



CountryManager: The International Marketing Simulation

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Introduction

Computer based simulations are becoming an increasingly popular and useful tool for learning and applying business concepts. For students, simulations offer the opportunity to experience much of the realism of making business decisions in the classroom. Managers and other executives can use simulations to sharpen their strategy formulation skills or learn about the dynamics of different industries. The average individual may use the simulation to explore unfamiliar territory in a forgiving environment.

CountryManager is a computer simulation focusing on the issue of international market entry and expansion. The exercise is designed to allow you to experience this by playing the role of a category manager for a major consumer products company. The domestic market has matured, and the head of the Consumer Healthcare Division has identified Latin America as the best potential source of future growth. The objective of your toothpaste brand management team is to decide how best to enter this potentially lucrative market. Unfortunately for your management team, other international competitors are already in place and expanding their distribution, while local firms still dominate the traditional channels.

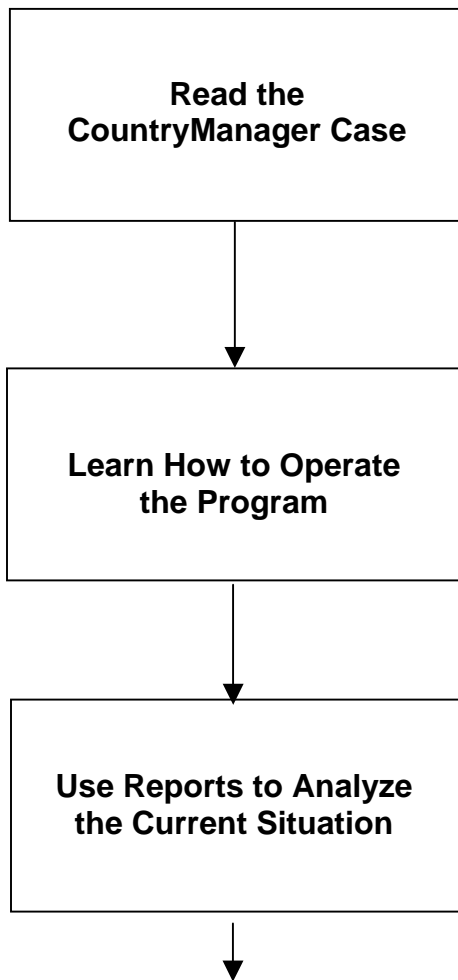
The CountryManager simulation will allow you to explore the following topics in an interactive and engaging environment:

- a. **Market Entry:** Which markets to enter? In what order? At what time? How to determine country attractiveness and market potential?
- b. **Type and Mode of Entry:** Local production versus exporting; distribution through a company sales organization versus indirect wholesales; managing types and modes of entry over time.
- c. **Segmentation, Targeting, and Positioning:** Which segments to target? How to position brands for the chosen segments?
- d. **Product Management:** “Global” product, adapted product, or local product? How to choose appropriate products for a market from an existing set?
- e. **Pricing:** Pricing to meet local market conditions versus multi-country pricing consistency. Gray market impact of large across-market price differences. Pricing for profit.
- f. **Advertising and Promotion:** Using standardized home country ads versus developing local campaigns (cost and customer tradeoffs). Allocating budget across advertising and other promotional expenditures. Differing advertising and promotional objectives across markets.
- g. **Distribution:** In addition to the mode of entry issues raised above, decisions will be made about the allocation of sales force to types of accounts, implying the relative emphasis on channels.

Your decisions on these issues will then be incorporated into a computer-simulated market to reveal how both you and your competition performed. Decisions cover a time-span of up to 10 simulated years, allowing you to observe both the short-term and long-term effects of your decisions.

Getting Started with CountryManager

Competing in the CountryManager market place will require complex analysis and decision making. Therefore, take some time to familiarize yourself with the program and manual before beginning the exercise. While working through the simulation, you will find it helpful to refer to the manual for information and strategy tips. In order to get off to a good start with CountryManager, we recommend the following approach:



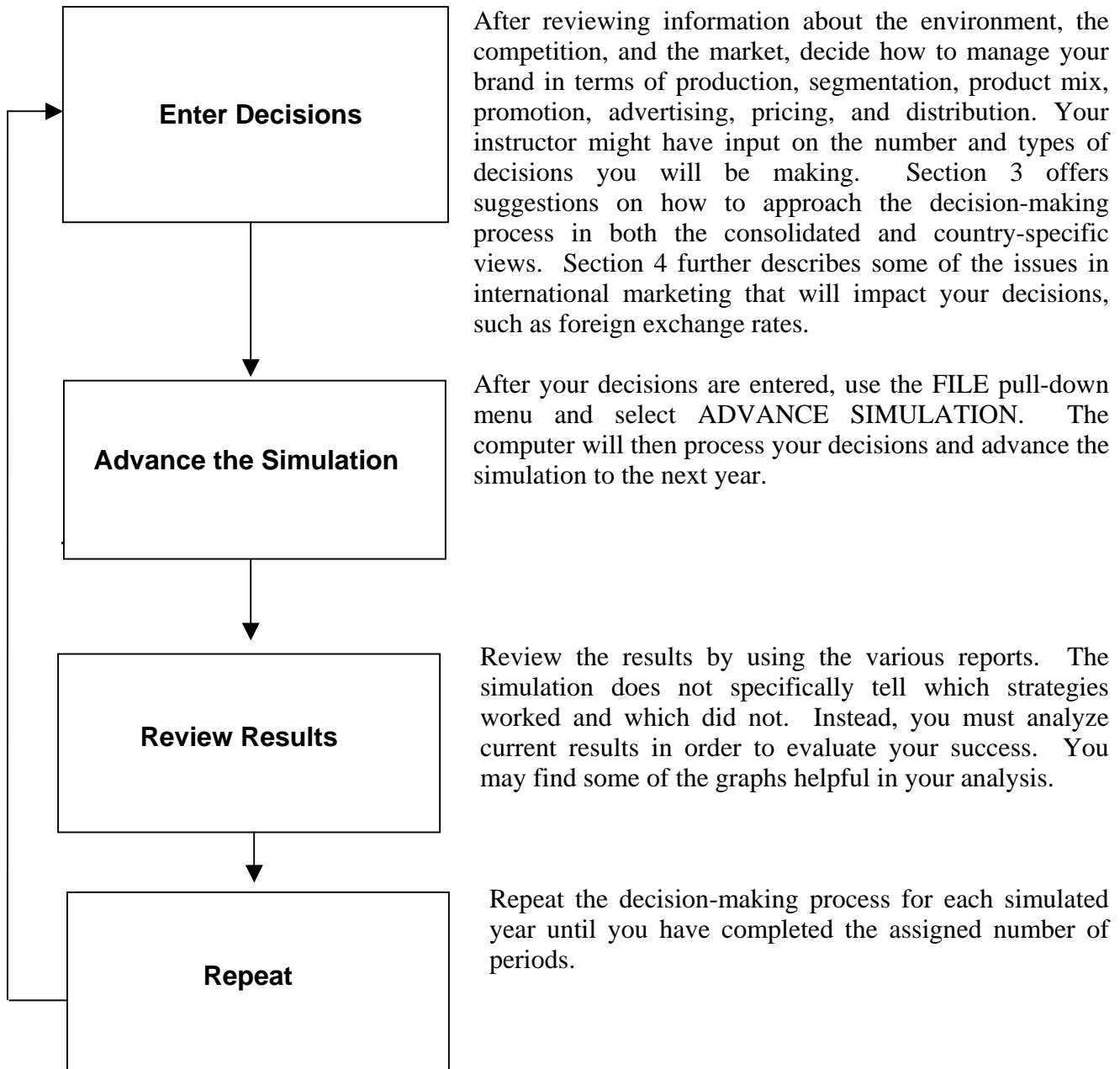
Section 1 of this manual presents a description of the Latin American toothpaste market and the political and economic conditions of the potential markets. A thorough understanding of the environment will help you make better decisions. While reading through the case and background information, you should consider what makes a country more attractive to enter and what country offers the best advantages for location of production facilities.

Section 2 provides information on how to use the simulation software, as well as a detailed description of each menu option and screen. In order to quickly learn the functions of the menu commands and become familiar with operating the program, it will be helpful to have access to a computer as you work through this section.

There are two basic levels of reports included for your analysis of the Latin American market — consolidated and country-specific. Consolidated reports enable you to make cross-country comparisons on the economic environment, competition, and market. These reports also give you key information on Allstar Brands that will help you in your decision-making process. Country-specific reports provide information on one country, such as Argentina. These detailed reports typically contain data at the brand and customer level.

Running CountryManager Each Period

Here is the general process to follow each period in CountryManager:



You may find it useful to print out some reports and step back from the computer from time to time. Analyzing information and determining an approach to managing the simulation process is a complex task. It is very important to take time and reflect on the information, especially when working in groups.

Consider the amount of time necessary to analyze the information and make decisions. This process requires an average of 2 hours, although one should allow extra time at first to get acclimated to the simulation. Make sure you allow sufficient time to thoroughly analyze your resources and make well-planned decisions. This is especially important in the periods when you enter new markets.

As you work through the simulation and become familiar with the program and the environment, new issues and problems will arise to challenge you. This will include re-evaluating your mix of SKUs and choice of distribution channels as markets evolve. You will also grapple with deciding on the best location for your productive capacity in order to achieve low costs and take advantage of favorable trade policies. Cultural differences, currency fluctuations, and other unexpected events will be constant companions. Finally, you will be addressing the 4P's of marketing by targeting particular customer segments through advertising and product mix, offering trade incentives and support to different distribution channels, and considering different pricing policies.

Of course, the competition will be following their own strategies and reacting to your decisions. Although the simulation always starts from the same position, each game will proceed on a unique course depending on the strategy that each player chooses. This will allow competitive comparisons and illustrate how markets can evolve differently.

Using CountryManager should be an exciting and rewarding experience. From the exercise, you will gain a practical understanding of marketing components and how various factors interact and affect one another. By analyzing information, making decisions, and observing the results, you will experience first hand the challenges and rewards of international marketing.

The CountryManager Manual

The remainder of this manual is divided into six sections:

1. **The CountryManager Case**
This section presents the world toothpaste market in a form similar to a business school case. The emphasis is on market entry into Latin American countries. The case also serves as an introduction to the situation when starting the simulation.
2. **CountryManager Operations Guide**
This guide outlines the operational aspects of using CountryManager on the computer, including hardware requirements, installation of the software, interaction with the program, and a detailed description of each menu option and screen.
3. **Issues in Making Decisions**
This section offers suggestions on what to consider when making decisions in the consolidated and country-specific views.
4. **Issues in International Marketing**
This section describes key considerations for evaluating foreign markets for entry.
5. **Cases in International Marketing**
This section contains two cases on International Marketing issues – Ruth's Chris Steak House (Market Attractiveness) and Stella Artois (Global Brand Management).
6. **Appendix 1: Background Information**
This appendix contains detailed background information on each of the six Latin American countries under consideration.
7. **Appendices 2 and 3: Country Attractiveness and Market Entry Forecasting Spreadsheets**
These appendices describe how to use two spreadsheets designed to help your initial market entry decisions.
8. **Appendices 4 and 5: Brand Equity Index and CountryManager Glossary**
These appendices provide descriptions of the Brand Equity Index performance measure and other helpful terms used in International Marketing and CountryManager.

Section 1: The CountryManager Case

Introduction

Kay Pasah, head of the Consumer Healthcare Division of Allstar Brands, looked across the table at her category and brand managers. She had a determined look. "In addition to our United States business, our operations in Europe and alliances in Asia are performing well. But these markets are mature with lots of competition and aging, slow growing populations. On the other hand, we've been too slow in developing our business in our own backyard — the Americas. Our board believes, and I agree, that to generate the kind of growth needed to drive our stock price, we need to develop a market presence in Latin America. What I need from you is an analysis of the markets in Latin America and a plan to enter the region. You need to tell me where we should be, when we should be there, and how we will need to manage the business. I want us to be in at least one country in the region next year. The board feels that in the near term we need to be in one or more of the following countries: Argentina, Brazil, Chile, Mexico, Peru, and/or Venezuela."

Allstar Brands

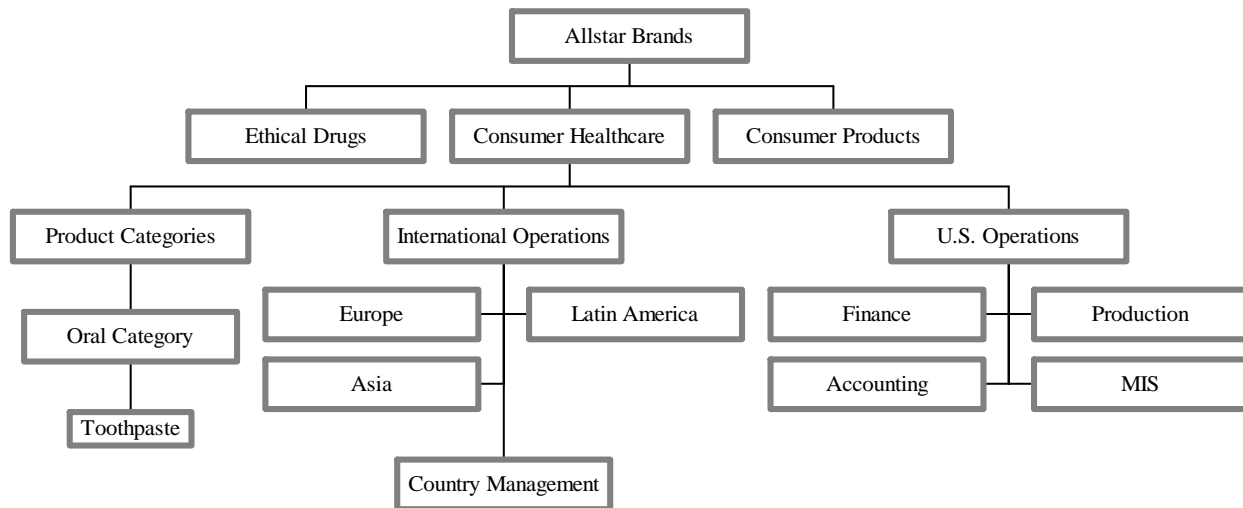
Allstar Brands is a U.S.–based consumer products company that produces and sells ethical (prescription) pharmaceuticals, OTC (over-the-counter or nonprescription) drugs, and consumer products. It is a \$8.9 billion firm that was formed in 1924 and competes with a variety of larger and smaller firms, depending on the product market. It has a number of leading brands in various product categories, including (in the OTC division) Allround, the leading liquid cold remedy in the United States, and Zemlef, a heartburn remedy soon to be converted from prescription to OTC status. The consumer products division includes various types of packaged goods: hand and beauty soaps, laundry detergent, shampoo, toothpaste, shaving cream, etc. Over the years, it has expanded its product category width through internal new product development and acquisition of brands and companies.

The company had been historically organized into three divisions (Ethical Pharmaceuticals, Consumer Products, and International), but recently reorganized into a global product management structure with three major divisions (Ethical Drugs, Consumer Healthcare, and Consumer Products). A group of category managers exists within each division. For example, the Consumer Healthcare division has an oral care category manager, a vision care category manager, etc. Most major brands also have their own brand manager who reports to the category manager.

Under the new structure, each division is responsible for its own international operations and, to some extent at least, can pick the products and categories to pursue internationally. The category managers meet regularly with their counterparts from other countries to coordinate the approach

for managing the brands across world markets. In addition, within the United States, the VPs for international operations from within each division meet on international strategy to develop synergies in production, exporting, country expertise, and so on. Figure 1 illustrates this organizational structure.

Figure 1: Organizational Structure of Allstar Brands



Country Analysis and Entry Decisions

Latin America is a region of great potential. With a population of approximately 450 million, the region represents a population that is 50 percent larger than that of the United States and Canada. The region has a history of having been politically unstable and has had many weak economies characterized by low growth, high inflation, and a reluctance to take tough economic actions to correct these problems. The dominant national language across Mexico and Central and South America is Spanish, except for Brazil, where the dominant language is Portuguese. Some portions of the population in many South American countries speak one or more native Indian languages.

A variety of trade enhancement actions have been struck in recent years. For example, Mexico was signatory of the NAFTA agreement, along with the United States and Canada. This agreement reduces trade barriers among the three countries and has encouraged a variety of companies to establish production in Mexico to take advantage of low labor costs and fairly seamless access to the United States and Canadian markets. The MERCOSUR agreement provides similar linkages among the South American countries of Argentina, Brazil, Chile, Paraguay, and Uruguay, including association agreements (but not membership) with Bolivia. The Group of Three links Colombia, Mexico, and Venezuela. The Andean Community links Bolivia, Colombia, Ecuador, Peru and Venezuela. Numerous bilateral agreements also exist.

Kay’s team had scoured the Internet for additional sources of data and had come across a site maintained by the CIA. “Our tax dollars at work!” Kay exclaimed. A summary of key

information from this site appears in Appendix 1. Tables 1 and 2 below compare economic and social characteristics of the United States market and the six markets under consideration.

Table 1
Market Comparison on Basic Economic Characteristics

	Population (M)	GDP (Billions U.S.\$)	GDP/capita (U.S.\$)	GDP growth (%)	CPI increase (%)	Below poverty line (%)
Argentina	39.9	518	13,100	8.7	12.3	38
Brazil	188.1	1,556	8,400	2.4	5.7	22
Chile	16.1	187	11,300	6.0	3.2	18
Mexico	107.5	1067	10,000	3.0	3.3	40
Peru	28.3	165	5,900	6.7	1.6	54
Venezuela	25.7	154	6,100	9.3	15.7	47
U.S	299.4	12,360	41,800	3.5	3.2	12

Table 2
Market Comparison on Basic Social Characteristics

	Population aged 65+ (%)	Urban population (%)	Population in 3 largest cities (%)	Population average growth (%)	Population w/access to safe water (%)	Infant Mortality per 1000 births
Argentina	10.6	88	14.6	0.96	64	14.7
Brazil	6.1	79	10.0	1.04	72	28.6
Chile	8.2	84	36.0	0.94	N/A	8.6
Mexico	5.8	74	11.6	1.16	83	20.3
Peru	5.3	71	N/A	1.32	60	30.9
Venezuela	5.2	86	22.2	1.38	79	21.5
U.S.	12.5	76	8.4	0.91	90	6.4

Currency Exchange Rates

The relative value of different currencies affects many of the decisions facing Kay’s team, as well as much of the data used in their analysis. For accounting purposes at Allstar’s corporate offices, revenues and costs are converted into US\$. Therefore, fluctuations in the exchange rate will affect consolidated reports directly. However, pricing and budgets are set in local currency, so Kay’s team must manage in the local culture and currency but remain aware of the effects of exchange rates. Table 3 provides the current rates of exchange.

Table 3
Currency Exchange Rates

	U.S. Dollar (USD)	Arg. Peso (ARS)	Braz. Real (BRL)	Chil. Peso (CLP)	Mex. Peso (MXN)	Peru. Sol (PEN)	Venz. Bolivar (VEB)
USA		3.0864	2.2321**	549.45	11.3636	3.2680	2150.54
Argentina	0.3240		0.7232	178.02	3.6818	1.0588	696.77
Brazil	0.4360*	1.3711		243.58	5.0115	1.4248	1021.08
Chile	0.0018	0.0056	0.0041		0.0207	0.0059	3.91
Mexico	0.0880	0.2716	0.1964	48.35		0.2876	189.25
Peru	0.3060	0.9444	0.6830	168.13	3.4773		658.06
Venezuela	0.0005	0.0014	0.0010	0.2555	0.0053	0.0015	

* For example, it takes .4360 USD to buy 1 BRL.
** For example, it takes 2.2936 BRL to buy 1 USD.

World Toothpaste Market

Current world toothpaste sales total approximately \$10 billion. The largest country market for toothpaste is the United States, with \$1.4 billion spent during the past year. Toothpaste is available in a number of sizes, delivery systems, textures (paste or gel), and formulations. The basic toothpaste product is a paste or gel with flavoring and one or more active ingredients that provide specific benefits to consumers. A general description of these variations in the United States market is listed below. Not all companies produce all possible combinations.

Table 4
Toothpaste Packaging and Formulation Variations

Sizes (grams)	Delivery Systems	Texture	Formulations (Ingredient/Benefit)
Travel (25) Personal (75) Family (150)	Tube Pump	Paste Gel	Basic uses fluoride for prevention of dental cavities. Whiteness uses hydrogen peroxide for whitening and prevention of gingivitis. Healthy uses baking soda for tartar control. Kids uses special flavorings to appeal to children.

In general, research identified four key segments of consumers defined by benefits sought:

- 1) Basic/Economy: seeks cavity protection at a low price
- 2) Whiteness: seeks whiter teeth
- 3) Healthy teeth: seeks control of tartar and prevention of disease
- 4) Taste/Kids: seeks a good tasting product to appeal to children

Consumers purchase different formulations based on the benefits they seek and their purchasing ability. The benefit segments also link to demographics. For example, families with children

often focus on decay prevention; young singles are typically more interested in whiteness; those in middle age are concerned with tartar and gingivitis; and children find taste of the toothpaste to be a primary feature.

Similarly, other attributes may appeal differentially to different consumer groups. For example, pump dispensers add convenience and may be a novelty for children but are more expensive to produce than tubes. Also, single people might prefer the convenience of smaller package sizes, whereas families may prefer a larger package which is typically more economical on a cost per gram basis.

A number of firms produce and/or market toothpaste in the world market. Table 5 lists the five major producers of toothpaste for the world market, including Allstar Brands. Not all global brands or global competitors will be represented in every market, and some markets might include brands produced by local firms. These local brands may have a minor or major share of the market, depending on the country.

Table 5
World Toothpaste Producers with Major Brands

Company Name	World Sales (% of world market)	Brands
AllStar Brands	13	Allsmile
B & B Healthcare	15	Britesmile Bancav
Caremore Company	21	Clean & White Caregate
Driscoll Corp	10	Dentacare
Evers Consumer	7	Eversmile

Your job as the first country manager for the Latin American region is to determine which of the six countries recommended by the board is the most attractive for Allsmile. You are expected to build the Allsmile business in one market and expand into two or more other Latin American markets. While you make these decisions, it may be helpful to review the information included in Table 6, which provides data on toothpaste sales by country, and Table 7, which lists producer market shares by country. For each market that you enter, you will need to determine Allsmile’s target market and positioning strategies, how to source products (via importing or local production), which products to launch, through which channels to distribute, pricing, advertising, and promotion. As country manager, you are responsible for the performance of your operations, including revenues, market share, and profitability. Therefore, you must develop and implement strategies that are attractive to customers and profitable for Allstar Brands.

Table 6
Toothpaste Sales by Country Market, last six years (Millions of USD)

Country	5 years ago	4 years ago	3 years ago	2 years ago	Previous year	Current year	Sales per capita (USD)
Argentina	122	130	135	132	142	152.6	3.82
Brazil	385	395	390	410	423	454.6	2.42
Chile	59	65	69	78	78	83.1	5.16
Mexico	135	150	175	189	209	228.1	2.12
Peru	23	25	26	28	31	35.1	1.24
Venezuela	23	25	27	22	23	26.3	1.02

Note: Some fluctuations due more to currency exchange rates than underlying changes in demand

Table 7
Competitive Market Shares (%) by Latin American Country Market

Company	Mfg. Sales (US\$ - M)	B & B	Caremore	Driscoll	Evers	Locals	Regionals
Argentina	152.6	19.8		11.9		47.7	20.5
Brazil	454.6		23.1	23.1	9.4	25.3	19.2
Chile	83.1	11.5				56.8	31.6
Mexico	228.1		22.5	38.0		39.5	
Peru	35.1					74.2	25.8
Venezuela	26.3					73.7	26.3

Product Management

Allsmile is a key asset of Allstar Brands. It is one of the company's highest recognition brands in the United States. It is produced in the United States and in Germany for the United States and European markets, respectively. A large number of stock keeping units (SKUs) are produced. South Korean and Japanese manufacturers also produce Allsmile under license for distribution and sales in Asia. There have been reformulations of the brand, but as of today, the product formulations are essentially the same across all markets for a given SKU (although there are slight differences in packaging and in the type and intensity of flavoring that are thought to reflect regional preferences).

Overall toothpaste market growth in the United States is very slow, matching the slow growth of the population, so that increases in sales of a brand are due to reductions in share of competitors. Much of the shift in market share in toothpaste has resulted from aggressive product development and reformulation supported by promotion to create brand curiosity in the category. For example, product management has developed three line extensions of the Allsmile brand for the United States market: Allsmile Whitening, Allsmile Tarter Control, and Allsmile Kids. These line extensions focus on particular benefit and demographic segments.

Thus, the United States market consists of 24 SKUs of Allsmile:

Allsmile (original):	6 SKUs – 3 sizes, 1 delivery system, 2 textures, fluoride formulation
Allsmile Whitening:	6 SKUs – 3 sizes, 2 delivery systems, 2 textures, fluoride plus sodium hypochlorite*
Allsmile Tartar Control:	6 SKUs – 3 sizes, 2 delivery systems, 2 textures, fluoride plus abrasive material*
Allsmile Kids:	6 SKUs – 3 sizes, 2 delivery systems, 2 textures, fluoride plus special flavoring*

** Not all combinations are available.*

Management of Allstar Brands has made the decision that Latin American market entry is to be done using the existing SKU formulations. In addition to the question of what country or countries to enter, the country manager in Latin America must decide which of the Allsmile versions to use in the chosen market. The usual approach for market entry in the past has been to introduce only four of the 24 available SKUs and review early performance before investing additional resources. Portuguese or Spanish packaging (depending on country) is essential for consumer acceptance.

After initial entry into a Latin American market with a limited number of SKUs, expansion in the region will likely proceed as follows:

- Periodically, market penetration and growth rates for each country manager will be reviewed. Based on achieving these goals, additional SKUs may be introduced in the initial market.
- After successful entry into one market, the country managers can expand their operations into other countries in a similar fashion. The products can be the same as those marketed in the initial country, or they may be entirely different SKUs.
- Goals and objectives are likely to be set with your instructor at the beginning of the simulation. Your instructor may also provide guidance as to regional rollout timelines.

Production

Toothpaste manufacturing and delivery is reasonably flexible. Production may take place in any location throughout the world and shipped to the ultimate destination. Alternatively, production may be manufactured locally at a company-owned facility.

From the perspective of the subsidiary, product can be obtained by purchasing from the United States manufacturing division of the parent firm. The parent firm charges a transfer price for the product that is purchased by the subsidiary. The total amount (units x transfer price) appears as the cost of goods sold (COGS) in the subsidiary's income statement. Estimates from the parent firm indicate that there is sufficient productive capacity in the United States plant to meet potential demand in Latin America. This may be a good short-term source of capacity, but unit costs are likely to be higher, and when combined with tariff and shipping considerations, overall

cost will be significantly higher than a locally produced product. On the other hand, the United States offers reliable productive capacity and a historically stable currency.

Another approach to obtain product is to produce the product locally. If the subsidiary desires to do so (rather than purchase product from the United States), the corporation will approve building a single plant in one of the Latin American countries under consideration. However, building a plant and expanding its capacity are expected to take one year to complete and require some one-time upfront costs for design and construction. Unit costs are expected to be lower with local production after achieving reasonable volume.

Table 8 shows some typical production costs associated with each size, delivery system, texture, and formulation level of toothpaste when produced in the United States manufacturing plant. The base case is a 75-gram tube of fluoride toothpaste that costs approximately \$0.50 to produce. These costs incorporate labor and materials and also an allocation for manufacturing fixed costs. From the point of view of the country manager, these are COGS. Producing in Latin America is advantageous, in part because certain labor and material costs are lower than in the United States. Table 9 shows the percentage reduction in COGS that can be expected when products are manufactured in Latin America. These costs are based on 100 million units of cumulative production. Note that there are also some fixed costs to consider which are estimated at \$1 million for each 1 million units of capacity. These costs are depreciated over a 10 year period, resulting in annual charges of approximately US\$100,000 per million of production.

Table 8
Approximate U.S. Manufacturing Costs By Component (Simulation Data)

Component	Description	Cost
Size	25 gram (small)	- 20%
	75 gram (medium)	--
	150 gram (large)	+ 20%
Delivery System	Tube	--
	Pump	+ 10%
Texture	Paste	--
	Gel	+10%
Formulation	Fluoride	--
	Hydrogen Peroxide	+ 5%
	Baking Soda	+ 5%
	Special Flavoring	+ 5%

Table 9
Decrease in Manufacturing Costs (based on initial 100 million units of production)

	Argentina	Brazil	Chile	Mexico	Peru	Venezuela
Approximate Cost reduction (relative to U.S.)	9%	13%	11%	19%	26%	28%

With production experience, COGS reductions are realized at *any* manufacturing plant—United States or non-United States. However, due to the already large volumes produced in the United States, this effect is likely to be negligible. With each doubling of cumulative production across all SKUs (total volume) in new plants in Latin America, it is expected that COGS will be reduced by approximately 8-10 percent.

Location of manufacture has important implications for Allsmile’s overall costs as well as COGS. Three sources of costs exist. As already noted, COGS reflects manufacturing costs and is affected by production volume. In addition, the subsidiary needs to consider international shipping costs (ISC) between the manufacturing plant and the served market, and import taxes and duties in certain cross-border situations. Weight (volume), distance, and mode of shipment affect shipping costs. With regard to mode of shipment, container ships embarking from Miami are used to ship products from the United States to Latin American locations. Container shipments embarking from Cancun are used to ship product from Mexico to South American markets. Within South America, trucks are used primarily to ship products across borders and from ports to destinations. Table 10 provides per unit costs for shipping toothpaste from various manufacturing locations, assuming the usual shipping mode for each origin – destination combination.

Table 10
International Shipping Rates (per unit – medium size - based on 20’ containers)

	U.S. Plant	Argentina Plant	Brazil Plant	Chile Plant	Mexico Plant	Peru Plant	Venezuela Plant
Argentina Market	0.030	0.005	0.010	0.010	0.020	0.010	0.010
Brazil Market	0.030	0.010	0.005	0.010	0.020	0.010	0.010
Chile Market	0.030	0.010	0.010	0.005	0.015	0.010	0.010
Mexico Market	0.010	0.020	0.020	0.015	0.005	0.010	0.010
Peru Market	0.030	0.010	0.010	0.010	0.015	0.005	0.010
Venezuela Market	0.030	0.015	0.010	0.010	0.010	0.010	0.005

Notes: Rates include documentation fee (\$100), insurance, and inland trucking (\$300) except Mexico = \$680
 Rates for Chile and Peru are estimated
 Rate per gram = 44,000 lbs./ 16 ounces / 28.35 grams

Circumstances vary on a country-by-country basis with respect to cross-border taxes and duties. No import duties or tariffs are incurred within regional trading blocs, such as shipping products between the United States and Mexico (because of NAFTA) or between Argentina, Brazil and Chile (because of MERCOSUR). Where import costs are incurred, they are determined based on the value of the imported good, where value = CIF (COGS + Insurance + Freight (ISC)) as shown in Table 11.

Table 11
Tariffs, Duties, and Fees as a Percentage of CIF

	U.S. Plant	Argentina Plant	Brazil Plant	Chile Plant	Mexico Plant	Peru Plant	Venezuela Plant
Argentina Market	21	X	0	0	20	20	20
Brazil Market	21	0	X	0	17	17	17
Chile Market	0	0	0	X	9	9	9
Mexico Market	0	15	15	10	X	15	0
Peru Market	12	12	12	12	12	X	12
Venezuela Market	23.5	23.5	23.5	23.5	0	23.5	X

These different sources of costs (COGS, experience effect, shipping, and tariffs) interact to affect the total cost basis for the firm. For a company selling in a particular Latin American market:

- 1) United States production only = High cost (high COGS + high shipping/tariffs)
- 2) Low volume LA production = Medium cost (high COGS + low shipping/tariffs)
- 3) High volume LA production = Low cost (low COGS + low shipping/tariffs)

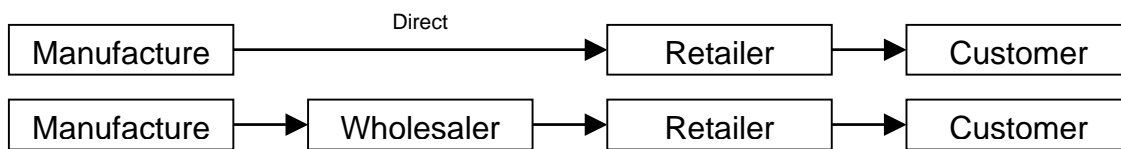
To summarize the production issues, the country manager must determine not only which markets to serve and which SKUs to offer, but also where to locate a Latin American production facility (if desired). A major tradeoff is between lower per unit manufacturing costs from plants operating at high capacity versus lower shipping costs by producing in or close to served markets. A second tradeoff can involve decreasing production costs with higher volume versus increasing duties, taxes, and tariffs because of border crossings.

