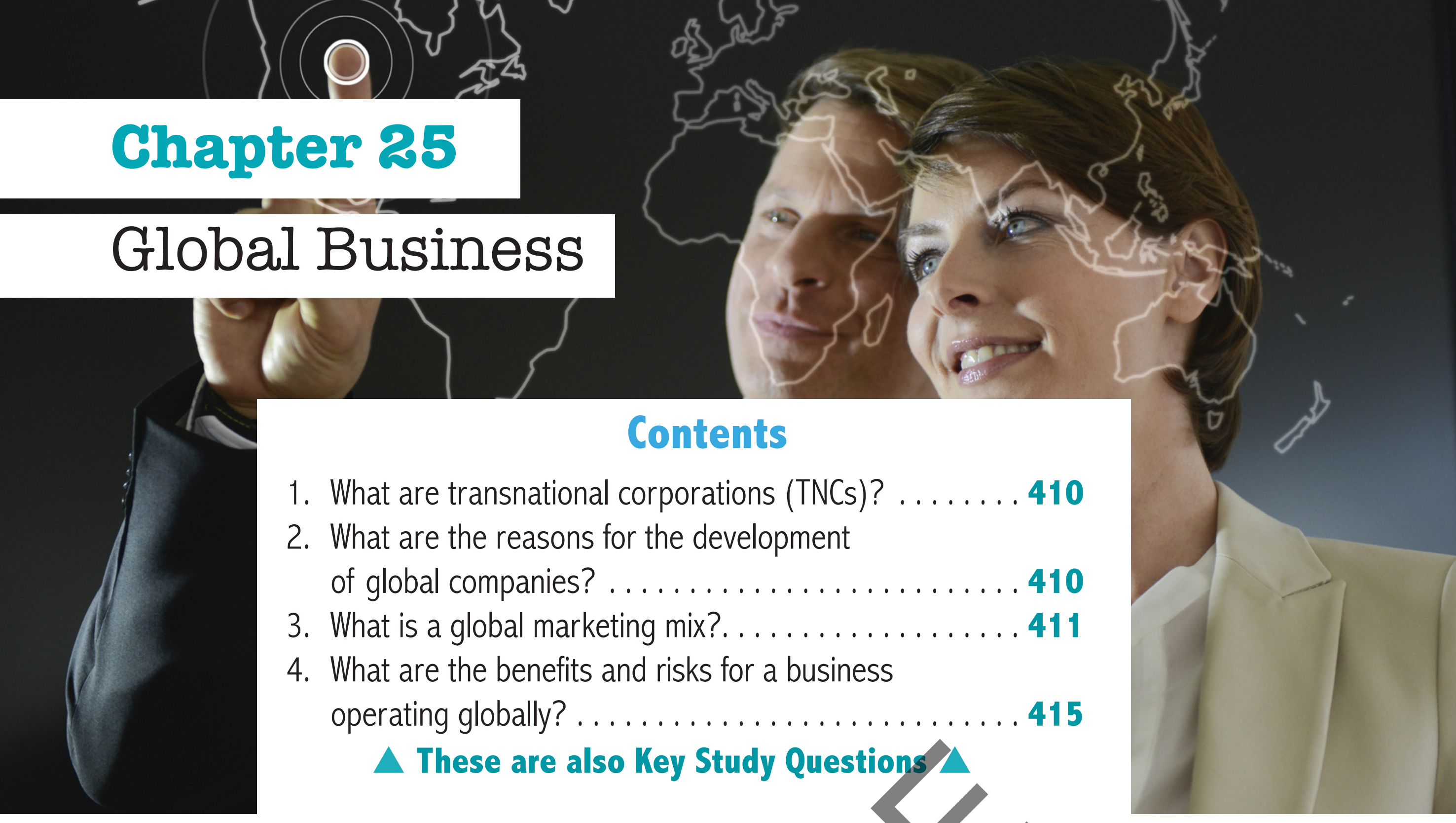


Chapter 25

Global Business

Contents

▲ These are also Key Study Questions ▲

Case Study: Unilever

Unilever is one of the world's largest **transnational corporations** (TNCs). It owns and controls over 500 **subsidiary companies** worldwide, employs tens of thousands of staff and sells thousands of different product lines, such as detergents, dairy products, drinks, ice cream and hair care products. Among its well-known **global brands** are:

