cases 1 AN OVERVIEW

OUTLINE OF CASES

CASE 1-1 Starbucks—Going Global Fast

The Starbucks coffee shop on Sixth Avenue and Pine Street in downtown Seattle sits serene and orderly, as unremarkable as any other in the chain bought years ago by entrepreneur Howard Schultz. A few years ago however, the quiet storefront made front pages around the world. During the World Trade Organization talks in November 1999, protesters flooded Seattle's streets, and among their targets was Starbucks, a symbol, to them, of free-market capitalism run amok, another multinational out to blanket the earth. Amid the crowds of protesters and riot police were black-masked anarchists who trashed the store, leaving its windows smashed and its tasteful green-and-white decor smelling of tear gas instead of espresso. Says an angry Schultz: "It's hurtful. I think people are ill-informed. It's very difficult to protest against a can of Coke, a bottle of Pepsi, or a can of Folgers. Starbucks is both this ubiquitous brand and a place where you can go and break a window. You can't break a can of Coke."

The store was quickly repaired, and the protesters scattered to other cities. Yet cup by cup, Starbucks really is caffeinating the world, its green-and-white emblem beckoning to consumers on three continents. In 1999, Starbucks Corp. had 281 stores abroad. Today, it has about 5,500—and it's still in the early stages of a plan to colonize the globe. If the protesters were wrong in their tactics, they weren't wrong about Starbucks' ambitions. They were just early.

The story of how Schultz & Co. transformed a pedestrian commodity into an upscale consumer accessory has a fairy-tale quality. Starbucks grew from 17 coffee shops in Seattle 15 years ago to over 16,000 outlets in 50 countries. Sales have climbed an average of 20 percent annually since the company went public, peaking at $10.4 billion in 2008 before falling to $9.8 billion in 2009. Profits bounded ahead an average of 30 percent per year through 2007 peaking at $673, then dropping to $582 billion and $494 billion in 2008 and 2009, respectively. The firm closed 475 stores in the U.S. in 2009 to reduce costs.

Still, the Starbucks name and image connect with millions of consumers around the globe. Up until recently, it was one of the fastest-growing brands in annual *BusinessWeek* surveys of the top 100 global brands. On Wall Street, Starbucks was one of the last great growth stories. Its stock, including four splits, soared more than 2,200 percent over a decade, surpassing Walmart, General Electric, PepsiCo, Coca-Cola, Microsoft, and IBM in total returns. In 2006 the stock price peaked at over $40, but now has declined to $4.

Schultz's team is hard-pressed to grind out new profits in a home market that is quickly becoming saturated. Amazingly, with over 10,000 stores scattered across the United States and Canada, there are still eight states in the United States with no Starbucks stores. Frappuccino-free cities include Butte, Montana, and Fargo, North Dakota. But big cities, affluent suburbs, and shopping malls are full to the brim. In coffee-crazed Seattle, there is a Starbucks outlet for every 9,400 people, and the company considers that the upper limit of coffee-shop saturation. In Manhattan's 24 square miles, Starbucks has 124 cafés, with more on the way. That's one for every 12,000 people—meaning that there could be room for even more stores. Given such concentration, it is likely to take annual same-store sales increases of 10 percent or more if the company is going to match its historic overall sales growth. That, as they might say at Starbucks, is a tall order to fill.

Indeed, the crowding of so many stores so close together has become a national joke, eliciting quips such as this headline in *The Onion,* a satirical publication: "A New Starbucks Opens in Restroom of Existing Starbucks." And even the company admits that while its practice of blanketing an area with stores helps achieve market dominance, it can cut sales at existing outlets. "We probably self-cannibalize our stores at a rate of 30 percent a year," Schultz says. Adds Lehman Brothers Inc. analyst Mitchell Speiser: "Starbucks is at a defining point in its growth. It's reaching a level that makes it harder and harder to grow, just due to the law of large numbers."

To duplicate the staggering returns of its first decade, Starbucks has no choice but to export its concept aggressively. Indeed, some analysts gave Starbucks only two years at most before it saturates the U.S. market. The chain now operates 5,507 international outlets, from Beijing to Bristol. That leaves plenty of room to grow. Most of its planned new stores will be built overseas, representing a 35 percent increase in its foreign base. Most recently, the chain has opened stores in Vienna, Zurich, Madrid, Berlin, and even in far-off Jakarta. Athens comes next. And within the next year, Starbucks plans to move into Mexico and Puerto Rico. But global expansion poses huge risks for Starbucks. For one thing, it makes less money on each overseas store because most of them are operated with local partners. While that makes it easier to start up on foreign turf, it reduces the company's share of the profits to only 20 percent to 50 percent.

Moreover, Starbucks must cope with some predictable challenges of becoming a mature company in the United States. After riding the wave of successful baby boomers through the 1990s, the company faces an ominously hostile reception from its future consumers, the twenty- or thirty-somethings of Generation X. Not only are the activists among them turned off by the power and image of the well-known brand, but many others say that Starbucks' latte-sipping sophisticates and piped-in Kenny G music are a real turnoff. They don't feel wanted in a place that sells designer coffee at $3 a cup.

Even the thirst of loyalists for high-price coffee cannot be taken for granted. Starbucks' growth over the early part of the past decade coincided with a remarkable surge in the economy. Consumer spending tanked in the downturn, and those $3 lattes were an easy place for people on a budget to cut back.

Starbucks also faces slumping morale and employee burnout among its store managers and its once-cheery army of baristas. Stock options for part-timers in the restaurant business was a Starbucks innovation that once commanded awe and respect from its employees. But now, though employees are still paid better than comparable workers elsewhere—about $7 per hour—many regard the job as just another fast-food gig. Dissatisfaction over odd hours and low pay is affecting the quality of the normally sterling service and even the coffee itself, say some customers and employees. Frustrated store managers among the company's roughly 470 California stores sued Starbucks in 2001 for allegedly refusing to pay legally mandated overtime. Starbucks settled the suit for $18 million, shaving $0.03 per share off an otherwise strong second quarter. However, the heart of the complaint—feeling overworked and underappreciated—doesn't seem to be going away.

To be sure, Starbucks has a lot going for it as it confronts the challenge of regaining its growth. Nearly free of debt, it fuels expansion with internal cash flow. And Starbucks can maintain a tight grip on its image because stores are company-owned: There are no franchisees to get sloppy about running things. By relying on mystique and word of mouth, whether here or overseas, the company saves a bundle on marketing costs. Starbucks spends just $30 million annually on advertising, or roughly 1 percent of revenues, usually just for new flavors of coffee drinks in the summer and product launches, such as its new in-store Web service. Most consumer companies its size shell out upwards of $300 million per year. Moreover, Starbucks for the first time faces competition from large U.S. competitors such as McDonald's and their new McCafés.

Schultz remains the heart and soul of the operation. Raised in a Brooklyn public-housing project, he found his way to Starbucks, a tiny chain of Seattle coffee shops, as a marketing executive in the early 1980s. The name came about when the original owners looked to Seattle history for inspiration and chose the moniker of an old mining camp: Starbo. Further refinement led to Starbucks, after the first mate in *Moby Dick*, which they felt evoked the seafaring romance of the early coffee traders (hence the mermaid logo). Schultz got the idea for the modern Starbucks format while visiting a Milan coffee bar. He bought out his bosses in 1987 and began expanding.

The company is still capable of designing and opening a store in 16 weeks or less and recouping the initial investment in three years. The stores may be oases of tranquility, but management's expansion tactics are something else. Take what critics call its "predatory real estate" strategy—paying more than market-rate rents to keep competitors out of a location. David C. Schomer, owner of Espresso Vivace in Seattle's hip Capitol Hill neighborhood, says Starbucks approached his landlord and offered to pay nearly double the rate to put a coffee shop in the same building. The landlord stuck with Schomer, who says: "It's a little disconcerting to know that someone is willing to pay twice the going rate." Another time, Starbucks and Tully's Coffee Corp., a Seattle-based coffee chain, were competing for a space in the city. Starbucks got the lease but vacated the premises before the term was up. Still, rather than let Tully's get the space, Starbucks decided to pay the rent on the empty store so its competitor could not move in. Schultz makes no apologies for the hardball tactics. "The real estate business in America is a very, very tough game," he says. "It's not for the faint of heart."

Still, the company's strategy could backfire. Not only will neighborhood activists and local businesses increasingly resent the tactics, but customers could also grow annoyed over having fewer choices. Moreover, analysts contend that Starbucks can maintain about 15 percent square-footage growth in the United States—equivalent to 550 new stores—for only about two more years. After that, it will have to depend on overseas growth to maintain an annual 20 percent revenue growth.

Starbucks was hoping to make up much of that growth with more sales of food and other noncoffee items but has stumbled somewhat. In the late 1990s, Schultz thought that offering $8 sandwiches, desserts, and CDs in his stores and selling packaged coffee in supermarkets would significantly boost sales. The specialty business now accounts for about 16 percent of sales, but growth has been less than expected.

What's more important for the bottom line, though, is that Starbucks has proven to be highly innovative in the way it sells its main course: coffee. In 800 locations it has installed automatic espresso machines to speed up service. And several years ago, it began offering prepaid Starbucks cards, priced from $5 to $500, which clerks swipe through a reader to deduct a sale. That, says the company, cuts transaction times in half. Starbucks has sold $70 million of the cards.

When Starbucks launched Starbucks Express, its boldest experiment yet, it blended java, Web technology, and faster service. At about 60 stores in the Denver area, customers can pre-order and prepay for beverages and pastries via phone or on the Starbucks Express Web site. They just make the call or click the mouse before arriving at the store, and their beverage will be waiting—with their name printed on the cup. The company decided in 2003 that the innovation had not succeeded and eliminated the service.