The production decision affects not only the initial market entry, but also subsequent expansion into a second Latin American market. For example, a plant serving just one country may not achieve low COGS due to relatively low volume. But when the plant begins producing for a second Latin American market, higher volume and capacity utilization may yield lower COGS that are realized in the initial and the new markets.

Distribution

Domestic. Toothpaste is sold through a variety of retail outlets in the United States. Grocery stores (e.g. Kroger), drug stores (e.g. Rite Aid), mass merchandisers (e.g. Wal-Mart), convenience stores (e.g. 7-11), and other outlets (warehouse clubs, etc.) all sell toothpaste. Increasing concentration in most of these classes of retail outlets means that Allstar distributes directly to many national accounts. In fact, approximately 70 percent of Allsmile volume goes directly to the various retail accounts. There are still, however, a number of smaller local or regional stores that require the use of an indirect channel via wholesalers. Figure 2 offers a visual representation of direct versus indirect distribution.

Figure 2: Distribution Structure – Direct vs. Through Wholesaler (Indirect)



International. The type of retailer that stocks toothpaste varies by country. In general, there are fewer types of retailers carrying toothpaste than are found in the United States. Also, while there is increasing consolidation of retailing globally, it is reasonable to generalize that there is less concentration in most of the rest of the world compared with the United States. That is particularly true in developing markets where traditional "mom and pop" retailing remains the norm.

Distribution channels in Latin America have been grouped historically as *traditional*, *self-serve*, and *hypermarket*. Traditional channels are small, independent stores or open market areas almost exclusively served by wholesalers (indirect distribution). Self-serve is a more developed store where customers serve themselves, but that typically offers a narrow line of merchandise. These may be independent or part of a regional chain but are almost all locally owned. Convenience stores and grocery stores would fall in this category. Hypermarkets are a new style of channel that is found primarily in cities. These are usually large stores with a wide variety of goods and typically purchase items directly from the manufacturer (direct distribution). Many of the hypermarket chains are foreign owned or allied with a global distributor, such as Wal-Mart or Carrefour.

A fourth type of distribution channel is emerging around the concept of home delivery. Home delivery of household products and groceries is more common in Latin America than in the United States, which points to the possibility of a website-based channel of distribution once a higher percentage of the population has access to the internet. Tables 12, 13, and 14 provide retail channel data for each country.

Recent conversations with key retail accounts suggest that brands to carry, along with allocation of shelf space and facings, are affected by four key variables: product turnover, slotting allowances, sales force support, and advertising support. Hypermarkets and chain self-serves are more apt to focus on allowances as well as turnover, whereas traditional stores and independent self-serves seem to pay greater attention to sales force support.

Table 12
Toothpaste Distribution Shares by Type of Retail Channel

Country	Traditional	Self-Serve	Hypermarkets	Web Based / Other Home Delivery	Total Retail Sales (US\$ millions)
Argentina	48.5%	24.6%	26.4%	0.5%	\$192.3
Brazil	51.9%	10.4%	37.6%	1.2%	\$575.2
Chile	42.0%	23.9%	32.7%	1.3%	\$104.0
Mexico	57.6%	18.1%	24.3%	0.0%	\$291.5
Peru	81.3%	7.8%	10.9%	0.0%	\$ 47.3
Venezuela	80.4%	11.2%	8.4%	0.0%	\$ 35.6

Table 13
Projected Annual Growth of Sales by Toothpaste Channels

Country	Traditional	Self-Serve	Hypermarkets	Web Based / Other Home Delivery
Argentina	0%	10%	15%	20%
Brazil	5%	10%	10%	15%
Chile	-5%	10%	5%	5%
Mexico	10%	0%	20%	20%
Peru	0%	5%	10%	15%
Venezuela	10%	15%	20%	25%

Table 14
Percentage of Direct Sales (vs. Through Wholesaler) by Channel

Country	Traditional	Self-Serve	Hypermarkets	Web Based / Other Home Delivery
Argentina	18.8%*	53.1%	71.0%	100%
Brazil	8.3	29.3	63.0	100
Chile	19.9	48.4	69.2	100
Mexico	11.5	42.7	82.3	100
Peru	4.7	28.0	58.8	100
Venezuela	3.7	33.6	65.5	100

* For example, 18.8% of traditional sales in Argentina are direct from the manufacturer, rather than through a wholesaler. This means that 81.2% of the sales in the traditional channel are through wholesalers.

Sales Force

Domestic. The primary contact with the distribution channel is the sales force. In the United States, the Allstar sales force focuses on either retail accounts (direct sales, accounting for 70 percent of Allsmile sales), including large national account reps, or wholesalers and distributors (indirect sales, accounting for 30 percent of Allsmile sales).

The *direct sales force* is responsible for the care and feeding of relationships with existing national retail accounts and for developing new retail accounts. The direct sales force also presents trade promotions, slotting allowances, and new product introductions to the retailers.

Manufacturers also maintain an *indirect sales force* designed to sell to distributors and wholesalers. There are two kinds of indirect sales jobs: selling and retail support. Selling typically refers to the *wholesale sales force*. These salespeople call on the wholesalers and other indirect distributors, sell to them, and support them. Retail support is provided by *merchandisers*, who call on retailers to assist with merchandising, pricing, special displays, etc.

International. The allocation of a sales force internationally provides the best coverage for the selected target markets' shopping habits. A salesperson may be allocated to only one channel within a country (i.e. wholesale sales force) and cannot work in more than one country. Table 15 shows the annual costs for each type of salesperson, including salary, incentive, benefits, and expenses, which vary by country. The table also includes a one-time charge for hiring or firing a salesperson.

Table 15
Average Salesperson Costs by Country (U.S. \$000)

Salesperson	Argentina	Brazil	Chile	Mexico	Peru	Venezuela
Salary/Commissions	35.4	33.8	34.5	25.1	21.9	21.6
Expenses	10.1	9.5	12.4	8.2	6.3	6.3
Hiring/Training	7.6	6.7	8.8	6.7	5.7	5.3

Pricing and Distributor Discounts

It is industry practice for manufacturers to set a manufacturer's suggested retail price (MSRP) and provide volume discounts to the channel. Retailers have discretion over the final price set in the store, though many follow the MSRP quite closely. MSRPs vary by size, delivery system, texture, and formulation. A manufacturer's manager considers product costs and market conditions when determining the MSRP. Manufacturers typically offer volume discounts of 15–30 percent off the MSRP, depending on the volume purchased and channel selected. The per unit revenue of the manufacturer is (MSRP) (1 - discount). For example, if the MSRP for a family size tube of Allsmile is \$3.50 and the distributor receives a 25 percent discount, a retailer would pay $(\$3.50) (1 - .25) = \$2.62/\text{tube}$.

Because wholesalers typically purchase in very large quantities, all sales to wholesalers are discounted by at least 30 percent. Thus, Allsmile's per unit revenue is typically lower when products are sold through wholesalers and on to retailers. Consider again a family size tube of Allsmile with a MSRP of \$3.50. A wholesaler would pay $(\$3.50) (1 - .30) = \$2.45/\text{tube}$.

Wholesalers generally offer retailers 25 percent off the MSRP so that the wholesaler would sell to retailers for (\$3.50) $(1 - .25) = \$2.62/\text{tube}$. In this example transaction through a wholesaler, the unit revenue for AllStar (and the wholesaler unit cost) is \$2.45, and the unit revenue for the wholesaler (and the unit cost for the retailer) is \$2.62. In general, there is an incentive for retailers to order through wholesalers if they place small orders and to order direct if they place large orders.

The expected discounts for the different distribution channels are as follows:

Wholesale	30%
Hypermarket Direct	25%
Internet/Home-based Direct	25%
Self-Serve Direct	20%
Traditional Direct	15%

Note that wholesalers may serve all the different retail channels. For instance, it may be that 80% of traditional retail stores purchase their product through a wholesaler and 20% purchase direct from the manufacturer. In this case, the manufacturer would expect 80% of their sales that ultimately are sold through the traditional channel to be sold at a 30% discount (wholesale) and 20% of their sales to be sold at a 15% discount (traditional direct). Generally, wholesalers serve smaller, independent retailers, whereas larger hypermarket chains would purchase directly from the manufacturer.

Pricing regulation and convention vary by country. By convention, manufacturers in Latin America set a MSRP and offer quantity discounts. Table 16 lists the MSRP for the leading brands in the markets under consideration for a 75-gram tube of toothpaste with fluoride and any additional ingredients listed.

In setting prices, managers need to consider the segment being targeted in a country for insight into price sensitivity, competition within the segment, and their costs. In addition, large price differences between country markets for the same brand can lead to product diversion through gray market distributors from higher priced to lower priced markets.

Table 16
MSRP for Leading Brands by Country (Local Currency) – 75-gm size

Country	Britesmile (baking soda)	Clean & White	Dentacare	Eversmile (hydrogen peroxide)	Leading local / regional brand
Argentina (A\$)	5.20	N/A	4.28	N/A	4.13
Brazil (R\$)	N/A	3.85	3.16	3.38	3.28
Chile (Ch\$)	852	N/A	N/A	N/A	714
Mexico (Mx\$)	N/A	15.73	15.17	N/A	13.48
Peru (S/)	N/A	N/A	N/A	N/A	3.48
Venezuela (Bs)	N/A	N/A	N/A	N/A	2294

Advertising and Promotion

Advertising. Advertising is important in establishing brand awareness and in shaping consumers' perceptions of products. In managing Allsmile, the brand group must decide how much to spend on advertising and what the message should be for target group(s). Messages are often targeted in terms of benefits sought and demographics. The country manager will provide target demographics and benefits information that will guide the ad agency in copy development (text for print ads and script for broadcast ads, actors used, etc.) and media choices. Options for target demographic segments include younger singles and younger couples with no children ("younger"), older singles and older couples with no children ("older"), and families with children present in the household ("families"). Benefit messages include economy, whiteness, health (prevention of disease), and appeal/taste.

Advertising is expensive, particularly TV advertising. Advertising costs can be grouped broadly into two categories: message development (creative) and media purchases. Media costs can be high even in developing countries. Often firms try to use creative developed in one country for other countries, typically with dubbing or adapted graphics. Broadly speaking, firms can adapt an ad either minimally (by changing only language) or more extensively (by adapting some scenes or editing to include culturally relevant copy and pictures). It is cheaper to adapt than to develop new creative, but the adapted ad may not be as effective as one designed for a particular country's needs and target audience. A rule of thumb is that minimal adapting of an existing ad costs 25 percent of the creative costs of developing a new ad, whereas extensive adapting costs 50 percent of a new ad. The media costs are the same.

Allsmile management has the following ads available that could be used in or adapted for the Latin American market:

Table 17

Current Allsmile Ads Available for Use or Adaptation in Latin America

Ad number	Product	Language	Countries of use	Message type	Target group
1	Tartar Control	English	US	Benefit: disease prevention	Families
2	Whitening	English	US	Benefit: whiteness	Younger
3	Basic	Spanish	Spain	Benefit: economy	Families

Consumer and Trade Promotions. Consumer and trade promotions are a significant part of marketing activity in consumer products.

Trade promotion includes a variety of activities designed to get the trade to maintain interest in a brand. Two typical types of trade promotion are *slotting allowances* and *co-op advertising*. Slotting allowances are often used by weaker brands to help ensure shelf space. These allowances are accounted for as discounts from the MSRP and thus affect the gross margin. Co-op advertising is money made available to the channel to feature the manufacturer's brand in the

channel's advertising. In the simulation, these co-op advertising expenditures are included in the promotion budget and therefore accounted for as costs that affect net contribution.

Consumer promotions commonly include approaches such as free trial size packages, coupons, and point-of-purchase displays. Like co-op advertising, these expenditures are accounted for as part of the promotion budget and affect net contribution.

Table 18

Allocation of Consumer Promotional Expenditures for Toothpaste by Country (Million\$), Aggregated Across Manufacturers (Simulation Data)

	<i>Argentina</i>	<i>Brazil</i>	<i>Chile</i>	<i>Mexico</i>	<i>Peru</i>	<i>Venezuela</i>
Advertising	10.6	46.2	3.8	15.7	1.6	1.3
Promotion	3.4	17.7	2.8	5.8	1.0	0.7
Sales Force Expenses	4.1	18.6	2.1	7.1	0.8	0.5

Kay knew there was much to be done in the years ahead and that her team would need to be focused on long-term goals. To that end she reminded them that especially in the first few years, that they should consider their success in measures other than profitability – awareness, distribution coverage, market share, and use of a new tool called the Brand Equity Index. Each year, in each country entered, the team would receive a score on five measures: benefit positioning, creative execution, price positioning, sales leadership, and share of mind. There would also be an overall index calculated that took into account issues of regional diversification and product standardization. Long term, Kay knew she would have to provide a net positive contribution for the Latin American region as a whole or be prepared for some very difficult board meetings. She believed that if she could turn a profit after 5 years, she'd be able to recoup any early year investments by the end of ten years.

Kay looked at her group of category and brand managers, "Well, there's a lot to do. Good luck!"

Case Sources:

Some background information in the case is based in part on information in United States government documents: *CIA: The World Fact Book 1999-2006* (www.odci.gov/cia/publications/factbook).

See Appendix 1 and the software for more detailed information from this source.

The World Bank: *World Development Indicators*

www.citypopulation.de/cities.html

Latin Focus Website: www.latin-focus.com

Other than Tables 1 and 2, all the data in the tables is from the current standard scenario of the CountryManager simulation.

Section 2: CountryManager Operations Guide

CountryManager is designed to be easy to use and is compatible with all the recent Microsoft Windows operating systems. This operations guide helps you start the simulation and also provides more detailed descriptions of each of the reports and decision screens.

Getting Started

CountryManager is compatible with all the recent Microsoft Windows operating systems and requires a hard drive and Internet connection. The minimum requirements are:

- Windows XP, 2000, NT, 98 or 95
- Internet access (Broadband recommended, dial-up acceptable) and a web-browser
- 4 MB of hard disk space (or zip drive / memory stick)

Accessing the Simulation

To use CountryManager, first login at the student login page at www.interpretive.com. You will receive your login information either from your instructor or directly from Interpretive. After logging in and placing your order, click on Simulation at the top, and Access Simulation in the left hand column to see the following page.

The screenshot shows the CountryManager website interface. The browser window title is "Interpretive Simulations | Country Manager | CountryManager Trial - Windows Internet Explorer". The address bar shows a URL starting with "http://192.168.1.112/web.php?". The page content includes a navigation menu on the left with items like "Home", "Simulation", "Order", and "Help". The main content area displays "CountryManager International Marketing Simulation Demo Simulation Site - Fall 2007" and provides instructions for installing the program on a PC or a memory stick/flash drive. Callout boxes with arrows point to specific elements: "Click here to see simulation related information" points to the "Simulation" menu item; "Support materials for your event" points to "Manual", "Presentations", and "Take out" in the left menu; "Help and FAQs" points to the "Help" menu item; "Information about your order" points to the "Order" menu item; and "Comparative Results" points to the "Comparative Results" link in the left menu.

From this screen, click on CountryManager Installation link to open or save the program to your hard drive. For more detail, please refer to the PowerPoint presentations on your class website. Remember to refer back to the Comparative Results screen on your class website to see how you or your team compares with others competing in your simulation event.

Installation

The CountryManager software is in a self-extracting installation file. You may open and run the installation file directly from the Internet or download the archive (.exe file). If you choose to open the file, follow the installation instructions to extract the programs. If you choose to save the file to a folder on your hard drive, save the file, then go to the folder, double click on the .exe file, and follow the installation instructions. Install the program in the default destination folder.

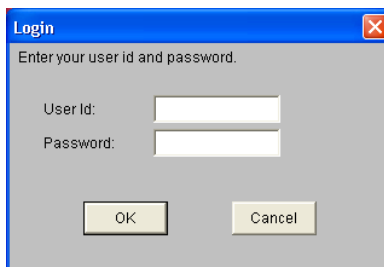
CountryManager can be installed on multiple computers (work and school, for example), but you should refresh the data or login again anytime you change locations.

Login to CountryManager

The installation process creates a CountryManager icon on your desktop. To start the program, either double click on the CountryManager icon on your desktop or click on the Programs/Simulations/CountryManager icon from the Start menu to proceed to the login screen.



When you choose the <Login> button, you will be prompted for your user ID and password (see Login screen below). You must have these two unique pieces of information to start the simulation, which should have been sent directly to you by either your instructor or Interpretive customer service.



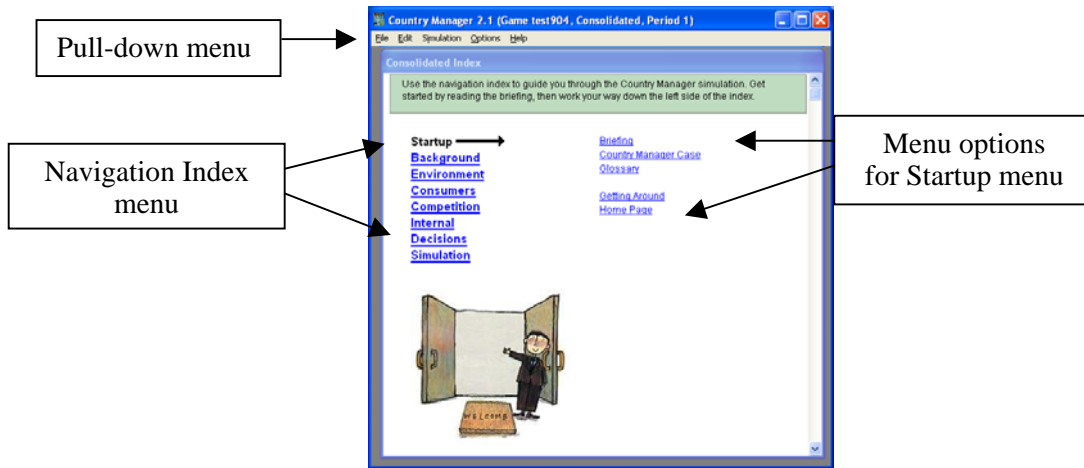
After entering your unique sign-in information and clicking on the <OK> button, the main menu for navigation should appear. If you instead receive an error message that indicates connection problems, first make sure you have an active Internet connection and that you have entered your correct user ID and password. However, if the problem persists, please check the help part of your class website and check the FAQs for connection problems. The help part of the site and the help facility in the simulation are both good resources for solving problems.

Navigation (Consolidated View, Country View, Menu Bar)

The NAVIGATION INDEX is a user-friendly menu structure for navigating key areas of CountryManager. The NAVIGATION INDEX consists of two views: consolidated and country. The *consolidated view* provides more cross-country comparative information for the Latin American region, while the *country view* provides in-depth data on a particular country.

Consolidated View

CountryManager begins in consolidated view (shown below). The STARTUP menu contains helpful overview and navigational information (Briefing, Case, Getting Around, and Home Page) to review at the beginning of the simulation.



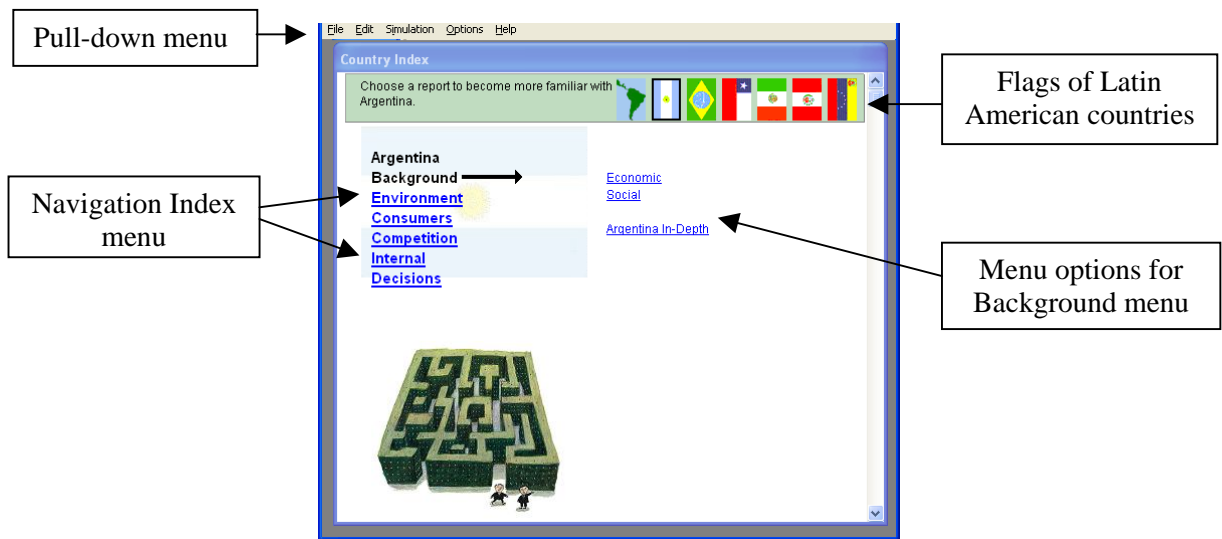
Click on one of the menu options (Briefing, Case, Getting Around, etc.) on the right to activate that option. For example, click on Briefing to pull up the CountryManager briefing, which offers a quick introduction to your company’s situation.

Now click on the BACKGROUND menu and you will see the flags appear. BACKGROUND offers real world data that will not change as the simulation proceeds, whereas the ENVIRONMENT, CONSUMERS, COMPETITION, and INTERNAL menus provide data generated from the simulation that is realistic, but simulated, and will change as the simulation is advanced. The DECISIONS menu is used for market entry/exit, with access to country specific decisions such as SKU selection, pricing, advertising, etc. Use the SIMULATION menu to advance to the next period, replay a period, or logout.

Almost all of the reports in the consolidated view provide comparative data across each of the six countries to help your firm decide which countries are the most attractive markets to enter.

Country View

In the country view, the information in the reports pertains only to the active country. Click on one of six flags in the green menu bar to go directly to the NAVIGATION INDEX or same report for a particular country. The name of the active country will be located at the top of the country view menu, and the flag of that country will have a black outline on the green menu bar. The more detailed reports at the country level include, for example, data at the brand and customer levels. The BACKGROUND menu offers real world data that will not change as the simulation proceeds, whereas the ENVIRONMENT, CONSUMERS, COMPETITION, and INTERNAL menus offer data generated from the simulation that is realistic, but simulated and will change as the simulation is advanced. The DECISIONS menu is used for entering country specific decisions such as SKU selection, pricing, advertising, etc.



You may click on one of the BACKGROUND menu options (Economic, Social, Argentina in-depth) on the right to activate that option.

Pull-down Menu

The main pull-down menu bar across the top of the screen consists of additional menus (FILE, EDIT, COUNTRIES, OPTIONS, and HELP). The COUNTRIES menu on the main pull-down menu bar offers quick access to consolidated or country view. The other menus (FILE, EDIT, OPTIONS, and HELP) on the main pull-down menu bar will be explained later in this section.

The Help Index on the HELP pull-down menu displays the Help Index, which parallels the reports and decision input forms available from the NAVIGATION INDEX. However, you will probably find the context sensitive Help windows (click the <Help> button on each report or decision input form) easiest to use.

Control Buttons

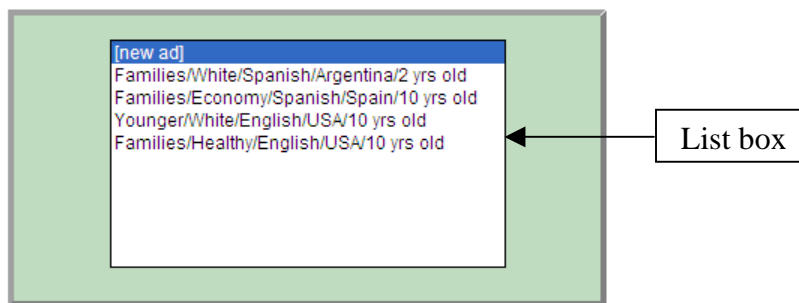
Control buttons on Report and Decisions forms perform specific actions. Control buttons are usually found at the bottom or right-hand side of screens. Click on a button to perform the appropriate action.

Sample control buttons:



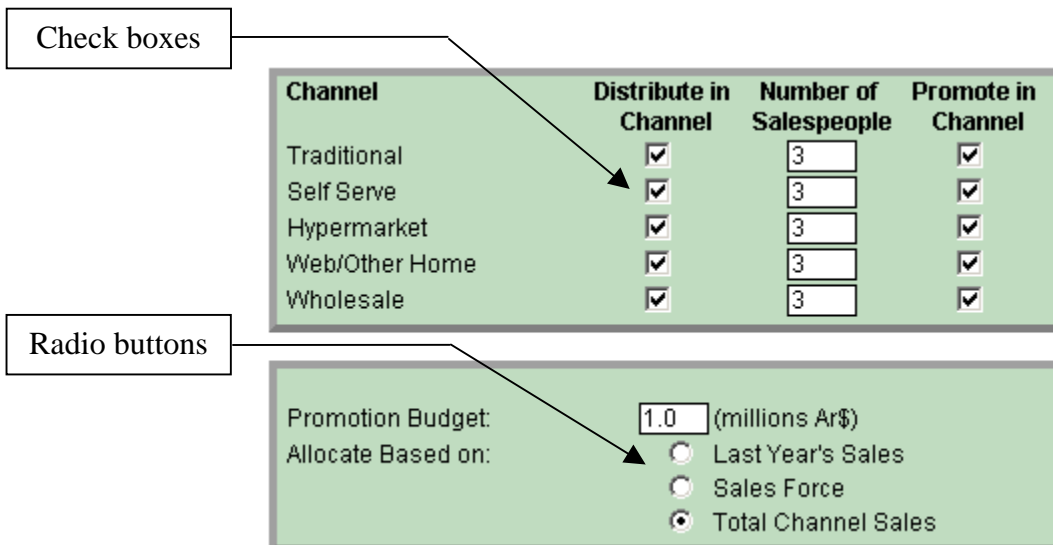
List Boxes (with or without Scroll Bar)

A list box contains a list of choices (with or without a scroll bar). In most cases, you may select more than one of the choices. Click on the scroll bar to view all your choices and select by clicking the mouse on the items to include.



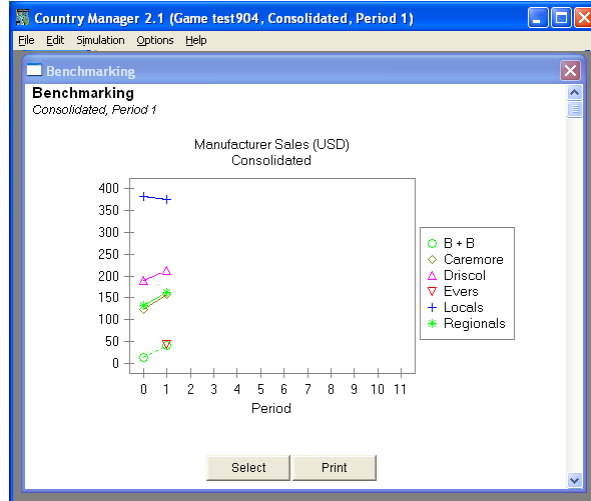
Check Boxes and Radio Buttons

Check boxes and radio buttons allow you to select an option (usually yes or no, true or false). If you have a mouse, click on the check box or radio button.



Graph

Most reports may be graphed to gain historical perspective and to identify important trends. After the graph is displayed, you will often have the option to select either choosing a different variable (or variable to graph). A sample graph of manufacturer sales from the benchmarking report is shown below.

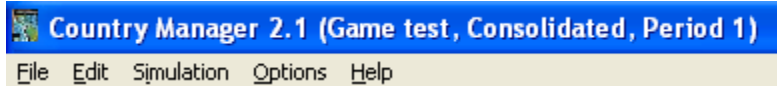


History

The <History> button is another way to view past data. This feature is extremely useful for discovering trends or calculating the impact of particular decisions or competitor actions.



Use the <help> button on each report or decision input screen for more in-depth information about that particular screen. CountryManager’s new context-sensitive Help System offers two levels of help, with links inside the main Help window to more in-depth information on related topics in a secondary Help window.

Pull-Down Menu Bar – Overview

The operational menu choices labeled FILE, EDIT, COUNTRIES, SIMULATION, and OPTIONS are in the menu bar in the top left corner of the screen. You may access these options at any time, except when advancing the simulation. The menu choices are briefly described below.

- | | |
|-------------------|---|
| File | • Use the FILE menu to access the NAVIGATION INDEX, setup your printer, print reports, and exit the program. |
| Edit | • Use the EDIT menu to copy and paste items to the clipboard in Windows. |
| Countries | • Use the COUNTRIES menu to access the consolidated or country view. Select Consolidated for the consolidated view or an individual country for country view. These menus provide the same functionality as the flags on the navigation screen. |
| Simulation | • Use the SIMULATION menu to advance to the next period, replay a period, and logout. |
| Options | • Use the OPTIONS menu to refresh data or restart the simulation. |
| Help | • Use the HELP menu to access the HELP INDEX. |

The remainder of the operations guide provides detailed descriptions of each menu item at the consolidated and country view level.

Consolidated View
Background – Economic
Real Data (does not change as simulation advances)

The BASIC ECONOMIC CHARACTERISTICS report compares the current economic characteristics of the United States market and the six Latin American markets under consideration based on actual data from recent government sources. Some of the data, most notably, the CPI and GDP growth rates are more historical in nature. Consider using the ECONOMIC OUTLOOK option on the ENVIRONMENT menu as another source of this information as it pertains to the simulation.

Country	Pop. (Mill.)	GDP (Bill. US\$)*	GDP/ Capita (US\$)*	GDP Growth	CPI Increase	% Below Poverty Line
Argentina	39.9	\$518	\$13,100	8.7%	12.3%	38%
Brazil	188.1	\$1,556	\$8,400	2.4%	5.7%	22%
Chile	16.1	\$187	\$11,300	6.0%	3.2%	18%
Mexico	107.5	\$1067	\$10,000	3.0%	3.3%	40%
Peru	28.3	\$185	\$5,900	6.7%	1.6%	54%
Venezuela	25.7	\$154	\$6,100	9.3%	15.7%	47%
U.S.	299.4	\$12,360	\$41,800	3.5%	3.2%	12%

*Purchasing Power Parity

All of the factors presented here help determine a country's attractiveness. For instance, countries with large populations obviously have more potential customers. However, one should also consider their relative prosperity. A country with low GDP per capita (Gross Domestic Product per person) may be populated with people with little disposable income due to lower standards of living and income. The CPI (Consumer Price Index) is a measure of inflation in the economy. Countries with high inflation typically have higher investment risk associated with them. For example, \$100 left in a drawer in a bedroom in a country with a 100% inflation rate would have half the buying power one year later; that is, one year later that \$100 could buy as much as \$50 could have bought a year before. Please refer to Appendix 2 for information on using the Country Attractiveness spreadsheet to help determine country attractiveness.

You may link to more in-depth information by clicking on an individual country name under the BACKGROUND menu. Appendix 1 also contains in-depth information on the six key countries. Do note that this report is based on real data as of the last update of the simulation. These values will not change as the simulation is advanced and therefore is primarily beneficial at the beginning of the simulation event.

Consolidated View
Background – Social
Real Data (does not change as simulation advances)

The BASIC SOCIAL CHARACTERISTICS report compares social characteristics of the United States market and the six Latin American markets under consideration based on actual data from recent government sources.

Country Manager 2.1 (Game test904, Consolidated, Period 1)

Latin America Social Data

back index print help

Market Comparison
 Basic Social Characteristics

Country	Pop. Aged 65+	Urban Pop.	Pop. in 3 largest cities	Pop. Avg. Growth	Infant Mortality /1000 births
Argentina	10.6%	88%	14.6%	0.96%	14.7
Brazil	6.1%	79%	10.0%	1.04%	28.6
Chile	8.2%	84%	36.0%	0.94%	8.6
Mexico	5.8%	74%	11.6%	1.16%	20.3
Peru	5.3%	71%	N/A	1.32%	30.9
Venezuela	5.2%	86%	22.2%	1.38%	21.5
U.S.	12.5%	76%	8.4%	0.91%	6.4

All of these measures of standards of living and population provide a bit more background about each of the countries. For example, countries with a higher percent of population in urban centers will impact the distribution of product. Typically, distribution channels are more developed closer to urban centers. It is also more cost effective to reach a greater percentage of the population. Access to safe water and infant mortality rates are good indicators of the general living conditions of the population. For example, if someone doesn't have access to safe water they probably won't be concerned with toothpaste.