- Lynx deodorants
- Bird's Eye frozen foods
- Domestos cleaners
- Comfort fabric conditioner
- Knorr soups
- Hellman's
- Vaseline
- Timotei shampoo
- Signal toothpaste
- John West tinned foods
- Sunsilk
- Dove soap

Unilever controls most of the **global market** for washing powders and detergent products. Many brands which look like they are competing against each other, such as Persil and Surf washing powders and Blue Band, Flora and Stork margarines – are actually all owned by Unilever.

Every year the company spends millions of euro on **advertising** these different brands of practically identical products. This advertising is designed to capture different types of buyers such as parents, male shoppers or the health conscious. With annual global sales of billions of euro, this single company sells more goods than every single Irish business combined.

Unilever's annual budget is also larger than that of many national governments, including Ireland's. In its pursuit of growth, the company purchased Ben & Jerry's ice cream company in a deal worth €326m, adding the ice cream to its massive product range.

Transnational corporations produce and market goods in more than one country.

1. What are transnational corporations?

Transnational corporations (TNCs) *are firms that produce and market goods in more than one country, such as Unilever, Microsoft, McDonald's, Ford and Toyota.* Also known as **multinationals,** these businesses have a **global perspective**, which means they see the world as one giant market. TNCs do not have strong ties to any particular country. Instead, they carry out research, raise finance, source raw materials and manufacture wherever they can maximise their profits. Most transnationals have their headquarters in the USA, Europe or Japan from where they are firmly controlled. However TNCs are also emerging in countries like South Korea and Taiwan. Some Irish companies, such as the Kerry Group and Greencore are also expanding to become transnational businesses but are still small by international standards.

The role of TNCs in the Irish economy is covered in detail in Chapter 18: Industries and Sectors in the Economy

A global business is the most internationally focused type of transnational corporation.

With the globalisation of the international economy, many TNCs are now behaving like global companies. A **global company** *treats the world as one single, giant production location and marketplace.* Specific characterisics of global companies include:

- **Global market**: A global company sees the world as a single marketplace, regardless of geographic and cultural differences.
- **Standardised products:** Global businesses sell the same standardised product in broadly the same way throughout the world with only minor variations to accommodate unavoidable local differences such as language or left/right hand drive.
- **Economies of scale:** By mass producing huge quantities of goods wherever it is cheapest, huge economies of scale can be achieved. This reduces production costs per unit to a very low level.
- **Global branding:** Global businesses invest heavily in developing distinctive, globally recognisable brands. To build up and reinforce global branding, all the elements of the marketing mix are similar throughout the world.

OL

OL Short Q1,2

HL

HL Short Q1

2. What are the reasons for the development of global companies?

Global companies now dominate international trade and most global economic activity.

Since the end of the Second World War, the size and number of global companies has grown rapidly. Reasons for the growth of global companies include:

- **Own market saturation:** Firms are forced to expand internationally when their home markets become saturated and are unable to provide any further increases in sales or profits.
- **Spread risk:** Selling globally reduces the risk associated with being too dependent on any one country. This was the main motivation for Unilever to expand internationally.
- **Economies of scale:** Firms are attracted to the economies of scale that can be achieved by selling to very large markets.
- **Deregulation and opening up of global markets** as a result of free trade agreements (e.g. European Union, World Trade Organisation).

- **Faster transport and telecommunications links** have made it far easier for businesses to communicate with subsidiaries, customers, and suppliers around the world using information and communication technology (ICT) such as email, Internet, electronic data interchange (EDI) and video conferencing.
- **E-business:** Firms can use the Internet to sell goods to a global market.

