

# Chapter 18

## International Marketing

This Chapter discusses the diverse options of standardisation versus adaptation of the marketing strategy in the context of the international marketing mix. International marketing mix strategies are presented in relation to the component strategies, i.e. international product strategy, international pricing strategy, international communication strategy, and international distribution strategy.

### International Marketing Strategy

One of the most frequent motives of internationalisation is seeking new markets (see Chapter 4). The international marketing strategy brings the *customer focus* to the firm's international strategy. International marketing, generally, is concerned with identifying, measuring, and pursuing *market opportunities* abroad. It implies "the application of marketing orientation and marketing techniques to international business" (Mühlbacher/Leih/Dahring 2006, p. 38) and alludes to the *positioning* of the MNC itself and its products and services in foreign markets (Cavusgil/Knight/Riesenberger 2008, p. 516).

The basic types of international marketing strategies can be classified following the Integration/Responsiveness-Framework (see Chapter 2) into:

- *International marketing strategy*: This type of marketing strategy can be considered an *ethnocentric* marketing strategy which is characterised by the application of the marketing strategy of the home country to all foreign markets without adaptation to the local environment. This strategy represents a standardised approach to marketing that is referred to as "*transference*", i.e., the marketing strategy that has been developed for the home market is transferred to (all) other markets (Shoham/Rose/Albaum 1995, p. 15).
- *Global marketing strategy*: The global marketing strategy is associated with the firm's commitment to coordinate its marketing activities across national boundaries in order to satisfy global customer needs (Hollensen 2007, p. 7). Global marketing is associated with a *standardised* approach, i.e., a marketing strategy being applied in multiple markets at one time (Shoham/Rose/Albaum 1995, p. 15) with the objective to achieve global efficiency and economies of scale.

### Basic Strategy Types

- *Multinational marketing strategy*: Multinational marketing strategies focus on the diversity of international marketing and imply a strong adaptation to the needs of each single market. Thus, *individual marketing programmes* are developed for each single market, with a multitude of diverse marketing programmes being applied simultaneously.
- *Transnational marketing strategy*: The transnational marketing strategy implies the combination of global efficiency and multinational diversity with a strategy that strives to achieve the slogan “think globally, act locally”. This strategy is sometimes also referred to as “*glocalisation*” (Hollensen 2007, p. 8).

This classification of marketing strategies centres on the basic decision between standardisation and adaptation of the marketing strategy, marketing processes or the marketing programme to local needs.

## Standardisation versus Differentiation

The two sides of the debate on the globalisation of markets induced by Levitt (1983; see Chapter 2) represent local marketing versus global marketing and focus on the central question of whether a *standardised* (global) or a *differentiated*, country-specific marketing approach has the most merits. The main factors that favour standardisation versus local adaptation (differentiation, customisation) of the marketing strategies are summarised in Table 18.1.

Table 18.1

*Selected Factors favouring Standardisation versus Differentiation*

Factors Favouring Standardisation	Factors Favouring Differentiation
<ul style="list-style-type: none"> <li>◆ economies of scale, e.g. in R&amp;D, production and marketing (experience curve effects)</li> <li>◆ global competition</li> <li>◆ convergence of tastes and consumer needs (consumer preferences are homogeneous)</li> <li>◆ centralised management of international operation (possible to transfer experience across borders)</li> <li>◆ a standardised concept is used by competitors</li> <li>◆ easier communication, planning and control (e.g. through Internet and mobile technology)</li> <li>◆ stock cost reduction</li> </ul>	<ul style="list-style-type: none"> <li>◆ local environment-induced adaptation, e.g. government and regulatory influences, legal issues, differences in technical standards (no experience curve effects)</li> <li>◆ local competition</li> <li>◆ variation in consumer needs (consumer needs are heterogeneous, e.g. because of cultural differences)</li> <li>◆ fragmented and decentralised management with independent country subsidiaries</li> <li>◆ an adapted concept is used by competitors</li> </ul>

Source: Adapted from Hollensen 2007, p. 419.

Standardisation or adaptation of the marketing strategy are two extremes of a continuum, that is, as adaptation increases standardisation decreases, conversely, as adaptation decreases standardisation increases. The discussion of standardisation versus local adaptation on a strategic level can relate to diverse aspects of the marketing strategy (Hollensen 2007, pp. 417-418):

- *Regional perspective*: Full standardisation in this context relates to a *global* marketing strategy in which the same marketing strategy is applied to all markets which are served by the company. In contrast, in a *multinational* marketing strategy, individual marketing strategies are developed for each local market, thus, each country market is considered specifically. A mixture of standardisation and adaptation is represented by the *multi-regional* marketing strategy. This strategy distinguishes several rather homogeneous regions and develops specific marketing strategies on this regional level (e.g. European Marketing, North American Marketing).
- *Marketing process perspective*: A standardisation of marketing processes relates to standardised *decision-making processes* for cross-country or multi-regional marketing planning. Standardisation in this context relates to, for example, the standardised launch of new products or standardised marketing controlling activities, and seeks to rationalise the general marketing process.
- *Marketing components/marketing mix perspective*: In terms of the marketing components perspective, standardisation or differentiation relate to the degree to which the individual elements of the *marketing mix* are unified into a common approach. A fully standardised approach consists of standardisation regarding all marketing components. On the other hand, a fully differentiated approach implies the adaptation of all marketing mix elements to local requirements. A mixed strategy implies that some components are standardised or adapted to some degree, others are differentiated to some degree.

*Perspectives on  
Standardisation/  
Differentiation*

## The International Marketing Mix

The key elements of the *international marketing programme* that constitute the international marketing mix are the international product strategy, the international pricing strategy, the international marketing communication and the international distribution strategy. These elements are also referred to as the "4P" (product, price, placement and promotion) (Kotler/Armstrong 2004).