You may link to more in-depth information by clicking on an individual country name under the BACKGROUND menu. Appendix 1 also contains in-depth information on the six key countries. Do note that this report is based on real data as of the last update of the simulation. These values will not change as the simulation is advanced and therefore is primarily beneficial at the beginning of the simulation event.

Consolidated View

Background – (Argentina, Brazil, Chile, Mexico, Peru, or Venezuela)

Real Data (does not change as simulation advances)

The information contained within each country includes a map and details on the following topics: historical/political perspective, geography, people, government, economy, communications, transportation, military, and transnational issues. Scroll through the information or use the buttons on the left side of the screen to link to different topics. Return to the map at any time by clicking <Top of Page>.

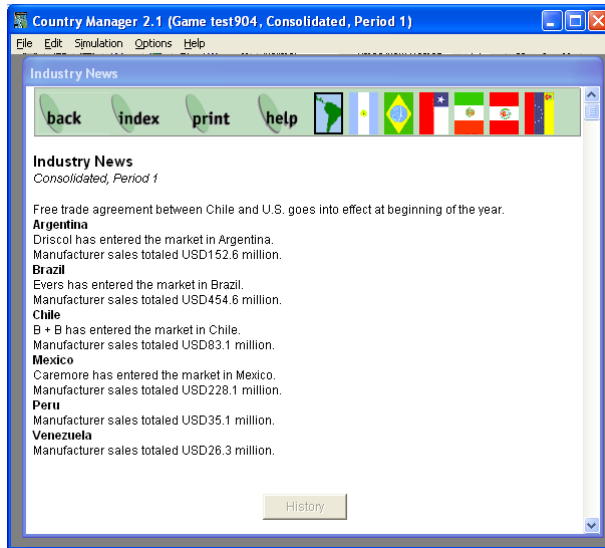


The information contained in these reports expands upon what might make a country more or less attractive for market entry and/or location of production facilities. These in-depth studies cover everything from the quality of the infrastructure of the roads to political turmoil.

Appendix 1 provides background information in a more summarized format. Appendix 2 provides information on using the Country Attractiveness spreadsheet to help determine country attractiveness. Do note that this report is based on real data as of the last update of the simulation. These values will not change as the simulation is advanced and therefore is primarily beneficial at the beginning of the simulation event.

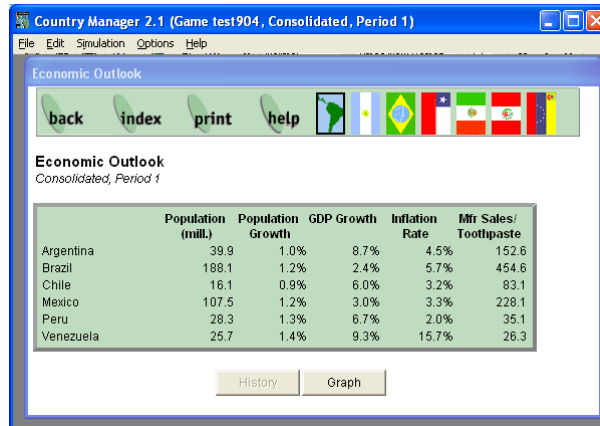
Consolidated View Environment – Industry News

The INDUSTRY NEWS report provides some of the highlights that have occurred during the past period, such as manufacturer sales, advertising expenditures, market entry/exit, etc. This screen will also be displayed after the simulation is advanced.



Consolidated View Environment – Economic Outlook

The ECONOMIC OUTLOOK report displays key indicators for each of the six countries under consideration. The general economic variables of population, population growth, GDP growth, and inflation rate are estimates for the coming period. These variables may provide a basis for overall demand and price/cost forecasts.



Economic strength (measured by GDP growth) and low interest rates typically have a positive impact on consumer sales. High inflation rates must be taken into account for local pricing decisions, but also on the potential instability of the currency. High inflation may also make foreign investment less attractive. Obviously, larger populations and higher population growth rates speak to large potential consumers, but one must also consider that large base in the context of both standard of living and intensity of competition.

The <Graph> button displays line graphs for several variables over the course of the simulation. This type of trend data is helpful to both forecast future trends and to understand how general economic conditions may impact revenues and costs. Once the graph is displayed, there are two buttons that allow changing the variable graphed or the countries selected.

**Consolidated View
Environment – Cost Structure**

The COST STRUCTURE report contains critical unit cost information for the decision of where to locate the Latin American plant in any of the six countries. *It takes one year to build the plant and have the capacity available to sell.* The report also contains estimates of administrative, sales force and distribution costs in each country.

	USA	Arg.	Bra.	Chi.	Mex.	Peru	Ven.
Unit Costs (USD)							
Economy/Small/Tube/Paste	0.43	0.39	0.37	0.39	0.35	0.31	0.31
Economy/Medium/Tube/Paste	0.54	0.49	0.47	0.48	0.44	0.40	0.39
Economy/Large/Tube/Paste	0.64	0.58	0.56	0.59	0.53	0.48	0.47
Administrative Costs (USD)							
Admin. (% Sales)		1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Per SKU (000's)		71	69	74	61	63	65
Per Channel (000's)		253	634	258	307	261	210
Per Direct Outlet		116	159	144	113	94	105
Salesforce Expenses (USD)							
Sales Rep. Salary	35,372	33,825	34,527	25,097	21,916	21,562	
Avg. Expenses	10,106	9,513	12,368	8,195	6,262	6,311	
Hiring/Training	7,580	6,871	8,761	6,658	5,740	5,259	
Distribution Center (000's)							
	606	846	618	615	470	421	

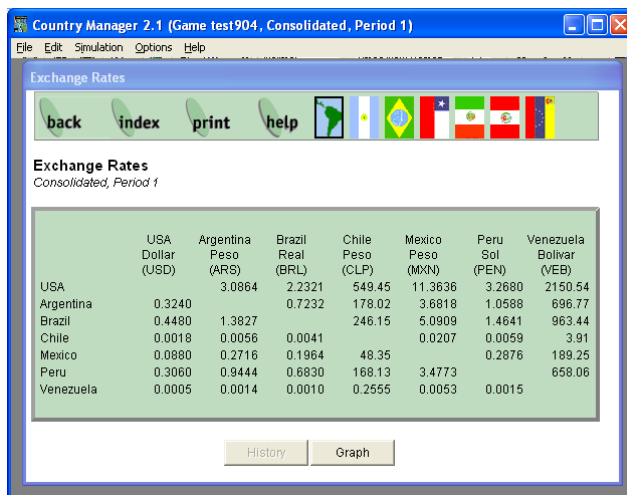
This report estimates the cost for three sample SKUs at 100 million units of cumulative production. However, there is an experience effect present in determining the unit production costs in a local plant in CountryManager. Beyond 100 million units of cumulative production, the cost per unit decreases. If you have not yet reached 100 million units of production, the cost per unit will be higher. Cumulative production is the sum of all production (any SKU) over the course of the simulation at the new plant. In addition to per unit, or variable costs, there is also the initial cost of building the plant to consider. The costs to build a plant are approximately \$1.0 million per million of productive capacity and are depreciated over ten years. As an example, depreciation per year for a 50 million-unit plant is approximately \$5 million US (50 million units of capacity times \$1 million divided by 10 years to depreciate over).

Administrative costs include general/overhead types of costs, such as phones, computers, etc. These costs are reported as a percentage of sales. *Per SKU* costs (in 000s) are expenses for adding an additional SKU, such as creating new product labels and updating promotional materials. *Per channel* costs (in 000s) include expenditures for setting up and maintaining the infrastructure for each distribution channel. *Per direct outlet* costs are those costs associated with serving each direct outlet (not those served via wholesalers).

Sales force expenses include salaries, expenses including costs involved in traveling to customer sites, such as transportation, lodging, and meals, and hiring/training costs for new sales people. *Distribution center* costs are the yearly fixed costs for entering a country and setting up basic operations.

**Consolidated View
Environment – Currency Exchange Rates**

The EXCHANGE RATES report contains all the currency relationships among the six Latin American countries and the United States. Changes in currency valuations can have a significant impact on results when local revenues and profits are converted into consolidated \$US. For example, sales in Brazil may be level year to year, but when results are reported in US\$, exchange rates may significantly impact the consolidated results.



Using the information in the table above, it takes .448 US\$ to buy 1 Brazilian Real (BRL) and it takes 2.23 Reals to buy 1 US\$. For more information, refer to Section 4, Foreign Exchange Rates: Impact on International Business.

The <Graph> button provides a graph that can compare exchange rates vs. the United States dollar over time. Analyzing trends is helpful to forecast future trends and to understand how currency rates can affect performance.

**Consolidated View
Environment – Tariffs and Shipping**

The tariffs and shipping tables provide important information on the cost of producing toothpaste in one country and marketing it in another. If one produces and markets in the same country, there are no tariffs and minimal shipping costs. However, when tariffs are combined with differences in unit costs of production and shipping, the total cost differential may approach 50 percent. Thus, this information must be carefully considered when determining your regional strategy, including which markets to enter and the location of your Latin American plant.

The screenshot shows the 'Country Manager 2.1' interface with two data tables. The first table, 'Tariff as percent of CIF', shows percentages for various countries. The second table, 'Approx. shipping cost per unit in US\$', shows shipping costs in US dollars for the same countries.

	USA Plant	Arg. Plant	Bra. Plant	Chi. Plant	Mex. Plant	Peru Plant	Ven. Plant
Argentina	21.0	0.0	0.0	20.0	20.0	20.0	20.0
Brazil	21.0	0.0	0.0	17.0	17.0	17.0	17.0
Chile	0.0	0.0	0.0	9.0	9.0	9.0	9.0
Mexico	0.0	15.0	15.0	10.0	15.0	15.0	15.0
Peru	12.0	12.0	12.0	12.0	12.0	12.0	12.0
Venezuela	23.5	23.5	23.5	23.5	0.0	23.5	23.5

	USA Plant	Arg. Plant	Bra. Plant	Chi. Plant	Mex. Plant	Peru Plant	Ven. Plant
Argentina	0.030	0.005	0.010	0.010	0.020	0.010	0.010
Brazil	0.030	0.010	0.005	0.010	0.020	0.010	0.010
Chile	0.030	0.010	0.010	0.005	0.015	0.010	0.010
Mexico	0.010	0.020	0.020	0.015	0.005	0.010	0.010
Peru	0.030	0.010	0.010	0.010	0.015	0.005	0.010
Venezuela	0.030	0.015	0.010	0.010	0.010	0.010	0.005

Tariffs are expressed as a percentage of costs of goods sold, insurance, and freight (CIF). Thus, if production occurs in the United States and product is shipped to Brazil, there is a 21 percent tariff applied to all shipments. Alternatively, if production occurs in Argentina and product is shipped to Brazil or Chile there are no tariffs due to the MERCOSUR agreement.

Shipping rates are approximate costs per unit shipped from the production facility in the country of manufacture to distribution centers in the country of sale. This varies slightly by size and weight, but can basically be applied on a per unit basis. Thus, using the same examples above, shipping from the United States to Brazil is approximately \$.03/unit, whereas shipping costs from Argentina to Brazil is only \$.01/unit. Although this seems rather insignificant, when multiplied by millions of units, this difference can have a significant impact on Latin American net contribution.

**Consolidated View
Environment – Distribution**

The DISTRIBUTION BY COUNTRY report at the consolidated level compares sales by distribution channel across countries. The data provide a helpful overview of where customers purchase toothpaste products. The report also highlights where different countries are in transition from more traditional retailing to more modern distribution channels.

The screenshot shows a software window titled 'Country Manager 2.1 (Game test904, Consolidated, Period 1)'. Inside, there is a 'Distribution Report' for 'Consolidated, Period 1'. The report features a table with the following data:

	Retail Sales (millUSD)	Trad.	Self Serve	Hyper Market	Web/Other Home	% Direct
Argentina	192.3	48.5%	24.6%	26.4%	0.5%	25.4%
Brazil	575.2	51.9%	10.4%	37.7%	0.0%	16.1%
Chile	104.0	42.0%	23.9%	32.7%	1.3%	28.6%
Mexico	291.5	57.6%	18.1%	24.3%	0.0%	22.5%
Peru	47.3	81.3%	7.8%	10.9%	0.0%	9.9%
Venezuela	35.6	80.4%	11.2%	8.4%	0.0%	10.7%

- Traditional • Small “mom and pop” stores or open market areas almost exclusively served by wholesalers and typically independently owned.
- Self-Serve • A more developed store where customers serve themselves, typically offering a narrow line of merchandise. These may be independent or part of a regional chain, but are almost all locally owned.
- Hypermarket • A new style of channel that is currently found in cities. These are usually large stores with a very wide variety of goods. Many of the hypermarket chains are foreign owned or allied with a global distributor such as Wal-Mart or Carrefour.
- Web/Other Home • Home delivery of household products and groceries is more common in certain countries in Latin America than the United States, which points to the possibility of a web-based channel of distribution once a higher percentage of the population has access to the internet.

In addition to showing the percentage of sales by distribution channel, the report also provides total retail sales by country and the overall percentage of sales sold directly to the distributor (rather than through a wholesale channel) for each country. All of this information is relevant when considering the best distribution strategy within a particular country.

**Consolidated View
Consumers – Shopping Habits**

The SHOPPING HABITS report estimates shopping preferences for different demographic segments of consumers according to distribution channel in the selected country. This report is helpful in determining choice of distribution channel, sales force personnel, and promotional allocation.

The screenshot shows the 'Shopping Habits' report in the Country Manager 2.1 software. The report is titled 'Shopping Habits Consolidated, Period 1' and displays 'Consumer Shopping Habits' for six countries. The data is presented in a table with four columns: Trad., Self Serve, Hyper Market, and Web/Other Home. The percentages for each category are as follows:

	Trad.	Self Serve	Hyper Market	Web/Other Home
Argentina	51.8%	23.8%	23.9%	0.4%
Brazil	50.6%	10.3%	37.6%	1.2%
Chile	42.2%	24.5%	31.6%	1.6%
Mexico	55.6%	15.8%	27.6%	1.0%
Peru	68.3%	13.0%	17.9%	0.8%
Venezuela	61.1%	19.3%	18.6%	0.9%

Below the table is a 'History' button.

You will find this report, and the more detailed version at the country level, important for analyzing changes in distribution trends for developing your entry and distribution strategies for each country.

**Consolidated View
Consumers – Decision Criteria**

The DECISION CRITERIA report indicates what factors are most important to the consumer’s brand preference across the countries. The weights associated with the factors are based on market research and measure the importance of each factor toward the purchase of a particular brand. This, of course, does not factor in brand perceptions or associations, only the respondent’s general choice structure with regard to toothpaste.

The screenshot shows the 'Decision Criteria' window in Country Manager 2.1. The window title is 'Country Manager 2.1 (Game test904, Consolidated, Period 1)'. The menu bar includes 'File', 'Edit', 'Simulation', 'Options', and 'Help'. Below the menu bar are navigation buttons: 'back', 'index', 'print', 'help', and a globe icon. The main content area is titled 'Decision Criteria' and 'Consolidated, Period 1'. It contains a table with the following data:

Country	Price	Effect	Size	Vehicle	Delivery
Argentina	40.8%	35.9%	17.0%	3.2%	3.1%
Brazil	44.3%	31.4%	17.9%	4.0%	2.4%
Chile	40.4%	34.7%	18.0%	4.5%	2.5%
Mexico	48.0%	29.4%	17.5%	2.9%	2.2%
Peru	51.0%	27.8%	16.6%	2.9%	1.8%
Venezuela	48.7%	28.4%	16.7%	3.9%	2.2%

At the bottom of the window is a 'History' button.

Effectiveness corresponds to how well the toothpaste itself meets the needs of the particular cross-section. Price attempts to measure the importance of price in the decision process of the consumer. Size is the percentage importance placed on the size of the SKU – small, medium, or large. Vehicle is either gel or paste and delivery is pump or tube.

**Consolidated View
Competition – Benchmarking**

The BENCHMARKING report compares basic expenditures and performance measures for the most recent period for each of the leading manufacturers, including summaries for all local and regional companies. All values are in millions of US\$ by default.

	B+B	Care more	Dris col	Evers	Loc.	Reg.
Mfr. Sales (mill. USD)	39.9	156.3	209.8	42.7	370.4	160.7
Allowance Expense	6.3	26.4	23.3	8.5	27.5	17.1
Cost of Goods Sold	18.6	73.4	113.4	21.4	192.2	76.5
Freight/Tariffs	4.1	13.5	18.6	6.0	2.3	0.8
Gross Margin	10.8	43.0	54.5	6.7	148.4	66.3
Promotion	1.3	7.7	7.4	3.2	7.0	4.7
Advertising	4.1	19.1	19.1	8.6	18.5	9.9
Sales Force	1.6	7.1	9.0	3.6	6.4	5.5
Administrative	1.9	3.1	6.1	1.2	9.7	7.1
Total Marketing	8.9	37.0	41.6	16.6	41.6	27.2
Contr. after Mktng	2.0	6.0	12.9	-9.9	106.8	39.0
Fixed Costs/Deprec.	1.2	1.5	2.1	0.8	3.6	3.0
Net Contribution	0.8	4.5	10.9	-10.8	103.3	36.1

Manufacturer Sales
Allowance Expense
Cost of Goods Sold

- Total revenues to the manufacturer in millions of USD (US\$).
- Total value of all price-based allowances to distributors.
- Costs of goods sold (COGS) is the total variable manufacturing cost for the product sold.

Freight/Tariffs
Gross Margin

- Shipping, tariffs, insurance, etc.
- The difference between sales and costs that vary directly with units sold (allowance expense + COGS + freight/tariffs).

Promotion

- Expenditures on mechanisms designed to inform and persuade consumers to respond, such as in-store displays and trial samples.

Advertising

- The sum of brand/product advertising, creative development, and adaptation costs.

Sales Force
Administrative

- Sales force salaries, hiring/firing costs and training.
- Administrative includes non-direct costs otherwise not included on this report (see cost structure report for more detail).

Total Marketing

- Sum of promotion, advertising, sales force, and administrative costs.

Contr. after Marketing

- The difference between gross margin and total marketing costs.

Fixed Costs/Deprec.

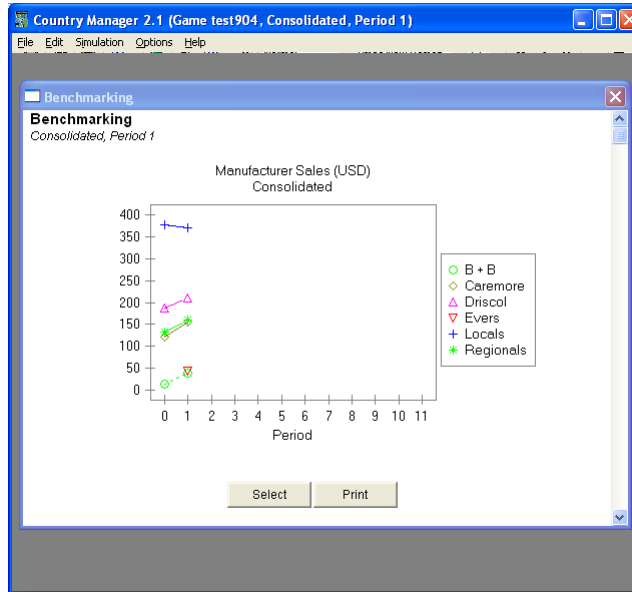
- Financial obligations of a firm that remain at the same level no matter how many units of a product are produced and marketed.

Net Contribution

Depreciation and amortization charges for distribution centers and plants are included in this cost.

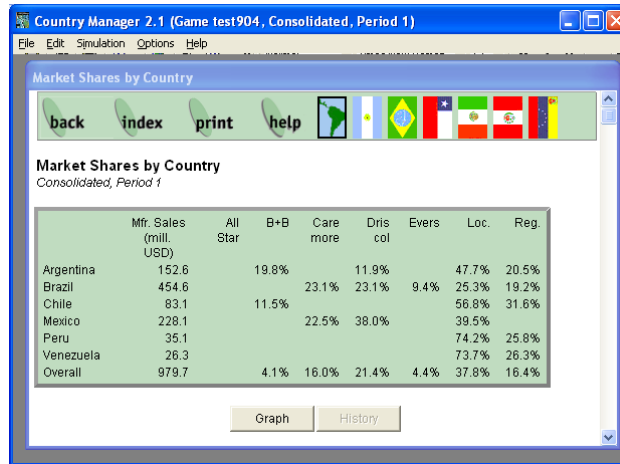
- The difference between contribution after marketing and fixed costs.

Choosing the <Percent> button will display this report as a percent of manufacturer sales. Clicking on the <Graph> button will display a graph comparing results for each company (including local and regional companies) throughout the simulation as shown below. You may change the variable to compare by choosing the Select button.



**Consolidated View
Competition – Market Share**

The MARKET SHARES BY COUNTRY report displays the percentage of total manufacturer sales for each manufacturer (including local and regional) according to country. Click the <Graph> button to display a graph of manufacturer sales by country over time.

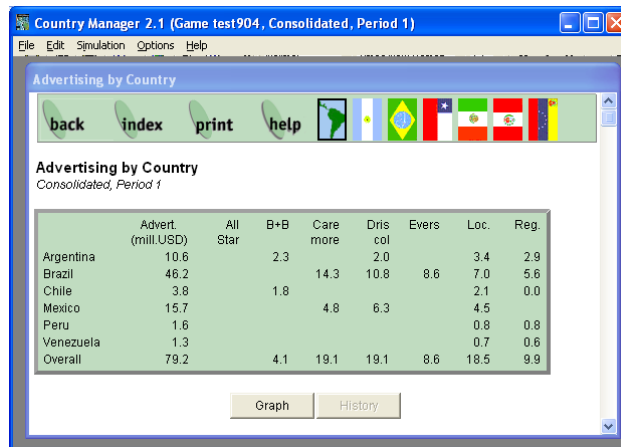


Data for Allstar Brands will be displayed once you enter one or more countries in Latin America. These market shares are based on manufacture sales in US\$. The absence of market share values indicates a lack of entry into that market. This report is an excellent place to see where firms are competing and their relative strength of performance.

Each country’s total sales of toothpaste (at the manufacturer level) are also displayed here to provide the relative size of each market.

Consolidated View Competition – Advertising

The ADVERTISING BY COUNTRY report displays the dollar amount that each manufacturer spent on advertising during the most recent period in the six Latin American countries. All expenditures are in US\$. Advertising dollars include media expenditures, advertising agency costs, and costs for creating or updating the message for each brand. Totals for each manufacturer and each country are provided as well. Click the <Graph> button to display a graph of total advertising in each country over time.



If a cell is blank, the manufacturer has not yet entered that country. Alternatively, if a cell contains \$0.0, it means that the manufacturer has a presence but has no expenditures on advertising. Data for Allstar Brands will be displayed once you enter one or more countries in Latin America. One would expect higher spending on advertising in countries with larger populations and sales. It is important to recognize the potential levels of investment necessary to be successful in each country as you consider which market(s) to enter.

One might want to compare share of voice by country with market share as an indication of the effectiveness of the advertising expenditures. Share of voice is basically one firm's advertising expenditures divided by total advertising expenditures in a country. Significant differences between share of voice and market share should be noted and explained. Some possible reasons for differences include poorly designed campaigns, new entrants just beginning to build a presence in a country, or a firm's aggressively trying to increase their awareness through advertising. All of these indicate environmental or competitive changes that should be recognized and considered when making decisions.

**Consolidated View
Competition – Promotion**

The PROMOTION BY COUNTRY report displays the dollar amount that each manufacturer spent in the most current period on consumer and trade promotions in the six Latin American countries. All expenditures are in US\$. Promotional spending includes coupons, point-of-purchase displays, in-store trial samples, and co-op advertising. Totals for each manufacturer and each country are provided as well. Click the <Graph> button to display a graph of total promotional expenditures in each country over time.

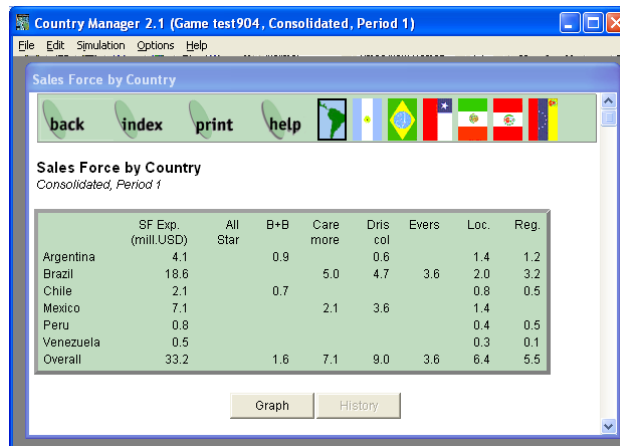


If a cell is blank, the manufacturer has not yet entered that country. Alternatively, if a cell contains \$0.0, it means that the manufacturer has a presence in that country but has no expenditures on consumer and trade promotion for that period. Data for Allstar Brands will be displayed once you enter one or more countries in Latin America.

One would expect higher spending on promotion in countries with larger populations and sales. It is important to recognize the potential levels of investment necessary to be successful in each country as you consider which market(s) to enter.

**Consolidated View
Competition – Sales Force**

The SALES FORCE BY COUNTRY report compares the amount of money spent on sales personnel by each manufacturer in the six Latin American countries. Sales force includes both direct sales and indirect/support functions. The direct sales force includes account managers for retail accounts. The indirect sales force includes account managers for distributors and wholesalers as well as merchandisers. Expenditures include salaries, commissions, and training costs, but not expenses as these are accounted for in administrative costs. Click the <Graph> button to display a graph of total sales force expenditures in each country over time.



If a cell is blank, the manufacturer has not yet entered that country. Alternatively, if a cell contains \$0.0, it means that the manufacturer has a presence in that country but has no expenditures on sales personnel for that period. Data for Allstar Brands will be displayed once you enter one or more countries in Latin America.

Sales force support is a key factor in determining acceptance in target distribution channels, as well as influencing shelf-space and facings. Some distribution channels value sales force support more than others. Wholesalers typically provide retailers support through their own sales force, but may benefit from a close relationship with a salesperson who can provide information and assistance.

**Consolidated View
Internal – Net Contribution**

The NET CONTRIBUTION report is your internal profit and loss statement. All values are in millions of US\$. This is the same information as presented in the BENCHMARKING report, but for your firm only. The report includes a breakdown on a percentage of revenues basis as well. Here the simulation has been advanced to Period 2. Notice the plant construction costs incurred after deciding to build a plant in Argentina during Period 1.

Net Contribution: AllStar		
Consolidated, Period 2		
Unit Sales		4.0
Manufacturer Sales	3.2	100.0%
Allowance Expense	0.4	12.3%
Cost of Goods Sold	1.9	57.1%
Shipping and Tariffs	0.5	16.5%
Gross Margin		0.5 14.1%
Promotion	0.3	9.8%
Advertising	1.2	35.9%
Sales Force	0.4	11.5%
Administrative	0.5	14.5%
Total Marketing		2.3 71.7%
Contribution after Mktng		-1.9 -57.5%
Fixed Costs	1.2	38.4%
Plant Depreciation	0.0	0.0%
Net Contribution		-3.1 -95.9%

Amounts in millions of USD

Unit Sales

Manufacturer Sales

Allowance Expense

Cost of Goods Sold

Shipping and Tariffs

Gross Margin

Promotion

Advertising

Sales Force

Administrative

Total Marketing

Contr. after Marketing

Fixed Costs

Net Contribution

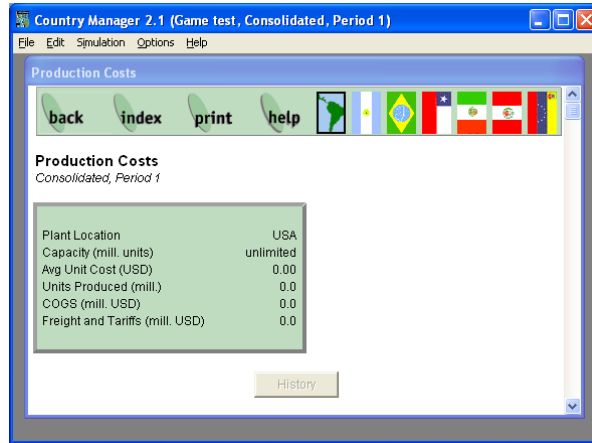
Plant Construction

Contr. after Constr.

- Total units you sold across all countries (in millions of units).
- Your firm’s total revenues (in billions of dollars).
- Total value of all slotting allowances to distributors.
- Your total manufacturing cost for the product sold.
- Shipping, tariffs, insurance, etc.
- The difference between sales and costs that vary directly with units sold (allowance expense + COGS + shipping and tariffs).
- Your promotional budget.
- Your budget on advertising media, creative, and adaptation.
- Sales force salaries, hiring/firing costs, and training.
- Administrative includes non-direct costs otherwise not included on this report.
- Sum of promotion, advertising, sales force, and administrative costs.
- The difference between gross margin and total marketing costs.
- Your fixed costs.
- The difference between contribution after marketing and fixed costs.
- The cost of constructing or adding capacity to your plant.
- The difference between contribution after fixed costs and plant construction.

**Consolidated View
Internal – Production Costs**

The PRODUCTION COSTS report is a summary of the productive capabilities and costs for all SKUs in countries where Allsmile toothpaste is manufactured. The report allows you to compare current alternatives with regard to source of product, including capacity, COGS, and Freight/Tariffs costs. *Note that in this example, the team has built its single plant in Argentina. The new plant has 20 million units of capacity.*



The data provided in this reports differ from the COST STRUCTURE report in that these are actual results based on levels of production, capacity, and product mix, whereas data in the COST STRUCTURE report are based on a particular SKU and 100 million units of production.

**Consolidated View
Internal – Performance Summary**

The performance summary provides a summary of your firm’s results including key performance indicators by country, forecasted vs. actual results, and the brand equity index.

The screenshot shows the 'Performance Summary' window in Country Manager 2.1. It includes navigation buttons (back, index, print, help), a row of country flags, and several data tables. The first table shows 'Overall Performance (USD)' with columns for Total Mfr. Sales, Mkt Entered, Mfr. Sales, Share of Mfr. Sales, Contrib., and Cum. Contr. The second table shows 'Expenditures as % of Manufacturer Sales' with columns for COGS, Allowance, Promotion, Adv., Sales force, and Other. The third table shows 'Replays' with columns 1 through 10 and a Total column.

Overall Performance (USD)						
	Tot. Mfr. Sales	Mkt Entered	Mfr. Sales	Share of Mfr. Sales	Contrib.	Cum. Contr.
Argentina	152.6					0.0
Brazil	454.6					0.0
Chile	83.1					0.0
Mexico	228.1					0.0
Peru	35.1					0.0
Venezuela	26.3					0.0
Total	979.7		0.0	0.0%	0.0	0.0
Less Plant Deprec.					0.0	0.0
Net Regional Contrib.					0.0	0.0

Production being done in the US.

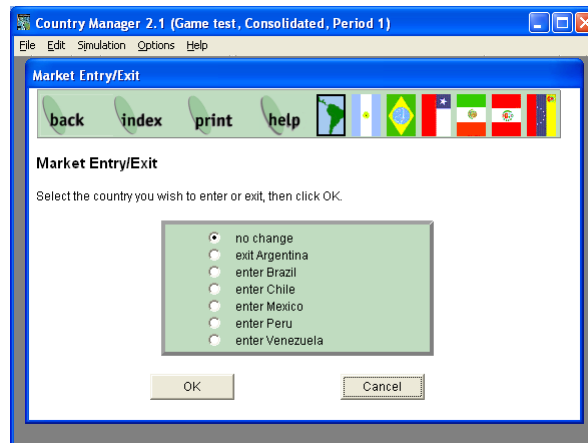
Expenditures as % of Manufacturer Sales						
	COGS	Allowance	Promotion	Adv.	Sales force	Other
Argentina						
Brazil						
Chile						
Mexico						
Peru						
Venezuela						

	1	2	3	4	5	6	7	8	9	10	Total
Replays	0	1	0	0	0	0	0	0	0	0	1

Please note that this is a multi-page report which may be best analyzed in printed form. In addition, this report is a helpful summary of decisions and results, and is good to print out and keep for your records. In fact, your professor may ask you for a printout of this report each period.

Consolidated View Decisions – Market Entry/Exit

When you have finished analyzing all the information for the different countries, use the MARKET ENTRY/EXIT input screen to enter a market and make marketing mix decisions in a particular country. Click on the radio button in front of your preferred country to enter, and then click on the <OK> button.