And Starbucks continues to try other fundamental store changes. It announced expansion of a high-speed wireless Internet service to about 1,200 Starbucks locations in North America and Europe. Partners in the project—which Starbucks calls the world's largest Wi-Fi network—include Mobile International, a wireless subsidiary of Deutsche Telekom, and Hewlett-Packard. Customers sit in a store and check e-mail, surf the Web, or download multimedia presentations without looking for connections or tripping over cords. They start with 24 hours of free wireless broadband before choosing from a variety of monthly subscription plans.

Starbucks executives hope such innovations will help surmount their toughest challenge in the home market: attracting the next generation of customers. Younger coffee drinkers already feel uncomfortable in the stores. The company knows that because it once had a group of twentysomethings hypnotized for a market study. When their defenses were down, out came the bad news. "They either can't afford to buy coffee at Starbucks, or the only peers they see are those working behind the counter," says Mark Barden, who conducted the research for the Hal Riney & Partners ad agency (now part of Publicis Worldwide) in San Francisco. One of the recurring themes the hypnosis brought out was a sense that "people like me aren't welcome here except to serve the yuppies," he says. Then there are those who just find the whole Starbucks scene a bit pretentious. Katie Kelleher, 22, a Chicago paralegal, is put off by Starbucks' Italian terminology of grande and venti for coffee sizes. She goes to Dunkin' Donuts, saying: "Small, medium, and large is fine for me."

As it expands, Starbucks faces another big risk: that of becoming a far less special place for its employees. For a company modeled around enthusiastic service, that could have dire consequences for both image and sales. During its growth spurt of the mid- to late-1990s, Starbucks had the lowest employee turnover rate of any restaurant or fast-food company, largely thanks to its then unheard-of policy of giving health insurance and modest stock options to part-timers making barely more than minimum wage.

Such perks are no longer enough to keep all the workers happy. Starbucks' pay doesn't come close to matching the workload it requires, complain some staff. Says Carrie Shay, a former store manager in West Hollywood, California: "If I were making a decent living, I'd still be there." Shay, one of the plaintiffs in the suit against the company, says she earned $32,000 a year to run a store with 10 to 15 part-time employees. She hired employees, managed their schedules, and monitored the store's weekly profit-and-loss statement. But she was also expected to put in significant time behind the counter and had to sign an affidavit pledging to work up to 20 hours of overtime a week without extra pay—a requirement the company has dropped since the settlement.

For sure, employee discontent is far from the image Starbucks wants to project of relaxed workers cheerfully making cappuccinos. But perhaps it is inevitable. The business model calls for lots of low-wage workers. And the more people who are hired as Starbucks expands, the less they are apt to feel connected to the original mission of high service—bantering with customers and treating them like family. Robert J. Thompson, a professor of popular culture at Syracuse University, says of Starbucks: "It's turning out to be one of the great 21st century American success stories—complete with all the ambiguities."

Overseas, though, the whole Starbucks package seems new and, to many young people, still very cool. In Vienna, where Starbucks had a gala opening for its first Austrian store, Helmut Spudich, a business editor for the paper *Der Standard*, predicted that Starbucks would attract a younger crowd than the established cafés. "The coffeehouses in Vienna are nice, but they are old. Starbucks is considered hip," he says.

But if Starbucks can count on its youth appeal to win a welcome in new markets, such enthusiasm cannot be counted on indefinitely. In Japan, the company beat even its own bullish expectations, growing to 875 stores after opening its first in Tokyo in 1996. Affluent young Japanese women like Anna Kato, a 22-year-old Toyota Motor Corp. worker, loved the place. "I don't care if it costs more, as long as it tastes sweet," she says, sitting in the world's busiest Starbucks, in Tokyo's Shibuya district. Yet same-store sales growth has fallen in Japan, Starbucks' top foreign market, as rivals offer similar fare. Meanwhile in England, Starbucks' second-biggest overseas market, with over 400 stores, imitators are popping up left and right to steal market share.

Entering other big markets may be tougher yet. The French seem to be ready for Starbucks' sweeter taste, says Philippe Bloch, cofounder of Columbus Cafe, a Starbucks-like chain. But he wonders if the company can profitably cope with France's arcane regulations and generous labor benefits. And in Italy, the epicenter of European coffee culture, the notion that the locals will abandon their own 200,000 coffee bars en masse for Starbucks strikes many as ludicrous. For one, Italian coffee bars prosper by serving food as well as coffee, an area where Starbucks still struggles. Also, Italian coffee is cheaper than U.S. java and, say Italian purists, much better. Americans pay about $1.50 for an espresso. In northern Italy, the price is 67 cents; in the south, just 55 cents. Schultz insists that Starbucks will eventually come to Italy. It'll have a lot to prove when it does. Carlo Petrini, founder of the antiglobalization movement Slow Food, sniffs that Starbucks' "substances served in styrofoam" won't cut it. The cups are paper, of course. But the skepticism is real.

As Starbucks spreads out, Schultz will have to be increasingly sensitive to those cultural challenges. For instance, he flew to Israel several years ago to meet with then Foreign Secretary Shimon Peres and other Israeli officials to discuss the Middle East crisis. He won't divulge the nature of his discussions. But subsequently, at a Seattle synagogue, Schultz let the Palestinians have it. With Starbucks outlets already in Kuwait, Lebanon, Oman, Qatar, and Saudi Arabia, he created a mild uproar among Palestinian supporters. Schultz quickly backpedaled, saying that his words were taken out of context and asserting that he is "pro-peace" for both sides.

There are plenty more minefields ahead. So far, the Seattle coffee company has compiled an envious record of growth. But the giddy buzz of that initial expansion is wearing off. Now, Starbucks is waking up to the grande challenges faced by any corporation bent on becoming a global powerhouse.

In a 2005 bid to boost sales in its largest international market, Starbucks Corp. expanded its business in Japan, beyond cafés and into convenience stores, with a line of chilled coffee in plastic cups. The move gives the Seattle-based company a chance to grab a chunk of Japan's $10 billion market for coffee sold in cans, bottles, or vending machines rather than made-to-order at cafés. It is a lucrative but fiercely competitive sector, but Starbucks, which has become a household name since opening its first Japanese store, is betting on the power of its brand to propel sales of the new drinks.

Starbucks is working with Japanese beverage maker and distributor Suntory Ltd. The "Discoveries" and "Doubleshot" lines are the company's first forays into the ready-to-drink market outside North America, where it sells a line of bottled and canned coffee. It also underscores Starbucks' determination to expand its presence in Asia by catering to local tastes. For instance, the new product comes in two variations—espresso and latte—that are less sweet than their U.S. counterparts, as the coffee maker developed them to suit Asian palates. Starbucks officials said they hope to establish their product as the premium chilled cup brand, which, at 210 yen ($1.87), will be priced at the upper end of the category.

Starbucks faces steep competition. Japan's "chilled cup" market is teeming with rival products, including Starbucks lookalikes. One of the most popular brands, called Mt. Rainier, is emblazoned with a green circle logo that closely resembles that of Starbucks. Convenience stores also are packed with canned coffee drinks, including Coca-Cola Co.'s Georgia brand and brews with extra caffeine or made with gourmet coffee beans.

Schultz declined to speculate on exactly how much coffee Starbucks might sell through Japan's convenience stores. "We wouldn't be doing this if it wasn't important both strategically and economically," he said.

The company has no immediate plans to introduce the beverage in the United States, though it has in the past brought home products launched in Asia. A green tea frappuccino, first launched in Asia, was later introduced in the United States and Canada, where company officials say it was well received.

Starbucks has done well in Japan, although the road hasn't always been smooth. After cutting the ribbon on its first Japan store in 1996, the company began opening stores at a furious pace. New shops attracted large crowds, but the effect wore off as the market became saturated. The company returned to profitability, and net profits jumped more than sixfold to 3.6 billion yen in 2007, but declined again to 2.7 billion yen in 2009.

Most recently in Japan, the firm has successfully developed a broader menu for its stores, including customized products—smaller sandwiches and less-sweet desserts. The strategy increased same store sales and overall profits. The firm also added 175 new stores since 2006, including some drive-through service. But McDonald's also is attacking the Japanese market with the introduction of its McCafé coffee shops.

QUESTIONS

As a guide, use Exhibit 1.3 and its description in Chapter 1, and do the following:

1. Identify the controllable and uncontrollable elements that Starbucks has encountered in entering global markets.
2. What are the major sources of risk facing the company? Discuss potential solutions.
3. Critique Starbucks' overall corporate strategy.
4. How might Starbucks improve profitability in Japan?

Visit www.starbucks.com for more information.

Sources: Stanley Holmes, Drake Bennett, Kate Carlisle, and Chester Dawson, "Planet Starbucks: To Keep Up the Growth It Must Go Global Quickly," *BusinessWeek,* December 9, 2002, pp. 100–110; Ken Belson, "Japan: Starbucks Profit Falls," *The New York Times,* February 20, 2003, p. 1; Ginny Parker Woods, "Starbucks Bets Drinks Will Jolt Japan Sales," *Asian Wall Street Journal,* September 27, 2005, p. A7; Amy Chozick, "Starbucks in Japan Needs A Jolt," *The Wall Street Journal,* October 24, 2006, p. 23; "McCafé Debuts in Japan, Challenging Starbucks, Other Coffee Shops," *Kyoto News,* August 28, 2007; "Starbucks Japan Sees 55% Pretax Profit Jump for April-December," *Nikkei Report,* February 6, 2008; see the most recent annual report at www.starbucks.com.