*"4P" of Interna-  
tional Marketing*

### Core of International Marketing Mix

## International Product Strategies

The international product strategy refers to all decisions that relate to the firm's product and services offerings in the international marketplace. It comprises decisions on which products (or product lines) shall be offered in each country market, decisions on product (and product line) standardisation or customisation, or new product development. The *international product strategy* is often regarded as the core of the international marketing mix strategy. The product with its core benefits must fulfil the customers' desires and the other elements of the marketing mix usually cannot compensate for product insufficiencies (Mühlbacher/Leih/Dahringer 2006, p. 453). Often, the product strategy is the starting point for further marketing mix decisions. For example, decisions on standardisation or customisation of the communication strategy often depend on whether the *product* is standardised or locally adapted.

### Product Elements

*Products* are complex combinations of tangible and intangible elements. They not only consist of the *core physical properties* but comprise additional elements such as packaging, branding or other *augmented features*, e.g. support services (Czinkota/Ronkainen 2007, pp. 327-328).

### Product Strategy Alternatives

Several strategies of the international product strategy can be distinguished. Depending on their general marketing strategy, companies basically have *four alternatives* in approaching international markets (Czinkota/Ronkainen 2007, pp. 328-329; Kotabe/Helsen 2008, pp. 351-352):

- *extension* of the home-grown product strategy to foreign markets and selling the same product abroad
- *modification* of the products for each local market according to the local requirements
- *invention strategy* that consists of designing new products for the global market
- incorporating all differences into one flexible product design and introducing a *global product*.

In this context, the main question relates to which *product features* should be tailored to market conditions. The possibilities but also the need to standardise product elements in the international context differ, with adaptation being most necessary referring to the *augmented product features* and standardisation of the *core product* (i.e., functional features, performance) being the easiest (Doole/Lowe 2008, p. 269; see Figure 18.2).

### Customisation Strategies

To minimise the *cost of customisation*, companies can use product design policies that allow them to modify the products to meet local requirements with few operating expense. For example, *modular design* approaches allow

the firm to assemble individual products for each country market using a selection from a range of standardised product components that can be used worldwide. *Common platform approaches* start with the design of a mostly uniform core-product or platform to which for each local market, customised attachments can be added (Kotabe/Helsen 2008, pp. 355-356). A specific strategy that allows selling a standardised product on each country market even though there are specific local requirements is a strategy referred to as “*built-in-flexibility*”. The products incorporate all local differences in one product and adapt flexibly to the local requirements (e.g. mobile phones that adapt to differences in voltage or different network frequencies).

As most MNCs offer not a single product but a range of products, companies also need to specify the *international product range strategy*. For each country market, it is necessary to decide on the *breadth* of the product range, i.e., the number of product lines to be offered, and on the *depth* of the product range, i.e., the number of products or product variants to be offered per product line. In this context, decisions have to be taken on standardisation versus adaptation of the product range to local requirements.

### International Pricing Strategies

International pricing often is considered the most critical and complex issue in international marketing. When talking about the price of a product, it is important to notice that it is a sum of all monetary and non-monetary assets the customer has to spend in order to obtain the benefits provided by the product. The main *pricing decisions* in international marketing comprise the following (Mühlbacher/Leih/Dahringer 2006, pp. 661-662):

- The *overall international pricing strategy* determines general rules for setting (basic) prices and using price reductions, the selection of terms of payment, and the potential use of countertrade.
- The *price setting strategy* relates the determination of the basic price of a product, the price structure of the product line, and the system of rebates, discounts, or refunds the firm offers.
- The *terms of payment* are contractual statements fixing, for example, the point in time and the circumstances of payment for the products to be delivered.

A company's *pricing strategy* is a highly cross-functional process that is based on inputs from finance, accounting, manufacturing, tax, and legal issues (Kotabe/Helsen 2008, p. 407) which can be diverse in the international context.

*International  
Product Range  
Strategy*

*International  
Pricing Decisions*

It thus is not sufficient to place sole emphasis on ensuring that *sales revenue* at least covers the *cost* incurred (e.g. cost of production, marketing or distribution), it is important to take many other factors into consideration that may differ internationally (Doole/Lowe 2008, p. 382). The most important factors that *influence* the international pricing strategy are summarised in Table 18.2.

Table 18.2

Factors Influencing the International Pricing Strategy

Company and Product-specific Factors	Market Factors	Environmental Factors
<ul style="list-style-type: none"> <li>♦ corporate and marketing objectives</li> <li>♦ firm and product positioning</li> <li>♦ degree of international product standardisation or adaptation</li> <li>♦ product range, cross subsidisation, life cycle, substitutes, product differentiation and unique selling proposition</li> <li>♦ cost structures, manufacturing, experience effects, economies of scale</li> <li>♦ marketing, product development</li> <li>♦ available resources</li> <li>♦ inventory</li> <li>♦ shipping cost</li> </ul>	<ul style="list-style-type: none"> <li>♦ consumers' perceptions, expectations and ability to pay</li> <li>♦ need for product and promotional adaptation, market servicing, extra packaging requirements</li> <li>♦ market structure, distribution channels, discounting pressures</li> <li>♦ market growth, demand elasticities</li> <li>♦ need for credit</li> <li>♦ competition objectives, strategies and strength</li> </ul>	<ul style="list-style-type: none"> <li>♦ government influences and constraints</li> <li>♦ tax, tariffs</li> <li>♦ currency fluctuations</li> <li>♦ business cycle stage, level of inflation</li> <li>♦ use of non-money payment and leasing</li> </ul>

Source: Adapted from Doole/Lowe 2008, p. 383.