OL Short Q3
OL Long Q1

HL Short Q2
HL Long Q1

3. What is a global marketing mix?

Case Study: Ford's global marketing mix

Ford was one of the first **global companies**. The company's best-selling Fiesta, Focus and Mondeo car models were designed by teams of engineers and designers spread across the USA, Europe and Australia, all working together and communicating using **information and communication technologies (ICT)**. Ford deliberately tries to develop **standardised products** that will be basically the same in all parts of the world with only small variations. A **global marketing mix** is put together that will help to maximise global sales. For example, its **global marketing promotions** have included paying to have their cars featured in James Bond movies because such films are popular with a global audience. By adopting a global approach to marketing, Ford is able to keep production and marketing costs down and achieve huge **economies of scale**. This helps to make the firm more competitive against other car producers.

Global marketing *means marketing a product globally with broadly the same marketing mix, as though the world were a single marketplace.* Global companies, such as Ford, Pepsi and Microsoft, brand their products with a common global image and global marketing mix. Having a global marketing mix provides two strong advantages to a company:

- **Cost savings:** Product design and advertising can be used globally with only minor adjustments for different countries.
- **Recognition:** Global marketing builds global brand names. This level of recognition builds strong consumer loyalty to a brand.

Global marketing means having
- Global product
- Global pricing
- Global distribution/place
- Global promotion

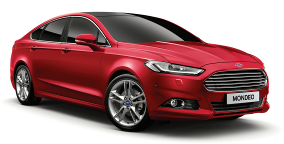
Some transnationals use a standardised global marketing mix, while others use an adapted global marketing mix.

- A **standardised global marketing mix** *means using the same basic mix in different countries.* This approach is used by Unilever, Coca-Cola and Microsoft. However, to ensure commercial success, global companies sometimes have to take account of local market conditions and make some adjustments to their marketing strategy for each country.

  ▶Example: When first entering the Japanese market, Apple took a very standardised approach and did not even bother to translate its computer manuals into Japanese. As a result, its computers sold poorly compared to other global competitors who used an adapted marketing mix.

- An **adapted global marketing mix** *means adjusting the mix to take account of cultural, geographic, economic and other differences in various countries.*

▶Example: Ford has to adapt its products by offering left/right hand drive vehicles in different countries.



The Mondeo is one of Ford's most well-known cars.

Global product

Typically a global marketing mix will offer a standardised global product to all customers regardless of the country they are in. A **global product** *is a product that is the same all over the world.* This makes it easier for consumers to recognise and trust the brand when they travel abroad. **Production sharing** *means that part of a product is made in one country, then shipped to another for further assembly, with the finished product sold in yet another country.*

Product marketing is covered in detail in Chapter 15: Marketing

- **Product design may need to be slightly adapted** for some countries due to differences in culture or climate.

▶Example: Ford cars sold in the Middle East all have air conditioning as standard. Wherever you go in the world, a Big Mac will taste exactly the same but McDonald's adjusts its global marketing mix for different cultures by, for example, serving beer in Germany, wine in France and McSpaghetti in the Philippines.

- **Brand names** may also need to be adapted to avoid confusion.

▶Example: Kellogg's Bran Buds cereal means 'burnt farmer' in Swedish and Esso means 'breakdown' in Japanese, so these names had to be changed for those countries.

Global price

Despite having a standardised product design, the prices charged may vary from country to country due to factors such as:

- Different **standards of living** in different countries.
- Different distances and **transport costs** involved in getting to the local market.
- Different rates of **import** and **sales taxes** in different countries.
- Different **levels of competition** and prices charged by local competitors.
- Different **adjustments** needed to ensure products comply with local laws or culture.

Pricing is covered in detail Chapter 15: Marketing

Global distribution/place

A global channel of distribution tends to be longer and more complex given the many different countries involved. The channels of distribution available to global businesses include:

- **Export directly to customers** from the factory. Example: Dell computers are manufactured in Poland but sold online to customers all over the world.
- **Use distribution agents: An agent** *is an independent person or firm who will sell the goods in the target market in return for a commission on every sale.*

▶Example: Ford uses local car dealers in different countries as agents to distribute their cars globally. Many global businesses will use local wholesalers or retailers.