Click on the <OK> button to confirm your decision to enter/exit the market you selected. This will enter/exit Allstar Brands in the market for the country you have chosen.

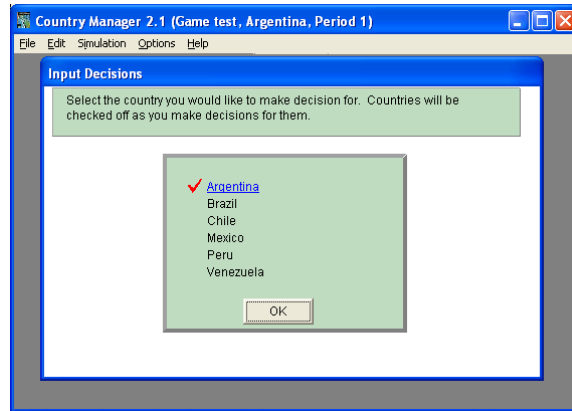


Each time you enter a new market, you will see a decision guide that lists the decisions you need to make in the new country. The decision guide reflects the menu choices available in the country view. After reading the guide, click on the <Click here to continue> button. Your view will now change from consolidated to country view for the country you just entered.

To exit a market, click on the Market Entry/Exit option in the consolidated view. Choose the preferred country you wish to exit, then click the <OK> button to exit the market. Click the <Yes> button to confirm that you wish to exit the country you selected.

Consolidated View Decisions – Input Decisions

Use the INPUT DECISIONS option to input data for markets that you have already entered. Links to countries that you have already entered will take you to the country level decision menu.

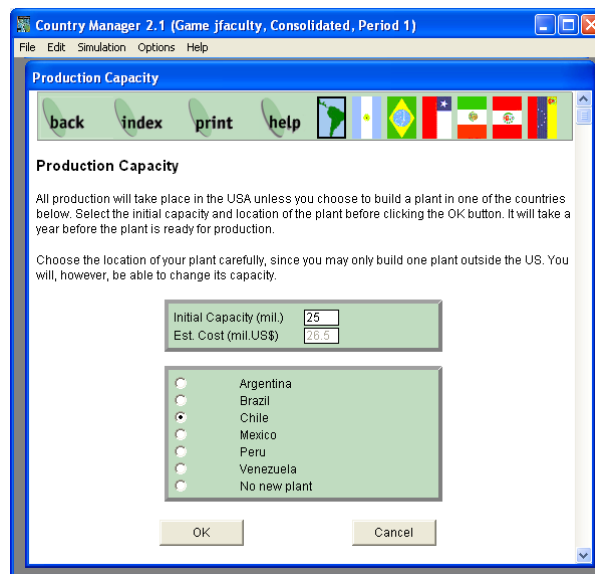


If you have completed all the required fields for entry, a check will appear next to that country. You may, however, change your decisions at any time until the simulation has been advanced.

Consolidated View Decisions – Production Capacity

The PRODUCTION CAPACITY input screen is where you enter the location for a new plant and any additional changes in capacity once the plant is operational. All production takes place in the United States plant unless you use this decision screen to build a new plant in one of the six Latin American countries. *Consider this decision carefully, since you can only build one new plant. It takes one full year before the plant capacity is available, so your first year of production always takes place in the United States.*

In the example below, this firm has decided to build its plant in Chile with an initial capacity of 25 million units per year. Remember, you may only choose to build a plant in one Latin American country, so choose wisely.

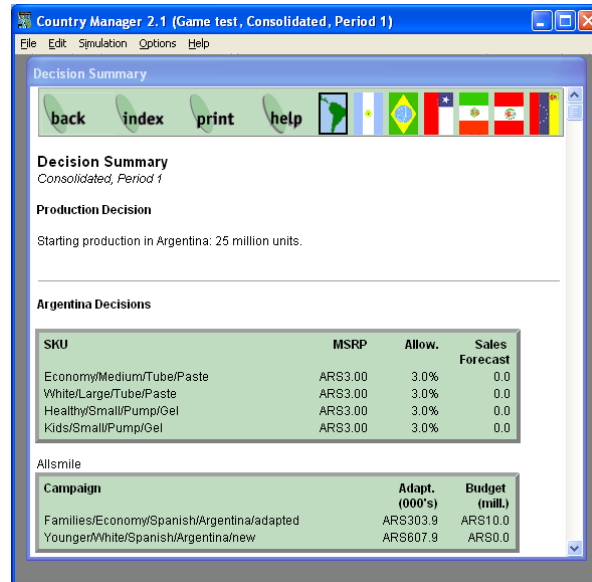


Once your plant is complete and operational, you can add additional capacity to the existing plant. For example, your firm could decide to build an additional 10 millions units of productive capacity for a total of 35 million units. *It takes a year for the additional units to come on-line.*

To make changes to capacity at your local plant, use the Production Capacity input screen in the consolidated view: a positive number will increase capacity, while a negative number will decrease it.

**Consolidated View
Decisions – Decision Summary**

This option provides a summary of all your decisions by country. Only those countries you have chosen to enter will be displayed.



**Consolidated View
Decisions – Country Attractiveness**

Use the Country Attractiveness Excel spreadsheet to calculate an assessment score for each country before deciding to enter its market. This may be done as part of assignment relating to the simulation. See Appendix 2 for a full discussion about using this Excel spreadsheet.

**Consolidated View
Decisions – Forecasting Model**

Use the Excel Forecasting Model spreadsheet to help estimate your unit sales in a country at time of market entry. This may be done as part of assignment relating to the simulation. See Appendix 3 for a full discussion about using this Excel spreadsheet.

Consolidated View
Simulation - Advance to Next Period

This option should be used only after you have made all your decisions and are ready to advance the simulation and see the changes in the environment and how successful your decisions were. As an example, at the beginning of the simulation, you are in period 1. Choosing this option will advance the simulation from period 1 to period 2 using the decisions you have entered. Before the simulation is advanced, it will check for obvious errors and missing data. Thus, you may see an error message such as the one shown below.



Consolidated View
Simulation - Replay Period

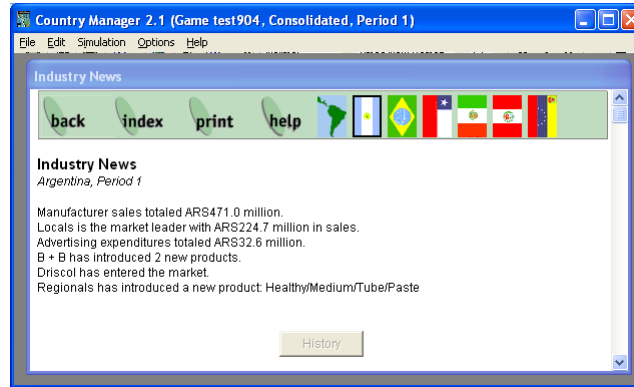
If available, this option will allow you to move the simulation back to the previous period and modify your decisions. In most instances, instructors will limit the number of replays available to your team, sometimes turning off the option altogether.

Consolidated View
Simulation - Logout

This option returns you to the login screen.

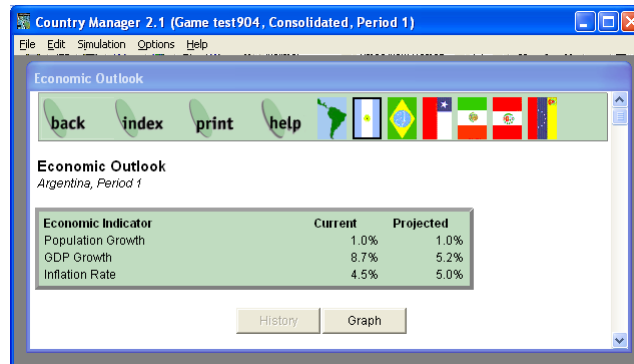
**Country View
Environment – Industry News**

The INDUSTRY NEWS report in country view provides some of the highlights that have taken place during the past year in a particular country.



**Country View
Environment – Economic Outlook**

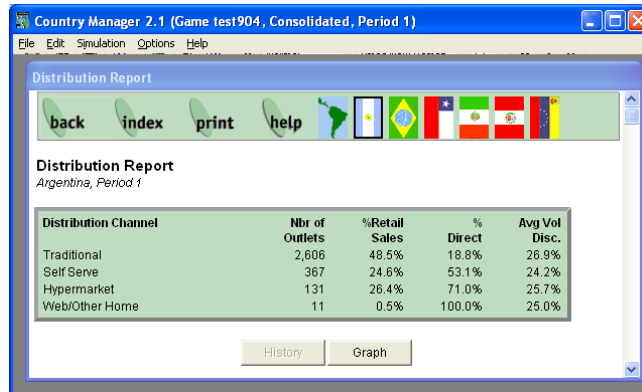
The ECONOMIC OUTLOOK report displays key indicators for each of the six countries under consideration. The general economic variables of population, population growth, GDP growth, and inflation rate are estimates for the coming year. These variables may provide a basis for overall demand and price/cost forecasts.



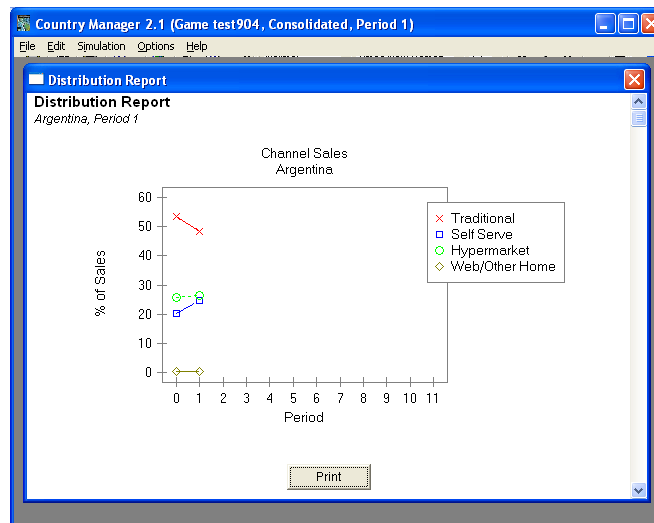
Economic strength (as measured by GDP growth) and low interest rates typically have a positive impact on consumer sales. High inflation rates must be taken into account for pricing of course, but also on the potential instability of the currency. High inflation may also make foreign investment less attractive. Obviously, larger populations and higher population growth rates speak to large potential consumers, but one must also consider that large base in the context of both standard of living and intensity of competition.

**Country View
Environment – Distribution Report (Argentina)**

The DISTRIBUTION report provides important information about the relative strength of each channel in a particular country. The report also shows the number of outlets by channel, the percent of sales that are direct, and the average volume discount (this combines wholesale and direct discounts). This is important information to use when deciding on distribution strategy, as well as sales force allocation and promotional allowances.

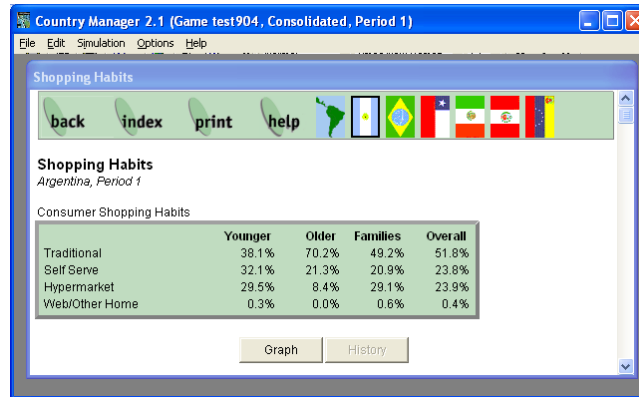


The <Graph> button shows the percent of total sales for each channel of distribution over time as shown below.



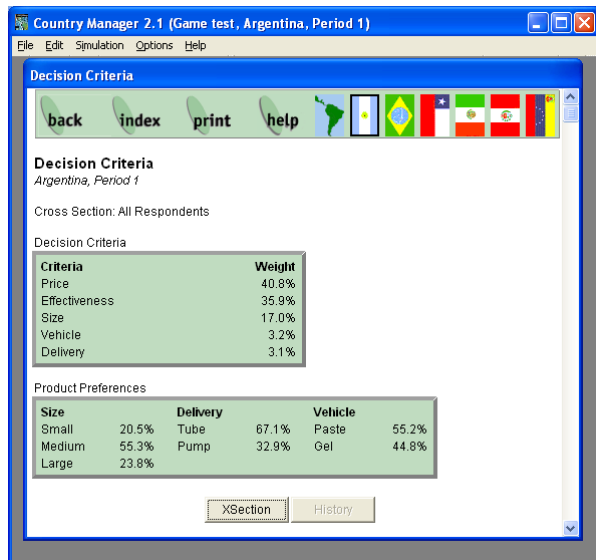
Country View
Consumers – Shopping Habits (Argentina)

The SHOPPING HABITS report estimates shopping preferences for different demographic segments of consumers according to distribution channel in the selected country. This report is helpful in determining selection of SKUs, choice of distribution channel, sales force personnel, and promotional allocation. The Shopping Habits Graph link shows shopping preferences according to distribution channel for the time periods you have covered during the simulation.



This information should be used in conjunction with other research reports to determine how to best serve your chosen target markets. For instance, if your target is older people, you will want to distribute your product in channels where they are likely to shop for toothpaste.

Country View Consumers – Decision Criteria (Argentina)

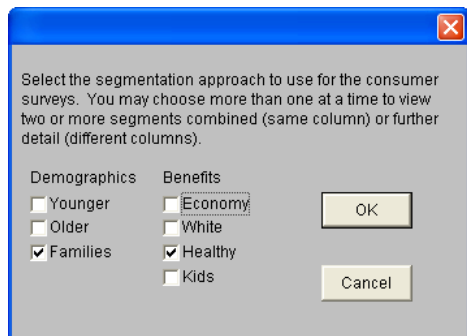


The DECISION CRITERIA report indicates what factors are most important to the consumer's brand preference. In the first chart, the five factors considered are effectiveness, size, price, texture, and delivery. The weights associated with the factors are based on market research and measure the importance of each factor toward the purchase of a particular brand. This, of course, does not factor in brand perceptions or associations, only the respondent's general choice structure with regard to toothpaste.

Effectiveness corresponds to how well the toothpaste itself meets the needs of the particular cross-section. Price attempts to measure the importance of price in the decision process of the

consumer. The second chart contains more detailed information on size, delivery, and texture preferences.

At the top of the report, the selected cross-section is displayed. In the parenthesis, the percent of population and percent of demand is provided, so that you can quickly see how large the selected cross-section is with regard to both population and potential demand for toothpaste.



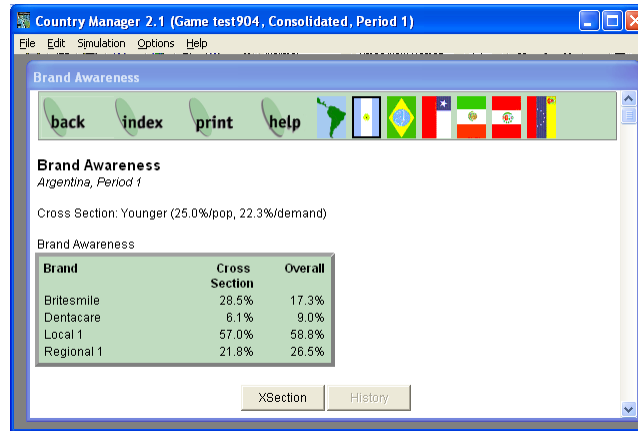
The default report uses all respondents as the source of data. Clicking on the <XSection> button enables you to select the segmentation approach to use for the consumer survey reports. You may place a check in more than one segment. Selecting two or more segments in the same column displays respondents who meet any one of those criteria. Marking in separate columns means the respondent must meet both criteria. For instance, in the sample to the left, only families who are primarily interested in health benefits of toothpaste will be displayed on the report.

When you have made your selections, press <OK> to view the report. To view the report for overall respondents (default report), uncheck all items in the cross section link. This type of cross-sectional analysis should provide a better understanding of the consumer needs which are driving the market and is available for three reports under the consumer heading (Decision Criteria, Awareness, and Brands Purchased) in the country view.

**Country View
Consumers – Awareness (Argentina)**

The BRAND AWARENESS report indicates what percent of consumers are aware of a particular brand. This particular report measures “un-aided” awareness, where respondents are asked what toothpaste brands they know rather than being asked, “are you aware of brand X?” which would be measuring aided awareness. The default report displays data for all respondents in the survey. The <Graph> link (not available when viewing cross section data) displays a scatter plot comparing product awareness versus cumulative advertising expenditures for all brands. Note that this plot is only available when the cross-section is not selected.

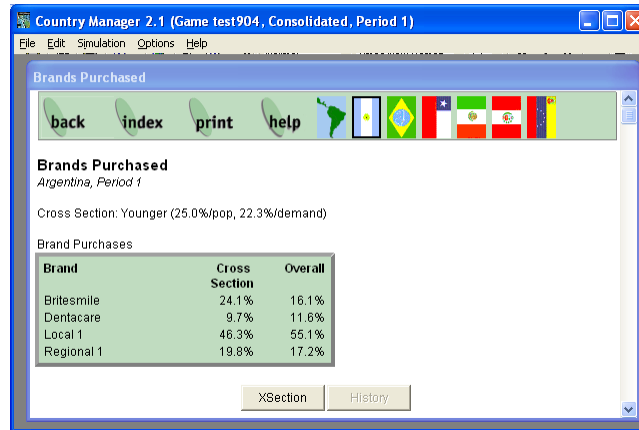
Clicking on the <XSection> link enables you to select the segmentation approach to use for the consumer survey reports. Please see the DECISION CRITERIA report for a further explanation of how to select different cross-sections.



If you view the report with a cross-section selected, there will be two columns of data, one with awareness for the cross-section and one with overall awareness. This will allow you to measure how effectively you are targeting particular markets. The effectiveness is likely to be due to both due to your product/SKU offerings and your advertising target and message.

Country View
Consumers – Brands Purchased (Argentina)

The BRANDS PURCHASED report indicates the percentage of respondents who purchased a particular brand. This is basically market share on a unit basis with the ability to select cross-sections. The default report shows the percentage of all respondents purchasing a brand. The <Graph> link (not available when viewing cross-sectional data) displays a graph comparing brands you select for the time periods you have covered during the simulation.



Clicking on the <XSection> link enables you to select the segmentation approach to use for the consumer survey reports. Please see the DECISION CRITERIA report for a further explanation of how to select different cross-sections.

If you view the report with a cross-section selected, there will be two columns of data as shown in the example above, one with brands purchased for the cross-section, and one with purchases for entire market. This will allow you to measure how effectively you are reaching your target market both due to your product/SKU offerings and other aspects of your marketing plan.

Country View Competition – Brand Formulations (Argentina)

Brand	E	W	H	K	S	M	L	T	P	P	G
Britesmile		X			X	X	X	X		X	X
Dentacare	X					X	X	X		X	
Local 1		X	X		X	X		X		X	
Regional 1	X				X	X	X	X		X	

The BRAND FORMULATIONS report indicates which formulations, sizes, delivery systems, and textures are represented by each brand. This provides helpful positioning and SKU offering information on your competitors. For instance, you can quickly see who offers an economy SKU by scanning the first column for “x”s. This can also help you find gaps in product offerings that may lead you to a new SKU introduction.

The letters in the column headers indicate benefit packaging – (E) Economy/Basic, (W) Whiteners, (H) Healthy/Tartar Control, and (K) Kids/Children’s Appeal; size – (S) Small, (M) Medium, and (L) Large; delivery system – (T) Tube and (P) Pump; and texture – (P) Paste and (G) Gel.

Click on a brand name to link to a list of SKUs for each brand (shown below for Britesmile). Along with the full description of SKU will be the units sold in the last period, MSRP, and slotting allowance (%).

SKU	Unit Sales	MSRP (ARS)	Allowance
White/Small/Tube/Paste	4.5	4.13	12.0%
White/Medium/Tube/Paste	7.2	5.20	12.0%
White/Large/Tube/Paste	5.2	5.66	12.0%
White/Medium/Tube/Gel	7.0	5.20	12.0%

Unit sales are the total amount of units sold (in millions) by a manufacturer in a market. MSRP (Manufacturer Suggested Retail Price) is a guideline as to what retail outlets should charge for a particular brand. The actual price paid by a consumer will depend on other factors, such as retail and wholesale markup, slotting allowance, and volume discount. Allowance is the percentage of the MSRP given to the channel to help with the cost of stocking, price discounts, and brand promotion in the outlet.

Choose the <Next> button to view the next SKU in the list from the main report.

Country View Competition – Benchmarking (Argentina)

The BENCHMARKING report compares basic expenditures and performance measures in Argentina for the most recent year for each of the leading manufacturers, including summaries for local and regional companies. All values are in local currency (pesos) by default. Clicking on the <Percent> button displays the data as a percentage of manufacturer sales.

	B+B	Dis. col	Loc.	Reg.
Mfr. Sales (mill. ARS)	93.5	56.1	224.7	96.7
Allowance Expense	14.7	9.6	15.4	10.0
Cost of Goods Sold	43.3	30.7	111.6	39.3
Freight/Tariffs	11.8	8.4	1.3	0.4
Gross Margin	23.8	7.4	96.4	47.0
Promotion	2.0	2.6	3.1	2.9
Advertising	7.1	6.1	10.5	8.8
Sales Force	2.7	1.8	4.4	3.7
Administrative	4.2	1.8	4.7	4.3
Total Marketing	16.1	12.2	22.7	19.7
Contr. after Mking	7.7	-4.9	73.7	27.3
Fixed Costs	1.9	1.9	1.9	1.9
Net Contribution	5.8	-6.7	71.9	25.4

Manufacturer Sales
Allowance Expense
Cost of Goods Sold

Freight/Tariffs
Gross Margin

Promotion

Advertising

Sales Force
Administrative

Total Marketing

Contr. after Marketing

- Total revenues to the manufacturer.
- Total value of all slotting allowances to distributors.
- Costs of goods sold (COGS) is the total manufacturing cost for the product sold.
- Shipping, tariffs, insurance, etc.
- The difference between sales and costs that vary directly with units sold (allowance expense + COGS + freight/tariffs).
- Expenditures on mechanisms designed to inform and persuade consumers to respond, such as in-store displays and trial samples.
- The sum of brand/product advertising, creative development, and adaptation costs.
- Sales force salaries, hiring/firing costs, and training.
- Administrative includes non-direct costs otherwise not included on this report.
- Sum of promotion, advertising, sales force, and administrative costs.
- The difference between gross margin and total marketing costs.

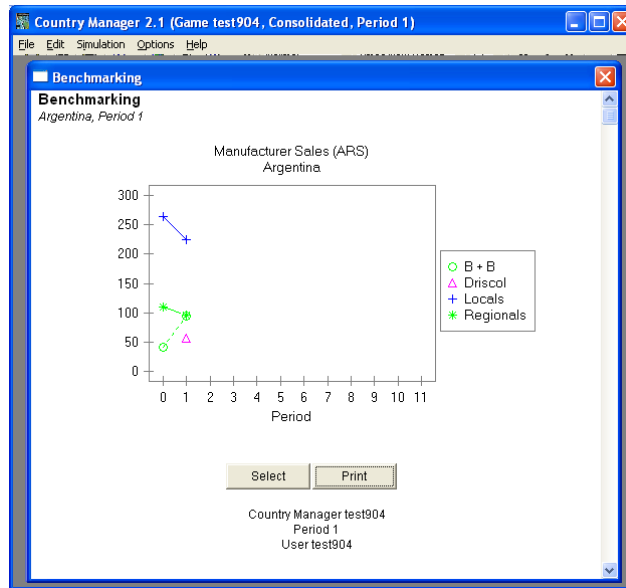
Fixed Costs

- Financial obligations of a firm that remain at the same level no matter how many units of a product are produced and marketed. Amortization charges for distribution centers, plus such charges as rent, executive salaries, property taxes, and insurance are examples.

Net Contribution

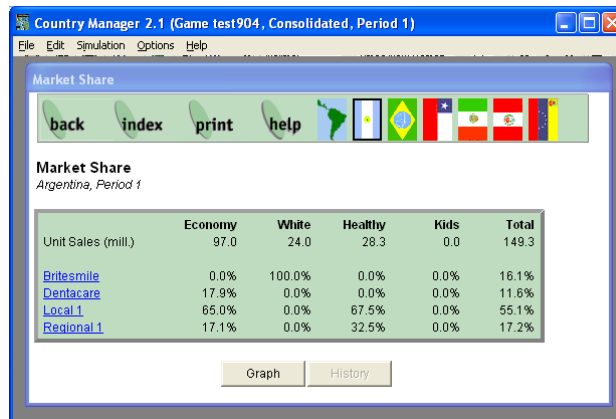
- The difference between contribution after marketing and fixed costs.

Choosing the <Graph> button displays a line graph comparing results for each company (including local and regional companies) for the time periods you have covered during the simulation. You may choose other variable to graph by clicking on the <Select> button.



**Country View
Competition – Market Share (Argentina)**

The MARKET SHARE report displays market shares according to benefit category based on the product’s packaging: Economy/Basic, Whitener, Healthy/Tartar Control, and Kids/Children’s Appeal. Thus, if a brand is sold with economy/basic formulation and packaging, its market share of that category will be displayed in the first column. The top of the report provides total sales for each category of toothpaste. Careful consideration of this data may help you determine Allsmile’s target market and positioning strategies. It also quickly allows you to see your competition and relative competitive position. If you have entered the market in Argentina, this report will display data for Allsmile brand.

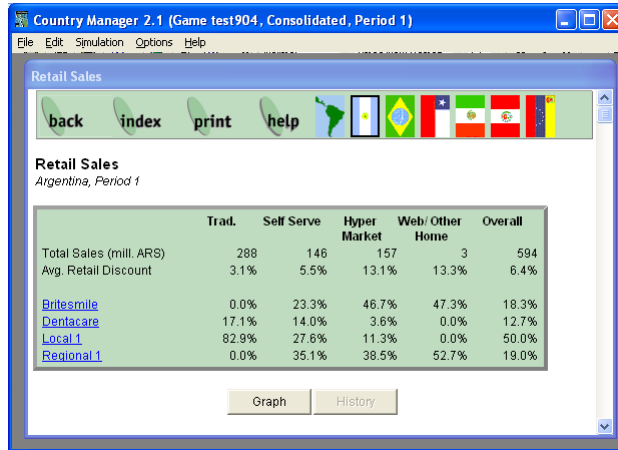


Click on a brand name to link to a list of SKUs for each brand. This information was described earlier under the BRAND FORMULATIONS report. Please refer to that report for further explanations.

Click on the <Graph> button to compare results for the periods you have covered during the simulation. There are three different comparison graphs available. The *Benefit Unit Sales Graph* shows unit sales in millions by benefit category. The *Unit Sales Graph* and *Unit Shares Graph* show unit sales and unit shares by product, respectively.

**Country View
Competition – Retail Sales (Argentina)**

The RETAIL SALES report indicates total dollar sales in each channel, average retail discount in each channel, and percentage of retail sales in each channel according to brand.



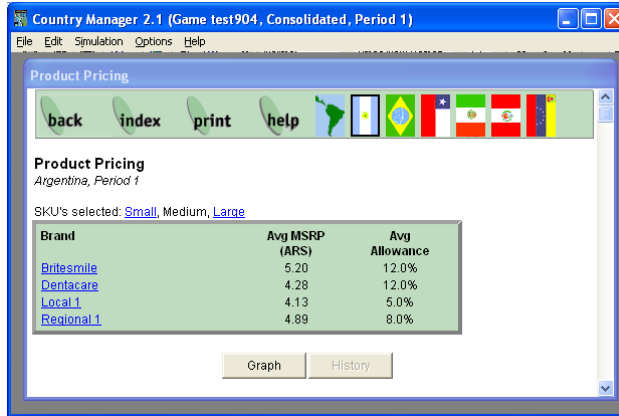
This report provides information about the volume of sales through particular channels in local currency. You can quickly see which distribution channels carry the greatest volume and their average discount off MSRP. Note that this is the average discount off MSRP provided by the retailer to the consumer, not the discount that your firm provides to the channel.

The other key piece of information addressed in this report is each brand’s share of sales in each channel. Share by channel will vary due to consumer shopping habits, pricing policies, and sales force distribution. Those brands with 0.0% share probably have chosen not to distribute through a particular channel. To gain further insight into the reasons for differences in market share, consider looking at SHOPPING HABITS from the consumers’ research reports and DISTRIBUTION COVERAGE.

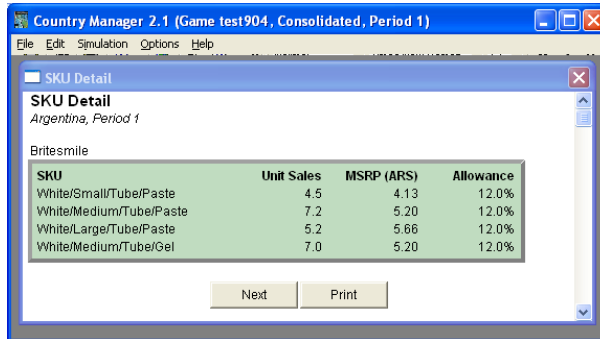
There are three options available using the <Graph> button – the *Channel Sales Graph*, *Product Sales Graph*, and *Product Shares Graph*.

**Country View
Competition – Pricing (Argentina)**

The PRODUCT PRICING report displays each brand’s average MSRP (Manufacturer Suggested Retail Price) in local currency and average slotting allowance for brands of a particular size. Allowance is the percentage of the MSRP given to the channel to help with the cost of stocking, price discounts, and brand promotion in the outlet.



Use the <Graph> button to display a graph of prices or allowances by brand. Both of these graphs only show the overall average price or allowance, so use them only for general trend information on competitive brands.

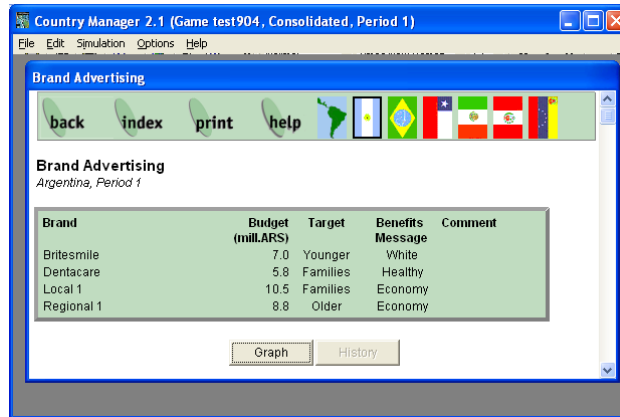


The default report shows average MSRP for medium-sized containers of toothpaste. Clicking on Small or Large displays average MSRP for the other sizes of toothpaste. Clicking on a brand name displays the SKU DETAIL report, with units sold, MSRP (in local currency), and allowance as shown below.

The <Next> button will display the next brand listed from the main pricing report.

**Country View
Competition – Advertising (Argentina)**

The BRAND ADVERTISING report compares total budget (in local currency), target group, and benefits message for each brand advertised in the selected country. Target groups include young singles and couples, families with children, and older singles and couples.



The four message types vary depending on the benefit sought by the consumer:

- Basic Seeks to prevent cavities, at a low price
- Whiteness Seeks to whiten teeth
- Healthy teeth Seeks to control tartar and prevent disease
- Kids Seeks to appeal to children and taste good

Even if a brand is on the market, firms may decide not to advertise, so it is important to investigate the effectiveness of those advertising dollars that are spent. One might want to compare share of voice by country with market share as an indication of the effectiveness of the advertising expenditures. Share of voice is basically one firm’s advertising expenditures divided by total advertising expenditures in a country. Significant differences between share of voice and market share should be noted and explained. Some possible reasons for differences include poorly designed campaigns, new entrants just beginning to build a presence in a country, or a firms aggressively trying to increase their awareness through advertising. All of these indicate environmental or competitive changes that should be recognized and considered when making decisions.

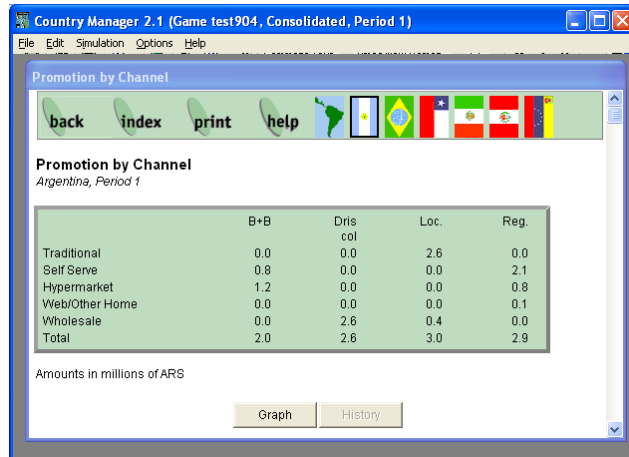
The comments column will indicate if the advertising content is significantly different than is expected by consumers. A comment will appear if the ad campaign is not in the local language, or uses foreign cultural content, or if the ad is significantly out-of-date.