CASE 1-2 Nestlé: The Infant Formula Controversy

Nestlé Alimentana of Vevey, Switzerland, one of the world's largest food-processing companies with worldwide sales of over $100 billion, has been the subject of an international boycott. For over 20 years, beginning with a Pan American Health Organization allegation, Nestlé has been directly or indirectly charged with involvement in the death of Third World infants. The charges revolve around the sale of infant feeding formula, which allegedly is the cause for mass deaths of babies in the Third World.

In 1974 a British journalist published a report that suggested that powdered-formula manufacturers contributed to the death of Third World infants by hard-selling their products to people incapable of using them properly. The 28-page report accused the industry of encouraging mothers to give up breast feeding and use powdered milk formulas. The report was later published by the Third World Working Group, a lobby in support of less developed countries. The pamphlet was entitled "Nestlé Kills Babies," and accused Nestlé of unethical and immoral behavior.

Although there are several companies that market infant baby formula internationally, Nestlé received most of the attention. This incident raises several issues important to all multinational companies. Before addressing these issues, let's look more closely at the charges by the Infant Formula Action Coalition and others and the defense by Nestlé.

THE CHARGES

Most of the charges against infant formulas focus on the issue of whether advertising and marketing of such products have discouraged breast feeding among Third World mothers and have led to misuse of the products, thus contributing to infant malnutrition and death. Following are some of the charges made:

- A Peruvian nurse reported that formula had found its way to Amazon tribes deep in the jungles of northern Peru. There, where the only water comes from a highly contaminated river—which also serves as the local laundry and toilet—formula-fed babies came down with recurring attacks of diarrhea and vomiting.
- Throughout the Third World, many parents dilute the formula to stretch their supply. Some even believe the bottle itself has nutrient qualities and merely fill it with water. The result is extreme malnutrition.
- One doctor reported that in a rural area, one newborn male weighed 7 pounds. At four months of age, he weighed 5 pounds. His sister, aged 18 months, weighed 12 pounds, what one would expect a four-month-old baby to weigh. She later weighed only 8 pounds. The children had never been breast fed, and since birth their diets were basically bottle feeding. For a four-month-old baby, one can of formula should have lasted just under three days. The mother said that one can lasted two weeks to feed both children.
- In rural Mexico, the Philippines, Central America, and the whole of Africa, there has been a dramatic decrease in the incidence of breast feeding. Critics blame the decline largely on the intensive advertising and promotion of infant formula. Clever radio jingles extol the wonders of the "white man's powder that will make baby grow and glow." "Milk nurses" visit nursing mothers in hospitals and their homes and provide samples of formula. These activities encourage mothers to give up breast feeding and resort to bottle feeding because it is "the fashionable thing to do or because people are putting it to them that this is the thing to do."

THE DEFENSE

The following points are made in defense of the marketing of baby formula in Third World countries:

- Nestlé argues that the company has never advocated bottle feeding instead of breast feeding. All its products carry a statement that breast feeding is best. The company states that it "believes that breast milk is the best food for infants and encourages breast feeding around the world as it has done for decades." The company offers as support of this statement one of Nestlé's oldest educational booklets on "Infant Feeding and Hygiene," which dates from 1913 and encourages breast feeding.
- However, the company does believe that infant formula has a vital role in proper infant nutrition as a supplement, when the infant needs nutritionally adequate and appropriate foods in addition to breast milk, and as a substitute for breast milk when a mother cannot or chooses not to breast feed. One doctor reports, "Economically deprived and thus dietarily deprived mothers who give their children only breast milk are raising infants whose growth rates begin to slow noticeably at about the age of three months. These mothers then turn to supplemental feedings that are often harmful to children. These include herbal teas and concoctions of rice water or corn water and sweetened, condensed milk. These feedings can also be prepared with contaminated water and are served in unsanitary conditions."
- Mothers in developing nations often have dietary deficiencies. In the Philippines, a mother in a poor family who is nursing a child produces about a pint of milk daily. Mothers in the United States usually produce about a quart of milk each day. For both the Filipino and U.S. mothers, the milk produced is equally nutritious. The problem is that there is less of it for the Filipino baby. If the Filipino mother doesn't augment the child's diet, malnutrition develops.
- Many poor women in the Third World bottle feed because their work schedules in fields or factories will not permit breast feeding. The infant feeding controversy has largely to do with the gradual introduction of weaning foods during the period between three months and two years. The average well-nourished Western woman, weighing 20 to 30 pounds more than most women in less developed countries, cannot

feed only breast milk beyond five or six months. The claim that Third World women can breast feed exclusively for one or two years and have healthy, well-developed children is outrageous. Thus, all children beyond the ages of five to six months require supplemental feeding.

- Weaning foods can be classified as either native cereal gruels of millet or rice, or commercial manufactured milk formula. Traditional native weaning foods are usually made by mixing maize, rice, or millet flour with water and then cooking the mixture. Other weaning foods found in use are crushed crackers, sugar and water, and mashed bananas.
- There are two basic dangers to the use of native weaning foods. First, the nutritional quality of the native gruels is low. Second, microbiological contamination of the traditional weaning foods is a certainty in many Third World settings. The millet or the flour is likely to be contaminated, the water used in cooking will most certainly be contaminated, and the cooking containers will be contaminated; therefore, the native gruel, even after it is cooked, is frequently contaminated with colon bacilli, staph, and other dangerous bacteria. Moreover, large batches of gruel are often made and allowed to sit, inviting further contamination.
- Scientists recently compared the microbiological contamination of a local native gruel with ordinary reconstituted milk formula prepared under primitive conditions. They found both were contaminated to similar dangerous levels.
- The real nutritional problem in the Third World is not whether to give infants breast milk or formula but how to supplement mothers' milk with nutritionally adequate foods when they are needed. Finding adequate locally produced, nutritionally sound supplements to mothers' milk and teaching people how to prepare and use them safely are the issues. Only effective nutrition education along with improved sanitation and good food that people can afford will win the fight against dietary deficiencies in the Third World.

THE RESOLUTION

In 1974, Nestlé, aware of changing social patterns in the developing world and the increased access to radio and television there, reviewed its marketing practices on a region-by-region basis. As a result, mass media advertising of infant formula began to be phased out immediately in certain markets and, by 1978, was banned worldwide by the company. Nestlé then undertook to carry out more comprehensive health education programs to ensure that an understanding of the proper use of their products reached mothers, particularly in rural areas.

"Nestlé fully supports the WHO [World Health Organization] Code. Nestlé will continue to promote breast feeding and ensure that its marketing practices do not discourage breast feeding anywhere. Our company intends to maintain a constructive dialogue with governments and health professionals in all the countries it serves with the sole purpose of servicing mothers and the health of babies." This quote is from "Nestlé Discusses the Recommended WHO Infant Formula Code."

In 1977, the Interfaith Center on Corporate Responsibility in New York compiled a case against formula feeding in developing nations, and the Third World Institute launched a boycott against many Nestlé products. Its aim was to halt promotion of infant formulas in the Third World. The Infant Formula Action Coalition (INFACT, successor to the Third World Institute), along with several other world organizations, successfully lobbied the World Health Organization to draft a code to regulate the advertising and marketing of infant formula in the Third World. In 1981, by a vote of 114 to 1 (three countries abstained, and the United States was the only dissenting vote), 118 member nations of WHO endorsed a voluntary code. The eight-page code urged a worldwide ban on promotion and advertising of baby formula and called for a halt to distribution of free product samples or gifts to physicians who promoted the use of the formula as a substitute for breast milk.

In May 1981, Nestlé announced it would support the code and waited for individual countries to pass national codes that would then be put into effect. Unfortunately, very few such codes were forthcoming. By the end of 1983, only 25 of the 157 member nations of the WHO had established national codes. Accordingly, Nestlé management determined it would have to apply the code in the absence of national legislation, and in February 1982, it issued instructions to marketing personnel that delineated the company's best understanding of the code and what would have to be done to follow it.

In addition, in May 1982 Nestlé formed the Nestlé Infant Formula Audit Commission (NIFAC), chaired by former Senator Edmund J. Muskie, and asked the commission to review the company's instructions to field personnel to determine if they could be improved to better implement the code. At the same time, Nestlé continued its meetings with WHO and UNICEF (United Nations Children's Fund) to try to obtain the most accurate interpretation of the code. NIFAC recommended several clarifications for the instructions that it believed would better interpret ambiguous areas of the code; in October 1982, Nestlé accepted those recommendations and issued revised instructions to field personnel.

Other issues within the code, such as the question of a warning statement, were still open to debate. Nestlé consulted extensively with WHO before issuing its label warning statement in October 1983, but there was still not universal agreement with it. Acting on WHO recommendations, Nestlé consulted with firms experienced and expert in developing and field testing educational materials, so that it could ensure that those materials met the code.

When the International Nestlé Boycott Committee (INBC) listed its four points of difference with Nestlé, it again became a matter of interpretation of the requirements of the code. Here, meetings held by UNICEF proved invaluable, in that UNICEF agreed to define areas of differing interpretation—in some cases providing definitions contrary to both Nestlé's and INBC's interpretations.

It was the meetings with UNICEF in early 1984 that finally led to a joint statement by Nestlé and INBC on January 25. At that time, INBC announced its suspension of boycott activities, and Nestlé pledged its continued support of the WHO code.

NESTLÉ SUPPORTS WHO CODE

The company has a strong record of progress and support in implementing the WHO code, including the following:

- Immediate support for the WHO code, May 1981, and testimony to this effect before the U.S. Congress, June 1981.
- Issuance of instructions to all employees, agents, and distributors in February 1982 to implement the code in all Third World countries where Nestlé markets infant formula.