There are several options to select from in terms of the general rules for price determination. They represent different levels of adaptation to local requirements.

### Standard Price

A *standard pricing strategy* is based on setting a uniform price for a product, irrespective of the country where it is sold. This strategy is very simple and guarantees a fixed return. However, no response is made to local conditions (Doole/Lowe 2008, pp. 392-393).

### Standard Formula Pricing

With a *standard formula pricing*, the company standardises by using the same formula to calculate prices for the product in all country markets. There are different ways to establish such a formula. For example, *full-cost pricing* consists of taking all cost elements (e.g. production plus marketing, etc.) in the domestic market and adding additional costs from international trans-

portation, taxes, tariffs, etc. A *direct cost plus contribution margin formula* implies that additional costs due to the non-domestic marketing process and a desired profit margin are added to the basic production cost. The most useful approach in standard formula pricing is the *differential formula*. It includes all incremental cost resulting from a non-domestic business opportunity that would not be incurred otherwise and adds these costs to the production cost (Mühlbacher/Leihns/Dahringer 2006, p. 664).

While these strategies accentuate elements of international standardisation in pricing, in *price adaptation strategies* prices typically are set in a decentralised way (e.g. by the local subsidiary or local partner). Prices can be established to be the most appropriate for local conditions. While this ability to comply with *local requirements* constitutes a clear advantage, the main disadvantages result from difficulties in developing a global strategic position.

Additionally, the potential for price adaptation is limited by interconnections between the diverse international markets. Therefore it is necessary to coordinate the pricing strategy across different countries because otherwise re-exports, *parallel market* or *grey market* situations can emerge. In these situations, products are sold outside of their authorised channels of distribution. As a specific form of arbitrage, grey markets develop in the case of price differences between the different markets in which the products are sold. If they emerge, products are shipped from low-price to high-price markets with the price differences between these markets allowing the goods to be resold in the high-price market with a profit. Parallel markets, while legal, are unofficial and unauthorised by the companies and can result in the cannibalisation of sales in countries with relatively high prices and damaging relationships with authorised distributors.

To avoid these drawbacks both from totally standardised or differentiated approaches, *geocentric pricing approaches* can be chosen. Neither a single price is fixed, nor are local subsidiaries allowed total freedom for setting prices. For example, firms can set *price lines* that set the company's prices relative to competitors' prices (i.e. standardised price positioning) or they can centrally coordinate pricing decisions in the MNC (Doole/Lowe 2008, p. 393; Mühlbacher/Leihns/Dahringer 2006, pp. 666-667).

In this context, it is important to notice that international pricing decisions also depend on the globalism of the industry. *Global industries* are dominated by a few, large competitors that dominate the world markets (Solberg/Stöttinger/Yaprak 2006). It depends on the firm's ability to respond to the diverse external, market-related complexities on international markets which international pricing strategy is appropriate (see Figure 18.1).

*Price Adaptation*

*Parallel Markets/  
Grey Markets*

*Geocentric  
Pricing*

Figure 18.1

## Taxonomy of International Pricing Practices



Source: Adapted from Solberg/Stöttinger/Yaprak 2006, p. 31.

## International Marketing Communication

International marketing communication includes all methods the companies use to provide information to and communicate with existing and potential customers and other stakeholders of the firm. The *international communication process* is affected by many factors that complicate communication in an international (cross-country or cross-cultural) setting (see Chapter 7). In this context, aspects such as language difference, economic differences, socio-cultural differences, legal and regulatory differences, or competitive differences are of high relevance.

The *international communication mix* consists of a diverse set of communication tools such as advertising, personal selling, sales promotions, public relations or direct marketing (see Table 18.3).

The most viable form of communication is *advertising* which often constitutes the most important part of the communication mix in the consumer goods industry. However, in business-to-business markets advertising is less important than it is in personal selling (Hollensen 2007, p. 545).

## Communication Tools in International Marketing

Table 18.3

Advertising	Public Relations	Sales Promotion	Direct Marketing	Personal Selling
<ul style="list-style-type: none"> <li>♦ newspapers</li> <li>♦ magazines</li> <li>♦ journals</li> <li>♦ television</li> <li>♦ radio</li> <li>♦ cinema</li> <li>♦ outdoor</li> <li>♦ internet</li> </ul>	<ul style="list-style-type: none"> <li>♦ annual reports</li> <li>♦ house magazines</li> <li>♦ press relations</li> <li>♦ events</li> <li>♦ lobbying</li> <li>♦ sponsorships</li> </ul>	<ul style="list-style-type: none"> <li>♦ rebates and price discounts</li> <li>♦ catalogues and brochures</li> <li>♦ samples, coupons, gifts</li> <li>♦ competitions</li> </ul>	<ul style="list-style-type: none"> <li>♦ direct mail</li> <li>♦ database marketing</li> <li>♦ internet marketing</li> <li>♦ mobile marketing (SMS, MMS)</li> <li>♦ viral marketing</li> <li>♦ advertising games</li> </ul>	<ul style="list-style-type: none"> <li>♦ sales presentations</li> <li>♦ sales force management</li> <li>♦ trade fairs</li> <li>♦ exhibitions</li> </ul>

Source: Adapted from Zentes/Swoboda/Schramm-Klein 2010, p. 350; Hollensen 2007, p. 545.

The main decisions in the context of the international communication strategy relate to the *choice of communication modes* for each country market and to the *choice of communication themes* in the international context. Both aspects can be standardised or differentiated internationally.