Click on the <Graph> button to compare advertising expenditures for the products you select for the time periods you have covered during the simulation.

You determine your advertising program for Argentina by using the Decisions – Advertising Campaign and Decisions – Advertising Budget menu options after you enter the market.

**Country View
Competition – Promotion (Argentina)**

The PROMOTION BY CHANNEL report indicates how much each firm currently spends (in local currency) on promotional campaigns broken out by channel. Promotional spending includes the use of coupons, point-of-purchase displays, in-store trial samples, and co-op advertising. Click on the <Graph> button to compare promotional expenditures by firm for the time periods you have covered during the simulation.



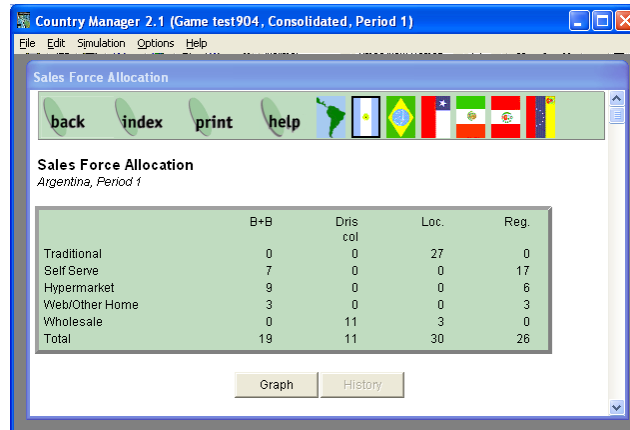
Though not specifically broken out, promotional costs include each of the following methods of promotion:

- Coupons:
 - Total budget allocated to printing, distributing, and redeeming consumer coupons.
- Point-of-purchase:
 - Total budget allocated to creating, producing, distributing, and maintaining point-of-purchase displays in retail outlets.
- Trial samples:
 - Total budget spent on producing and distributing free trial size samples to households and retail locations.
- Co-op Ads:
 - Total budget allocated to paying a portion of retailers' local advertising costs.

You set the promotional budget for a particular country by using the Decisions – Distribution menu option and choose one of three allocation methods: By last period's sales, by sales force, or by total channel sales. Allocating 0\$ does not preclude sales to a particular channel.

Country View Competition – Sales Force (Argentina)

The SALES FORCE ALLOCATION report indicates the number of sales representatives assigned to each distribution channel according to manufacturer. Competitive information includes both the direct and wholesale sales force. Click on the <Graph> button to compare the number of salespeople by firm for the periods you have covered during the simulation.



When deciding how many salespeople to allocate for each channel, keep in mind the needs of the channel and the tasks that the sales personnel perform. The direct sales force takes orders, provides administrative assistance, and aids the channel with services such as stocking and pricing products. The wholesaler support sales force provides similar services, but tailored to the wholesale channel. Typically, fewer salespeople are needed for wholesalers because they are more concentrated and provide a number of services of their own.

You specify channels and allocation of sales force per channel by using the Decisions – Distribution menu option.

**Country View
Competition – Distribution Coverage (Argentina)**

The DISTRIBUTION COVERAGE report displays information on the number of outlets in each channel of distribution and how the different brands are distributed in each channel. Note that these outlets include those served directly and through a wholesaler. Use this report to see how effective your distribution strategy is at convincing outlets to carry your brand. Click on <Graph> to compare the total number of outlets per channel type for the time periods you have covered during the simulation.

Distribution Coverage
Argentina, Period 1

	Trad.	Self Serve	Hyper Market	Web/ Other Home	Total
Outlets	2,606	367	131	11	3,115
Britesmile	0	195	93	8	296
Dentacare	1,410	132	38	0	1,580
Local 1	2,295	132	38	0	2,465
Regional 1	0	195	93	8	296

Graph History

Clicking on a brand name, such as Britesmile, displays a detail of the number of outlets in each channel that carry a particular SKU.

SKU Distribution
Argentina, Period 1

Britesmile

SKU	Trad.	Self Serve	Hyper Market	Web/ Other Home	Total	Retail Sales (ARS)
White/Small/Tube/Paste	0	152	93	8	253	16.7
White/Medium/Tube/Paste	0	152	93	8	253	33.1
White/Large/Tube/Paste	0	195	93	8	296	26.4
White/Medium/Tube/Gel	0	195	93	8	296	32.4

Next Print

This information may be beneficial when deciding on SKUs and channels for this market.

Country View

Internal – Country Contribution (Argentina)

The COUNTRY CONTRIBUTION report is your internal profit and loss statement for the selected country. All values are in millions of US\$. This is the same information as presented in the BENCHMARKING report, but for your firm only. The report includes a breakdown on a percent of revenues basis as well. This report is only available once you have entered the market in a particular country and advanced the simulation.

Net Contribution		
Country Contribution: AllStar		
Argentina, Period 2		
Unit Sales		0.0
Manufacturer Sales	0.0	
Allowance Expense	0.0	
Cost of Goods Sold	0.0	
Shipping and Tariffs	0.0	
Gross Margin		0.0
Promotion	0.0	
Advertising	0.0	
Sales Force	0.7	
Administrative	1.5	
Total Marketing		2.2
Contribution after Mktng		-2.2
Fixed Costs	3.8	
Net Contribution		-6.0

Amounts in millions of ARS

Unit Sales

Manufacturer Sales

Allowance Expense

Cost of Goods Sold

Shipping and Tariffs

Gross Margin

Promotion

Advertising

Sales Force

Administrative

Total Marketing

Contribution after Mktng

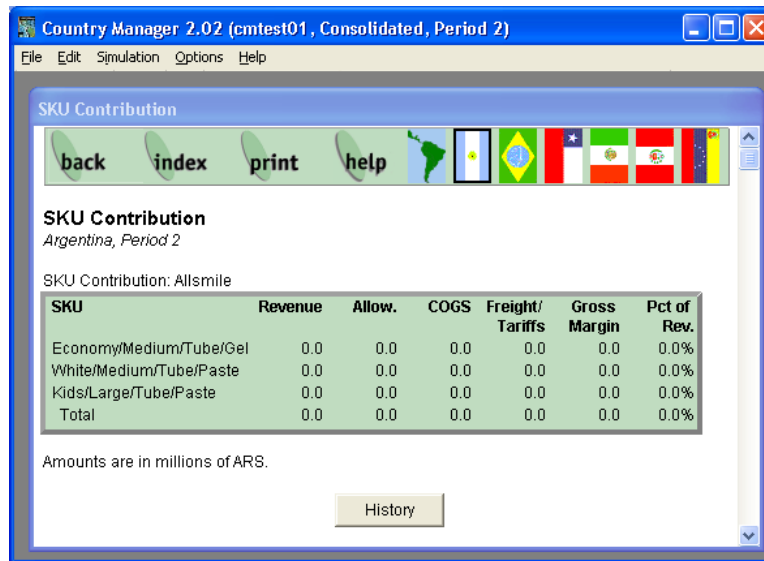
Fixed Costs

Net Contribution

- Total amount of product you sold in Argentina.
- Your firm’s total revenues in Argentina.
- Total value of all slotting allowances to distributors.
- Your total manufacturing cost for the product sold.
- Shipping, tariffs, insurance, etc.
- The difference between sales and costs that vary directly with units sold (allowance expense + COGS + shipping/tariffs).
- Your promotional budget.
- Your budget on advertising media, creative, and adaptation.
- Sales force salaries, hiring/firing costs, and training.
- Administrative includes non-direct costs otherwise not included on this report.
- Sum of promotion, advertising, sales force, and admin costs.
- The difference between gross margin and total marketing costs.
- Your fixed costs.
- The difference between contribution after marketing and fixed costs.

Country View
Internal – SKU Contribution (Argentina)

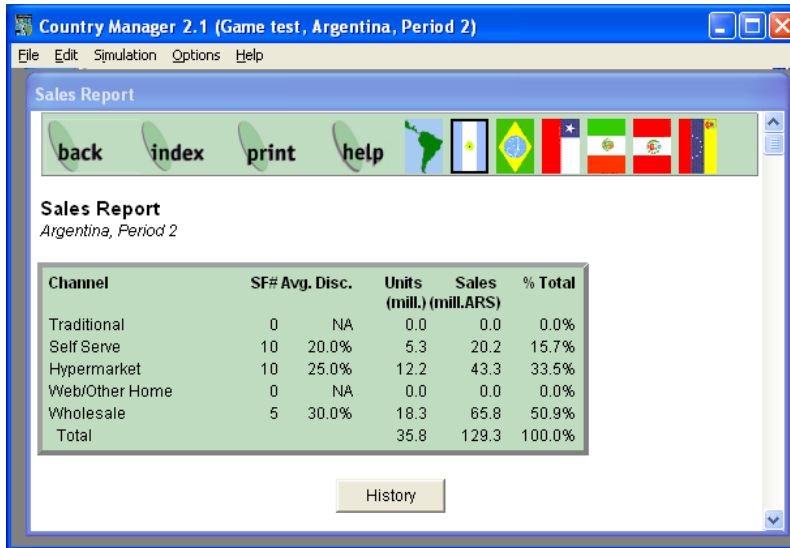
The SKU CONTRIBUTION report provides financial results at the product level for the mix of SKUs you have launched in the market. All values are in local currency. This report is available once you have advanced the simulation one period.



- | | |
|-----------------|--|
| Revenue | • The price of the SKU to the channel x number of units sold. |
| Allowance | • Total cost of slotting allowances per SKU given to the channel, typically used for the cost of stocking, price discounts, and brand promotion in the outlet. |
| COGS | • Total manufacturing cost for each SKU. |
| Freight/Tariffs | • Total shipping, tariffs and insurance costs for each SKU. If producing in the local country, this number will be minimal (low shipping only). |
| Gross Margin | • Total revenue per SKU less direct product costs per SKU (allowance expense + COGS + freight/tariffs). |
| Pct of Revenues | • Gross margin as a percentage. Provides a general measure of profitability by SKU. |

Country View
Internal – Sales Report (Argentina)

The SALES REPORT summarizes the unit and dollar sales volume by channel of distribution. The report also contains average volume discounts by channel. This report is only available when you have entered the market in a particular country and advanced the simulation one period. Below is a sample report for Period 2.



- SF#
 - Number of salespeople assigned by you to each channel in Argentina. Taken from Distribution decision information.
- Avg. Vol. Disc.
 - Your average volume discount in each channel in current active country.
- Units (mill.)
 - Number of units you sold to each of your channels in current country.
- Sales (mill. Ar\$)
 - Dollar sales to each of your channels in current country.
- Total
 - Percent of dollar sales represented by each of your channels in the current country.

Volume discounts range from 15-30%. Discounts depend on distribution channel chosen. The expected discounts for the different distribution channels are as follows:

Wholesale	30%
Hypermarket Direct	25%
Internet/Home-based Direct	25%
Self-Serve Direct	20%
Traditional Direct	15%

Note that the average volume discounts in this report differ from the average volume discounts in the Economic Outlook report. The discounts in this report reflect only the distributors used by Allstar Brands in Argentina; whereas the discounts in the Economic Outlook report reflect the average retail discount for all distributors in Argentina.

Country View Internal – Production Costs (Argentina)



The PRODUCTION COSTS report is a summary of your productive capabilities and costs. It is available once you have advanced the simulation one period. The report allows you to quickly compare your current alternatives with regard to source of product, including capacity, COGS, and freight/tariffs.

The data in this report varies by country. At the country level, values are displayed in local currency and reflect the units sold within the local country. There are several scenarios that can occur regarding production capacity:

- US production only** If all production occurs in the United States, you will only see the costs for that source of production. This is the scenario for the initial period of market entry, as it takes one year to build production facilities.
- In-country facility** If you have built a production facility in the local country, it is assumed that production for that country occurs in this facility. If the units sold exceed capacity at the local facility, the additional product is automatically sourced from the United States. Costs for both countries of production will be displayed.
- Nearby facility** The case may also exist where you have built a facility in one country, but have market presence in another country or countries. For example, you build a facility in Brazil, but also enter the market in Peru and Argentina. In this case, the Production Costs report displays data for the two countries of production — Brazil and the United States, but the units sold reflect only those of the current selected country (Argentina in this example). If the units sold in the local country exceed capacity at the facility in Brazil, the overflow is sourced from the United States. Note that if the sum of units sold in both Peru and Argentina exceed capacity in Brazil, an equal amount of product is manufactured in Brazil on a percentage basis for both Peru and Argentina and the rest is sourced from the United States.

**Country View
Decisions – Market Entry/Exit (Argentina)**

The MARKET ENTRY/EXIT screen is used after you make the decision to enter the market in a particular country. Choose your preferred country to enter from the list box, and then click on the <OK> button.



Click on the <OK> button to confirm your decision to enter the market you selected. This enters Allstar Brands in the market for the country you have chosen.



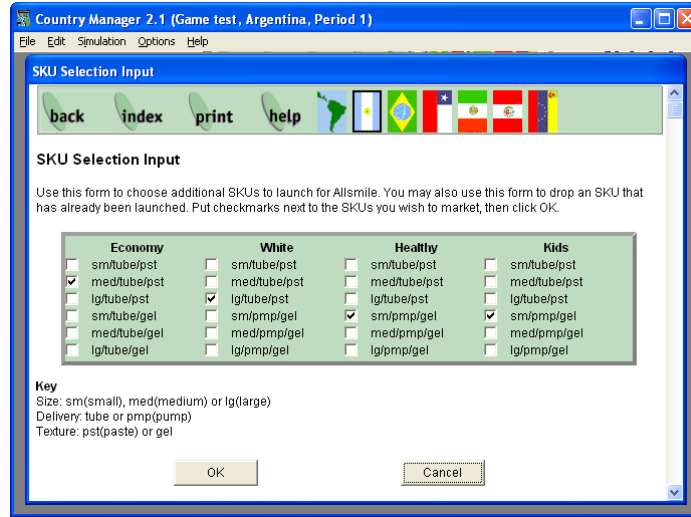
Each time you enter a new market, you will see a decision guide that lists the decisions you need to make in the new country. The decision guide reflects the menu choices available at the country specific view. After reading the guide, click on the <Click here to continue> button. Your view will now change from consolidated to country-specific for the country you just entered.

Once you have entered the market, you have access to the following options: SKU selection, Price, Advertising Campaigns, Advertising Budget, Distribution, Production, Forecasting, and Pro Forma. Each of these decision input screens is described in the following pages.

To exit from a market, click on the Market Entry/Exit option in the consolidated view. Click on the name of the country you wish to exit to highlight it. Then click on the <Enter/exit the market> button. Click on the <Yes> button to confirm that you wish to exit the country you selected.

**Country View
Decisions – SKU Selection (Argentina)**

The SKU Selection Input form is used to select SKUs (Stock Keeping Units) to launch for Allsmile brand toothpaste. SKU selection should be part of a total marketing effort, so take your time before you make this decision. You may want to research consumer and environmental reports in the local country before making your selections.



Click on the box to the left of the SKU description to launch the SKU. When you have finished selecting SKUs, click on <OK> to accept the input. To remove a SKU, click on a marked box to remove the “x”. Again, select the <OK> button to save those changes. Click on the <Cancel> button to exit the screen without saving any changes.

Remember that there are costs associated with adding SKUs, so make sure you select the best SKUs for your target consumer(s). Per SKU costs include items such as such as creating new product labels and updating promotional materials. Your instructor may also limit the number of SKUs you may introduce.

Country View Decisions – Price (Argentina)

The PRICING INPUT form is used to set the MSRP (Manufacturer Suggested Retail Price) and promotional/slotting allowance for each SKU you selected in the SKU Selection Input screen. Estimated unit costs for each SKU and unit margin are provided to help you formulate a price. *Important: Costs and prices are in local currency.*

SKU	MSRP*	Allowance (0-20%)	Est. Disc.*	Est. Cost*	Est. Unit Margin
Economy/Medium/Tube/Paste	3.00	3.0%	0.0%	1.62	1.29
White/Large/Tube/Paste	3.00	3.0%	0.0%	2.12	0.79
Healthy/Small/Pump/Gel	3.00	3.0%	0.0%	1.71	1.20
Kids/Small/Pump/Gel	3.00	3.0%	0.0%	1.72	1.19

*MSRP and cost are in ARS. Discount and cost are based on pro-forma inputs.

For each SKU, enter the MSRP (in local currency and including the decimal) and the allowance percentage. Click on <OK> when you are finished entering data. <Cancel> exits the screen without saving any of the changes made.

Keep in mind that the MSRP is only a suggested price. Actual retail prices vary according to channel, volume discounts, and slotting allowances. Remember when setting the price that your revenues are based on $MSRP * (1 - Trade Discount \% - Allowance \%)$. Therefore, if hypermarkets require a 25% trade discount and you choose to offer a slotting allowance of 10%, your revenues will be based on 65% ($.65 = 1.00 - .25 - .10$) of the MSRP on every unit sold. Please read Section 3 for a more thorough discussion.

Volume discounts range from 15% to 30% of MSRP. The average volume discount for each channel of distribution in a country may be found under Environment – Distribution. Once you have entered a country and have results for a year, you can find more specific information on your firm's average retail discount to the channel under either Internal – Sales Report or the Forecast/Pro-Forma screen. Allowances are given as a percent of the MSRP and are typically used for the cost of stocking, price discounts, and brand promotion in the outlet. Allowances are often used by new brands to improve their presence in the distribution channels. *Important: Because these volume discounts are based on the pro-forma, in the initial entry period they will be set at 0 until you change them on the pro-forma screen. After that, both the pro-forma input and the pricing input volume discount % would initially be based on last period's results.*

Other factors influencing your pricing decisions include customer price sensitivity and competitor pricing.

Country View

Decisions – Advertising Campaigns (Argentina)

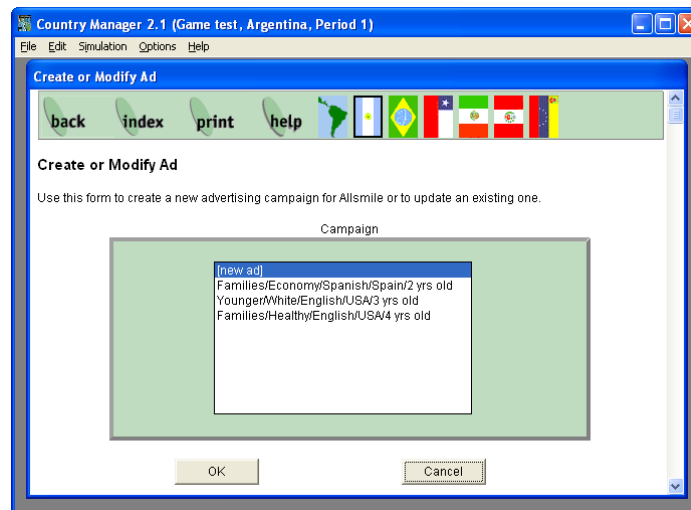
The CREATE OR MODIFY ADVERTISING selection screen is used when making decisions about your advertising campaign for Allsmile. You have 3 options:

- New ad
 - Create a new ad that is customized for the audience according to culture, language, target, and message. There is a cost to create the content of the new ad.

- Existing ad
 - Update an existing ad by adapting it to the local culture, translating it into the local language, and/or bringing it up to date. There is a cost to adapt an existing ad to the new environment.

- No change
 - Keep the current ad campaign intact. If you are currently running ads for Allsmile, the ads continue to run during the next period. If you choose this, there is no need to use this screen.

When you select this choice, you will see a list of all existing ad campaigns, both in Latin America and throughout the world. As you create new ad campaigns, they will be listed here as well. A sample screen is shown below.



To create a new ad, select [new ad] and then click on <OK>. To adapt or update an existing ad, select the ad from the list and then click on <OK>.

If you choose to create a new ad, the following screen will appear allowing you to choose the culture, language, target, and message for the ad campaign. Click on <OK> when you are satisfied with your decisions and the advertising campaign will be created. Note: You will then be asked to set the advertising budget described in the next menu item.

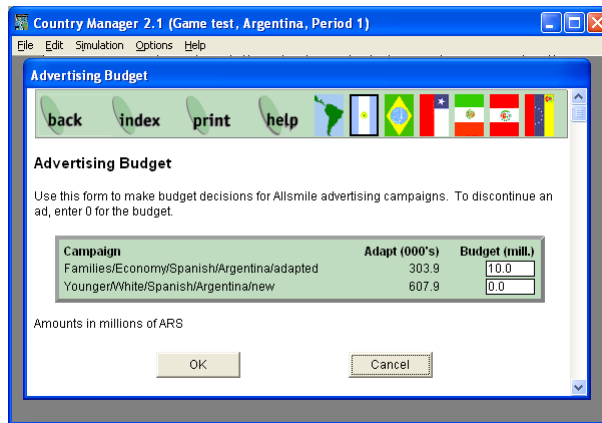


You may also choose to adapt or update an existing ad. There are several ads to choose from even at the beginning of the simulation. When you select one of these ads, you have the opportunity to adapt the ad to the local culture and/or language as well as update it. This should only be used when the ad is correctly designed to meet your target audience and message, as there is not the option of changing those (use the new ad instead). After accepting the adaptation, you will then be able to set the ADVERTISING BUDGET (described on the next page).



Country View
Decisions – Advertising Budget (Argentina)

The ADVERTISING BUDGET screen is used to make budget decisions for the Allsmile advertising campaigns. The Adapt. (000's) column lists costs associated with adaptation costs for existing campaigns or creating a new ad campaign. These costs are included in budget information when you advance the simulation for the current period. Use the Budget (mill.) column to set the advertising budget per ad campaign for the current period. The budget primarily is for media buys. This budget is in effect for the associated ad until you change it. Click on <OK> to save your budget expenditures and return to the navigation index.



If you enter no budget for a new or newly adapted advertising campaign, no adaptation costs will be incurred. If you enter no budget for any advertising campaign, it will not show up on this screen in the following period and will be considered a discontinued ad campaign.

Country View Decisions – Distribution (Argentina)

The DISTRIBUTION INPUT screen is used to make decisions about which distribution channels to use within a country, how many salespeople to allocate per channel (if any), and whether to promote product within a given channel.

Channel	Distribute in Channel	Number of Salespeople	Promote in Channel
Traditional	<input type="checkbox"/>	0	<input type="checkbox"/>
Self Serve	<input type="checkbox"/>	0	<input type="checkbox"/>
Hypermarket	<input type="checkbox"/>	0	<input type="checkbox"/>
Web/Other Home	<input type="checkbox"/>	0	<input type="checkbox"/>
Wholesale	<input type="checkbox"/>	0	<input type="checkbox"/>

Promotion Budget: 0.0 (millions ARS)

Allocate Based on:

- Last Year's Sales
- Sales Force
- Total Channel Sales

Click on one or more checkboxes in the “Distribute in Channel” column to select the channels to use for distribution of Allsmile product. There are several reports that are useful in making this decision, including Economic Outlook, Promotion by Channel, Sales Force, and Distribution Coverage.

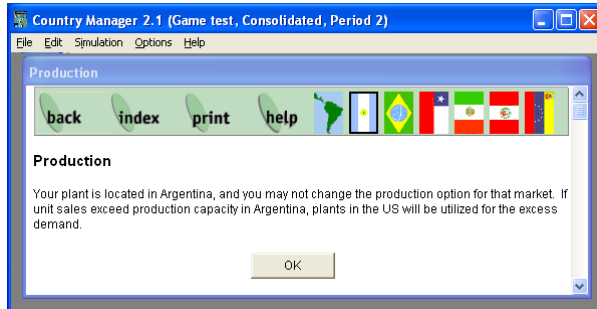
When deciding how many salespeople to allocate for each channel, keep in mind the needs of the channel and the tasks that the sales personnel perform. The direct sales force takes orders, provides administrative assistance, and aids the channel with services such as stocking and pricing products. The wholesaler sales force provides similar services, but tailored to the wholesale channel. Typically, fewer salespeople are needed for wholesalers because they are more concentrated and provide a number of services of their own. Enter the number of salespeople per channel in the “Number of Salespeople” column and press the Tab key.

You also need to decide whether or not to run promotional campaigns within each channel. Promotions include the use of coupons, point-of-purchase displays, in-store trial samples, and co-op advertising. Click on one or more checkboxes in the “Promote in Channel” column to run a campaign in a particular channel.

If you decide to use promotions, specify the total budget (in millions) in the Promotion Budget field. Then click on one of the Allocate Based On radio buttons to determine how the budget will be divided. Once you advance the simulation, you can see the results of your promotional strategy in the Environment – Promotion by Channel report.

Country View Decisions – Production (Argentina)

The PRODUCTION input screen is used in conjunction with the Productive Capacity input screen at the consolidated level. There are two scenarios that may occur once you have designated one of the six Latin American countries as a production location:



Local facility:

If you have made market entry in the country where your plant is located, you will use the local plant to capacity. If you exceed plant capacity, production automatically sources from the United States. For example, you build a plant in Argentina and specify 20 million units as production capacity. You sell 30 million

units. In this case, 10 million units are sourced from the United States. You may add additional capacity in Argentina, but *it takes a year before the production comes on-line*. To add capacity in Argentina, use the Productive Capacity input screen in the consolidated view.



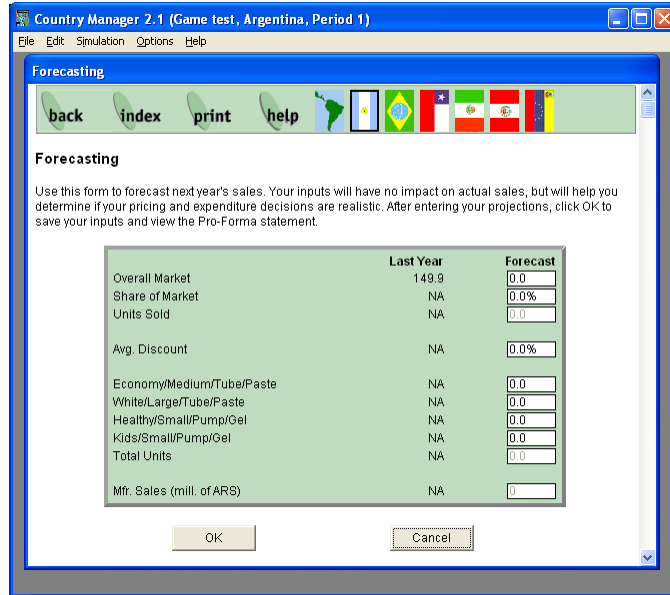
Non-local facility:

If you have made market entry in one country, but built your plant in a different country, you may choose whether to use the Latin American plant or the U.S plant as your primary source of production. For example, you build your plant in Argentina and then enter the market in Brazil. The Production screen enables you to choose between Argentina and the United States as your source of production. You may add additional capacity in Argentina, but *it takes a*

year before the production comes on-line. To add capacity in your Latin American plant, use the Productive Capacity input screen in the consolidated view.

**Country View
Decisions – Forecast/Pro-forma (Argentina)**

The first part of the FORECAST/PRO-FORMA tool is used to enter a forecast for next year’s sales. Before advancing the simulation for the first time, the Forecast column will contain zeroes. Once you advance the simulation, the data in the Forecast column reflects last year’s sales, as detailed in the [Market Share](#) report.



The Forecasting decision screen contains 3 computed fields:

- Units Sold Overall market forecast x share of market forecast.
- Total Units Sum of sales forecast for all SKUs.
- Manufacturer Sales Total units x MSRP less the discount for all SKUs.

Avg. Discount is the average discount across all SKUs. The Economic Outlook report contains the average volume discount overall for each distribution channel. The Sales Report contains the average volume discount for Allstar Brands for each distribution channel. After market entry, this field will show the average discount for your brand last period. When using the pro-forma during initial market entry, make sure this value ranges between 30%-40%.

You can use a top-down approach to forecasting by looking at your share of the market (units sold). You can also use a bottom-up approach by looking at your projected number of sales for each SKU (total units). Units sold and total units should be the same or nearly the same.

When you complete the Forecasting form, click on the <OK> button to refresh the computed fields and view the pro-forma report. *Important: The forecasts have no impact on actual sales in the marketplace. However, your forecasts do flow into the pro-forma report as described on the following page. Forecast variances are also recorded on the administrator report.*

Country View
Tools – Forecast/Pro-forma (Argentina)

Projections	Last Period	Forecast Based on SKU	Forecast Based on Mkt est.
Unit Sales	0.0	10.0	15.0
Manufacturer Sales	0.0	29.2	43.8
Allowance Expense	0.0	5.0	7.5
Cost of Goods Sold	0.0	17.4	26.0
Shipping and Tariffs	0.0	4.8	7.1
Gross Margin	0.0	2.1	3.1
Promotion	0.0	1.0	1.0
Advertising	0.0	13.3	13.3
Sales Force	0.0	1.5	1.5
Administrative	0.0	2.5	2.6
Total Marketing	0.0	18.2	18.4
Contribution after Mktg	0.0	-16.2	-15.3
Fixed Costs	0.0	2.0	2.0
Net Contribution	0.0	-18.1	-17.2

The second part of the FORECAST/PRO-FORMA tool contains the same information as the Country Contribution, but on a pro-forma basis using the most recently entered decisions and forecasts before advancing the simulation. The results show three columns allowing for easy comparisons: last year’s results (if any), pro-forma based on SKU estimated sales, and pro-forma based on market / market share estimates. The second and third columns are solely based on your inputs from the previous screen.

Important: All of these values are derived from your decisions and forecasts and will have no impact on actual results. Use for planning purposes only.

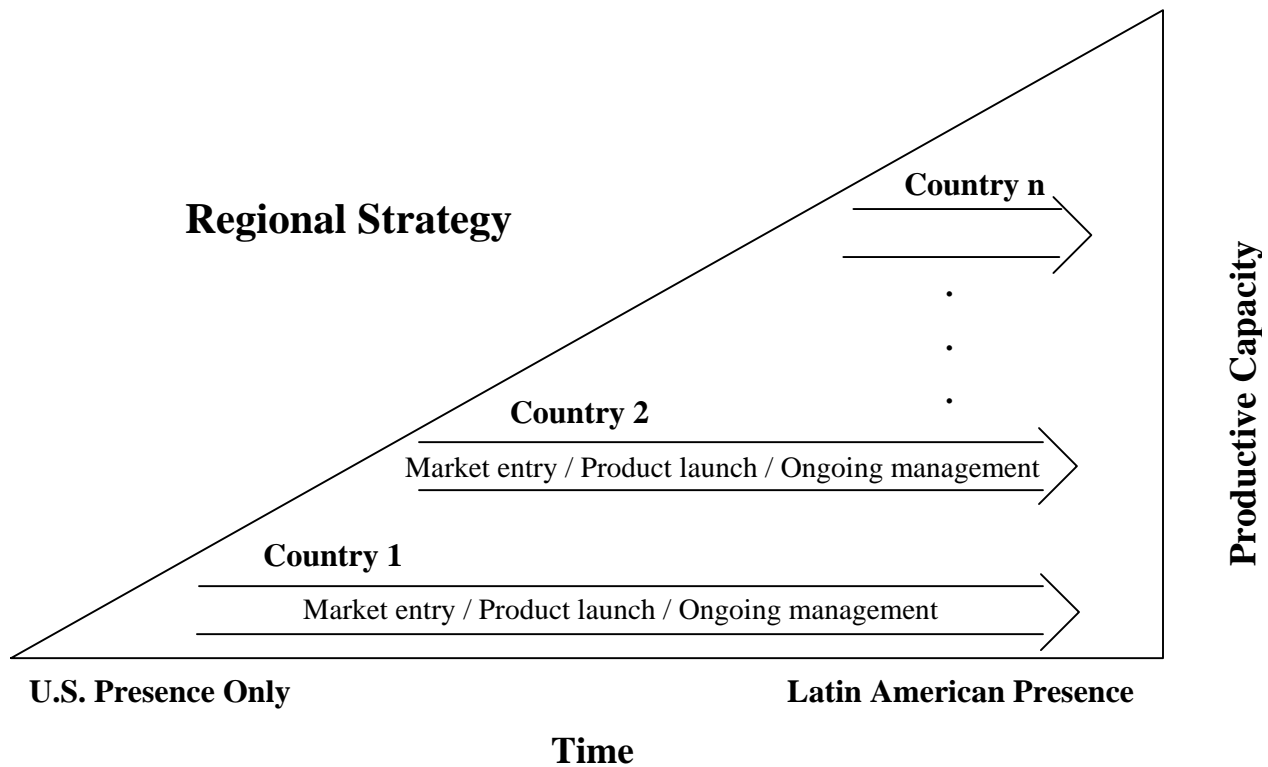
- Unit Sales**
 - Depending on the column, the value is either last year’s actual results, the sum of sales forecasts for all SKUs (from forecast screen), or the market forecast x market share (from forecast screen).
- Manufacturer Sales**
 - The sum of sales forecast for SKUs x MSRP less the discount for all SKUs. From Manufacturer Sales in the Forecasts decision screen. Note: For the forecast based on Mkt estimate, it uses the sku estimates for relative weights of prices.
- Allowance Expense**
 - The total value of all slotting allowances to distributors. Derived from Allowance in the Price decision screen weighted by the SKU forecasts.
- Cost of Goods Sold**
 - Costs of goods sold (COGS) is the total manufacturing cost for the product sold from all productive facilities.
- Shipping and Tariffs**
 - Shipping rates are approximate costs per unit shipped. Tariffs expressed as percent of COGS, insurance, and freight (CIF).
- Gross Margin**
 - The difference between sales and costs that vary directly with units sold (allowance expense + COGS + shipping/tariffs).
- Promotion**
 - From the promotion budget in the Distribution decision screen.
- Advertising**
 - From the budget in the Advertising Budget decision screen.
- Sales Force**
 - Based on the number of salespeople in the Distribution decision screen.
- Administrative**
 - Administrative includes non-direct costs otherwise not included on this report based on units sold and other decisions.
- Total Marketing**
 - Sum of promotion, advertising, sales force, and administrative costs.
- Contr. after Mktg.**
 - The difference between gross margin and total marketing costs.
- Fixed Costs**
 - Financial obligations of a firm that remain at the same level no matter how many units of a product are produced and marketed.
- Net Contribution**
 - The difference between contribution after marketing and fixed costs.