- Establishment of an audit commission, in accordance with Article 11.3 of the WHO code, to ensure the company's compliance with the code. The commission, headed by Edmund S. Muskie, was composed of eminent clergy and scientists.
- Willingness to meet with concerned church leaders, international bodies, and organization leaders seriously concerned with Nestlé's application of the code.
- Issuance of revised instructions to Nestlé personnel, October 1982, as recommended by the Muskie committee to clarify and give further effect to the code.
- Consultation with WHO, UNICEF, and NIFAC on how to interpret the code and how best to implement specific provisions, including clarification by WHO/UNICEF of the definition of children who need to be fed breast milk substitutes, to aid in determining the need for supplies in hospitals.

NESTLÉ POLICIES

As mentioned earlier, by 1978 Nestlé had stopped all consumer advertising and direct sampling to mothers. Instructions to the field issued in February 1982 and clarified in the revised instructions of October 1982 to adopt articles of the WHO code as Nestlé policy include the following:

- No advertising to the general public
- No sampling to mothers
- No mothercraft workers
- No use of commission/bonus for sales
- No use of infant pictures on labels
- No point-of-sale advertising
- No financial or material inducements to promote products
- No samples to physicians except in three specific situations: a new product, a new product formulation, or a new graduate physician; limited to one or two cans of product
- Limitation of supplies to those requested in writing and fulfilling genuine needs for breast milk substitutes
- A statement of the superiority of breast feeding on all labels/materials
- Labels and educational materials clearly stating the hazards involved in incorrect usage of infant formula, developed in consultation with WHO/UNICEF

Even though Nestlé stopped consumer advertising, it was able to maintain its share of the Third World infant formula market. In 1988 a call to resume the seven-year boycott was made by a group of consumer activist members of the Action for Corporate Accountability. The group claimed that Nestlé was distributing free formula through maternity wards as a promotional tactic that undermined the practice of breast feeding. The group claimed that Nestlé and others, including American Home Products, have continued to dump formula in hospitals and maternity wards and that, as a result, "babies are dying as the companies are violating the WHO resolution." In 1997 the Interagency Group on Breastfeeding Monitoring (IGBM) claimed Nestlé continues to systematically violate the WHO code. In 2008 the International Baby Food Action Network (IBFAN), based in Malaysia, accused Nestlé and the other manufactures of ". . . violating the Code, or stretching the restrictions, with abandon." Nestlé's response to these accusations is included on its Web site (see www.nestle.com for details).

The boycott focus is Taster's Choice Instant Coffee, Coffee-mate Nondairy Coffee Creamer, Anacin aspirin, and Advil.

Representatives of Nestlé and American Home Products rejected the accusations and said they were complying with World Health Organization and individual national codes on the subject.

THE NEW TWISTS

A new environmental factor has made the entire case more complex: As of 2001 it was believed that some 3.8 million children around the world had contracted the human immunodeficiency virus (HIV) at their mothers' breasts. In affluent countries mothers can be told to bottle feed their children. However, 90 percent of the child infections occur in developing countries. There the problems of bottle feeding remain. Further, in even the most infected areas, 70 percent of the mothers do not carry the virus, and breast feeding is by far the best option. The vast majority of pregnant women in developing countries have no idea whether they are infected or not. One concern is that large numbers of healthy women will switch to the bottle just to be safe. Alternatively, if bottle feeding becomes a badge of HIV infection, mothers may continue breast feeding just to avoid being stigmatized. In Thailand, pregnant women are offered testing, and if found HIV positive, are given free milk powder. But in some African countries, where women get pregnant at three times the Thai rate and HIV infection rates are 25 percent compared with the 2 percent in Thailand, that solution is much less feasible. Moreover, the latest medical evidence indicates that extending breast feeding reduces the risk of breast cancer.

In 2004 the demand for infant formula in South Africa outstripped supply as HIV-infected mothers made the switch to formula. Demand grew 20 percent in that year, and the government investigated the shortages as Nestlé scrambled to catch up with demand. The firm reopened a shuttered factory and began importing formula from Brazil.

THE ISSUES

Many issues are raised by this incident and the ongoing swirl of cultural change. How can a company deal with a worldwide boycott of its products? Why did the United States decide not to support the WHO code? Who is correct, WHO or Nestlé? A more important issue concerns the responsibility of a multinational corporation (MNC) marketing in developing nations. Setting aside the issues for a moment, consider the notion that, whether intentional or not, Nestlé's marketing activities have had an impact on the behavior of many people. In other words, Nestlé is a cultural change agent. When it or any other company successfully introduces new ideas into a culture, the culture changes and those changes can be functional or dysfunctional to established patterns of behavior. The key issue is, What responsibility does the MNC have to the culture when, as a result of its marketing activities, it causes change in that culture? Finally, how might Nestlé now participate in the battle against the spread of HIV and AIDS in developing countries?

QUESTIONS

1. What are the responsibilities of companies in this or similar situations?
2. What could Nestlé have done to have avoided the accusations of "killing Third World babies" and still market its product?

3. After Nestlé's experience, how do you suggest it, or any other company, can protect itself in the future?
4. Assume you are the one who had to make the final decision on whether or not to promote and market Nestlé's baby formula in Third World countries. Read the section titled "Ethical and Socially Responsible Decisions" in Chapter 5 as a guide to examine the social responsibility and ethical issues regarding the marketing approach and the promotion used. Were the decisions socially responsible? Were they ethical?
5. What advice would you give to Nestlé now in light of the new problem of HIV infection being spread via mothers' milk?

This case is an update of "Nestlé in LDCs," a case written by J. Alex Murray, University of Windsor, Ontario, Canada, and Gregory M. Gazda and Mary J. Molenaar, University of San Diego. The case originally appeared in the fifth edition of this text.

The case draws from the following: "International Code of Marketing of Breastmilk Substitutes" (Geneva: World Health Organization, 1981); INFACT Newsletter, Minneapolis, February 1979; John A. Sparks, "The Nestlé Controversy—Anatomy of a Boycott" (Grove City, PA: Public Policy Education Funds); "WHO Drafts a Marketing Code," *World Business Weekly*, January 19, 1981, p. 8; "A Boycott over Infant Formula," *BusinessWeek,* April 23, 1979, p. 137; "The Battle over Bottle-Feeding," *World Press Review*, January 1980, p. 54; "Nestlé and the Role of Infant Formula in Developing Countries: The Resolution of a Conflict" (Nestlé Company, 1985); "The Dilemma of Third World Nutrition" (Nestlé SA, 1985), 20 pp.; Thomas V. Greer, "The Future of the International Code of Marketing of Breastmilk Substitutes: The Socio-Legal Context," *International Marketing Review*, Spring 1984, pp. 33–41; James C. Baker, "The International Infant Formula Controversy: A Dilemma in Corporate Social Responsibility," *Journal of Business Ethics* 4 (1985), pp. 181–90; Shawn Tully, "Nestlé Shows How to Gobble Markets," *Fortune*, January 16, 1989, p. 75. For a comprehensive and well-balanced review of the infant formula issue, see Thomas V. Greer, "International Infant Formula Marketing: The Debate Continues," *Advances in International Marketing* 4 (1990), pp. 207–25. For a discussion of the HIV complication, see "Back to the Bottle?" *The Economist*, February 7, 1998, p. 50; Alix M. Freedman and Steve Stecklow, "Bottled Up: As UNICEF Battles Baby-Formula Makers, African Infants Sicken," *The Wall Street Journal*, December 5, 2000; Rone Tempest, "Mass Breast-Feeding by 1,128 Is Called a Record," *Los Angeles Times*, August 4, 2002, p. B1; "South Africa: Erratic Infant Formula Supply Puts PMTCT at Risk," All Africa/COMTEX, August 22, 2005; Hillary Parsons, "Response. We're Not Trying to Undermine the Baby-Milk Code," *The Guardian*, May 22, 2007, p. 35; Annelies Allain and Yeong Joo Kean, "The Baby Food Peddlers," *Multinational Monitor* 29, no. 1 (2008), pp. 18–19.

CASE 1-3 Coke and Pepsi Learn to Compete in India

THE BEVERAGE BATTLEFIELD

In 2007, the President and CEO of Coca-Cola asserted that Coke has had a rather rough run in India; but now it seems to be getting its positioning right. Similarly, PepsiCo's Asia chief asserted that India is the beverage battlefield for this decade and beyond.

Even though the government had opened its doors wide to foreign companies, the experience of the world's two giant soft drinks companies in India during the 1990s and the beginning of the new millennium was not a happy one. Both companies experienced a range of unexpected problems and difficult situations that led them to recognize that competing in India requires special knowledge, skills, and local expertise. In many ways, Coke and Pepsi managers had to learn the hard way that "what works here" does not always "work there." "The environment in India is challenging, but we're learning how to crack it," says an industry leader.

THE INDIAN SOFT DRINKS INDUSTRY

In India, over 45 percent of the soft drinks industry in 1993 consisted of small manufacturers. Their combined business was worth $3.2 million dollars. Leading producers included Parle Agro (hereafter "Parle"), Pure Drinks, Modern Foods, and McDowells. They offered carbonated orange and lemon-lime beverage drinks. Coca-Cola Corporation (hereafter "Coca-Cola") was only a distant memory to most Indians at that time. The company had been present in the Indian market from 1958 until its withdrawal in 1977 following a dispute with the government over its trade secrets. After decades in the market, Coca-Cola chose to leave India rather than cut its equity stake to 40 percent and hand over its secret formula for the syrup.