Similarly to price strategies, *standardisation of communication tools* or *communication media selection* can be performed either in terms of a totally standardised approach that implies the use of the same tools (or same media) in all countries, or in terms of setting uniform selection methods (e.g. relating to media reach, contact situation or modality) for communication tools and media that are employed in all markets. Usually, a more *differentiated approach* is necessary because of international differences in culture, media use or media availability (Mühlbacher/Leih/Dahringer 2006, pp. 627-628)

Regarding *communication themes* or the content of communication messages, the optimal degree of standardisation depends on the intended positioning on each country market. The main options for companies are internationally standardised campaigns, locally adapted (differentiated) campaigns or mixed campaigns that use the same communication theme ("*umbrella campaign*"), but adapt the execution to local requirements, for example by adapting media, language, tonality or colours or by adapting testimonials. This strategy is also referred to as "*pattern standardisation*" (Kotabe/Helsen 2008, pp. 451-452).

There are several advantages of *standardised campaigns*. For example, scale economies are also relevant in marketing communication. They can result from reduced planning and development costs of marketing campaigns. Additionally, standardised campaigns can help to establish a *uniform prod-*

*Communication Mode*

*Communication Themes*

*Standardised Campaigns*

uct and company *image* in all markets. This is particularly important with international customers, cross-national segments or if media overlaps between country markets (or globally). Standardised campaigns can be coordinated internationally more easily and offer the opportunity to use good ideas and creative talents better. By running global campaigns, it also becomes possible to benefit from high-quality, creative campaigns for small markets or countries with low subsidiary resources (Kotabe/Helsen 2008, pp. 446-447).

Nevertheless, it is not possible or beneficial to use standardised campaigns in all cases. For example, often *cultural*, especially language, barriers are stronger than expected. Customers do not always understand foreign languages well and problems such as mistakes, misinterpretations or changed meanings can arise when translating standardised messages. Other problems might result if products or the use of products are *culture-bound* (e.g. in the case of food), if the communication topic is culture-bound (e.g. hygiene products), if the communication design is culture-bound (e.g. the use of colours or background music) or if the communication content is culture-bound (e.g. gender issues, eroticism). Additional difficulties might emerge if products are in *different stages of their product lifecycle* in different countries, because different life cycle stages imply different communication content (Hollensen 2007, pp. 429-430). Also *legal differences* might restrict certain types of communication or certain communication messages in the diverse countries. For example, relating to the advertising of pharmaceuticals or “vice products” such as alcohol or cigarettes, the application of comparative advertising or advertising targeting children (Kotabe/Helsen 2008, pp. 457-460).

### International Branding Strategies

Closely linked to product positioning and communication issues in international marketing are decisions on *international branding strategies*. The main purpose of branding is to differentiate the company's offerings and to create brand identification and awareness. Branding strategies can be distinguished according to the *brand architecture* into single brand strategies or family (or umbrella) brand strategies (for a number of products). Companies may also choose to market several brands in a single market.

The company needs to make the decision which general branding strategy, in terms of the brand architecture, is to be applied for each country market. The main problem in international branding strategies is whether to choose an integrated, *global branding* approach, which consists of the use of a uniform branding approach for all markets, or to use differentiated, regional or

*local branding* strategies. In this connection, decisions on the geographic extension of the brands are necessary.

The basic strategies are *global brands*, i.e. establishing one single brand for all markets ("*universal brand*"), and *local brands*, implying the use of individual brands on each country market. Also, mixed strategies are possible, for example by establishing several *regional brands* with a focus on several country-markets.

Many companies strive for *global brands* because of the advantages associated with this strategy. Global brands offer the highest possibility of achieving a *consistent image* across the world and also are necessary requirement for global advertising campaigns. Global brands have much more *visibility* than local brands and often the fact of being global adds to the image of a brand, and global brands reach the highest (overall) *brand equity* (Kotabe/Helsen 2008, p. 375). Also, *scale economies* are associated with global branding. For example, the cost of creating and strengthening the brand can be spread over large sales volumes.

However, there are limitations to global branding. For example, if companies offer a diverse product range in international markets, the product offer in the host country does not always fit the global brand's image, thus limiting its applicability. *Local brand names* also might be easier to understand and not all *global brand names* are adequate for internationalisation. Also, if other elements of the international marketing mix are *adapted* to local conditions, local branding might be more appropriate. For example, if advertising messages are adapted to each market or if products are changed by customising, for example, product design or recipes to local requirements, these strategies are easier to implement under different *local brand names*. This also applies to price differentiation which is easier with different brand names. Thus, brand differentiation can be used as a strategy to limit parallel or grey markets. In this context, companies can also implement *mixed strategies*, in which a global corporate brand is used in all markets but product brand names are adapted to the local requirements.

## International Distribution Strategies

The international distribution strategy is closely connected with the foreign operation modes the MNC applies in the diverse markets. It mainly relates to decisions on the structure of the marketing channels and to marketing logistics (Hollensen 2007, p. 507):

- *International channel structure and channel design*: e.g. types of intermediaries (alternative distribution channels), coverage (intensive, selective, ex-

*Advantages of  
Global Brands*

*Advantages of  
Local Brands*

clusive), length (number of levels), control resources, and degree of integration

- *International marketing logistics*: physical movement of goods through the international channel systems, e.g. order handling, transportation, inventory, storage, warehousing.