- **Licensing: A foreign licensing arrangement** *is a deal that gives permission to a local firm to manufacture or distribute a global firm's goods or services, or to use their global brand name. In return the global business receives a commission on sales.*

▶Example: Global cola brand Pepsi gave a licence to Britvic to produce and sell Pepsi in Ireland. While this is a low-cost method, it involves some loss of control over the product.

Channels of distribution are covered in detail in Chapter 15: Marketing

- **Joint venture** with a local business that better understands the local market. In a **joint venture,** *resources and capital are invested by both companies and profits are shared.* Many countries, such as China, will only allow foreign firms to invest if it is done as part of a joint venture with one of their own indigenous firms. This approach suits many businesses as risks are shared.

  ▶Example: Irish food company Glanbia established a joint venture with a Hungarian partner to set up a cheese-making factory in Hungary.

- **Set up a foreign subsidiary** in the target country to manage the distribution of the goods. If the market is big enough, some global companies set up a manufacturing plant in the country concerned.

  ▶Example: Unilever set up subsidiaries all over the world to produce and distribute their products.

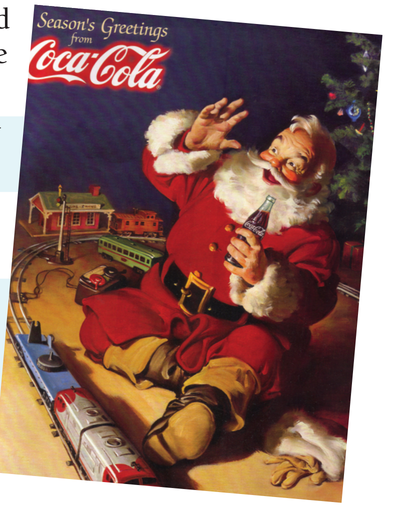
- **Use an export trading house** to handle the distribution in specific countries. **An export trading house** *is a company that buys goods in one country and then, like an international merchant, resells the goods at a profit in another country.*

Global promotion

Instead of designing different campaigns for each country, one standardised global promotion campaign can be implemented. This can then be recycled from one country to another at very little extra cost.

- **Global advertising.** Posters and websites can simply be translated into local languages, and radio and television advertisements can be dubbed.

  ▶Example: Coca-Cola uses very similar advertisements in many different countries.



- **Global public relations** can use a firm's good reputation in one part of the world to improve its image in others.

  ▶Example: Global companies particularly like to sponsor global events such as the Olympics or the World Cup. Although these events can cost hundreds of millions of euro to sponsor, they are still regarded as value for money because a global audience of billions will be watching.

- **Internet:** The Internet is a low-cost and highly effective media for firms to advertise and sell their goods to a global market.

  ▶Example: A company website can have different language pages for different countries. Potential customers anywhere in the world can browse through online catalogues and e-mail **orders** to the exporter's computer from anywhere around the globe at very low cost.

- A **trade fair** *is a business exhibition where suppliers in a particular industry (e.g. food industry) display their products to potential customers, such as supermarkets, wholesalers, etc.* Trade fairs are very useful promotional tools as many customers are gathered together in one location.

  ▶Example: Enterprise Ireland often provides grants towards the cost of Irish firms attending trade fairs and selling internationally.

Marketing promotions are covered in detail in Chapter 15: Marketing

Duh! Global promotional blunders

Effective global marketing requires being sensitive to local language and cultural differences. Sometimes firms that try to go global ignore this advice and end up making embarrassing and costly mistakes:

'Come alive with Pepsi!' was translated in China into advertising that proclaimed **'Pepsi brings your ancestors back from the dead!'**

In China, fast-food chain KFC mistranslated their slogan 'Finger licking good' into posters that said **'Eat your fingers off'**.

A beer company with the slogan 'Turn it loose!' mistranslated their advertising into Spanish as **'Get diarrhoea!'**

Nissan launched a car called 'Moco' but did not realise this means **'snot'** in Spanish.