Following Coca-Cola's departure, Parle became the market leader and established thriving export franchise businesses in Dubai, Kuwait, Saudi Arabia, and Oman in the Gulf, along with Sri Lanka. It set up production in Nepal and Bangladesh and served distant markets in Tanzania, Britain, the Netherlands, and the United States. Parle invested heavily in image advertising at home, establishing the dominance of its flagship brand, Thums Up.

Thums Up is a brand associated with a "job well done" and personal success. These are persuasive messages for its target market of young people aged 15 to 24 years. Parle has been careful in the past not to call Thums Up a cola drink so it has avoided direct comparison with Coke and Pepsi, the world's brand leaders.

The soft drinks market in India is composed of six product segments: cola, "cloudy lemon," orange, "soda" (carbonated water), mango, and "clear lemon," in order of importance. Cloudy lemon and clear lemon together make up the lemon-lime segment. Prior to the arrival of foreign producers in India, the fight for local dominance was between Parle's Thums Up and Pure Drinks' Campa Cola.

In 1988, the industry had experienced a dramatic shakeout following a government warning that BVO, an essential ingredient in locally produced soft drinks, was carcinogenic. Producers either had to resort to using a costly imported substitute, estergum, or they had to finance their own R&D in order to find a substitute ingredient. Many failed and quickly withdrew from the industry.

Competing with the segment of carbonated soft drinks is another beverage segment composed of noncarbonated fruit drinks. These are a growth industry because Indian consumers perceive fruit drinks to be natural, healthy, and tasty. The leading brand has traditionally been Parle's Frooti, a mango-flavored drink, which was also exported to franchisees in the United States, Britain, Portugal, Spain, and Mauritius.

OPENING INDIAN MARKET

In 1991, India experienced an economic crisis of exceptional severity, triggered by the rise in imported oil prices following the first Gulf War (after Iraq's invasion of Kuwait). Foreign exchange reserves fell as nonresident Indians (NRIs) cut back on repatriation of their savings, imports were tightly controlled across all sectors, and industrial production fell while inflation was rising. A new government took office in June 1991 and introduced measures to stabilize the economy in the short term, then launched a fundamental restructuring program to ensure medium-term growth. Results were dramatic. By 1994, inflation was halved, exchange reserves were greatly increased, exports were growing, and foreign investors were looking at India, a leading Big Emerging Market, with new eyes.

The turnaround could not be overstated; as one commentator said, "India has been in economic depression for so long that everything except the snake-charmers, cows and the Taj Mahal has faded from the memory of the world." The Indian government was viewed as unfriendly to foreign investors. Outside investment had been allowed only in high-tech sectors and was almost entirely prohibited in consumer goods sectors. The "principle of indigenous availability" had specified that if an item could be obtained anywhere else within the country, imports of similar items were forbidden. As a result, Indian consumers had little choice of products or brands and no guarantees of quality or reliability.

Following liberalization of the Indian economy and the dismantling of complicated trade rules and regulations, foreign investment increased dramatically. Processed foods, software, engineering plastics, electronic equipment, power generation, and petroleum industries all benefited from the policy changes.

PEPSICO AND COCA-COLA ENTER THE INDIAN MARKET

Despite its huge population, India had not been considered by foreign beverage producers to be an important market. In addition to the deterrents imposed by the government through its austere trade policies, rules, and regulations, local demand for carbonated drinks in India was very low compared with countries at a similar stage of economic development. In 1989, the average Indian was buying only three bottles a year, compared with per-capita consumption rates of 11 bottles a year in Bangladesh and 13 in Pakistan, India's two neighbors.

PepsiCo PepsiCo entered the Indian market in 1986 under the name "Pepsi Foods Ltd. in a joint venture with two local partners, Voltas and Punjab Agro." As expected, very stringent conditions were imposed on the venture. Sales of soft drink concentrate to local bottlers could not exceed 25 percent of total sales for the new venture, and Pepsi Foods Ltd. was required to process and distribute local fruits and vegetables. The government also mandated that Pepsi Food's products be promoted under the name "Lehar Pepsi" ("lehar" meaning "wave"). Foreign collaboration rules in force at the time prohibited the use of foreign brand names on products intended for sale inside India. Although the requirements for Pepsi's entry were considered stringent, the CEO of Pepsi-Cola International said at that time, "We're willing to go so far with India because we want to make sure we get an early entry while the market is developing."

In keeping with local tastes, Pepsi Foods launched Lehar 7UP in the clear lemon category, along with Lehar Pepsi. Marketing and distribution were focused in the north and west around the major cities of Delhi and Mumbai (formally Bombay). An aggressive pricing policy on the one-liter bottles had a severe impact on the local producer, Pure Drinks. The market leader, Parle, preempted any further pricing moves by Pepsi Foods by introducing a new 250-ml bottle that sold for the same price as its 200-ml bottle.

Pepsi Foods struggled to fight off local competition from Pure Drinks' Campa Cola, Duke's lemonade, and various brands of Parle. The fight for dominance intensified in 1993 with Pepsi Food's launch of two new brands, Slice and Teem, along with the introduction of fountain sales. At this time, market shares in the cola segment were 60 percent for Parle (down from 70 percent), 26 percent for Pepsi Foods, and 10 percent for Pure Drinks.

Coca-Cola In May 1990, Coca-Cola attempted to reenter India by means of a proposed joint venture with a local bottling company owned by the giant Indian conglomerate, Godrej. The government turned down this application just as PepsiCo's application was being approved. Undeterred, Coca-Cola made its return to India by joining forces with Britannia Industries India Ltd., a local producer of snack foods. The new venture was called "Britco Foods."

Among local producers, it was believed at that time that Coca-Cola would not take market share away from local companies because the beverage market was itself growing consistently from year to year. Yet this belief did not stop individual local producers from trying to align themselves with the market leader. Thus in July 1993, Parle offered to sell Coca-Cola its bottling plants in the four key cities of Delhi, Mumbai, Ahmedabad, and Surat. In addition, Parle offered to sell its leading brands Thums Up, Limca, Citra, Gold Spot, and Mazaa. It chose to retain ownership only of Frooti and a soda (carbonated water) called Bisleri.

FAST FORWARD TO THE NEW MILLENNIUM

Seasonal Sales Promotions—2006 Navratri Campaign In India the summer season for soft drink consumption lasts 70 to 75 days, from mid-April to June. During this time, over 50 percent of the year's carbonated beverages are consumed across the country. The second-highest season for consumption lasts only 20 to 25 days during the cultural festival of Navratri ("Nav" means nine and "ratri" means night). This traditional Gujarati festival goes on for nine nights in the state of Gujarat, in the western part of India. Mumbai also has a significant Gujarati population that is considered part of the target market for this campaign.

As the Regional Marketing Manager for Coca-Cola India stated, "As part of the 'think local—act local' business plan, we have tried to involve the masses in Gujarat with 'Thums Up Toofani Ramjhat,' with 20,000 free passes issued, one per Thums Up bottle. ['Toofan' means a thunderstorm and 'ramjhat' means 'let's dance,' so together these words convey the idea of a 'fast dance.'] There are a number of [retail] on-site activities too, such as the 'buy one—get one free' scheme and lucky draws where one can win a free trip to Goa." (Goa is an independent Portuguese-speaking state on the west coast of India, famed for its beaches and tourist resorts.)

For its part, PepsiCo also participates in annual Navratri celebrations through massive sponsorships of "garba" competitions in selected venues in Gujarat. ("Garba" is the name of a dance, done by women during the Navratri festival.) The Executive Vice President for PepsiCo India commented: "For the first time, Pepsi has tied up with the Gujarati TV channel, Zee Alpha, to telecast 'Navratri Utsav' on all nine nights. ['Utsav' means festival.] Then there is the mega offer for the people of Ahmedabad, Baroda, Surat, and Rajkot where every refill of a case of Pepsi 300-ml. bottles will fetch one kilo of Basmati rice free." These four cities are located in the state of Gujarat. Basmati rice is considered a premium quality rice. After the initial purchase of a 300-ml bottle, consumers can get refills at reduced rates at select stores.

The TV Campaign Both Pepsi-Cola and Coca-Cola engage in TV campaigns employing local and regional festivals and sports events. A summer campaign featuring 7UP was launched by Pepsi with the objectives of growing the category and building brand awareness. The date was chosen to coincide with the India–Zimbabwe One-Day cricket series. The new campaign slogan was "Keep It Cool" to emphasize the product attribute of refreshment. The national campaign was to be reinforced with regionally adapted TV campaigns, outdoor activities, and retail promotions.

A 200-ml bottle was introduced during this campaign in order to increase frequency of purchase and volume of consumption. Prior to the introduction of the 200-ml bottle, most soft drinks were sold in 250-ml, 300-ml, and 500-ml bottles. In addition to 7UP, Pepsi Foods also introduced Mirinda Lemon, Apple, and Orange in 200-ml bottles.

In the past, celebrity actors Amitabh Bachchan and Govinda, who are famous male stars of the Indian movie industry, had endorsed Mirinda Lemon. This world-famous industry is referred to as "Bollywood" (the Hollywood of India based in Bombay).

Pepsi's Sponsorship of Cricket and Football (Soccer) After India won an outstanding victory in the India–England NatWest One-Day cricket series finals, PepsiCo launched a new ad campaign featuring the batting sensation, Mohammad Kaif. PepsiCo's line-up of other cricket celebrities includes Saurav Ganguly, Rahul Dravid, Harbhajan Singh, Zaheer Khan, V.V.S. Laxman, and Ajit Agarkar. All of these players were part of the Indian team for the World Cup Cricket Series. During the two months of the Series, a new product, Pepsi Blue, was marketed nationwide. It was positioned as a "limited edition," icy-blue cola sold in 300-ml, returnable glass bottles and 500-ml plastic bottles, priced at 8 rupees (Rs) and Rs 15, respectively. In addition, commemorative, nonreturnable 250-ml Pepsi bottles priced at Rs 12 were introduced. (One rupee was equal to US 2.54 cents in 2008.)