Section 3: Decision-Making in CountryManager

There are three general phases associated with entering new international markets — designing a regional strategy, initial entry into a new market, and ongoing market management. None of these stages can be considered alone, but instead as part of an overall process and planning cycle. The chart below describes some of the considerations for each of these phases.

Regional Strategy	Market Entry/Launch	On-going Management
Market attractiveness	Target segment(s)	Changes in environment
Choice of market(s)	Competition in market	Changes in competition
Firm positioning	SKU selection(s)	Expanding product line
Production location	Price positioning	
	Promotional strategy	
	Distribution strategy	

When developing an overall strategy, it is important to think about how many markets to enter and where to manufacture product. As you enter new markets and gain share in Latin America, you will need to increase your productive capacity. The graphic below shows how a regional strategy may develop over time.



There are two different levels or views within the simulation — the consolidated view and the country-specific view, as seen in the chart below. Consolidated view decisions include market entry and productive capacity. Country-specific view decisions include SKU selection, pricing, advertising, promotion, and distribution. You will need to consider both levels of information in planning and implementing your strategy.

Regional Strategy	Market Entry/Launch	On-going Management
<i>Consolidated View</i>	<i>Country View</i>	<i>Country View</i>
Market Entry/Exit and Productive Capacity	1 st Set of Country Decisions	On-going country decisions

The remainder of this section describes considerations for the decisions you will make in both views. You will find that you work back and forth between the views when gathering information and making these decisions.

Decisions Made in the Consolidated View

Market Entry: Market entry is a key consideration and the first decision you make in CountryManager. In Section 4, the topic called Selecting and Entering Foreign Markets describes a process for conducting a comparison of the six countries identified as potential markets in Latin America. There are sources within the simulation and manual that can help you in determining and rating criteria for comparing these markets:

- Information presented in the CountryManager Case.
- Background information available for each country (Economic, Social, and In-Depth, located in Appendix 1 and in reports under Background in both the consolidated and country-specific views.)
- Comparative data describing the costs associated with doing business in the different countries (reports under Environment in the consolidated view).
- Competitive information on the starting positions of the major toothpaste manufacturers (reports under Competition in the consolidated view).
- Information related to every market as it has evolved (reports under Environment and Competition in the country-specific views), including level of competition and financial results to date.
- The Country Attractiveness spreadsheet provides a tool for assessing the attractiveness of each country for market entry (refer to Appendix 2).

Determining which markets to enter and when to enter them is the cornerstone of your regional strategy. It is up to you to decide what makes one country more attractive than another. But this attractiveness must be considered in the context of an overall regional strategy, not based on one country alone.

Productive Capacity and Plant Location: Though you are not responsible for the day-to-day operations in your plants, you do need to provide overall strategic direction for manufacturing. Specifically, there are four considerations when determining productive capacity:

- Whether to build a new plant in Latin America or use existing United States capacity
- If you decide to produce in Latin America, where the plant should be located
- The productive capacity of the plant in Latin America
- When and how much to expand capacity over time

You will need to decide where to build a plant in conjunction with deciding which market(s) to enter. The Cost Structure and Tariffs and Shipping reports in the Environment section of the consolidated view provide information on the cost of producing toothpaste in one country and marketing it in another. This information is useful in deciding the location of the plant in Latin America, should you choose to build one. *You can only build one plant in Latin America, so the choice of location is important.*

Deciding on plant capacity and when and how much to expand productive capacity requires that you forecast your unit sales over time. If plant capacity exceeds demand, you have expended funds that could have been used for other purposes, such as advertising. If plant capacity falls short of demand, additional production will shift to the United States, possibly increasing COGS.

The Market Share reports (under Competition in the country-specific views) provide unit sales — information that helps you gauge the size of each market. Manufacturer's sales, provided in many reports, are not what you want to use, since they are in currency and you need to forecast units. Using the unit sales information for each country, you need to project market growth and Allstar's market share for each period. You may find it helpful to use the Forecast/Pro-forma tool (under Tools in the country view) to generate a pro-forma contribution statement.

Plant production impacts the cost of goods sold. With production experience, COGS reductions are realized at any manufacturing plant — United States or non-United States. However, due to the already large volumes produced in the United States, this effect is likely to be negligible. With each doubling of cumulative production in new plants in Latin America, COGS will be reduced by approximately 5-10% excluding the impact of inflation. This effect should be taken into account when considering prices and production. The pro-forma contribution statement will automatically adjust COGS based on your forecasts.

The cost of a plant or plant expansion is accounted for in the Net Contribution report (under Internal in the consolidated view) and in the administrator's report. The costs are depreciated over a ten-year period and it is estimated that the plant will cost \$1 million for each 1 million units of production. Note that these costs are not accounted for at the individual country level, so if you are interested in determining overall profitability for a particular market, you will need to allocate those costs at the country level.

Rules for Production:

- Only one plant in Latin America may be built. Choose the location carefully.
- It takes a year for the plant or additional capacity to come on-line.

- If you build the plant in a country you have entered, production will occur in that plant until demand exceeds supply. Additional demand will be met with United States production.
- If you have market presence in a country and your Latin American plant is located in one of the other five countries, you must decide whether you will use the Latin American or the United States plant as your source of production. If there is insufficient productive capacity in the Latin American plant to fill demand, additional production will take place in the United States plant.
- All variable and fixed production costs are included with COGS except for the initial plant construction costs which are depreciated over 10 years.
- COGS decreases over time with cumulative volume (experience effects). The comparable costs in the Cost Structure report are based on 100 million units of production, not on your actual production schedule.

Decisions Made in the Country-Specific View

Product Decisions: In the country-specific view, product decisions are made in the SKU Selection input screen (under Decisions). As stated in the CountryManager case, Allstar has 24 SKUs of Allsmile in its existing portfolio. These are available for use in the new market(s).

Product decisions include:

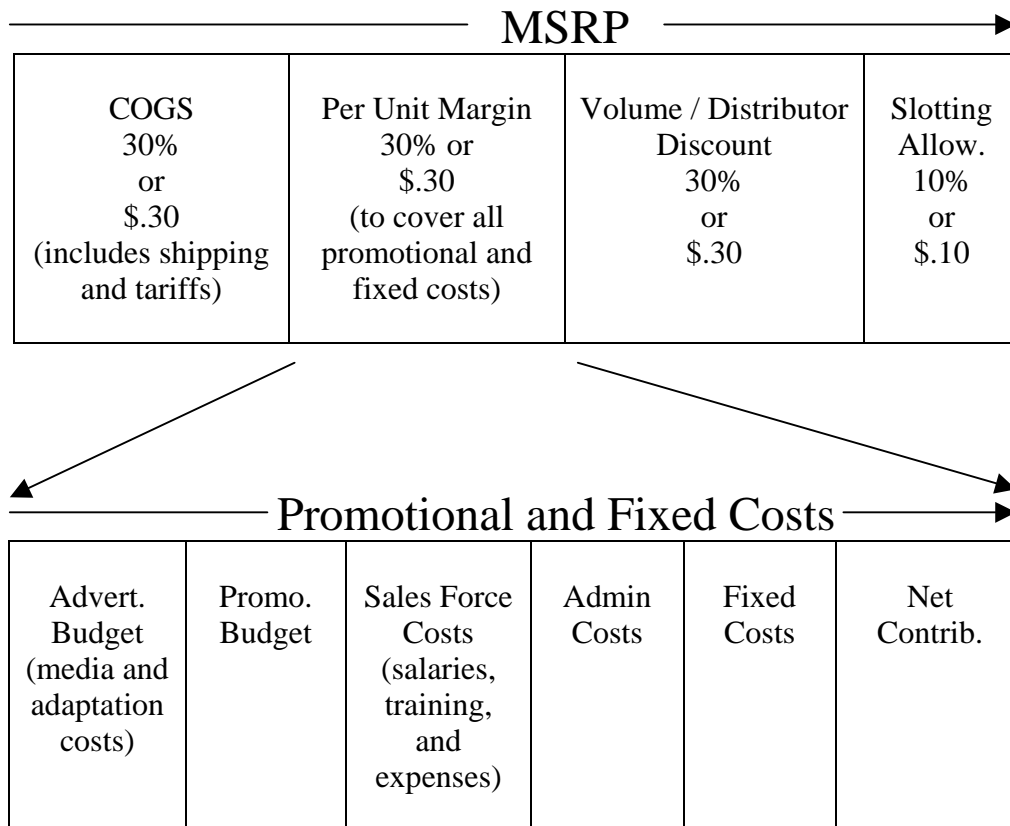
- Which SKUs to market — this decision should reflect the target markets chosen
- How many SKUs — recall that there are additional administrative and packaging costs that come with each new SKU.
- Whether to standardize or customize SKUs across countries

Pricing Decisions: When deciding on a price, many environmental as well as company factors must be considered. Your price should reflect the strategy you have chosen, while taking into consideration competitors' pricing and the importance your target customers place on price. Before those factors are incorporated, it is imperative that you review and understand the “marketing arithmetic” of prices. The price you enter in the Pricing Input screen is the manufacturer's suggested retail price (MSRP) . You set this price while considering the following elements of the price decision:

- Slotting Allowance – Slotting allowances are described in the CountryManager case. They are additional discounts off the MSRP beyond the volume or distributor discounts offered to the retailer to obtain shelf space for a product. They are particularly important when trying to establish distribution channels for new products. In CountryManager, slotting allowances typically range between 5%-20%. You are able to see what allowances your competitors are offering by looking at the Pricing report (under Competition – Pricing in the country-specific view).

- **Volume Discount or Retail Discount**– This discount is a percentage (15%-30%) of the MSRP that is subtracted from the MSRP to determine the selling price to each retailer. The discount level is negotiated with each retailer. It depends on the volume of product a retailer purchases (higher discounts for higher volumes). The retailer then sets the actual selling price to the customer. Out of the difference between the actual retail price and the price paid to the manufacturer (MSRP – slotting allowances and discounts), the retailer must pay all of its promotional and fixed costs (and hopefully have a small profit left over). The Economic Outlook report (under Environment in the country-specific view) contains current average retail discounts for each country across channels. After you have entered a country, the Forecast/Pro-forma tool (under Tools in the country-specific view) shows you your actual average discount from the previous period.
- **Cost of Goods Sold** – Cost of Goods Sold is the variable cost of producing each unit. This amount includes all materials, labor, and production costs for the product.
- **Per Unit Margin** – This is the manufacturer’s margin on each product. Like the retailer’s margin, the manufacturer must pay all of its remaining costs (advertising, administrative costs, etc.) from this amount. A company’s gross margin is the aggregate of all of the per unit margins (each per unit margin multiplied by units sold).

The chart on the following page breaks down the elements discussed above for a product whose MSRP is \$1.00. These amounts shown are for illustrative purposes only. It is helpful to do an analysis similar to this for your products as you determine their MSRPs.



Advertising and Promotion Decisions: Advertising is important in establishing brand awareness and in shaping consumers’ perceptions of products. In managing Allsmile, you will need to decide how much to spend on advertising and what the message should be for target group(s). Options for target demographic segments include younger singles and younger couples with no children (“younger”), older singles and older couples with no children (“older”), and families with children present in the household (“families”). Benefit messages include economy, whiteness, health benefits (prevention of disease), and kids appeal/taste.

Advertising costs can be broadly grouped into two categories: message development (creative) and media purchases. You can adapt an ad either minimally (by changing only language) or more extensively (by culturally adapting the ad). It is cheaper to adapt than to develop new creative content, but the adapted ad may not be as effective as one designed from scratch for a particular country's needs and target audience. You may also find it important to update or refresh the ad from time to time.

On the following page is a table showing the menu item in which each of the advertising and promotional decisions can be found.

Advertising and Promotion Expenditures	
Menu Item	Advertising and Promotion Decision
Price	Slotting Allowance
Ad Campaign(s)	Message Development
Ad Budget	Media Purchases
Distribution	Consumer and Trade Promotion

Distribution Decisions: Matching your target segment with the appropriate distribution channels is an important aspect of CountryManager. You’ll need to determine where your target market is purchasing their product. This information can be found in the Shopping Habits report (in the “consumers” section at the country-specific level). It is also important to consider trends in their purchasing behavior to plan for future distribution decisions.

In making distribution decisions, it is important to make sure that you understand the difference between the wholesale sales force and the direct sales force. The wholesale sales force is selling to the wholesaler, who will in turn sell to the retailers. Which retail establishments rely mostly on wholesalers? Are they the retailers who sell to your target segment? If so, you may want to consider selling through wholesalers.

You’ll also want to think about whether or not to allocate money to particular channels for promotion. This is money for co-op advertising, and general consumer and trade promotion funds targeted at specific channels. If you choose more than one channel for this support, you’ll have the option of spreading funds one of three ways: based on total retail sales, sales force, or by last year’s sales (if your brand was sold into the channels the previous period).

In addition, it is important to think about the allocation of funds between the sales force and promotions. For which segments are promotions a more effective marketing technique? Which retailers rely on the sales force? How does this differ over the product life cycle?

Summary

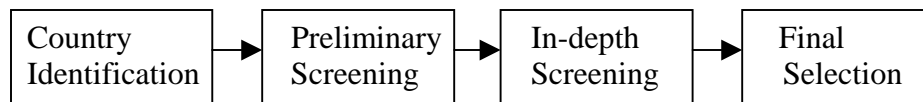
CountryManager provides a wealth of information to help you make informed decisions. You will quickly find that no decision can be made alone, but must always be considered in the context of your customers, your competitors, as well as integrated with your other decisions — in other words, in the context of your overall regional strategy. The time you invest in reviewing the information in the case and the simulation will help greatly in your decision-making process. The main purpose of this section has been to tell you where to find information related to the decisions you need to make. In addition, we have raised issues to consider when making and structuring these decisions.

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Section 4: Issues in International Marketing

Selecting and Entering Foreign Markets: Country Attractiveness Analysis

The process for evaluating foreign markets for potential entry typically consists of four stages:



In the Country Identification stage (1), the goal is to identify regions of the world or trade areas for consideration. The remainder of the stages can be thought of as a filtering process to eliminate identified countries from further consideration. In the Preliminary Screening stage (2), countries are evaluated on *macro-level indicators* such as political stability, economic development, geographic distance, and so forth. Countries surviving the preliminary screening process are then examined in more detail during the In-depth Screening stage (3). In the third stage, criteria specific to the industry and product markets are identified, and countries are evaluated on them. The in-depth screening process is the core of country attractiveness evaluations, since it brings to bear criteria that management feels are critical to business success. Because criteria must be relevant to industry and product market success factors, in-depth screening must be customized and updated.¹ Finally, after the first 3 stages are completed, the final selection is made.

In CountryManager, six Latin American countries have already been identified and pre-screened. These are Argentina, Brazil, Chile, Mexico, Peru, and Venezuela. One of your first tasks is to conduct a country attractiveness analysis in order to decide which one(s) to enter.

You have a considerable amount of economic, political, and social data on each country. In addition, you have a variety of industry and category data for each country. Now you must determine how to select and use the data that are the most important indicators of market attractiveness.

A useful approach for in-depth screening is to weight the importance of each criterion, as well as rate how each country performs on the criteria. First, weighting criteria importance is necessary

¹ For more detail on processes for selecting foreign markets see Franklin R. Root *Entry Strategies for International Markets*, 1994, Jossey-Bass, Inc.: San Francisco.

since not all criteria are equally important. Obviously, criteria are selected because they meet some minimum threshold level of importance. Yet some criteria are more important than others, and these differences need to be taken into account. A common approach is to allocate 100 points (or 100%) across all of the criteria, where more points (or a higher percentage) are awarded to criteria that are more important.

Second, each country needs to be rated on each criterion. The rating is designed to determine how well a country performs or is characterized on a particular criterion. A common rating scale ranges from one to ten, where 1 = very poor and 10 = very good.

A Simple Example

Let's take a very simple example. A United States company whose niche is luxury goods sold through wholesalers to retail stores and on to end users may identify two important criteria: level of affluence and distribution network. Management may feel that demand is more important than supply – that is, if sufficient demand for luxury products exist, they can find a creative solution for getting products to market if the distribution network is not presently well-developed. As such, they assign affluence a weight of 65% and distribution network a weight of 35%.

The company's preliminary screening process has narrowed down to two countries: Korea and Singapore. Using published economic data on disposable income, income growth, and GDP, both countries can be rated in terms of level of affluence. The number, type, and quality of wholesale and retail outlets are used to rate each country's distribution network. In terms of affluence, Korea rates a 4 and Singapore rates a 7. In terms of distribution network, Korea rates a 6 while Singapore rates a 4.

Following the classic multi-attribute model, multiplying the importance weight times the criteria rating produces a country-criteria assessment.

Criteria	Weight	Korea		Singapore	
		Rating	Assessment	Rating	Assessment
Affluence	65%	4	2.60	7	4.55
Distribution Network	35%	6	2.10	4	1.40
TOTAL	100%		4.70		5.95

Singapore's total score of 5.95 is greater than Korea's score of 4.70, indicating that Singapore is the more attractive market for entry. Even though Korea is superior in terms of its distribution network, its relatively low level of affluence vis-à-vis Singapore makes it less attractive.

One of the benefits of this process is that you are able to make "apples-to-apples" comparisons of foreign market opportunities. This is possible since all countries are evaluated on the same criteria. Another important feature of the analysis is that importance weights can be modified under various "what-if" scenarios. In the example, management felt that affluence was a better predictor of market entry success than a country's distribution network. This is feasible for high-end branded and luxury goods. What if the company was sufficiently diversified to consider entering the Far East with a portfolio of low-end products? If the criteria weights for the low-end products are 35% affluence and 65% distribution network, is Singapore still more attractive

than Korea? The table below shows that Korea is now the more attractive country under these conditions.

Criteria	Weight	Korea		Singapore	
		Rating	Assessment	Rating	Assessment
Affluence	35%	4	1.40	7	2.45
Distribution Network	65%	6	3.90	4	2.60
TOTAL	100%		5.30		5.05

Factors and Criteria (Data)

Information used to assess foreign market opportunities should be organized into key success factors. Typical success factors include:

- Demand
- Supply
- Competition
- Distance (geographic, cultural, political, etc.)

For each factor, it is useful to identify multiple criteria (or data) with which to measure each factor. For example, criteria such as market size, disposable income, and other demographic data can be used to assess demand. Similarly, number of competitors, number of exporters, and competitive similarities (e.g., low cost provider) can be used to assess competition. Importance weights should first be assigned to factors; then the weighting for each factor should be allocated across criteria for each factor. Countries should be rated on the criteria (not on the factors). A summary assessment for each factor can be easily computed as the sum of the criteria assessments for that factor.

Country Attractiveness Analysis

The CountryManager simulation provides you with a spreadsheet-based model for calculating an assessment score for each country. Please refer to Appendix 2, Country Attractiveness Analysis Spreadsheet, for details on how to use this tool.

Modes of International Market Entry

In CountryManager, you can enter your first Latin American country market either through exporting or via local production. Exporting may offer the advantage of leveraging initial economies of scale in the United States plant, thereby lowering unit costs. However, goods must be shipped via sea from the United States plant to the Latin American market, and tariffs, duties, and taxes may be incurred. Thus you must examine the tradeoffs between manufacturing costs and shipping, tax, tariff, and duty expenses.

As time progresses in your role as country manager, you will be able to expand regionally by entering additional Latin American country markets. At this point you may change your initial production decision, and must once again decide the best mode of entry into the new market. For example, consider a strategy where you first entered Brazil via exporting, and now you plan to enter Argentina as well. While you may have been exporting products into Brazil, you may now decide to set up local manufacturing in Brazil and export from the Brazilian plant into Argentina. Again, you must examine the tradeoffs between manufacturing costs and shipping, tax, tariff, and duty expenses, but now for both Brazil and Argentina.

International Marketing Standardization versus Customization

International marketing executives have debated for decades whether it is best to develop and implement standardized marketing programs across national markets, or whether programs customized to the unique aspects of idiosyncratic markets is best. Within the same industry, successful firms use both approaches. Consider consumer-packaged goods, such as those sold by Allstar Brands. Companies like Coca-Cola, Gillette, and Henkel are extremely successful in their markets with products and marketing programs that are standardized regionally and sometimes even globally. On the other hand, Nestlé has been a market leader for close to a century utilizing a very customized international marketing approach in which local product and country managers have considerable autonomy regarding the products they bring to market and the programs that support them.

The logic behind standardization is that a successful marketing program from one country can be leveraged in another country, and in so doing prevent duplication of effort, program development costs, and so forth. In addition, standardized programs are consistent with many companies' push toward developing and managing global brands. Conversely, customization is viewed as important when the marketing environment significantly differs between and/or across national markets. When cultural, regulatory, infrastructure (e.g., channel availability), competitive, and other aspects of the marketing environment are very different across markets, the viability of a single program for each of them is questionable. The decision to standardize versus customize is typically a "cost-benefit" analysis through which managers determine if the marginal revenues from customization exceed the additional costs of developing and implementing multiple marketing programs, sacrificing global consistency, and so on. The table on the following page summarizes the pros and cons of standardization versus customization.

It is important to recognize that the terms "customizing" and "standardizing" are very general, in that category managers and product managers need to make many marketing decisions. Market segmentation, decisions on targeting and positioning, as well as each element of the marketing mix must be considered with regard to customizing versus standardizing. Examples of product-related decisions include how the product should be designed, which features to include, how it should be packaged, branded, positioned relative to competing brands, and so on. Examples of advertising-related decisions include creative content (e.g., how the product is shown, the context in which the product is shown, the types of actors and actresses to include) as well as various media decisions.

In CountryManager, you must make standardization versus customization decisions at various levels, including the segments you want to target, how your products will be positioned in the competitive marketplace, which products to market, and how they will be priced, advertised, promoted, and through which channels of distribution. The standardization versus customization decisions for each of these marketing activities is described next.

	Pros	Cons
Standardization	<ul style="list-style-type: none"> • Lower product development costs • Less duplication of effort • Opportunities for economies of scale and scope • Image consistency across markets • Consistent with global branding initiatives • Critical for intrinsically global products, such as airlines 	<ul style="list-style-type: none"> • Segment sizes may differ across markets • Positioning attractiveness may differ across markets • Specific program elements may not fit local marketing environment
Customization	<ul style="list-style-type: none"> • Insures that the marketing program is aligned with the marketing environment • Gives local managers greater control 	<ul style="list-style-type: none"> • Less headquarters and/or regional control • Difficult to manage brands regionally or globally • Greater marketing development and implementation costs • Cannot realize economies of scale and scope

Market Segments, Target Marketing, and Positioning

In today’s increasingly competitive markets, managers carefully position brands to particular target markets or groups of customers. They do so because one product can rarely fulfill the needs and expectations of all buyers within a product category. While some “mega brands” like Coca-Cola and Pepsi exist, arguably the carbonated soft drink market can be segmented into different buying groups based on benefits sought (flavor, caffeine, diet), psychographics (lifestyles, activities), demographics (age, income), and so on. What really makes Coca-Cola and Pepsi’s flagship sodas so successful internationally is the presence of large segments of buyers interested in carbonated colas across virtually all national markets. Thus it is not just the presence of, but also the size of *inter-market segments* that often drives whether companies want to serve the same target customers in the same ways across country markets.

In CountryManager, you will find that each market shares common segmentation characteristics (e.g., benefits sought, age/family life cycle). However, the size of the segments in each market may vary, as well as the percent of toothpaste sales they represent. You must determine if you want to target the same segments across markets (standardized approach), or whether you want to develop unique strategies for each country (e.g., customize based on population, current sales, competitive intensity, etc.).

Products/SKUs

When introducing products into new international markets, product managers and their project teams must determine the extent to which an existing version of the product from one market can be successful in the new markets. If so, the existing or “standardized” product can be introduced into the new market. That is, the same product ingredients, formulation, size, and so forth can be marketed cross-nationally. Under these circumstances, the firm stands to save considerable money by leveraging an existing product and avoiding various new product development costs. If, on the other hand, consumer preferences vary significantly between existing markets and the one about to be entered, then the product may need to be “customized” or “adapted” to better suit customer needs and expectations. Typical reasons why customer preferences differ across markets include cultural, economic, industry, and competitive conditions in the prevailing countries.

In CountryManager, you have various United States products (SKUs) from which to choose. You must decide which of these offers the most potential for the Latin American country market you choose to enter initially, as well as those you will want to enter as the game goes on as part of your regional Latin American strategy. Thus you have the ability to put together a customized portfolio of products from among those already developed and sold in the United States, or market a standardized group of SKUs across all of the Latin American markets that you serve.

Distribution Channels

For a packaged good such as toothpaste, very little direct selling occurs between the manufacturer and the end-user. While in the future, the Internet may become more important for the direct distribution of these goods, to date this channel is only just starting to emerge. Instead, packaged goods move through one or more intermediaries. Global channels differ in channel length: how many steps are involved in getting the product to the end user? So for example, in a country in which there are many small independent retailers, the manufacturer may need to make extensive use of wholesalers to be able to most efficiently reach the retailers. In a country with concentrated retailing, the manufacturer may deal directly with the large retailers.

But countries also differ in the types of retailers and importance of the types in each market. For example, there are large, powerful *hypermarkets* such as Carrefour that buy and sell large volumes of goods; moderately sized *self-serve* outlets similar to convenience and local grocery stores; and *traditional* sellers that operate small kiosks and/or carts and who carry very little inventory. Each of these retailers has different needs, demands, and power that affect how you as a manufacturer interact with them.

Similar to the presence of market segments, the countries share common channels of distribution. But, the importance of each channel can differ considerably from country to country in the Latin American region. Thus you have to consider the extent to which you want to move products through the same or different channels across each market. The Table on the following page indicates some of the issues involved in considering alternative distribution channels in CountryManager.

	Pros	Cons
Indirect via wholesalers	<ul style="list-style-type: none"> • Useful in more rural countries • Typical if there are many, small retailers 	<ul style="list-style-type: none"> • Manufacturer is more removed from end user • Uncertain amount of support of retailers • Loss of control
Direct to retailers	<ul style="list-style-type: none"> • Gains in monitoring and control of merchandising, positioning, and brand image • Contribution margin is not spread across so many firms 	<ul style="list-style-type: none"> • More costly if there are many retailers to work with • Moves manufacturer into a non-core business

Often, there is less synergy to be obtained from standardizing channel decisions than for other marketing mix decisions. So, quite often the distribution channel decision is made on a country-by-country basis. A primary driver of the channel choice is the shopping habits of the consumers. Especially for packaged goods, consumers often will not alter their shopping habits to buy a particular brand; that is, they will buy the brands available in the store(s) where they shop. A second driver is the retail structure. If retailing is very fragmented, it will usually make sense to use indirect distribution. Therefore, in CountryManager, you will need to think about these types of issues country-by-country as you decide how to allocate your distribution efforts.

Advertising

Companies often examine advertising and other marketing communications used in one country in terms of their viability for a new country market. Savings in creative costs as well as the benefit of cross-national image consistency are reasons that firms seek to standardize their advertising across national markets.

In CountryManager, you may select from a number of existing advertising campaigns to determine which of them you want to run in your selected country. You can place into media a purely standardized ad, or you may decide to adapt the advertising message to be better aligned with your market. Note, however, that additional costs are incurred when you decide to customize an ad. Once you have developed a customized ad, you will later have the opportunity to use that same ad in countries that you enter later in the game. Thus the initial “customized” ad may become part of a “standardized” advertising campaign for two or more countries in Latin America.

Promotion

Promotions include activities designed to generate awareness and motivate trial and repeat purchase (samples and co-op advertising), lower consumers' purchase costs (coupons), and stimulate in-store demand (point-of-purchase displays). Fortunately, you do not have to worry about allocating your promotional expenditures across each of these activities. You do, however, need to be aware of the promotional expectations of different channel members (types of retailers). Some expect you, as a manufacturer, to provide extensive promotional support as an incentive for them to push your brand through their channel. Others have greater expectations that you stimulate demand through your own pull marketing efforts, in particular advertising campaigns. Retailers will also differ in the extent to which they respond to advertising and promotion expenditures versus sales force expenditures. Thus, once you make the decision about which channels you will be using in each country, you should be able to determine the extent to which your promotional budgets can be standardized or will require customization across these markets. In thinking about standardization versus customization, first consider the absolute expenditure on promotion in your country markets. Next consider the relative promotions expenditures across markets, that is, how your promotions expenditures in a country as a percent of your total marketing expenditures for that country varies across countries.

Pricing

As described in the *Foreign Exchange Rates* portion of this section, pricing products in international markets is a complex endeavor. In general, managers price their products so that they (a) provide an adequate margin (revenue less cost), (b) are in line with competitive offerings, and (c) fall within the range of what target customers are willing to pay. Each of these factors (costs, competition, and customers) will often vary by country. Thus deciding to standardize your prices in Latin America versus developing country-specific prices for the same SKU will depend on a number of factors. For example, assume that there are many competitors in a strategically important country market for the company. To enter the market, the entering company may need to price at the competitor's low prices and accept lower margins in the process. In a neighboring market with less competition, the retail price (and margin) may be higher. This example illustrates why customizing prices often seems appealing given the likelihood of important cost, competitive, and buyer differences across country markets. There are a number of reasons that the firm may not want too much discrepancy between country markets, however. First, price differences across markets may create ill will in the market with the higher prices. Second, big price differentials create arbitrage opportunities for firms in the channel to divert product from the lower priced to the higher priced market. For example, an SKU priced very low in Brazil may find its way into Argentina where the manufacturer is selling the same SKU for a much higher price. In essence, an Argentine intermediary (wholesaler or retailer) may find that their costs are less in buying the good from an intermediary in Brazil compared to buying directly from the manufacturer. This phenomenon is often referred to as parallel importing or gray trade. Thus one benefit of standardized pricing is the elimination of legal though unauthorized gray marketing of goods from one Latin American country to another.

Foreign Exchange Rates: Impact on International Business

How are foreign exchange rates set?

At the time of this writing, it takes about 110 Japanese yen to buy one US dollar. But why? Why not 150 or 62 yen? For major world currencies like the yen, the dollar, the British pound sterling, and so on, exchange rates are set in a currency market, just as the value of a share of a publicly traded company is set in a stock market. Let's look at these major world currencies first.