Case Study: Kerry goes global

KERRY

From very modest beginnings in the south west of Ireland, the Kerry Group Plc has become a **transnational business** with annual sales of billions of euro. Over time, the firm changed its legal structure from being a **private limited** company, to a **co-operative** and then, to raise finance for global expansion, into a **public limited company**. Today the firm is a global business with factories and offices on five continents, generating over 80% of its sales from outside of Ireland.

The Kerry Group's first international project was a dairy plant in the USA. The firm then steadily expanded through a combination of **organic growth** and **acquisitions**. It is now a major global supplier of food ingredients, selling directly to large fast-food restaurant chains and food and drinks companies such as Pepsi. It is following a highly successful expansion strategy that has allowed it to become the world's largest producer of cheese and dairy ingredients for convenience foods. Another important element in the company's success is its continuous investment in **R&D** of new products and careful **market research**.

Like any business expanding into international markets, the Kerry Group has come up against many different barriers to trade, such as foreign languages and geographical distance. The company has also had to deal with many artificial **'protectionist' barriers** imposed by foreign governments. However, this has not deterred the company, which has seen its determination pay off in terms of a growing global market share.

OL

OL Short Q4, 5
OL Long Q3, 4, 5, 6

HL

HL Short Q3, 4
HL Long Q2, 3, 4, 5, 6

Recall and Review

1. Explain the terms highlighted in bold.
2. Describe how a global marketing mix could assist Kerry Group when launching a new brand of yoghurt.

4. What are the benefits and risks for a business operating globally?

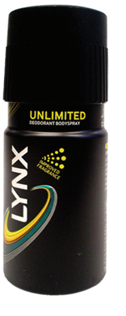
For firms like Unilever and Kerry Group, there are both benefits and risks of becoming a global company:

Benefits

- **Access to a global market** beyond Ireland and the EU means bigger sales and potentially larger profits.
- Global companies can generate huge **economies of scale by producing** and selling the same standardised product in broadly the same way throughout the world. Cost savings can also be achieved by locating factories in low-cost countries, or by subcontracting to low-cost firms in those countries. Purchasing raw materials in massive quantities can generate **very large discounts** from suppliers.
- **Global brand recognition** means cheaper global marketing. Global firms can use the same advertising, public relations, sponsorship and other promotional campaigns and materials (with minor changes) in different countries.
- **Expansion** and **business survival** are more likely for firms that can compete on a global basis.

Risks

- **Customer needs may not be properly met** by standardised products and marketing mixes. Customers in different countries may prefer or need more customised products and services even if it means higher marketing costs. Some TNCs prefer to use well-established and successful local brands and products in different countries rather than risk switching to a standardised, global alternative. Example: Unilever's Lynx range of deodorants is sold under the Axe brand name in France.



- **Diseconomies of scale** may also be incurred if a business becomes too big. For instance, larger firms will have more complex organisational structures. This can slow down communications and impede management decision-making compared to smaller firms.
- **Increased risk:** If a global marketing campaign does not work, then the costs can be huge.

▶Example: Pharmaceutical companies deliberately avoid using global branding for medicines to avoid the impact that negative publicity for a brand in one country might have for sales of the same brand in other countries.

ENTERPRISE IRELAND

Helping Irish business to go global

OL
OL Long Q2
HL
HL ABQ
HL Long Q7, 8

Enterprise Ireland is the State agency responsible for assisting Irish-owned firms to grow and expand by exporting internationally. Using its network of overseas offices, it assists Irish firms to compete in the global market by:

- Providing **market research** information.
- Assisting with **international advertising** and promotions.
- Setting up international **distribution channels**.
- Providing **translation services**.
- Providing **advice** on dealing with export regulations and documentation, methods of international payment and how to minimise foreign-exchange risks.
- Providing **grants and venture capital investment** to firms that want to export.