In addition to the sponsorship of cricket events, PepsiCo has also taken advantage of World Cup soccer fever in India by featuring football heroes such as Baichung Bhutia in Pepsi's celebrity and music-related advertising communications. These ads featured football players pitted against sumo wrestlers.

To consolidate its investment in its promotional campaigns, PepsiCo sponsored a music video with celebrity endorsers including the Bollywood stars, as well as several nationally known cricketers. The new music video aired on SET Max, a satellite channel broadcast mainly in the northern and western parts of India and popular among the 15–25 year age group.

Coca-Cola's Lifestyle Advertising While Pepsi's promotional efforts focused on cricket, soccer, and other athletic events, Coca-Cola's India strategy focused on relevant local idioms in an effort to build a "connection with the youth market." The urban youth target market, known as "India A," includes 18–24 year olds in major metropolitan areas.

Several ad campaigns were used to appeal to this market segment. One campaign was based on use of "gaana" music and ballet. ("Gaana" means to sing.)

The first ad execution, called "Bombay Dreams," featured A. R. Rahman, a famous music director. This approach was very successful among the target audience of young people, increasing sales by about 50 percent. It also won an Effi Award from the Mumbai Advertising Club. A second execution of Coke's southern strategy was "Chennai Dreams" (Chennai was formerly called Madras), a 60-second feature film targeting consumers in Tamil Nadu, a region of southern India. The film featured Vijay, a youth icon who is famous as an actor in that region of south India.

Another of the 60-second films featured actor Vivek Oberoi with Aishwarya Rai. Both are famous as Bollywood movie stars. Aishwarya won the Miss World crown in 1994 and became an instant hit in Indian movies after deciding on an acting career.

This ad showed Oberoi trying to hook up with Rai by deliberately leaving his mobile phone in the taxi that she hails, and then calling her. The ad message aimed to emphasize confidence and optimism, as well as a theme of "seize the day." This campaign used print, outdoor, point-of-sale, restaurant and grocery chains, and local promotional events to tie into the 60-second film. "While awareness of soft drinks is high, there is a need to build a deeper brand connect" in urban centers, according to the Director of Marketing for Coca-Cola India. "Vivek Oberoi—who's an up and coming star today, and has a wholesome, energetic image—will help build a stronger bond with the youth, and make them feel that it is a brand that plays a role in their life, just as much as Levi's or Ray-Ban."

In addition to promotions focused on urban youth, Coca-Cola India worked hard to build a brand preference among young people in rural target markets. The campaign slogan aimed at this market was "thanda matlab Coca-Cola" (or "cool means Coca-Cola" in Hindi). Coca-Cola India calls its rural youth target market "India B." The prime objective in this market is to grow the generic soft drinks category and to develop brand preference for Coke. The "thanda" ("cold") campaign successfully propelled Coke into the number three position in rural markets.

Continuing to court the youth market, Coke has opened its first retail outlet, Red Lounge. The Red Lounge is touted as a one-stop-destination where the youth can spend time and consume Coke products. The first Red Lounge pilot outlet is in Pune, and based on the feedback, more outlets will be rolled out in other cities. The lounge sports red color, keeping with the theme of the Coke logo. It has a giant LCD television, video games, and Internet surfing facilities. The lounge offers the entire range of Coke products. The company is also using Internet to extend its reach into the public domain through the Web site www.myenjoyzone.com. The company has created a special online "Sprite-itude" zone that provides consumers opportunities for online gaming and expressing their creativity, keeping with the no-nonsense attitude of the drink.

Coca-Cola's specific marketing objectives are to grow the per-capita consumption of soft drinks in the rural markets, capture a larger share in the urban market from competition, and increase the frequency of consumption. An "affordability plank," along with introduction of a new 5-rupee bottle, was designed to help achieve all of these goals.

The "Affordability Plank" The purpose of the "affordability plank" was to enhance affordability of Coca-Cola's products, bringing them within arm's reach of consumers, and thereby promoting regular consumption. Given the very low per-capita consumption of soft drinks in India, it was expected that price reductions would expand both the consumer base and the market for soft drinks. Coca-Cola India dramatically reduced prices of its soft drinks by 15 percent to 25 percent nationwide to encourage consumption. This move followed an earlier regional action in North India that reduced prices by 10–15 percent for its carbonated brands Coke, Thums Up, Limca, Sprite, and Fanta. In other regions such as Rajasthan, western and eastern Uttar Pradesh, and Tamil Nadu, prices were slashed to Rs 5 for 200-ml glass bottles and Rs 8 for 300-ml bottles, down from the existing Rs 7 and Rs 10 price points, respectively.

Another initiative by Coca-Cola was the introduction of a new size, the "Mini," expected to increase total volume of sales and account for the major chunk of Coca-Cola's carbonated soft drink sales.

The price reduction and new production launch were announced together in a new television ad campaign for Fanta and Coke in Tamil. A 30-second Fanta spot featured the brand ambassador, actress Simran, well-known for her dance sequences in Hindi movies. The ad showed Simran stuck in a traffic jam. Thirsty, she tosses a 5-rupee coin to a roadside stall and signals to the vendor that she wants a Fanta Mini by pointing to her orange dress. (Fanta is an orangeade drink.) She gets her Fanta and sets off a chain reaction on the crowded street, with everyone from school children to a traditional "nani" mimicking her action. ("Nani" is the Hindi word for grandmother.) The director of marketing commented that the company wanted to make consumers "sit up and take notice."

A NEW PRODUCT CATEGORY

Although carbonated drinks are the mainstay of both Coke's and Pepsi's product line, the Indian market for carbonated drinks is now not growing. It grew at a compounded annual growth rate of only 1 percent between 1999 and 2006, from $1.31 billion to $1.32 billion. However, the overall market for beverages, which includes soft drinks, juices, and other drinks, grew 6 percent from $3.15 billion to $3.34 billion.

To encourage growth in demand for bottled beverages in the Indian market, several producers, including Coke and Pepsi, have launched their own brands in a new category, bottled water. This market was valued at 1,000 Crores.[1]

Pepsi and Coke are responding to the declining popularity of soft drinks or carbonated drinks and the increased focus on all beverages that are non-carbonated. The ultimate goal is leadership in the packaged water market, which is growing more rapidly than any other category of bottled beverages. Pepsi is a significant player in the packaged water market with its Aquafina brand, which has a significant share of the bottled water market and is among the top three retail water brands in the country.

PepsiCo consistently has been working toward reducing its dependence on Pepsi Cola by bolstering its non-cola portfolio and other categories. This effort is aimed at making the company more broad-based in category growth so that no single product or category becomes the key determinant of the company's market growth. The non-cola segment is said to have grown to contribute one-fourth of PepsiCo's overall business in India during the past three to four years. Previously, the multinational derived a major chunk of its growth from Pepsi-Cola.

Among other categories on which the company is focusing are fruit juices, juice-based drinks, and water. The estimated fruit juice market in India is approximately 350 Crores and growing month to month. One of the key factors that has triggered this trend is the emergence of the mass luxury segment and increasing consumer consciousness about health and wellness. "Our hugely successful international brand Gatorade has gained momentum in the country with consumers embracing a lifestyle that includes sports and exercise. The emergence of high-quality gymnasiums, fitness and aerobic centres mirror the fitness trend," said a spokesperson.

Coca-Cola introduced its Kinley brand of bottled water and in two years achieved a 28 percent market share. It initially produced bottled water in 15 plants and later expanded to another 15 plants. The Kinley brand of bottled water sells in various pack sizes: 500 ml, 1 liter, 1.5 liter, 2 liter, 5 liter, 20 liter, and 25 liter. The smallest pack was priced at Rs 6 for 500 ml, while the 2-liter bottle was Rs 17.

The current market leader, with 40 percent market share, is the Bisleri brand by Parle. Other competing brands in this segment include Bailley by Parle, Hello by Hello Mineral Waters Pvt. Ltd., Pure Life by Nestlé, and a new brand launched by Indian Railways, called Rail Neer.

CONTAMINATION ALLEGATIONS AND WATER USAGE

Just as things began to look up for the American companies, an environmental organization claimed that soft drinks produced in India by Coca-Cola and Pepsi contained significant levels of pesticide residue. Coke and Pepsi denied the charges and argued that extensive use of pesticides in agriculture had resulted in a minute degree of pesticide in sugar used in their drinks. The result of tests conducted by the Ministry of Health and Family Welfare showed that soft drinks produced by the two companies were safe to drink under local health standards.

Protesters in India reacted to reports that Coca-Cola and Pepsi contained pesticide residues. Some states announced partial bans on Coke and Pepsi products. When those reports appeared on the front pages of newspapers in India, Coke and Pepsi executives were confident that they could handle the situation. But they stumbled.

They underestimated how quickly events would spiral into a nationwide scandal, misjudged the speed with which local politicians would seize on an Indian environmental group's report to attack their global brands, and did not respond swiftly to quell the anxieties of their customers.

The companies formed committees in India and the United States, working in tandem on legal and public relations issues. They worked around the clock fashioning rebuttals. They commissioned their own laboratories to conduct tests and waited until the results came through before commenting in detail. Their approaches backfired. Their reluctance to give details fanned consumer suspicion. They became bogged down in the technicalities of the charges instead of focusing on winning back the support of their customers.