As investors are more interested in holding dollars, the value of the dollar is driven up. When the value of the dollar is driven up, it will take more units of other currencies to buy a dollar. Now, the question is why would investors be more interested in dollars or in *any* particular currency? There are a variety of answers to this question. One is that investors would be more interested in dollars if they wanted to buy dollar denominated securities (like US stocks). They would want to buy dollar denominated securities if the return/risk were high compared to alternative currency investments. This risk adjusted real (inflation adjusted) return will be high if the relative prospects for an economy are good — good expected growth, low expected inflation, and so on. So, when investors feel that the prospects are good for an economy, they will tend to want to hold the assets of that country, driving up their value compared to other assets. The currency of the country is one of the many assets whose value is driven up. Obviously, the usual macroeconomic variables of fiscal and monetary policy play a big role in establishing the expectations for an economy.

Many world currencies, however, are not traded on foreign exchange markets and their value is not market determined. For these currencies, the central bank in the country plays the major role in setting the value of the currency. For example, the Hungarian Forint's value is set by the central bank in Hungary. Government policy over the period of the 1990s was to steadily devalue the Forint. So, for example, in mid 1990, the official exchange rate was about 60 HUF = 1 USD. In mid 2000, the rate was about 270 HUF = 1 USD. This devaluation had the impact of making exports from Hungary more attractive. Why?

How do changes in exchange rates affect international business?

There are clear effects on exporters and importers of increasing or decreasing value of a currency. Lets consider a small company in Miskolc, a city in northern Hungary. The company makes womens' clothing and wants to export to a distributor in the US. This company has costs in forints (salaries, materials, etc) and so it needs to get paid in forints. As the value of the forint goes down (that is, it takes more forints to buy a dollar) the Hungarian exporter is better off. Why? Remember that its US distributor receives revenue in dollars and must obtain forints to pay the exporter. So, with devaluation of the forint, the US distributor can buy the forints it needs to pay for the clothing with fewer dollars. So, buying from the company in Hungary is more attractive because from the point of view of the US firm, there has been a price decrease. Thus, an exporter is helped if its home currency goes down in inflation adjusted value (depreciates). By the same logic, an importer is hurt if its home currency goes down in value. In

the example below, we illustrate the impact of changing exchange rates on an importer and an exporter.

Unlike a purely domestic business, where costs and prices are denominated in the same currency, international business often involves at least two currencies. This is the case, for example, when a firm exports its product from the country of manufacture (or country-of-origin) to a target country (where the customer is located – often referred to as the local market).

Let's consider a United States firm exporting its product to Brazil (where the currency is the REAL). We start by approaching the problem from the point of view of the exporting firm, and then later look at it from other perspectives.

The following are relevant cost and market data:

Desired revenue per product = \$100 (analogous to the price denominated in US\$)

Exchange rate (Fx) is \$/REAL = .558.

Variable costs = \$60

The local price in REAL = 179 ($\$100 \div .558$ \$/REAL).

The per-unit contribution is \$40 (\$100 revenue - \$60 variable cost).

What happens when the dollar depreciates (REAL appreciates)? Assume the Fx rises 10% to \$/REAL = .613

At REAL 179, the price now converts to \$110 ($179 \text{ REAL} \times .613$). The per-unit contribution rises to \$50. Thus when the dollar falls in value (and the real rises), the exporting firm generates greater revenues and profits.

What happens when the dollar appreciates (real depreciates), for example, if the \$/REAL falls 10% to .502?

At REAL 179, the price now converts to \$90 ($179 \text{ REAL} \times .502$). The per-unit contribution falls to \$30. Thus when the dollar rises in value (and the real falls), the exporting firm generates lower revenues and profits.

Pricing alternatives and foreign exchange

Note that in these scenarios we assumed the price to Brazilian customers was not changed. Maintaining constant local prices is referred to as pricing-to-market. The logic behind pricing-to-market is that customers in a local market should not be affected by changes in exchange rates. Rather, only local market conditions, such as the price of competitors' products, local demand conditions, or inflation in the local market should affect prices to end-users. As shown though, this approach is problematic for the exporter when the home currency (dollar) rises relative to the local currency. The only way to maintain the same level of profitability under this condition is to lower costs in proportion to the Fx change. The more costs can be reduced, the more flexibility management has in pricing-to-market without losing margin.

On the other hand, managers can choose to alter local prices, or pass-through the Fx change to customers. Thus, managers attempt to maintain rates of return by adjusting local prices to some

degree when exchange rates change. Clearly, prices cannot and should not be changed with every change in the exchange rate. Also, it is critical to remember that in most markets consumers exhibit some degree of price elasticity (sensitivity). Raising prices to offset foreign exchange fluctuations, therefore, typically yields some decline in units sold. At issue, then, is how to best trade-off per contribution and unit demand.

In summary, assuming costs cannot be lowered, the following table lists the most common alternatives for an exporter faced with home currency appreciation.

Alternatives	Advantages	Disadvantages
Maintain local price (price-to-market).	Maintain current volume levels.	Loss of per-unit contribution.
Raise prices to offset currency depreciation under conditions of little consumer price sensitivity and minimal competition (pass-through).	Maintains current per-unit contribution.	Smaller potential loss of volume. Smaller potential loss of total contribution.
Raise prices to offset currency depreciation under conditions of high consumer price sensitivity and significant local competition (pass-through).	Maintains current per-unit contribution.	Greater potential loss of volume from competitive price gap and lower consumer demand. Greater potential loss of total contribution.

Now, consider the situation from the point of view of a Brazilian importer sourcing product from the US. The importer has a lower contribution margin if the currency of the manufacturing country appreciates (the local market currency depreciates). Why? When the local market currency depreciates, they must pay their bills to the firms from which they import by buying now more expensive foreign currency.

The situation is similar also when a company is exporting to its own subsidiary. Let's assume a US company manufacturing in the US and selling to its own subsidiary in Brazil. The manufacturing arm needs to pay its bills in US dollars, but the foreign subsidiary is generating sales revenue in its local currency (Brazilian real). So, once again, if the US dollar appreciates and the Brazilian real depreciates, the Brazilian subsidiary must buy increasingly expensive dollars in order to pay for the product it is selling. In within-company situations such as this, the issue for the firm is setting the right transfer price...the price at which the subsidiary pays for product from the manufacturing division.

What do firms do about exchange rate risk?

There are a variety of mechanisms that exist to reduce the financial risk of foreign exchange fluctuations. Big multinational firms with operations in many countries may just ignore the risk, with the idea that losses in one market will be offset by gains in other markets over time. Other firms with a focus on a particular market may attempt to hedge their risk. This financial maneuver is too complicated to detail here, but the idea is that the firm buys a contract to purchase the needed foreign currency at a specific exchange rate. This contract reduces the risk of a loss due to exchange rates changes, but also reduces the upside potential of a gain as well. (However, there are financial instruments that allow firms to take advantage of potential gains.) Finally, a firm faced with a continual devaluation of a local market currency may elect to move manufacturing operations to that country. This was part of the policy makers' idea in continually devaluing Hungary's currency in the 1990s.

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Section 5: Cases in International Marketing

Section 5 contains two cases from the Ivey School of Business on International Marketing. These cases are to be used solely by participants in the CountryManager simulation experience and are provided as a basis for class discussion on the topics of country attractiveness analysis and global brand management.

We hope you enjoy both of these cases!

RUTH'S CHRIS: THE HIGH STAKES OF INTERNATIONAL EXPANSION

Allen H. Kupetz and Professor Ilan Alon wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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“Well, I was so lucky that I fell into something that I really, really love. And I think that if you ever go into business, you better find something you really love, because you spend so many hours with it ... it almost becomes your life.”

Ruth Fertel, 1927-2002
Founder of Ruth's Chris Steak House

In 2006, Ruth's Chris Steak House (Ruth's Chris) was fresh off a sizzling initial public offering (IPO). Dan Hannah, vice-president for business development since June 2004, was responsible for the development of a new business strategy focused on continued growth of franchise and company-operated restaurants. He also oversaw franchisee relations. Now a public company, Ruth's Chris had to meet Wall Street's expectations for revenue growth. Current stores were seeing consistent incremental revenue growth, but new restaurants were critical and Hannah knew that the international opportunities offered a tremendous upside.

With restaurants in just five countries including the United States, the challenge for Hannah was to decide where to go to next. Ruth's Chris regularly received inquiries from would-be franchisees all over the world, but strict criteria — liquid net worth of at least US\$1 million, verifiable experience within the hospitality industry, and an ability and desire to develop multiple locations — eliminated many of the prospects. And the cost of a franchise — a US\$100,000 per restaurant franchise fee, a five per cent of gross sales royalty fee, and a two per cent of gross sales fee as a contribution to the national advertising campaign — eliminated some qualified prospects. All this was coupled with a debate within Ruth's Chris senior management team about the need and desire to grow its international business. So where was Hannah to look for new international franchisees and what countries would be best suited for the fine dining that made Ruth's Chris famous?

THE HOUSE THAT RUTH BUILT

Ruth Fertel, the founder of Ruth's Chris, was born in New Orleans in 1927. She skipped several grades in grammar school, and later entered Louisiana State University in Baton Rouge at the age of 15 to pursue degrees in chemistry and physics. After graduation, Fertel landed a job

teaching at McNeese State University. The majority of her students were football players who not only towered over her, but were actually older than she was. Fertel taught for two semesters. In 1948, the former Ruth Ann Adstad married Rodney Fertel who lived in Baton Rouge and shared her love of horses. They had two sons, Jerry and Randy. They opened a racing stable in Baton Rouge. Ruth Fertel earned a thoroughbred trainer's license, making her the first female horse trainer in Louisiana. Ruth and Rodney Fertel divorced in 1958.

In 1965, Ruth Fertel spotted an ad in the *New Orleans Times-Picayune* selling a steak house. She mortgaged her home for US\$22,000 to purchase Chris Steak House, a 60-seat restaurant on the corner of Broad and Ursuline in New Orleans, near the fairgrounds racetrack. In September of 1965, the city of New Orleans was ravaged by Hurricane Betsy just a few months after Fertel purchased Chris Steak House. The restaurant was left without power, so she cooked everything she had and brought it to her brother in devastated Plaquemines Parish to aid in the relief effort.

In 1976, the thriving restaurant was destroyed in a kitchen fire. Fertel bought a new property a few blocks away on Broad Street and soon opened under a new name, "Ruth's Chris Steak House," since her original contract with former owner, Chris Matulich, precluded her from using the name Chris Steak House in a different location. After years of failed attempts, Tom Moran, a regular customer and business owner from Baton Rouge, convinced a hesitant Fertel to let him open the first Ruth's Chris franchise in 1976. It opened on Airline Highway in Baton Rouge. Fertel reluctantly began awarding more and more franchises. In the 1980s, the little corner steak house grew into a global phenomenon with restaurants opening every year in cities around the nation and the world. Fertel became something of an icon herself and was dubbed by her peers *The First Lady of American Restaurants*.

Ruth's Chris grew to become the largest fine dining steak house in the United States (see Exhibit 1) with its focus on an unwavering commitment to customer satisfaction and its broad selection of USDA Prime grade steaks (USDA Prime is a meat grade label that refers to evenly distributed marbling that enhances the flavor of the steak). The menu also included premium quality lamb chops, veal chops, fish, chicken and lobster. Steak and seafood combinations and a vegetable platter were also available at selected restaurants. Dinner entrees were generally priced between US\$18 to US\$38. Three company-owned restaurants were open for lunch and offered entrees generally ranging in price from US\$11 to US\$24. The Ruth's Chris core menu was similar at all of its restaurants. The company occasionally introduced new items as specials that allowed the restaurant to offer its guests additional choices, such as items inspired by Ruth's Chris New Orleans heritage.¹

In 2005, Ruth's Chris enjoyed a significant milestone, completing a successful IPO that raised more than US\$154 million in new equity capital. In their 2005 Annual Report, the company said it had plans "to embark on an accelerated development plan and expand our footprint through both company-owned and franchised locations." 2005 restaurant sales grew to a record US\$415.8 million from 82 locations in the United States and 10 international locations including Canada (1995, 2003), Hong Kong (1997, 2001), Mexico (1993, 1996, 2001) and Taiwan (1993, 1996, 2001). As of December 2005, 41 of the 92 Ruth's Chris restaurants were company-owned and 51 were franchisee-owned, including all 10 of the international restaurants (see Exhibit 2).

¹ *Ruth's Chris Steak House 2005 Annual Report*, pg. 7.

FIGURE 1: RUTH’S CHRIS RESTAURANT GROWTH BY DECADE

<u>Decade</u>	<u>New Restaurants (total)</u>	<u>New Restaurants (company-owned)</u>	<u>New Restaurants (franchises)</u>
1965-1969	1	1	0
1970-1979	4	2	2
1980-1989	19	8	11
1990-1999	44	19	25
2000-2005	25	12	13
	93 ²	42	51

Source: Ruth’s Chris Steak House files.

Ruth’s Chris’s 51 franchisee-owned restaurants were owned by just 17 franchisees, with five new franchisees having the rights to develop a new restaurant, and the three largest franchisees owning eight, six and five restaurants respectively. Prior to 2004, each franchisee entered into a 10-year franchise agreement with three 10-year renewal options for each restaurant. Each agreement granted the franchisee territorial protection, with the option to develop a certain number of restaurants in their territory. Ruth’s Chris’s franchisee agreements generally included termination clauses in the event of nonperformance by the franchisee.³

A WORLD OF OPPORTUNITIES

As part of the international market selection process, Hannah considered four standard models (see Figure 2):

1. Product development — new kinds of restaurants in existing markets
2. Diversification — new kinds of restaurants in new markets
3. Penetration — more of the same restaurants in the same market
4. Market development — more of the same restaurants in new markets

² Due to damage caused by Hurricane Katrina, Ruth’s Chris was forced to temporarily close its restaurant in New Orleans, Louisiana.

³ Ruth’s Chris Steak House 2005 Annual Report, pg. 10.

FIGURE 2: RESTAURANT GROWTH PATHS⁴

		Restaurant Brands	
		Existing	New
Market	Existing	Penetration (more restaurants) <i>Same market, same product</i>	Product development (new brands) <i>Same market, new product</i>
	New	Market development (new markets) <i>New market, same product</i>	Diversification (new brands for new market) <i>New product, new market</i>

The product development model (new kinds of restaurants in existing markets) was never seriously considered by Ruth’s Chris. It had built a brand based on fine dining steak houses and, with only 92 stores, the company saw little need and no value in diversifying with new kinds of restaurants.

The diversification model (new kinds of restaurants in new markets) was also never considered by Ruth’s Chris. In only four international markets, Hannah knew that the current fine dining steak house model would work in new markets without the risk of brand dilution or brand confusion.

The penetration model (more of the same restaurants in the same market) was already underway in a small way with new restaurants opening up in Canada. The limiting factor was simply that fine dining establishments would never be as ubiquitous as quick service restaurants (i.e. fast food) like McDonald’s. Even the largest cities in the world would be unlikely to host more than five to six Ruth’s Chris steak houses.

The market development model (more of the same restaurants in new markets) appeared the most obvious path to increased revenue. Franchisees in the four international markets — Canada, Hong Kong, Mexico and Taiwan — were profitable and could offer testimony to would-be franchisees of the value of a Ruth’s Chris franchise.

With the management team agreed on a model, the challenge shifted to market selection criteria. The key success factors were well-defined:

- **Beef-eaters:** Ruth’s Chris was a steak house (though there were several fish items on the menu) and, thus, its primary customers were people who enjoy beef. According to the World Resources Institute, in 2002 there were 17 countries above the mean per capita of annual beef consumption for high-income countries (93.5 kilograms — see Exhibit 3).⁵

⁴ This diagram is based on Ansoff’s Product/Market Matrix, first published in “Strategies for Diversification,” Harvard Business Review, 1957.

⁵ World Resources Institute, “Meat Consumption: Per Capita (1984-2002),” retrieved on June 7, 2006 from <http://earthtrends.wri.org/text/agriculture-food/variable-193.html>.

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- Legal to import U.S. beef: The current Ruth’s Chris model used only USDA Prime beef, thus it had to be exportable to the target country. In some cases, Australian beef was able to meet the same high U.S. standard.
- Population/high urbanization rates: With the target customer being a well-to-do beef-eater, restaurants needed to be in densely populated areas to have a large enough pool. Most large centers probably met this requirement.
- High disposable income: Ruth’s Chris is a fine dining experience and the average cost of a meal for a customer ordering an entrée was over US\$70 at a Ruth’s Chris in the United States. While this might seem to eliminate many countries quickly, there are countries (e.g. China) that have such large populations that even a very small percentage of high disposable income people could create an appropriate pool of potential customers.
- Do people go out to eat? This was a critical factor. If well-to-do beef-eaters did not go out to eat, these countries had to be removed from the target list.
- Affinity for U.S. brands: The name “Ruth’s Chris” was uniquely American as was the Ruth Fertel story. Countries that were overtly anti-United States would be eliminated from — or at least pushed down — the target list. One measure of affinity could be the presence of existing U.S. restaurants and successful franchises.

WHAT SHOULD RUTH’S CHRIS DO NEXT?

Hannah had many years of experience in the restaurant franchising business, and thus had both personal preferences and good instincts about where Ruth’s Chris should be looking for new markets. “Which markets should we enter first?” he thought to himself. Market entry was critical, but there were other issues too. Should franchising continue to be Ruth’s Chris exclusive international mode of entry? Were there opportunities for joint ventures or company-owned stores in certain markets? How could he identify and evaluate new potential franchisees? Was there an opportunity to find a global partner/brand with which to partner?

Hannah gathered information from several reliable U.S. government and related websites and created the table in Exhibit 4. He noted that many of his top prospects currently did not allow the importation of U.S. beef, but he felt that this was a political (rather than a cultural) variable and thus could change quickly under the right circumstances and with what he felt was the trend toward ever more free trade. He could not find any data on how often people went out to eat or a measure of their affinity toward U.S. brands. Maybe the success of U.S. casual dining restaurants in a country might be a good indicator of how its citizens felt toward U.S. restaurants. With his spreadsheet open, he went to work on the numbers and began contemplating the future global expansion of the company.

“If you’ve ever had a filet this good, welcome back.”

Ruth Fertel, 1927-2002
Founder of Ruth’s Chris Steak House

EXHIBIT 1: FINE DINING STEAK HOUSES BY BRAND IN THE UNITED STATES (2005)

<u>Company Name</u>	<u>Number of Restaurants</u>
Ruth's Chris	92
Morton's	66
Fleming's	32
Palm	28
Capital Grille	22
Shula's	16
Sullivan's	15
Smith & Wollensky	11
Del Frisco	6

Source: Ruth's Chris Steak House files.

EXHIBIT 2: RUTH'S CHRIS LOCATIONS IN THE UNITED STATES (2005)



- Company - owned
- Franchise - owned

Source: Ruth's Chris Steak House files.

EXHIBIT 3: MEAT CONSUMPTION PER CAPITA¹ (IN KILOGRAMS)

Region/Classification	2002	2001	2000	1999	1998	Growth Rate 1998-2002
World	39.7	38.8	38.6	38.0	37.7	5.31%
Asia (excluding Middle East)	27.8	26.9	26.6	25.7	25.4	9.45%
Central America/Caribbean	46.9	45.7	44.8	42.9	41.3	13.56%
Europe	74.3	72.5	70.5	70.6	73.1	1.64%
Middle East/North Africa	25.7	25.7	26.0	25.1	24.7	4.05%
North America	123.2	119.1	120.5	122.2	118.3	4.14%
South America	69.7	68.4	69.1	67.6	64.2	8.57%
Sub-Saharan Africa	13.0	12.9	13.1	12.8	12.6	3.17%
Developed Countries	80.0	78.0	77.2	77.3	77.6	3.09%
Developing Countries	28.9	28.1	28.0	27.1	26.6	8.65%
High-Income Countries	93.5	91.9	92.0	92.2	90.9	2.86%
Low-Income Countries	8.8	8.6	8.4	8.3	8.2	7.32%
Middle-Income Countries	46.1	44.6	43.9	42.7	42.3	8.98%

¹ World Resources Institute, "Meat Consumption: Per Capita (1984-2002)," retrieved on June 7, 2006 from <http://earthtrends.wri.org/text/agriculture-food/variable-193.html>.

EXHIBIT 4: PER CAPITA BEEF CONSUMPTION AND OTHER COUNTRY DATA

Country	Per Capita Beef Consumption (kg)	Population (1,000s)	Urbanization Rate (%)	Per Capita GDP (PPP in US\$)
Argentina	97.6	39,921	90%	\$13,100
Bahamas	123.6	303	89%	\$20,200
Belgium	86.1	10,379	97%	\$31,400
Brazil	82.4	188,078	83%	\$8,400
Chile	66.4	16,134	87%	\$11,300
China	52.4	1,313,973	39%	\$6,800
Costa Rica	40.4	4,075	61%	\$11,100
Czech Rep	77.3	10,235	74%	\$19,500
France	101.1	60,876	76%	\$29,900
Germany	82.1	82,422	88%	\$30,400
Greece	78.7	10,688	61%	\$22,200
Hungary	100.7	9,981	65%	\$16,300
Ireland	106.3	4,062	60%	\$41,000
Israel	97.1	6,352	92%	\$24,600
Italy	90.4	58,133	67%	\$29,200
Japan	43.9	127,463	65%	\$31,500
Kuwait	60.2	2,418	96%	\$19,200
Malaysia	50.9	24,385	64%	\$12,100
Netherlands	89.3	16,491	66%	\$30,500
Panama	54.5	3,191	57%	\$7,200
Poland	78.1	38,536	62%	\$13,300
Portugal	91.1	10,605	55%	\$19,300
Russia	51	142,893	73%	\$11,100
Singapore	71.1	4,492	100%	\$28,100
South Africa	39	44,187	57%	\$12,000
South Korea	48	48,846	80%	\$20,400
Spain	118.6	40,397	77%	\$25,500
Switzerland	72.9	7,523	68%	\$32,300
Turkey	19.3	70,413	66%	\$8,200
UAE/Dubai	74.4	2,602	85%	\$43,400
U.K.	79.6	60,609	89%	\$30,300
United States	124.8	298,444	80%	\$41,800
Vietnam	28.6	84,402	26%	\$2,800

Source: World Resources Institute, "Meat Consumption: Per Capita (1984-2002)," retrieved on June 7, 2006 from <http://earthtrends.wri.org/text/agriculture-food/variable-193.html> and World Bank Key Development Data & Statistics, <http://web.worldbank.org/WBSITE/EXTERNAL/DATASTATISTICS/0,,contentMDK:20535285~menuPK:232599~pagePK:64133150~piPK:64133175~theSitePK:239419,00.html>, retrieved on June 7, 2006.

THE GLOBAL BRANDING OF STELLA ARTOIS

Professors Paul W. Beamish and Anthony Goerzen prepared this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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In April 2000, Paul Cooke, chief marketing officer of Interbrew, the world's fourth largest brewer, contemplated the further development of their premium product, Stella Artois, as the company's flagship brand in key markets around the world. Although the long-range plan for 2000-2002 had been approved, there still remained some important strategic issues to resolve.

A BRIEF HISTORY OF INTERBREW

Interbrew traced its origins back to 1366 to a brewery called Den Hoorn, located in Leuven, a town just outside of Brussels. In 1717, when it was purchased by its master brewer, Sebastiaan Artois, the brewery changed its name to Artois.

The firm's expansion began when Artois acquired a major interest in the Leffe Brewery in Belgium in 1954, the Dommelsch Brewery in the Netherlands in 1968, and the Brassiere du Nord in France in 1970. In 1987, when Artois and another Belgian brewery called Piedboeuf came together, the merged company was named Interbrew. The new company soon acquired other Belgian specialty beer brewers, building up the Interbrew brand portfolio with the purchase of the Hoegaarden brewery in 1989 and the Belle-Vue Brewery in 1990.

Interbrew then entered into a phase of rapid growth. The company acquired breweries in Hungary in 1991, in Croatia and Romania in 1994, and in three plants in Bulgaria in 1995. Again in 1995, Interbrew completed an unexpected major acquisition by purchasing Labatt, a large Canadian brewer also with international interests. Labatt had operations in the United States, for example, with the Latrobe brewery, home of the Rolling Rock brand. Labatt also held a substantial minority stake in the second largest Mexican brewer, Femsu Cerveza, which produced Dos Equis, Sol, and Tecate brands. Following this major acquisition, Interbrew went on, in 1996, to buy a brewery in the Ukraine and engaged in a joint venture in the Dominican Republic. Subsequently, breweries were added in China in 1997, Montenegro and Russia in 1998, and another brewery in Bulgaria and one in Korea in 1999.

Thus, through acquisition expenditures of US\$2.5 billion in the previous four years, Interbrew had transformed itself from a simple Belgian brewery into one of the largest beer companies in

the world. By 1999, the company had become a brewer on a truly global scale that now derived more than 90 per cent of its volume from markets outside Belgium. It remained a privately held company, headquartered in Belgium, with subsidiaries and joint ventures in 23 countries across four continents.

THE INTERNATIONAL MARKET FOR BEER

In the 1990s, the world beer market was growing at an annual rate of one to two per cent. In 1998, beer consumption reached a total of 1.3 billion hectolitres (hls). There were, however, great regional differences in both market size and growth rates. Most industry analysts split the world market for beer between growth and mature markets. The mature markets were generally considered to be North America, Western Europe and Australasia. The growth markets included Latin America, Asia, Central and Eastern Europe including Russia. Although some felt that Africa had considerable potential, despite its low per capita beer consumption, the continent was not considered a viable market by many brewers because of its political and economic instability (see Exhibit 1).

Mature Markets

The North American beer market was virtually stagnant, although annual beer consumption per person was already at a sizeable 83 litres per capita (lpc). The Western European market had also reached maturity with consumption of 79 lpc. Some analysts believed that this consumption level was under considerable pressure, forecasting a decline to near 75 lpc over the medium term. Australia and New Zealand were also considered mature markets, with consumption at 93 lpc and 84 lpc, respectively. In fact, volumes in both markets, New Zealand in particular, had declined through the 1990s following tight social policies on alcohol consumption and the emergence of a wine culture.

Growth Markets

Given that average consumption in Eastern Europe was only 29 lpc, the region appeared to offer great potential. This consumption figure, however, was heavily influenced by Russia's very low level, and the future for the large Russian market was unclear. Further, some markets, such as the Czech Republic that consumed the most beer per person in the world at 163 lpc, appeared to have already reached maturity. Central and South America, on the other hand, were showing healthy growth and, with consumption at an average of 43 lpc, there was believed to be considerable upside. The most exciting growth rates, however, were in Asia. Despite the fact that the market in this region had grown by more than 30 per cent since 1995, consumption levels were still comparatively low. In China, the region's largest market, consumption was only 16 lpc and 20 to 25 lpc in Hong Kong and Taiwan. Although the 1997 Asian financial crisis did not immediately affect beer consumption (although company profits from the region were hit by currency translation), demand in some key markets, such as Indonesia, was reduced and in others growth slowed. The situation, however, was expected to improve upon economic recovery in the medium term.

BEER INDUSTRY STRUCTURE

The world beer industry was relatively fragmented with the top four players accounting for only 22 per cent of global volume — a relatively low figure as compared to 78 per cent in the soft drinks industry, 60 per cent in tobacco and 44 per cent in spirits. This suggested great opportunities for consolidation, a process that had already begun two decades prior. Many analysts, including those at Interbrew, expected that this process would probably accelerate in the future. The driver behind industry rationalization was the need to achieve economies of scale in production, advertising and distribution. It was widely recognized that the best profit margins were attained either by those with a commanding position in the market or those with a niche position. However, there were several factors that mitigated the trend towards rapid concentration of the brewing industry.

One factor that slowed the process of consolidation was that the ratio of fixed versus variable costs of beer production was relatively high. Essentially, this meant that there was a limited cost savings potential that could be achieved by bringing more operations under a common administration. Real cost savings could be generated by purchasing and then rationalizing operations through shifting production to more efficient (usually more modern) facilities. This approach, however, required large initial capital outlays. As a result, in some markets with “unstable” economies, it was desirable to spread out capital expenditures over a longer period of time to ensure appropriate profitability in the early stages. A second factor that may have had a dampening effect on the trend towards industry consolidation was that local tastes differed. In some cases, beer brands had hundreds of years of heritage behind them and had become such an integral part of everyday life that consumers were often fiercely loyal to their local brew. This appeared to be a fact in many markets around the world.

INTERBREW'S GLOBAL POSITION

Through Interbrew's acquisitions in the 1990s, the company had expanded rapidly. During this period, the company's total volumes had increased more than fourfold. These figures translated to total beer production of 57.5 million hls in 1998 (when including the volume of all affiliates), as compared to just 14.7 million hls in 1992. Volume growth had propelled the company into the number four position among the world's brewers.

Faced with a mature and dominant position in the declining Belgian domestic market, the company decided to focus on consolidating and developing key markets, namely Belgium, the Netherlands, France and North America, and expansion through acquisition in Central Europe, Asia and South America. Subsequently, Interbrew reduced its dependence on the Belgian market from 44 per cent in 1992 to less than 10 per cent by 1998 (total volumes including Mexico). Concurrently, a significant milestone for the company was achieved by 1999 when more than 50 per cent of its total volume was produced in growth markets (including Mexico). Interbrew had shifted its volume so that the Americas accounted for 61 per cent of its total volume, Europe added 35 per cent, and Asia Pacific the remaining four per cent.

Taken together, the top 10 markets for beer accounted for 86 per cent of Interbrew's total volume in 1998 (see Exhibit 2). The Mexican beer market alone accounted for 37 per cent of total

volume in 1998. Canada, Belgium, the United States and the United Kingdom were the next most important markets. However, smaller, growing markets such as Hungary, Croatia, Bulgaria, and Romania had begun to increase in importance.

Adding to its existing breweries in Belgium, France and the Netherlands, Interbrew's expansion strategy in the 1990s had resulted in acquisitions in Bosnia-Herzegovina, Bulgaria, Canada, China, Croatia, Hungary, Korea, Montenegro, Romania, Russia, the Ukraine, the United States, in a joint venture in South Korea, and in minority equity positions in Mexico and Luxembourg. Through these breweries, in addition to those that were covered by licensing agreements in Australia, Italy, Sweden and the United Kingdom, Interbrew sold its beers in over 80 countries.

INTERBREW'S CORPORATE STRUCTURE

Following the acquisition of Labatt in 1995, Interbrew's corporate structure was divided into two geographic zones: the Americas and Europe/Asia/Africa. This structure was in place until September 1999 when Interbrew shifted to a fully integrated structure to consolidate its holdings in the face of industry globalization. Hugo Powell, formerly head of the Americas division, was appointed to the position of chief executive officer (CEO). The former head of the Europe/Africa/Asia division assumed the role of chief operating officer, but subsequently resigned and was not replaced, leaving Interbrew with a more conventional structure, with the five regional heads and the various corporate functional managers reporting directly to the CEO.

RECENT PERFORMANCE

1998 had been a good year for Interbrew in terms of volume in both mature and growth markets. Overall, sales volumes increased by 11.1 per cent as most of the company's international and local brands maintained or gained market share. In terms of the compounded annual growth rate, Interbrew outperformed all of its major competitors by a wide margin. While Interbrew's 1998 net sales were up 29 per cent, the best performing competitor achieved an increase of only 16 per cent. Of Interbrew's increased sales, 67 per cent was related to the new affiliates in China, Montenegro and Korea. The balance was the result of organic growth. Considerable volume increases were achieved also in Romania (72 per cent), Bulgaria (28 per cent), Croatia (13 per cent), and the United States (14 per cent). While volumes in Western Europe were flat, duty-free sales grew strongly. In the U.S. market, strong progress was made by Interbrew's Canadian and Mexican brands, and Latrobe's Rolling Rock was successfully relaunched. In Canada, performance was strong, fuelled by a two per cent increase in domestic consumption. Labatt's sales of Budweiser (produced under license from Anheuser Busch) also continued to grow rapidly.

Given that the premium and specialty beer markets were growing quickly, particularly those within the large, mature markets, Interbrew began to shift its product mix to take advantage of this trend and the superior margins it offered. A notable brand success was Stella Artois, for which total global sales volumes were up by 19.7 per cent. That growth came from sales generated by Whitbread in the United Kingdom, from exports, and from sales in Central Europe where Stella Artois volumes took off. The strong growth of Stella Artois was also notable in that

it was sold in the premium lager segment. In Europe, Asia Pacific and Africa, Interbrew's premium and specialty beers, which generated a bigger margin, increased as a proportion of total sales from 31 per cent in 1997 to 33 per cent in 1998. This product mix shift was particularly important since intense competition in most markets inhibited real price increases.