### International Channel Configuration

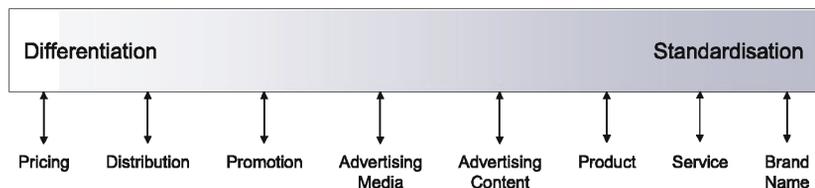
International *channel configuration* is highly dependent on the availability of marketing channels on each country market, on customer characteristics and culture that determine channel use. Additionally, aspects relating to channel costs, channel control or continuity of channel relationships are important. Channels can vary from direct channels to multilevel channels, employing many types of intermediaries that each serve a particular purpose (Doole/Lowe 2008, p. 415). *International channel relationships* are complicated by many factors such as those relating to product ownership, geographic, cultural and economic distance and different rules of law.

## Conclusion and Outlook

The *key decisions* in the international marketing strategy relate to the standardisation or the adaptation of the marketing mix to local conditions. In practice, few marketing mixes are totally standardised or totally differentiated and usually mixed strategies are applied. Also, the degree of standardisation and adaptation differs between the diverse instruments of the marketing mix. Figure 18.2 shows the *general standardisation level* for different elements of the international marketing mix.

Figure 18.2

General Standardisation Level for Different Elements of the Marketing Mix



Source: Adapted from Zentes/Swoboda/Schramm-Klein 2010, p. 408.

### Interrelatedness in the Marketing Mix

In this connection, it is important to notice that the decisions relating to each element of the international marketing mix cannot be taken separately. Efficiency and effectiveness of the sub-strategies such as the international prod-

uct strategy, the international pricing strategy or branding decisions, depend on the fit of all marketing mix elements. Thus, it is important to take into account the *interrelationship* between all elements in the marketing mix. Additionally, the *coordination* between the diverse country markets in which the company is present is important.

### Further Reading

CZINKOTA, M.; RONKAINEN, I. (2003): An International Marketing Manifesto, in: *Journal of International Marketing*, Vol. 11, No. 1, pp. 13-27.

SOLBERG, C.A. (2002): The Perennial Issue of Adaptation or Standardization of International Marketing Communication: Organizational Contingencies and Performance, in: *Journal of International Marketing*, Vol. 10, No. 3, pp. 1-21.

## Case Study: Richemont<sup>1</sup>

### Profile, History, and Status Quo

In 1988 the luxury goods group *Richemont* was established through a spin-off of the international assets of the *Rembrandt Group Limited* of South Africa and the company was listed on the Swiss Exchange. At the time of its formation, *Richemont* already owned a stake in the jeweller *Cartier Monde S.A.* and in *Rothmans International* which also held a stake in *Cartier* and, moreover, in the British brand *Alfred Dunhill*. Via *Dunhill*, stakes in *Montblanc* and *Chloé* were acquired. The year after, the luxury group additionally acquired *Philip Morris'* 30 % interest in *Rothmans International*.

In the following decade, *Richemont* bought watchmakers *Vacheron Constantin* (1996), *Officine Panerai* (1997), *Jaeger-LeCoultre*, *IWC* and *A. Lange & Söhne* (all in 2000). In 1999, *Richemont* acquired a 60 % stake in the very renowned jewellery brand *Van Cleef & Arpels*. At the same time, *Rothmans International* merged with the world's second largest cigarette producer *British American Tobacco Plc (BAT)* whereby *Richemont* held a 23.3 % interest. At the end of 2008, *Richemont* announced the creation of *Reinet Investments S.C.A.* mainly for holding the tobacco businesses formerly held by *Richemont*. Eventually, *Richemont* turned into a pure luxury goods company.

*Formation of the Richemont Group*

*Strong External Growth 1990-2000*

<sup>1</sup> Sources used for this case study include various annual reports, press releases, the web site <http://www.richemont.com> as well as explicitly cited sources.

*Five Luxury  
Goods Business  
Segments*

Thus, over the years, *Richemont* developed into a leading holding company among the largest luxury goods groups in the world today with the purpose of increasing value for shareholders. Hereby, with its fully owned prestigious subsidiaries or “Maisons” as the company calls its brand companies (e.g. Cartier, Montblanc, IWC), the group covers five key business areas: jewellery, watches, writing instruments, leather & accessories, and others (see Figure 18.3). In 2009, *Richemont* increased its turnover by 2 % to 5,418 million EUR.

Figure 18.3

Richemont's Sales 2008 and Maisons by Business Area



**Specialist Watchmakers**  
(27 %,  
1,437 million EUR)

- A. Lange & Söhne
- Baume & Mercier
- IWC
- Jaeger-LeCoultre
- Officine Panerai
- Piaget
- Vacheron Constantin



**Jewellery Maisons**  
(51 %,  
2,762 million EUR)

- Cartier
- Van Cleef & Arpels



**Writing Instrument Maisons**  
(11 %,  
587 million EUR)

- Montblanc
- Montegrappa



**Leather & Accessories**  
(5 %,  
294 million EUR)

- Alfred Dunhill
- Lancel



**Other Businesses**  
(6 %,  
338 million EUR)

- Alata
- Chloé
- Purdy
- Roger Dubuis
- Shenghal Tang

Source: Richemont 2010.

## Group Level Responsibilities

*Group Level  
Support for  
Independent  
Maisons*

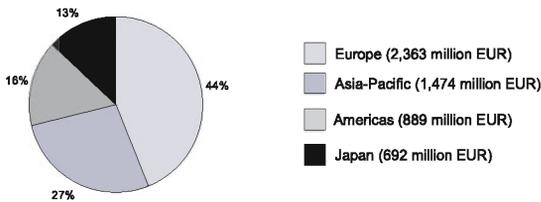
The group assigns high levels of autonomy to the different Maisons and this is seen as a crucial success factor for the company. As *Richemont* expresses this: “Each Maison within the group’s portfolio is run as an independent entity. This safeguards each Maison’s heritage and allows individual creativity to flourish, ensuring that each Maison remains distinctive and unique” (Richemont 2008, p. 7). At the group level, *Richemont’s* group management formulates corporate strategies and is mainly responsible for the definition of business fields in which the company operates. Recent decisions on this level involve, for example, separating the luxury goods business from *Richemont’s* other interests, acquiring the component manufacturing activities of *Roger Dubuis S.A.*, creating a joint venture with *Ralph Lauren* or *acquiring the luxury shopping website Net-a-porter.*. In addition, the group management provides central functions to support the subsidiary’s management in different fields such as human resources, logistics, finance, etc.