At the start, both companies were unprepared when one state after another announced partial bans on Coke and Pepsi products; the drinks were prevented from being sold in government offices, hospitals, and schools. Politicians exploited the populist potential.

In hindsight, the Coke communications director said she could see how the environmental group had picked Coca-Cola as a way of attracting attention to the broader problem of pesticide contamination in Indian food products. "Fringe politicians will continue to be publicly hostile to big Western companies, regardless of how eager they are for their investment," she said.

Failing to anticipate the political potency of the incident, Coke and Pepsi initially hoped that the crisis would blow over and they adopted a policy of silence. "Here people interpret silence as guilt," said an Indian public relations expert. "You have to roll up your sleeves and get into a street fight. Coke and Pepsi didn't understand that."

Coca-Cola eventually decided to go on the attack, though indirectly, giving detailed briefings by executives, who questioned the scientific credentials of their products' accusers. They directed reporters to Internet blogs full of entries that were uniformly pro-Coke, and they handed out the cell phone number for the director of an organization called the Center for Sanity and Balance in Public Life. Emphasizing that he was not being paid by the industry, Kishore Asthana, from that center, said, "One can drink a can of Coke every day for two years before taking in as much pesticide as you get from two cups of tea."

The situation continued to spin out of control. Newspapers printed images of cans of the drinks with headlines like "toxic cocktail." News channels broadcast images of protesters pouring Coke down the throats of donkeys. A vice president for Coca-Cola India said his "heart sank" when he first heard the accusations because he knew that consumers would be easily confused. "But even terminology like P.P.B.—parts per billion—is difficult to comprehend," he said. "This makes our job very challenging."

PepsiCo began a public relations offensive, placing large advertisements in daily newspapers saying, "Pepsi is one of the safest beverages you can drink today."

The company acknowledged that pesticides were present in the groundwater in India and found their way into food products in general. But, it said, "compared with the permitted levels in tea and other food products, pesticide levels in soft drinks are negligible."

After all the bad press Coke got in India over the pesticide content in its soft drinks, an activist group in California launched a campaign directed at U.S. college campuses, accusing Coca-Cola of India of using precious groundwater, lacing its drinks with pesticides, and supplying farmers with toxic waste used for fertilizing their crops. According to one report, a plant that

[1] One Crore = 10,000,000 Rupees, and US$1 = Rs48, so 1,000 Crore = US$208,300.

produces 300,000 liters of soda drink a day uses 1.5 million liters of water, enough to meet the requirements of 20,000 people.

The issue revolved around a bottling plant in Plachimada, India. Although the state government granted Coke permission to build its plant in 1998, the company was obliged to get the locally elected village council's go-ahead to exploit groundwater and other resources. The village council did not renew permission in 2002, claiming the bottling operation had depleted the farmers' drinking water and irrigation supplies. Coke's plant was closed until the corporation won a court ruling allowing them to reopen.

The reopening of the plant in 2006 led students of a major Midwestern university to call for a ban on the sale of all Coca-Cola products on campus. According to one source, more than 20 campuses banned Coca-Cola products, and hundreds of people in the United States called on Coca-Cola to close its bottling plants because the plants drain water from communities throughout India. They contended that such irresponsible practices rob the poor of their fundamental right to drinking water, are a source of toxic waste, cause serious harm to the environment, and threaten people's health.

In an attempt to stem the controversy, Coca-Cola entered talks with the Midwestern university and agreed to cooperate with an independent research assessment of its work in India; the university selected the institute to conduct the research, and Coke financed the study. As a result of the proposed research program, the university agreed to continue to allow Coke products to be sold on campus.

In 2008 the study reported that none of the pesticides were found to be present in processed water used for beverage production and that the plants met governmental regulatory standards. However, the report voiced concerns about the company's use of sparse water supplies. Coca-Cola was asked by the Delhi-based environmental research group to consider shutting down one of its bottling plants in India. Coke's response was that "the easiest thing would be to shut down, but the solution is not to run away. If we shut down, the area is still going to have a water problem. We want to work with farming communities and industries to reduce the amount of water used."

The controversies highlight the challenges that multinational companies can face in their overseas operations. Despite the huge popularity of the drinks, the two companies are often held up as symbols of Western cultural imperialism.

QUESTIONS

1. The political environment in India has proven to be critical to company performance for both PepsiCo and Coca-Cola India. What specific aspects of the political environment have played key roles? Could these effects have been anticipated prior to market entry? If not, could developments in the political arena have been handled better by each company?
2. Timing of entry into the Indian market brought different results for PepsiCo and Coca-Cola India. What benefits or disadvantages accrued as a result of earlier or later market entry?
3. The Indian market is enormous in terms of population and geography. How have the two companies responded to the sheer scale of operations in India in terms of product policies, promotional activities, pricing policies, and distribution arrangements?
4. "Global localization" (glocalization) is a policy that both companies have implemented successfully. Give examples for each company from the case.
5. How can Pepsi and Coke confront the issues of water use in the manufacture of their products? How can they defuse further boycotts or demonstrations against their products? How effective are activist groups like the one that launched the campaign in California? Should Coke address the group directly or just let the furor subside?
6. Which of the two companies do you think has better long-term prospects for success in India?
7. What lessons can each company draw from its Indian experience as it contemplates entry into other Big Emerging Markets?
8. Comment on the decision of both Pepsi and Coke to enter the bottled water market instead of continuing to focus on their core products—carbonated beverages and cola-based drinks in particular.
9. Most recently Coca-Cola has decided to enter the growing Indian market for energy drinks, forecasted to grow to $370 billion in 2013 from less than half that in 2003. The competition in this market is fierce with established firms including Red Bull and Sobe. With its new brand Burn, Coke initially targeted alternative distribution channels such as pubs, bars, and gyms rather than large retail outlets such as supermarkets. Comment on this strategy.

This case was prepared by Lyn S. Amine, Ph.D., Professor of Marketing and International Business, Distinguished Fellow of the Academy of Marketing Science, President, Women of the Academy of International Business, Saint Louis University, and Vikas Kumar, Assistant Professor, Strategic Management Institute, Bocconi University, Milan, Italy. Dr. Lyn S. Amine and Vikas Kumar prepared this case from public sources as a basis for classroom discussion only. It is not intended to illustrate either effective or ineffective handling of administrative problems. The case was revised in 2005 and 2008 with the authors' permission.

Sources: Lyn S. Amine and Deepa Raizada, "Market Entry into the Newly Opened Indian Market: Recent Experiences of US Companies in the Soft Drinks Industry," in *Developments in Marketing Science,* XVIII, proceedings of the annual conference of the Academy of Marketing Science, Roger Gomes (ed.) (Coral Gables, FL: AMS, 1995), pp. 287–92; Jeff Cioletti, "Indian Government Says Coke and Pepsi Safe," *Beverage World,* September 15, 2003; "Indian Group Plans Coke, Pepsi Protests After Pesticide Claims," AFP, December 15, 2004; "Fortune Sellers," *Foreign Policy,* May/June 2004; "International Pressure Grows to Permanently Close Coke Bottling Plant in Plachimada," *PR Newswire,* June 15, 2005; "Indian Village Refuses Coca-Cola License to Exploit Ground Water," AFP, June 14, 2005; "Why Everyone Loves to Hate Coke," *Economist Times,* June 16, 2005; "PepsiCo India To Focus on Non-Cola Segment," *Knight Ridder Tribune Business* News, September 22, 2006; "For 2 Giants of Soft Drinks, A Crisis in a Crucial Market," *The New York Times,* August 23, 2006; "Coke and Pepsi Try to Reassure India That Drinks Are Safe," *The New York Times,* August 2006; "Catalyst: The Fizz in Water" *Financial Times Limited,* October 11, 2007; "Marketing: Coca-Cola Foraying Into Retail Lounge Format," *Business Line,* "April 7, 2007; "India Ops Now in Control, Says Coke Boss," *The Times of India,* October 3, 2007; "Pepsi: Repairing a Poisoned Reputation in India; How the Soda Giant Fought Charges of Tainted Products in a Country Fixated on its Polluted Water," *Business Week,* June 11, 2007, p. 48; "Coca-Cola Asked to Shut Indian Plant to Save Water," *International Herald Tribune,* January 15, 2008; "Coca Cola: A Second Shot at Energy Drinks," DataMonitor, January 2010.

CASE 1-4 Marketing Microwave Ovens to a New Market Segment

You are the Vice President of International Marketing for White Appliances, an international company that manufactures and markets appliances globally. The company has a line of microwave ovens—some manufactured in the United States and some in Asia—which are exported to the U.S. market and Europe. Your company markets several high-end models in India that are manufactured in the United States. Your presence in the Indian market is limited at this time.

White Appliances has traditionally sold to the high-income segment of the Indian market. However, India is in the midst of a consumer boom for everything from soda pop to scooters to kitchen appliances. Demand for microwave ovens jumped 27 percent in two years amid surging demand for kitchen conveniences. Sales have been spurred by declining import tariffs and rising salaries, as well as the influx of companies reaching to all ends of the market. India has about 17 million households—or 90 million people that belong to the country's middle class, earning between $4,500 and $22,000 annually. Another 287 million are "aspirers," those that hope to join the middle class. Their household income is between $2,000 and $4,500. In 2010, these two groups combined number 561 million. Furthermore, significant numbers of Indians in America are repatriating to their homeland and taking their American spending habits and expectations back home with them. After preliminary analysis, you and your team have come to the conclusion that in addition to the market for high-end models, a market for microwave ovens at all price levels exists.