Key Concepts & Business Terms: After studying this chapter the student should be able to explain the following key concepts and business terms

1. Transnational corporations (TNCs)
2. Global companies
3. Reasons for the development of global companies
4. Global marketing
5. Standardised global marketing mix
6. Adapted global marketing mix
7. Global product
8. Production sharing
9. Agent
10. Foreign licensing arrangement
11. Joint venture
12. Export trading house
13. Trade fair
14. Enterprise Ireland
15. Benefits and risks of operating globally

Useful Websites

www.unilever.co.uk
www.ford.com
www.kerrygroup.com

Leaving Certificate Practice Questions

OL

Ordinary Level

Ordinary Level – Section 1 – Short Questions (10 marks each)

1. Distinguish between a transnational company and a trading bloc. **[LCQ]**
2. Explain what is meant by a global company.
3. List **two** reasons for the development of transnational companies.
4. List the **four** Ps of global marketing.
5. List **three** examples of well-known global brands.

Ordinary Level – Section 2 – Long Questions

1. TNCs now dominate global business. Explain why they have achieved this level of dominance. *(20 marks)*
2. Explain the benefits to a firm of expanding to become a transnational or global company. *(20 marks)*
3. Outline the factors that need to be considered when putting together a global marketing mix. *(20 marks)*
4. Why might a global company adjust its marketing mix in different countries? *(15 marks)*
5. Distinguish between a standardised and an adapted global marketing mix. *(20 marks)*
6. Language skills are essential if Irish firms are to succeed internationally. Explain this statement. *(20 marks)*

HL

Higher Level

Higher Level – Section 1 – Short Questions (10 marks each)

1. List **three** characteristics of a transnational company.
2. Identify **one** reason for the growth of transnational companies.
3. What is global marketing? Name **two** global businesses. **[LCQ]**
4. Identify **one** advantage of adopting a global approach to marketing.

Higher Level – Section 2 – Applied Business Question

Case Study: Soft Tech, Medi-World and Cottonland

Soft Tech is a transnational firm employing hundreds of highly skilled employees in an industrial estate located outside a small town on the banks of the Shannon. Since setting up in Ireland it has signed contracts with many local firms to supply goods such as computers, stationery, packaging, food and services such as cleaning, security and insurance services. Every year it also pumps millions in wages into the local economy, which further benefits many local enterprises. As a result, the town is a thriving and prosperous place.

However, a downturn in the global economy and increasing low-cost competition from Asia means that Soft Tech's head office in the USA is considering relocating the factory to India where labour costs are a fraction of the costs in Ireland.

At the same time in a nearby town, Medi-World, a local indigenous firm producing medical equipment is looking at a more exciting future. With help from Enterprise Ireland and linkages with the local Institute of Technology, it has successfully developed a new life-saving product that it expects will be in huge demand by hospitals and doctors worldwide. The company is very excited about this development and is preparing a global marketing plan to ensure it becomes a success.

However, the news is not so good at Cottonland, an indigenous clothing company in the same town. Despite having award-winning fashion designs, this long established local firm has been struggling to survive in recent years due to low-cost competition from foreign firms. The latest sales figures are very poor and the board of directors are meeting to discuss the future of the business

1. Discuss the factors that the management of Soft Tech will consider when deciding the future of their Irish operations within a global context. *(30 marks)*
2. Analyse how a global marketing mix can assist Medi-World in successfully launching their new product. *(20 marks)*
3. Evaluate the challenges facing Irish industry within a globalised business environment. Refer to the case study in your answer. *(30 marks)*

Higher Level – Section 2 – Long Questions

1. Explain the reasons for the global spread of transnational corporations. *(25 marks)*
2. Explain, using examples, the importance of global marketing for a global business. **[LCQ]** (20 marks)
3. 'Marketing a product for the Irish market and marketing globally are basically the same.' Evaluate this statement using examples to illustrate your answer. *(30 marks)*
4. Explain the term 'global marketing' and its role in international business. **[LCQ]** *(25 marks)*
5. Describe how information technology can assist in the global marketing of products. *(25 marks)*
6. Explain why firms may adjust their marketing mix in different countries. *(25 marks)*
7. A business involved in global markets faces additional marketing challenges. Discuss these challenges, using examples to support your answer. **[LCQ]** *(30 marks)*
8. Evaluate the potential benefits and risks for a business of operating globally. *(30 marks)*

'Once the game is over, the king and the pawn go back into the same box.'
Italian Proverb