Considering marketing, the group management's activities are limited, given that most marketing activities are planned and executed on the level of the Maisons. However, there is a *Strategic Product & Communication Committee* which supports the high degree of autonomy of each Maison by ensuring that their products and communication comply with each individual Maison's strategy and are distinct from each other.

## International Marketing

Sales of the *Richemont group* are largely distributed over the world (Figure 18.4). While the largest share of sales is still in Europe (44 % of sales, reaching about 2.4 billion EUR), Asian markets have consistently grown in importance. This is a general trend in the luxury goods industry. But due to the wide diversity of *Richemont's* geographical operations the holding company does not depend on any specific market and can flexibly respond to shifts in demand.

*Richemont's Sales 2009 by Region*



*Figure 18.4*

Source: Richemont 2010.

In spite of the widespread markets, the international marketing strategy of *Richemont*, respectively of the different Maisons of *Richemont*, can be characterised overall as "global"<sup>1</sup>. As has been shown in the first part of this Chapter, such a strategy aims at satisfying global customer needs and it is linked to a rather standardised marketing approach across the different regional markets. The underlying assumption in this approach is that global cus-

<sup>1</sup> It has to be noted that the high level of independence of the different Maisons might lead to different international marketing strategies. Hence, the case study illustrates general strategies and approaches by using specific examples from different *Richemont* companies but exceptions might exist.

customer needs are rather homogeneous. An assumption that is often brought forward regarding the specific segment of customers of luxury goods.

The international organisation structure (see also Chapter 9) of *Richemont* which is organised around the Maisons is well aligned to this approach. This global product structure clearly indicates that the company considers the differentiation between its brands more relevant than the heterogeneity between different country markets.

To consider the international marketing strategy in more detail, the subsequent part of the text will describe the “four Ps” (product, price, promotion, place).

### Product

The core of the international marketing mix of *Richemont*'s Maisons is certainly given by the various very exclusive products. Being manufactured from highly valuable raw materials and often richly bejewelled, the goods have a very prestigious and highly sophisticated reputation and they carry well-established and mostly highly traditional brands – important intangible product attributes. Therefore, highest quality is of paramount importance.

#### Global Brands

Most of the company's brands have a long-range history. The oldest Maison, *Vacheron Constantin*, was founded in 1755 and is one of the group's several brands for innovative and high-end watchmaking. First of all, considering the branding strategy, it can be noted that all of *Richemont*'s brands are global. For instance, group companies like *Cartier*, *Jaeger-Le Coultre*, *IWC*, *Montblanc*, etc. use a single brand worldwide. While this seems quite natural in the luxury goods industry, a look at consumer goods manufacturers in other fields (e.g. appliances) reveals that besides global branding, other options would be readily available.

#### Standardised Product Offer

Regarding the different Maisons listed in Figure 18.3, the jeweller *Cartier* is by far the largest, followed by *Montblanc* (writing instruments and increasingly also other products, like watches). The last two segments comprise among others luxury menswear, *Dunhill*, and for the very fashion-conscious and sophisticated women, *Chloé* products. Innovation and frequent introductions of new products are important for all the Maisons and the product range of the each Maison is broadly uniform worldwide. Thus, the product strategy is highly globalised, products and product ranges are the same around the world and each Maison attempts to follow its distinct style worldwide and to adapt to the global customer taste. This becomes evident when comparing the product offer of brands like *Cartier* or *IWC* in catalogues or on the specific regional websites for Europe, Asia or the Americas. Appealing to a global taste also means following shifts in regional relevance.

For instance, at the beginning of 2009, the specialised media claimed that new collections of different *Richemont* brands have been designed with a focus on Asian design tastes which clearly reflects the increasing relevance of these markets.

As another aspect of the product strategy, the high quality standard and the intangible product attributes, *Richemont* ascertains the compliance of its *Supplier Code of Conduct* – a subset of the *Corporate Social Responsibility Guidelines* – to pursue good practice in terms of conflict-free diamonds, preservation of protected species, etc. Another major threat is counterfeiting, as the group works hard to minimise the impacts of unauthorised copying of its products on its business. Lately, *Richemont* executed further acquisitions to improve particularly its manufacturing activities, when the group bought the component production of *Roger Dubuis S.A.* but also the watch-case manufacturer *Donzé-Baume S.A.*

As a part of the international product strategy, expensive and prestigious watches and jewellery also require an outstanding service, e.g. broad warranties and, more importantly, an excellent repair service. To avoid long waiting times, these activities are dispersed to the different regions. For example, for the Chinese market, *Richemont* maintains two main workshops for customer service functions in Shanghai and Beijing, which closely follow group standards and procedures. For the Americas, *Richemont* opened a Technical Centre in Dallas, Texas, in 2008. The new state-of-the-art facility serves as the primary technical centre for the region's watch repair operations, encompassing all of the group's Maisons.

With regard to international product and brand strategy, the growth policy of *Richemont* in the 1990s demonstrates that growth does not only occur within each brand but that growth can be enhanced by enlarging the product and brand portfolio. Recently, the group announced a planned joint venture with the internationally renowned brand *Polo Ralph Lauren Inc.* which will use this brand for watches and jewellery.