Several international companies like Samsung, Whirlpool, and LG Electronics India are entering the market with the idea that demand can be expanded with the right product at the right price. There are, however, several challenges in the Indian market, not the least of which is the consumer's knowledge about microwaves and the manner in which they are perceived as appliances.

In conducting research on the market, your research team put together a summary of comments from consumers and facts about the market that should give you a feel for the market and the kinds of challenges that will have to be dealt with if the market is to grow and if White Appliances is to have a profitable market share.

- Five top consumer durable companies are in the race to sell the oven, but to sell the product, they must first sell the idea. The players do not agree on the size of the market or what the oven will do for the Indian family.
- It may be a convenient and efficient way to cook, but microwave ovens were invented with European food in mind. "Only when Indian eating habits change can the microwave ovens market grow in a big way," says one market leader in appliances.
- Some companies disagree with the previous statement. Their contention is that all Indian dishes can be prepared in a microwave; people only need to know how to use one.

Consumer comments were mixed.

- One housewife commented, "The microwave oven was the first purchase after my wedding. I bought it only because I liked it and I had the money. But I must say its performance surprised me."
- "Men no longer have an excuse for not helping in cooking. My husband, who never before entered the kitchen, now uses the microwave oven to cook routinely."
- "Somebody gifted it to me but food doesn't taste the same when cooked in a microwave whatever the company people may claim."
- "Microwave ovens will be very useful and they are fast becoming as essential as a fridge."
- "Ovens are of great use to bachelors. They can make curries every day or sambhar every day. If you heat in a regular oven sambhar or dal for the second or third time it will have a burnt smell. The microwave oven will not get you any such problem. It will be heated and at the same time as fresh as if it was made now."
- "Some people say that using a microwave oven is lazy and getting away from the traditional 'Indian culture' of always fresh food. I say that microwaves are of greatest use when you are very busy and not lazy. There are times when piping hot food rapidly becomes cold, especially in winter and a microwave is the easiest, quickest and cleanest way to heat up, so it even has applications in a traditional family running on 'Indian Culture' mode."

To the chagrin of microwave oven marketers, the Indian perception of the gadget remains gray. Yet, for the first time in the some seven years that it's been officially around, optimism toward the microwave has been on the upswing.

- A microwave oven is beginning to replace the demand for a second television or a bigger refrigerator. The middle-income consumer comes looking for novelty, value, and competitive pricing.
- The penetration level of microwave ovens remains shockingly minuscule, under 1 percent. The top seven cities comprise nearly 70 percent of the market with Delhi and Mumbai (Bombay) recording the highest sales. But the good news is that the microwave is beginning to be seen in smaller towns.
- When asked about the nonurban market, one microwave oven company executive commented, "We know it's an alien concept for the rural consumer, but we want to do our homework now to reap the benefits years later. Once the consumer is convinced a microwave can actually be part of daily cooking, the category will grow immensely."
- Apart from styling and competitive pricing, marketers acknowledge that cracking the mind-set that microwaves are not suited to Indian food holds the key to future growth.
- People who own microwaves usually have cooks who may not be using the gadget in any case. Even consumers who

Exhibit 1
A Customer's Evaluation of the LG Robogrill Microwave

One customer's lengthy evaluation of the LG Robogrill Microwave posted on MouthShut.com, India's first, largest, and most comprehensive Person to Person (P2P) Information Exchange follows:

"We bought our LG Robogrill Microwave about 10 months ago. The microwave has all the features mentioned in the official description, in addition to many other helpful features."

For a complete review by this customer, see www.mouthshut.com and select Microwave Ovens, then select LG on the menu, then select model #LGMH-685 HD.

own microwave ovens don't use them frequently; usage is confined to cooking Western food or reheating.

- With consumers still unclear on how to utilize the microwave oven for their day-to-day cooking, marketers are shifting away from mass marketing to a more direct marketing–oriented approach to create awareness about the benefits of the product.
- The challenge in this category is to get the user to cook in the microwave oven rather than use it as a product for reheating food. Keeping this in mind, companies are expecting an increasing number of sales for microwave ovens to come from the semi urban/rural markets. We are seeing an increasing number of sales coming from the upcountry markets.
- "Elite fad or smoke-free chullah for low-fat paranthas? Which way will the microwave oven go in the Indian market?" asks one company representative.
- Most agree on a broadly similar strategy to expand the Indian market: product and design innovation to make the microwave suited to Indian cooking, local manufacturing facility to promote innovation while continuing to import high-end models, reduce import content to cut costs, boost volumes, and bring down prices.
- Even as early as 1990, the microwave was touted as a way to cook Indian food. Julie Sahni, the nation's best known authority on Indian cooking, has turned her attention to the microwave. And her new cookbook sets a new threshold for the microwave cook. Simply cooked lentils, spicy dal, even tandoori chicken—with its distinctive reddish color—come steaming from the modern microwave with the spices and scents of an ancient cuisine. Cynics who think microwave cooking is bland and unimaginative will eat their words.

For many, the microwave is a complicated appliance that can be used incorrectly and thus be a failure in the mind of the user. Some companies now marketing in India appear to give poor service because they do not have a system to respond to questions that arise about the use of microwaves. It appears that consumer education and prompt reply to inquiries about microwave use is critical.

An interesting Internet site to get product comparisons and consumer comments is www.mouthshut.com. For specific comments about one brand of microwave oven, visit www.mouthshut.com/product-reviews/LG_767war-925045495.html. Another site that gives some insights into Indian cooking and microwave ovens is www.indianmirror.com/cuisine/cus2.html.

MARKET DATA

LG Electronics, the category leader, has a 41.5 percent share of the 1.6 lakh[1] units market; its eight models are priced in the range of Rs 8,500–19,000 with a marked presence in the Indian family size of 28–30 liters. LG Electronics and Samsung India dominated the segment with a collective market share of about 61 percent.

In the early days, microwave ovens did not figure at all in the consumer's purchase list. Kelvinator's Magicook made a high profile entry some seven years ago. What went wrong, according to an analyst, was the pricing, which was nothing less than Rs 20,000, and sizes which were too small to accommodate large Indian vessels.

Efforts to grow the market are concentrated in large urban areas with routine fare such as organized cookery classes, recipe contests, and in-house demos, giving away accessories such as glass bowls, aprons, and gloves as freebies and hosting co-promotions. "To change the way you look, just change the way you cook" was a recent tagline by one of the companies.

What will really spur the category's growth will be a change in eating habits. One company piggybacks on "freshness," a tactic the company adopts for all its product lines.

Even though consumer durable sales fell in the first quarter of 2005, the microwave oven segment, which accounts for 70 percent of unit sales in the consumer durable industry, bucked the overall trend. The strength of microwave oven sales is attributed to the steady price reduction from Rs 7,000 for the lowest priced to Rs 5,000 over the last two years. While sales are predominantly in the urban areas, semiurban towns have emerged as a key growth driver for the category.

There is some difference of opinion on the right price for the ovens. For the microwave market to take off, its price would have to be below Rs 7,000, says one company. Since microwave ovens were introduced locally, prices have been all over the place. For example, one company prices its ovens between Rs 7,000 and Rs 18,000, another between Rs 12,500 and 15,000, and an oven with grill functions goes for Rs 17,900.

From wooing the supermom to courting the single male, the journey of microwave ovens has just begun. Once perceived as a substitute to the toaster oven and grill (OTG), microwaves today, according to companies with large shares of this segment, are more than just a reheating device.

According to one analyst, the product category is going through a transition period, and modern consumers are more educated about an OTG than a microwave. This analyst believes there is demand for both microwave and OTG categories.

[1]A lakh is a unit in a traditional number system, still widely used in India. One lakh is equal to 100,000.

Microwave companies face a chicken-and-egg question on price and sales. Prices will not come down easily until volumes go up, while volume depends on prices.

The product is a planned purchase and not an impulse buy. Samsung has set up call centers where customers can call and get all their queries pertaining to the Samsung microwave oven answered.

Besides the basic, low-end models that lead sales, the combination models (convection and microwave) models are showing a steady increase in sales.

Although the concept of microwave ovens is Western, microwave technology has advanced to a level that even complex cooking like Indian cooking is possible.

One of the older company marketing managers, who has worked in microwave marketing most of his career, is somewhat skeptical about the prospects of rapid growth of the Indian market. He remarked that the microwave oven first introduced in the U.S. market in about 1950 did not become popular across all market segments until about the mid-1970s. Of course, now almost every household in the United States has at least one microwave.

One U.S. marketer of coffee makers, blenders, crock pots, and other small appliances is exploring the possibility of distributing their appliances through Reliance retail stores. Until recently, Reliance Industries Ltd. the second largest company in India, has been in industrial and petroleum products but has now entered the retail market. Reliance is modeling itself after Walmart, and the U.S. marketer sees Reliance reaching the market for its appliances. India's Reliance Industries Ltd. plans to open thousands of stores nationwide over the next five years and is also building a vast network of suppliers. Reliance retail stores may offer the opportunity to get in on the ground floor of a major boom in large store retailing that will appeal to the growing middle income market. The retail industry in India is projected to increase from \$330 billion to \$892 billion from 2006 to 2015, and the share of chain store retailers, such as the proposed Reliance Retail chain, may increase from 4 percent to 27 percent.

ASSIGNMENT

Your task is to develop a strategy to market White Appliance's microwave ovens in India. Include target market(s), microwave oven features, price(s), promotion, and distribution in your program. You should also consider both short-term and long-term marketing programs. Some of the issues you may want to consider are:

- Indian food preparation versus Western food preparation.
- Values and customs that might affect opinions about microwave ovens.
- The effects of competition in the market.

You may also want to review the Country Notebook: A Guide for Developing a Marketing Plan, p. 579 of the text for some direction.