## Price

Almost all of the group's products are positioned as *high-end luxury products* in the corresponding price range. Around the world, a *cross-national and cross-cultural customer segment* is able to afford these luxury products. As a consequence, the Maisons' pricing systems and policies are similar around the world and they are integral to the overall positioning strategy.

In particular for luxury goods with very high prices and rather low logistics and arbitrage costs, a rather standardised strategy is also required to restrict the emergence of *grey markets* or *parallel imports* in markets with higher pur-

*Cooperation  
with  
Suppliers*

*Customer  
Service*

*Extending the  
Brand Portfolio*

*Arbitrage*

chasing power. Arbitrage strongly limits potential price differences. Furthermore, the internet reduces the ability to differentiate prices between different regions of the world. In this product sector, consumers will compare prices and the price transparency that the internet creates is an important influence factor on pricing policy of luxury good manufacturers.

On the other hand, keeping prices in a narrow range is not always easy considering dynamic environments. The global financial crisis influences the economic power around the world – with different impact in different parts of the world. In particular fluctuating currency exchange rates. make balancing the dual requirements of adapting to local conditions and of avoiding grey markets an ongoing challenge.

### Promotion

Promotion policy includes the different ways in which a company communicates with its target audience, in particular with its different markets. In its promotional strategy *Richemont* uses the typical elements of the promotion mix: advertising, public relations, personal selling, and sales promotion.

*Rather  
Standardised  
Advertising*

To develop effective advertising, the Maisons create independent strategies and usually apply international campaigns with unified themes, slogans and designs. The underlying reason is the necessity for a globally uniform image in this industry. For instance, the customer segment tends to travel extensively. Frequently, purchases of *Richemont* products are not carried out in the customers' home countries but also abroad (e.g. during a vacation or business trip) and the typical customer is exposed to *Richemont* advertising (which is frequently not only in national magazines but also in international media) in different locations. As a consequence, different marketing messages in different countries would irritate the customer and harm the clear image of *Richemont's* brands. In addition, standardised advertising leads to the best exploitation of international creativity.

*Standardised  
Advertising  
Messages*

*Cartier*, for example, launched a new campaign "How far would you go for LOVE" that received a lot of attention worldwide. This elaborate, multi-tiered campaign involved works from different contemporary artists from different parts of the world with short films, photographs, videos and music. All these art pieces are available from one global website ([www.love.cartier.com](http://www.love.cartier.com)) which only adapts to the different regions and countries by adapting the language. On the other hand, global advertising campaigns are not easy to develop since they need to consider cultural and other national differences in the perception of colours, slogans, testimonials, etc.

Another example are the campaigns of the watch maker *IWC* which pursues an international standardised positioning and hence advertising over the

years. The Maison positions its watches as very masculine and its provocative and ironic headlines differentiate the brand clearly from other companies (within the *Richemont* group but in particular to external competitors). Figure 18.5 displays advertisements of *IWC* in three different countries. It is very evident that the design (considering the layout, the fonts, the general design) is highly standardised and, more importantly, the advertising message (“*IWC* manufactures sophisticated watches for masculine men”) is uniform worldwide.

### Typical Ads of *IWC* from Different Countries



Translation: The German advertising states: “Almost as complicated as a woman. But on time.” The Italian Advertising says: “*IWC*. Official sponsor of men.”

The Maisons try to convey their messages very often with the help of celebrities to foster its branding – not only in their advertisements but more broadly. Here, celebrities with an international profile and international appeal are used. For example, *Montblanc* published international advertisements with Nicolas Cage and Johnny Depp who are prominent worldwide. Similarly, Jude Law participated in the grand opening of *Dunhill's* Tokyo store. Under the header “friends of the brand”, *IWC* has a number of celebrities who act as brand ambassadors, mainly at events. Internationally well-known people, such as artists (like James Turrell), singers and actors (like Ronan Keating or John Malkovich) as well as athletes (like Boris Becker) participate in this group.

Another important method to promote products or brands is public relations (*PR*). *PR* refers to communication to the public which is not paid for by the company but rather stimulated by working with the media and offering them interesting news. For *Richemont*, most of the Maisons are heavily in-

Figure 18.5

### International Celebrities

### Public Relations

involved in different activities that result in press coverage. *Cartier* for example is associated with the prestigious Sankt Moritz and Windsor polo tournaments. Furthermore, the Maison awards the *Cartier Women's Initiative Awards* for promising female entrepreneurs, sponsors the annual American Film Festival and conducts social marketing as well. As part of its "How far would you go for love?" campaign, *Cartier* announced a specific day (19 June 2008) as "Love Day". On this designated *Cartier Love Day*, *Cartier* pledged to donate a percentage of sales on all Love collection creations sold in its boutiques during a period of three days. In this synchronised global action all *Cartier* subsidiaries around the world contributed towards chosen humanitarian causes focusing on children, e.g. *Action against Hunger*.

In addition, *Cartier* is also involved with the world of contemporary art by sponsoring exhibitions and important museums. Through its foundation (Fondation Cartier pour l'art contemporain), the company has been supporting art since 1984. Consequently, the Maison has a strong visibility to generate favourable *publicity*.

## Place

Considering that the point of sale is the final touch-point with the consumer, stores have to represent the image of each Maison and create a luxurious atmosphere. The two major channels to distribute the Maisons' products are *retail*, which refers to the company's own retail outlets, and *wholesale*, which primarily covers sales to independent retailers.

### *Boutiques*

In 2009, retail sales grew by 4 % to 2,304 million EUR and the total retail network encompassed 1,370 boutiques, e.g. *Montblanc* 358 and *Cartier* 279. Of the outlet network, the group now owns about 60 % (797 boutiques) and the rest were franchised to partners or owned by third parties.. For further growth *Richemont* gives priority to organic growth of its retail network but may also pursue acquisitions. Moreover, the Maisons use other types of POS like *shop-in-shop* (210 by 2008 from 66 in 2004) or *online channels* ([www.bluenile.com](http://www.bluenile.com)).

### *Boutiques at Cosmopolitan Locations*

Like the other elements of the marketing mix, a highly standardised approach becomes evident and is logical for *Richemont*. Boutiques, like those of *Montblanc* or *Cartier*, can be found around the world and they all follow a global design. For example, in 2009, the worldwide network of *Cartier* boutiques and authorised retailers was further enhanced through major openings and renovations, especially in emerging markets. 25 new boutiques were opened, of which five were in China. Other openings included New Delhi in India and the Dubai Mall and Qatar Villaggio in the MiddleEast. At the same time, 25 major boutique renovations were undertaken around the

world. These boutique enhancements were complemented by the launch of a pilot e-business website in Japan. Major boutique openings of Montblanc during 2009 took place in Beijing, São Paulo, Dubai, Moscow, and Geneva. These openings contributed to the overall growth of the boutique network of Montblanc to 358 (of which 91 are now in China). Guidelines for the design and layout of the boutiques are developed centrally, at the respective Maison's headquarters. Considering *Montblanc* outlets at the Champs-Élysées in Paris, Bond Street in London, Madison Avenue in New York or the Bahnhofstrasse in Zurich, these stores are obviously not only visited by domestic customers in the host country but they welcome a highly international clientele. The nationality mix of customers is even stronger at the many airport outlets. As a further example, *IWC* developed a new boutique concept in 2004. The first outlets were opened in Las Vegas and in Singapore, Hong Kong, Zurich, Bangkok and Seoul followed. This again shows that these concepts are not local but developed with a global perspective. These customers might visit a store on a trip to New York, then again in Paris and finally buy the product in Zurich. Considering the location of boutiques, a uniform appearance is necessary and logical. As Johann Rupert, Executive Chairman of the group, points out in the Annual Report: "It has been important to realise that consumers in new markets expect to see the same breadth of product offering as they see when travelling abroad and, to this end, we are taking care to ensure that our boutiques are both opened in the most prestigious locations and offer the full range of products."

A further element of the distribution strategy is a strong trade marketing which involves marketing activities of the Maisons that are targeted toward their retail partners. Dedicated magazines (like *Watch International*), events that also contribute to the success of local retailers, the provision of decoration material and intensive support with displays and other material, in particular for new product launches, are a key element. These activities also contribute to a uniform image around the world since they allow the Maisons further to influence the presentation of their products at the POS.

The boutiques of each Maison, e.g. *Montblanc*, are linked to the same retail information system (in this case, *SAP Retail*) worldwide, so that not only the appearance but also the coordination of the distribution network is tightly integrated. As a part of distribution, the group also optimises its channels through the roll-out of an enterprise resource planning system to achieve a *single global IT solution* for all of the company's operations without future supply chain constraints. In 2007, this implementation took place at the group's principal distribution facility in Fribourg/Switzerland which ships to retail partners and worldwide regional distribution centres. Furthermore, direct shipments from the central platform in Fribourg to all points of sale in Benelux, Scandinavia and in the UK minimise handling time and delays,

*IT and Logistics  
as Background  
Function*

especially in the after-sales service, e.g. the distribution of spare parts. It has to be noted that this is one of the activities where a strongly unified solution for all Maisons is aimed at.

## Summary and Outlook

*Richemont* has shown an impressive growth over the two decades since its formation. This has occurred both, organically within each of the group's companies and by acquiring additional brands. The growth has been consolidated by some major restructuring activities, the latest with regard to separating the non-luxury goods businesses from the core of the luxury activities.

As has been shown, *Richemont's* different Maisons are highly independent and it is their task to maintain and strengthen their uniqueness – by differentiating themselves from external and internal competitors. Considering the international marketing activities of each brand, all marketing mix elements are globally integrated, following a global marketing strategy. For example, *Cartier* offers the same products with similar prices and the identical marketing message around the globe – more and more often via dedicated boutiques which are largely owned by the company. These boutiques are the final touch-point to the customer and they also follow a uniform layout and design since the cosmopolitan luxury goods customer will frequently visit different stores in different countries. To avoid a blurred image, a uniform marketing approach is a crucial success factor for these companies.

Both considerations – *differentiation between the brands but global standardisation within each brand* – are accompanied by the company structure. The group management provides support for highly autonomous Maisons. However, background processes like IT or logistics which can benefit from global economies of scale are coordinated rather centrally to exploit the synergy effects.

While in 2009, the financial crisis had finally reached the luxury goods industry which used to be less affected by previous downturns, the group was already back to a good growth rate by the middle of 2010. Considering the consistent growth of *Richemont* over the past decades and the assets of the company that lie primarily in some of the world's most prestigious brands, maintaining the growth path in the long run seems certain.

## Questions

1. Considering the product and pricing strategy, investigate two of *Richemont's* Maisons in detail. Discuss critically whether a local adaptation of products might be a good strategy for the future.
2. Considering the promotional strategy, investigate one of *Richemont's* Maisons in detail. Discuss critically whether a local adaptation of advertisements – e.g. considering colours, fonts, testimonials, etc. – could enhance sales. Also consider the potential long-term effects of local adaptation of the promotional strategy.
3. A major pillar of a luxury goods manufacturer is the distribution of its products. Study *Montblanc's* strategy and discuss benefits and caveats.