Success was also achieved in the United States specialty beer segment where total volume had been growing at nine per cent annually in the 1990s. In 1998, Interbrew's share of this growing market segment had risen even faster as Labatt USA realized increased sales of 16 per cent. The other continuing development was the growth of the light beer segment, which had become over 40 per cent of the total sales. Sales of Labatt's Blue Light, for example, had increased and Labatt Blue had become the number three imported beer in the United States, with volumes up 18 per cent. Latrobe's Rolling Rock brand grew by four per cent, the first increase in four years. Interbrew's Mexican brands, Dos Equis, Tecate and Sol, were also up by 19 per cent.

Following solid volume growth in profitable market segments, good global results were realized in key financial areas. Net profit, having grown for each of the previous six consecutive years, was 7.7 billion Belgian francs (BEF) in 1998, up 43.7 per cent from the previous year. Operating profit also rose 7.9 per cent over 1997, from 14.3 to 15.4 BEF; in both the Europe/Asia/Africa region and the Americas, operating profit was up by 8.5 per cent and 4.9 per cent respectively. Further, Interbrew's EBIT margin was up 58.1 per cent as compared to the best performing competitor's figure of 17.0 per cent. However, having made several large investments in Korea and Russia, and exercising an option to increase its share of Femsa Cerveza in Mexico from 22 per cent to 30 per cent, Interbrew's debt-equity ratio increased from 1.04 to 1.35. As a result, interest payments rose accordingly.

Interbrew also enjoyed good results in volume sales in many of its markets in 1999. Although Canadian sales remained largely unchanged over 1998, Labatt USA experienced strong growth in 1999, with volumes up by 10 per cent. There was a positive evolution in Western European volumes as well, as overall sales were up by 6.5 per cent overall in Belgium, France and the Netherlands. Central European markets also grew with Hungary showing an increase of 9.6 per cent, Croatia up by 5.5 per cent, Romania by 18.9 per cent, Montenegro by 29 per cent, and Bulgaria with a rise of 3.6 per cent in terms of volume. Sales positions were also satisfactory in the Russian and Ukrainian markets. Further, while South Korean sales volume remained unchanged, volumes in China were 10 per cent higher, although this figure was still short of expectations.

INTERBREW CORPORATE STRATEGY

The three facets of Interbrew's corporate strategy, i.e., brands, markets and operations, were considered the "sides of the Interbrew triangle." Each of these aspects of corporate strategy was considered to be equally important in order to achieve the fundamental objective of increasing shareholder value. With a corporate focus entirely on beer, the underlying objectives of the company were to consolidate its positions in mature markets and improve margins through higher volumes of premium and specialty brands. Further, the company's emphasis on growth was driven by the belief that beer industry rationalization still had some way to go and that the majority of the world's major markets would each end up with just two or three major players.

Operations Strategy

Cross fertilization of best practices between sites was a central component of Interbrew's operations strategy. In the company's two main markets, Belgium and Canada, each brewery monitored its performance on 10 different dimensions against its peers. As a result, the gap between the best and the worst of Interbrew's operations had narrowed decisively since 1995. Employees continuously put forward propositions to improve processes. The program had resulted in significantly lower production costs, suggesting to Interbrew management that most improvements had more to do with employee motivation than with pure technical performance. In addition, capacity utilization and strategic sourcing had been identified as two areas of major opportunity.

Capacity Utilization

Given that brewing was a capital-intensive business, capacity utilization had a major influence on profitability. Since declining consumption in mature markets had generated excess capacity, several of Interbrew's old breweries and processing facilities were scheduled to be shut down. In contrast, in several growth markets such as Romania, Bulgaria, Croatia and Montenegro, the opposite problem existed, so facilities in other locations were used more fully until local capacities were increased.

Strategic Sourcing

Interbrew had begun to rationalize its supply base as well. By selecting a smaller number of its best suppliers and working more closely with them, Interbrew believed that innovative changes resulted, saving both parties considerable sums every year. For most of the major commodities, the company had gone to single suppliers and was planning to extend this approach to all operations worldwide.

Market Strategy

The underlying objectives of Interbrew's market strategy were to increase volume and to lessen its dependence on Belgium and Canada, its two traditional markets. Interbrew dichotomized its market strategy into the mature and growth market segments, although investments were considered wherever opportunities to generate sustainable profits existed. One of the key elements of Interbrew's market strategy was to establish and manage strong market platforms. It was believed that a brand strength was directly related to a competitive and dedicated market platform (i.e., sales and distribution, wholesaler networks, etc.) to support the brand. Further, Interbrew allowed individual country teams to manage their own affairs and many felt that the speed of success in many markets was related to this decentralized approach.

Mature markets

Interbrew's goals in its mature markets were to continue to build market share and to improve margins through greater efficiencies in production, distribution and marketing. At the same time, the company intended to exploit the growing trend in these markets towards premium and specialty products of which Interbrew already possessed an unrivalled portfolio. The key markets in which this strategy was being actively pursued were the United States, Canada, the United Kingdom, France, the Netherlands and Belgium.

Growth Markets

Based on the belief that the world's beer markets would undergo further consolidation, Interbrew's market strategy was to build significant positions in markets that had long-term volume growth potential. This goal led to a clear focus on Central and Eastern Europe and Asia, South Korea and China in particular. In China, for example, Interbrew had just completed an acquisition of a second brewery in Nanjing. The Yali brand was thereby added to the corporate portfolio and, together with its Jingling brand, Interbrew became the market leader in Nanjing, a city of six million people.

In Korea, Interbrew entered into a 50:50 joint venture with the Doosan Chaebol to operate the Oriental Brewery, producing the OB Lager and Cafri pilsener brands. With this move, Interbrew took the number two position in the Korean beer market with a 36 per cent share and sales of 5.1 million hls. The venture with Doosan was followed in December 1999 by the purchase of the Jinro Coors brewery. This added 2.5 million hls and increased Interbrew's market share to 50 per cent of total Korean volume. Thus, the Interbrew portfolio in Korea consisted of two mainstream pilsener brands, OB Lager and Cass, the two local premium brands, Cafri and Red Rock, and Budweiser, an international premium brand.

In Russia, Interbrew expanded its presence by taking a majority stake in the Rosar Brewery in Omsk, adding the BAG Bier and Sibirskaya Korona brands. Rosar was the leading brewer in Siberia with a 25 per cent regional market share, and held the number four position in Russia. New initiatives were also undertaken in Central Europe with acquisitions of a brewery in Montenegro and the Pleven brewery in Bulgaria, as well as the introduction of Interbrew products into the Yugoslavian market. Finally, although Interbrew had just increased its already significant investment in Mexico's second largest brewer from 22 per cent to 30 per cent, Latin America remained a region of great interest.

Brand Strategy

A central piece of Interbrew's traditional brand strategy had been to add to its portfolio of brands through acquisition of existing brewers, principally in growth markets. Since its goal was to have the number one or two brand in every market segment in which it operated, Interbrew concentrated on purchasing and developing strong local brands. As it moved into new territories, the company's first priority was to upgrade product quality and to improve the positioning of the acquired local core lager brands. In mature markets, it drew on the strength of the established brands such as Jupiler, Belgium's leading lager brand, Labatt Blue, the famous

Canadian brand, and Dommelsch, an important brand in the Netherlands. In growth markets, Interbrew supported brands like Borsodi Sor in Hungary, Kamenitza in Bulgaria, Ozujsko in Croatia, Bergenbier in Romania, Jingling in China, and OB Lager in Korea. In addition, new products were launched such as Taller, a premium brand in the Ukraine, and Boomerang, an alternative malt-based drink in Canada.

A second facet of the company's brand strategy was to identify certain brands, typically specialty products, and to develop them on a regional basis across a group of markets. At the forefront of this strategy were the Abbaye de Leffe and Hoegaarden brands and, to a lesser extent, Belle-Vue. In fact, both Hoegaarden and Leffe achieved a leading position as the number one white beer and abbey beer in France and Holland. The Loburg premium pilsener brand also strengthened its position when it was relaunched in France. Further, in Canada, Interbrew created a dedicated organization for specialty beers called the Oland Specialty Beer Company. In its first year of operation, the brands marketed by Oland increased its volumes by over 40 per cent. More specifically, sales of the Alexander Keith's brand doubled and the negative volume trend of the John Labatt Classic brand was reversed. The underlying message promoted by Oland was the richness, mystique and heritage of beer.

To support the regional growth of specialty beers, Interbrew established a new type of café. The Belgian Beer Café, owned and run by independent operators, created an authentic Belgian atmosphere where customers sampled Interbrew's Belgian specialty beers. By 1999, Belgian Beer Cafés were open in the many of Interbrew's key markets, including top selling outlets in New York, Auckland, Zagreb and Budapest, to name a few. The business concept was that these cafés were to serve as an ambassador of the Belgian beer culture in foreign countries. They were intended to serve as vehicles to showcase Interbrew's specialty brands, benefiting from the international appeal of European styles and fashions. Although these cafés represented strong marketing tools for brand positioning, the key factors that led to the success of this concept were tied very closely to the individual establishments and the personnel running them. The bar staff, for example, had to be trained to serve the beer in the right branded glass, at the right temperature, and with a nice foamy head. It was anticipated that the concept of the specialty café would be used to support the brand development efforts of Interbrew's Belgian beers in all of its important markets.

The third facet of Interbrew's brand strategy was to identify a key corporate brand and to develop it as a global product. While the market segment for a global brand was currently relatively small, with the bulk of the beer demand still in local brands, the demand for international brands was expected to grow, as many consumers became increasingly attracted to the sophistication of premium and super-premium beers.

THE EVOLUTION OF INTERBREW'S GLOBAL BRAND STRATEGY

Until 1997, Interbrew's brand development strategy for international markets was largely *laissez faire*. Brands were introduced to new markets through licensing, export and local production when opportunities were uncovered. Stella Artois, Interbrew's most broadly available and oldest brand, received an important new thrust when it was launched through local production in three

of the company's subsidiaries in Central Europe in 1997. This approach was consistent with the company's overall goals of building a complete portfolio in high growth potential markets.

By 1998, however, the executive management committee perceived the need to identify a brand from its wide portfolio to systematically develop into the company's global brand. Although the market for global brands was still small, there were some growing successes (e.g., Heineken, Corona, Fosters and Budweiser) and Interbrew believed that there were several basic global trends that would improve the viability of this class of product over the next couple of decades. First, while many consumers were seeking more variety, others were seeking lower prices. It appeared that the number of affluent and poor consumer segments would increase at the expense of the middle income segments. The upshot of this socioeconomic trend was that eventually all markets would likely evolve in such a way that demand for both premium and economy-priced beers would increase, squeezing the mainstream beers in the middle. A second trend was the internationalization of the beer business. As consumers travelled around the world, consuming global media (e.g., CNN, Eurosport, MTV, international magazines, etc.), global media were expected to become more effective for building brands. A global strategy could, therefore, lead to synergies in global advertising and sponsoring. In addition, the needs of consumers in many markets were expected to converge. As a result of these various factors, Interbrew believed that there would be an increasing interest in authentic, international brands in a growing number of countries. Interbrew had a wide portfolio of national brands that it could set on the international stage. The two most obvious candidates were Labatt Blue and Stella Artois.

The Labatt range of brands included Labatt Blue, Labatt Blue Light and Labatt Ice. To date, however, the exposure of these brands outside of North America had been extremely limited and they were not yet budding global brands. Of the total Labatt Blue volume in 1998, 85 per cent was derived from the Canadian domestic and U.S. markets, with the balance sold in the United Kingdom. The Labatt brands had been introduced to both France and Belgium, and production had been licensed in Italy, but these volumes were minimal. The only real export growth market for Labatt Blue appeared to be the United States, where the brand's volume in 1998 was some 23 per cent higher than in 1995, behind only Corona and Heineken in the imported brand segment. The Labatt Ice brand was also sold in a limited number of markets and, after the appeal of this Labatt innovation had peaked, its total volume had declined by more than 25 per cent since 1996. Total Labatt Ice volume worldwide was just 450,000 hls in 1998, of which 43 per cent was sold in Canada, 33 per cent in the United States, and 21 per cent in the United Kingdom.

STELLA ARTOIS AS INTERBREW'S INTERNATIONAL FLAGSHIP BRAND

The other potential brand that Interbrew could develop on a global scale was Stella Artois, a brand that could trace its roots back to 1366. The modern version of Stella Artois was launched in 1920 as a Christmas beer and had become a strong market leader in its home market of Belgium through the 1970s. By the 1990s, however, Stella's market position began to suffer from an image as a somewhat old-fashioned beer, and the brand began to experience persistent volume decline. Problems in the domestic market, however, appeared to be shared by a number of other prominent international brands. In fact, seven of the top 10 international brands had experienced declining sales in their home markets between 1995 and 1999 (see Exhibit 3).

Stella Artois had achieved great success in the United Kingdom through its licensee, Whitbread, where Stella Artois became the leading premium lager beer. Indeed, the United Kingdom was the largest market for Stella Artois, accounting for 49 per cent of total brand volume in 1998. Stella Artois volume in the U.K. market reached 2.8 million hls in 1998, a 7.6 per cent share of the lager market, and came close to 3.5 million hls in 1999, a 25 per cent increase over the previous year. By this time, over 32,000 outlets sold Stella Artois on draught.

Apart from the United Kingdom, the key markets for Stella Artois were France and Belgium, which together accounted for a further 31 per cent of total brand volume (see Exhibit 4). With these three markets accounting for 81 per cent of total Stella Artois volume in 1999, few other areas represented a significant volume base (see Exhibit 5). Beyond the top three markets, the largest market for Stella Artois was Italy, where the brand was produced under license by Heineken. Stella Artois volume in Italy had, however, declined slightly to 166,000 hls in 1998. Licensing agreements were also in place in Sweden and Australia, but volume was small.

Stella Artois was also produced in Interbrew's own breweries in Hungary, Croatia and Romania, with very pleasing 1998 volumes of 84,000 hls, 120,000 hls, and 60,000 hls, respectively. After only three years, the market share of Stella Artois in Croatia, for example, had reached four per cent — a significant result, given that the brand was a premium-priced product. In all Central European markets, Stella Artois was priced at a premium; in Hungary, however, that premium was lower than in Croatia and Romania where, on an index comparing Stella's price to that of core lagers, the indices by country were 140, 260 and 175 respectively.

Promising first results were also attained in Australia and New Zealand. Particularly in New Zealand, through a "seeding" approach, Interbrew and their local partner, Lion Nathan, had realized great success in the Belgian Beer Café in Auckland where the brands were showcased. After only two years of support, Stella Artois volume was up to 20,000 hls, and growing at 70 per cent annually, out of a total premium segment of 400,000 hls. Interbrew's market development plan limited distribution to top outlets in key metropolitan centres and priced Stella Artois significantly above competitors (e.g., 10 per cent over Heineken and 20 per cent over Steinlager, the leading domestic premium lager brand).

The evolution of the brand looked very positive as world volumes for Stella Artois continued to grow. In fact, Stella Artois volume had increased from 3.4 million hls in 1992 to a total of 6.7 million hls in 1999, a rise of 97 per cent. Ironically, the only market where the brand continued its steady decline was in its home base of Belgium. Analysts suggested a variety of reasons to explain this anomaly, including inconsistent sales and marketing support, particularly as the organization began to favor the rising Jupiler brand.

Overall, given Interbrew's large number of local brands, especially those in Mexico with very high volumes, total Stella Artois volume accounted for only 10 per cent of total Interbrew volume in 1999 (14 per cent if Femsa volumes are excluded). Interbrew's strategy of nurturing a wide portfolio of strong brands was very different as compared to some of its major competitors. For example, Anheuser-Busch, the world's largest brewer, focused its international strategy almost exclusively on the development of the Budweiser brand. Similarly, Heineken sought to centre its international business on the Heineken brand and, to a lesser extent, on Amstel. While the strategies of Anheuser-Busch and Heineken focused primarily on one brand, there were also great differences in the way these two brands were being managed. For example, Budweiser, the

world's largest brand by volume, had the overwhelming bulk of its volume in its home U.S. market (see Exhibit 6). Sales of the Heineken brand, on the other hand, were widely distributed across markets around the world (see Exhibit 7). In this sense, Heineken's strategy was much more comparable to that of Interbrew's plans for Stella Artois. Other brands that were directly comparable to Stella Artois, in terms of total volume and importance of the brand to the overall sales of the company, were Carlsberg and Foster's with annual sales volumes in 1998 of 9.4 million hls and 7.1 million hls, respectively. While Foster's was successful in many international markets, there was a heavy focus on sales in the United Kingdom and the United States (see Exhibit 8). Carlsberg sales volume profile was different in that sales were more widely distributed across international markets (see Exhibit 9).

STELLA'S GLOBAL LAUNCH

In 1998, Interbrew's executive management committee settled on Stella Artois, positioned as the premium European lager, as the company's global flagship brand. In fact, the Interbrew management felt that stock analysts would be favorably disposed to Interbrew having an acknowledged global brand with the potential for a higher corporate valuation and price earnings (P/E) multiple.

As the global campaign got under way, it became clear that the organization needed time to adapt to centralized co-ordination and control of Stella Artois brand marketing. This was, perhaps, not unexpected given that Interbrew had until recently operated on a regional basis; the new centralized Stella brand management approach had been in place only since September 1998. In addition, there were often difficulties in convincing all parties to become part of a new global approach, particularly the international advertising campaign that was the backbone of the global plan for Stella Artois. Belgium, for example, continued with a specific local advertising program that positioned Stella as a mainstream lager in its home market, and in the United Kingdom, Whitbread maintained its "reassuringly expensive" advertising slogan that had already proved to be so successful. For other less-established markets, a global advertising framework was created that included a television concept and a series of print and outdoor executions. This base advertising plan was rolled out in 1999 in 15 markets, including the United States, Canada, Italy, Hungary, Croatia, Bulgaria, Romania, New Zealand and France (with a slightly changed format) after research suggested that the campaign had the ability to cross borders. The objective of this campaign was to position Stella Artois as a sophisticated European lager. It was intended that Stella Artois should be perceived as a beer with an important brewing tradition and heritage but, at the same time, also as a contemporary beer (see Exhibit 10).

In 1998, an accelerated plan was devised to introduce Stella Artois to two key markets within the United States, utilizing both local and corporate funding. The U.S. market was believed to be key for the future development of the brand since it was the most developed specialty market in the world (12 per cent specialty market share, growing 10 per cent plus annually through the 1990s), and because of the strong influence on international trends. Thus, Stella Artois was launched in New York City and Boston and was well received by the demanding U.S. consumer and pub owner. Within 1999, over 200 pubs in Manhattan and 80 bars in Boston had begun to sell Stella Artois on tap. To support the heightened efforts to establish Stella Artois in these competitive urban markets, Interbrew's corporate marketing department added several million

dollars to Labatt USA's budget for Stella Artois in 2000, with commitments to continue this additional funding in subsequent years.

CURRENT THINKING

Good progress had been made since 1998 when Stella Artois was established as Interbrew's global brand. However, management had revised its expectations for P/E leverage from having a global brand. The reality was that Interbrew would be rewarded only through cash benefits from operational leverage of a global brand. There would be no "free lunch" simply for being perceived as having a global brand. In addition, in an era of tight fiscal management, it was an ongoing challenge to maintain the funding levels required by the ambitious development plans for Stella Artois. As a result, in early 2000 the prevailing view at Interbrew began to shift, converging on a different long-range approach towards global branding. The emerging perspective emphasized a more balanced brand development program, focusing on the highest leverage opportunities.

The experience of other brewers that had established global brands offered an opportunity for Interbrew to learn from their successes and failures. Carlsberg and Heineken, for example, were two comparable global brands that were valued quite differently by the stock market. Both sold over 80 per cent of their total volumes outside their domestic market, and yet Heineken stock achieved a P/E ratio of 32.4 in 1999 versus Carlsberg's figure of only 17.1. According to industry analysts, the driving force behind this difference was that Heineken maintained a superior market distribution in terms of growth and margin (see Exhibit 11). The key lesson from examining these global brands appeared to be that great discipline must be applied to focus resources in the right places.

In line with this thinking, a long range marketing plan began to take shape that made use of a series of strategic filters to yield a focused set of attractive opportunities. The first filter that any potential market had to pass through was its long-term volume potential for Stella Artois. This volume had to trace back to a large and/or growing market, the current or potential sizeable premium lager segment (at least five per cent of the total market), and the possibility for Stella Artois to penetrate the top three brands. The second screen was the potential to achieve attractive margins after an initial starting period of approximately three years. The third filter was whether or not a committed local partner was available to provide the right quality of distribution and to co-invest in the brand. The final screen was the determination that success in the chosen focus markets should increase leverage in other local and regional markets. For example, the size and stature of Stella Artois in the United Kingdom was a significant factor in the easy sell-in of Stella Artois into New York in 1999.

Once filtered through these strategic market development screens, the global branding plans for Stella Artois began to take a different shape. Rather than focus on national markets, plans emerged with an emphasis on about 20 cities, some of which Interbrew was already present in (e.g., London, Brussels, New York, etc.). This approach suggested that the next moves should be in such potential markets as Moscow, Los Angeles and Hong Kong. Some existing cities would receive focused efforts only when distribution partner issues had been successfully resolved to solidify the bases for sustained long term growth. The major cities that fit these

criteria provided the right concentration of affluent consumers, who would be attracted to Stella's positioning, thus providing scale for marketing and sales, investment leverage, as well as getting the attention and support of motivated wholesalers and initial retail customers. These venues would thereby become highly visible success stories that would be leveragable in the company's ongoing market development plans.

Thus, the evolving global branding development plan required careful planning on a city-by-city basis. Among the demands of this new approach were that marketing efforts and the funding to support them would have to be both centrally stewarded and locally tailored to reflect the unique local environments. A corporate marketing group was, therefore, established and was charged with the responsibility to identify top priority markets, develop core positioning and guidelines for local execution, assemble broadly based marketing programs (e.g., TV, print advertising, global sponsorships, beer.com content, etc.), and allocate resources to achieve the accelerated growth objectives in these targeted cities. To ensure an integrated development effort the company brought all pivotal resources together, under the leadership of a global brand development director. In addition to the brand management team, the group included regional sales managers who were responsible for licensed partner management, a customer services group, a Belgian beer café manager, and cruise business management group. Another significant challenge that faced the corporate marketing group was to ensure that all necessary groups were supportive of the new approach. This was a simpler undertaking among those business units that were wholly owned subsidiaries; it was a more delicate issue in the case of licensees and joint ventures. A key element of managing brands through a global organizational structure was that the head office team had to effectively build partnerships with local managers to ensure their commitment.

Fortunately, much of the initial effort to establish Stella Artois as a global brand had been done on a city-by-city basis and, as such, there was ample opportunity for Interbrew to learn from these experiences as the new global plan evolved. In the late 1990s, for example, Stella Artois was introduced to various Central European cities (e.g., Budapest, Zagreb, Bucharest and Sofia). In each of these cities, Interbrew's marketing efforts were launched when the targeted premium market was at an early stage of development. Further, distribution and promotion was strictly controlled (e.g., product quality, glassware, etc.) and the development initiatives were delivered in a concentrated manner (e.g., a media "blitz" in Budapest). In addition, results indicated that the presence of a Belgian Beer Café accelerated Interbrew's market development plans in these new areas. These early successes suggested that brand success could be derived from the careful and concentrated targeting of young adults living in urban centres, with subsequent pull from outlying areas following key city success.

The key lessons of these efforts in Central Europe proved to be very valuable in guiding the market development plan in New York City. In this key North American city, the rollout of Stella Artois was perceived by the analysts as "one of the most promising introductions in New York over the last 20 years" and had generated great wholesaler support and excitement. Among the tactics used to achieve this early success was selective distribution with targeted point of sale materials support. In addition, a selective media campaign was undertaken that included only prestigious outdoor advertising (e.g., a Times Square poster run through the Millennium celebrations). Similarly, the sponsoring strategy focused only on high-end celebrity events, Belgian food events, exclusive parties, fashion shows, etc. Finally, the price of Stella Artois was targeted at levels above Heineken, to reinforce its gold standard positioning. This concerted and

consistent market push created an impact that resulted in the “easiest new brand sell” in years, according to wholesalers. The success of this launch also built brand and corporate credibility, paving the way to introductions in other U.S. cities as well as “opening the eyes” of other customers and distribution partners around the world.

To pursue this new global development plan over the next three years, a revised marketing budget was required. Given that the corporate marketing department was responsible for both the development of core programs as well as the selective support of local markets, the budget had to cover both of these key elements. To achieve these ends, total spending was expected to more than double over the next three years.

While great progress had been made on the global branding of Stella Artois, Cooke still ruminated on a variety of important interrelated issues. Among these issues was the situation of Stella Artois in Belgium — would it be possible to win in the “global game” without renewed growth in the home market? What specific aspirations should Interbrew set for Belgium over the next three years? Further, what expectations should Interbrew have of its global brand market development (e.g., volumes, profit levels, number of markets and cities, etc.)? How should global success be measured? With respect to Interbrew’s promotional efforts, how likely would it be that a single global ad campaign could be successful for Stella Artois? Was there a particular sponsorship or promotion idea that could be singled out for global leverage? And what role should the Internet play in developing Stella Artois as a true global brand?

EXHIBIT 1: THE WORLD BEER MARKET IN 1998

Region	% of Global Consumption	Growth Index ('98 Vs 92)	Per Capita Consumption
Americas	35.1%	112.6	57
Europe	32.8%	97.7	54
Asia Pacific	27.2%	146.2	11
Africa	4.6%	107.7	8
Middle East/Central Asia	0.4%	116.0	2

Source: Canadean Ltd.

EXHIBIT 2: INTERBREW'S 1998 SHARE OF THE WORLD'S TOP 10 MARKETS

Rank	Country	Volume (000 HL)	Market Share
1	USA	3,768	1.6%
2	China	526	0.3%
3	Germany	-	-
4	Brazil	-	-
5	Japan	-	-
6	UK	3,335	5.5%
7	Mexico	21,269	45.0%
8	Spain	-	-
9	South Africa	-	-
10	France	1,915	8.4%
Total		30,813	3.6%

Source: Canadean Ltd.

**EXHIBIT 3: DOMESTIC SALES HISTORY OF MAJOR INTERNATIONAL BRANDS
(million hectolitre)**

	1995	1996	1997	1998
Budweiser (incl. Bud Light until '98)	69.48	71.10	72.43	40.00
Bud Light	n/a	n/a	n/a	30.00
Heineken	3.87	3.78	3.85	3.78
Becks	1.68	1.71	1.72	1.78
Carlsberg	1.47	1.39	1.31	1.22
Stella Artois	1.08	1.00	0.96	0.92
Fosters	1.48	1.11	1.40	1.43
Kronenbourg	5.65	5.53	5.35	5.60
Amstel	2.30	2.23	2.21	2.18
Corona	12.89	14.09	14.80	15.18

EXHIBIT 4: 1999 WORLD SALES PROFILE OF STELLA ARTOIS

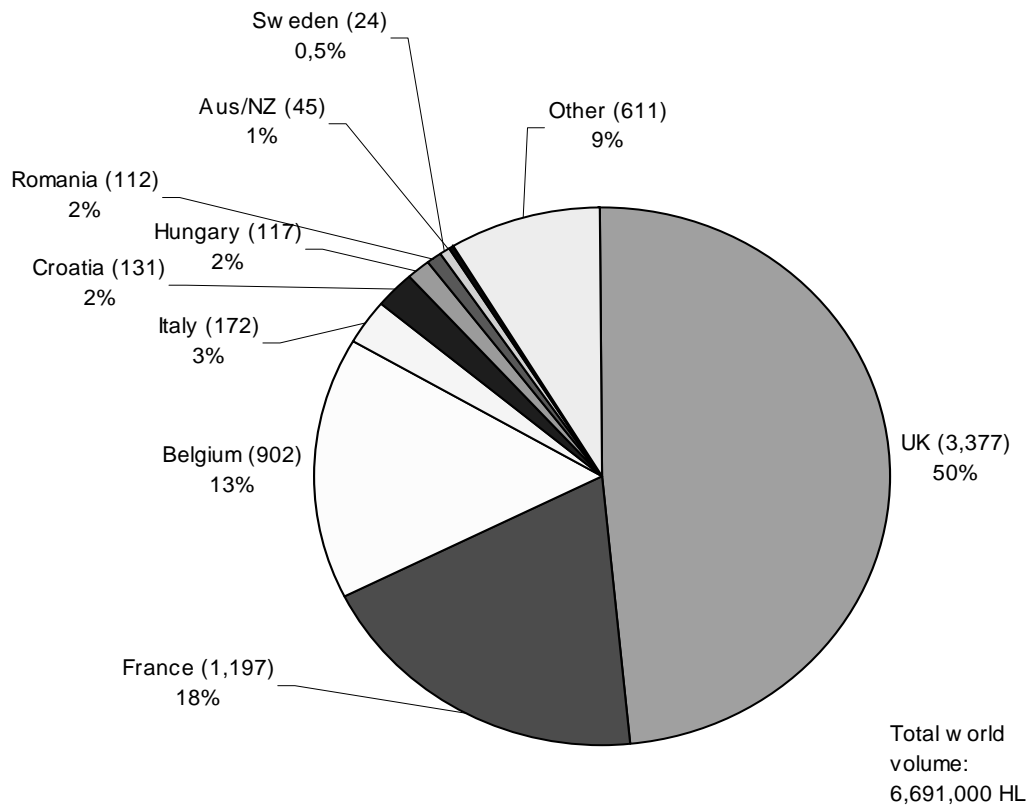


EXHIBIT 5: STELLA ARTOIS SALES VOLUME SUMMARY (000 HECTOLITRE)

	1997	1998	1999
<i>Production:</i>			
Belgium	965	921	902
France	1,028	1,110	1,074
Hungary	59	84	117
Croatia	54	120	133
Romania	17	60	112
Bulgaria	-	-	3
Bosnia- Herzegovina	-	-	2
Montenegro	-	-	0
Total Production	2,123	2,295	2,343
<i>License</i>			
<i>Brewing:</i>			
Italy	162	166	172
Australia	6	11	22
New Zealand	7	11	22
Sweden	29	27	24
Greece	7	7	10
UK	2,139	2,815	3,377
Total Licensed	2,350	3,037	3,627
<i>Export:</i>			
USA	-	-	7
Canada	-	-	5
Other Countries	92	49	202
Duty Free	245	389	507
Total Export	337	438	721
Overall Total	4,810	5,770	6,691

EXHIBIT 6: TOP 10 BREWERS BY INTERNATIONAL SALES

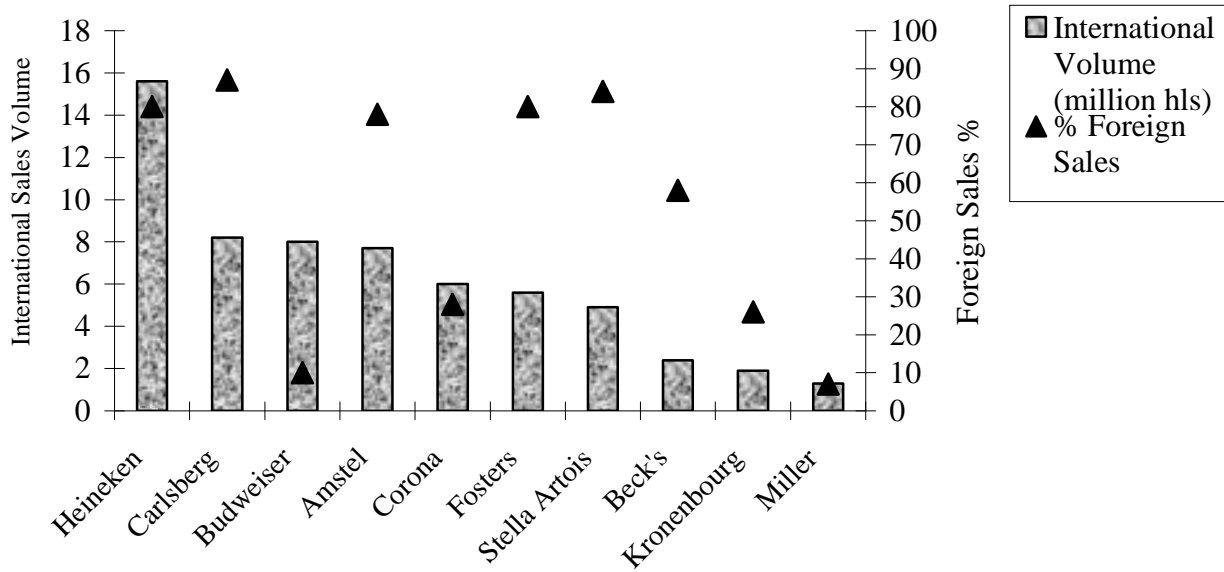


EXHIBIT 7: 1998 HEINEKEN WORLD SALES PROFILE

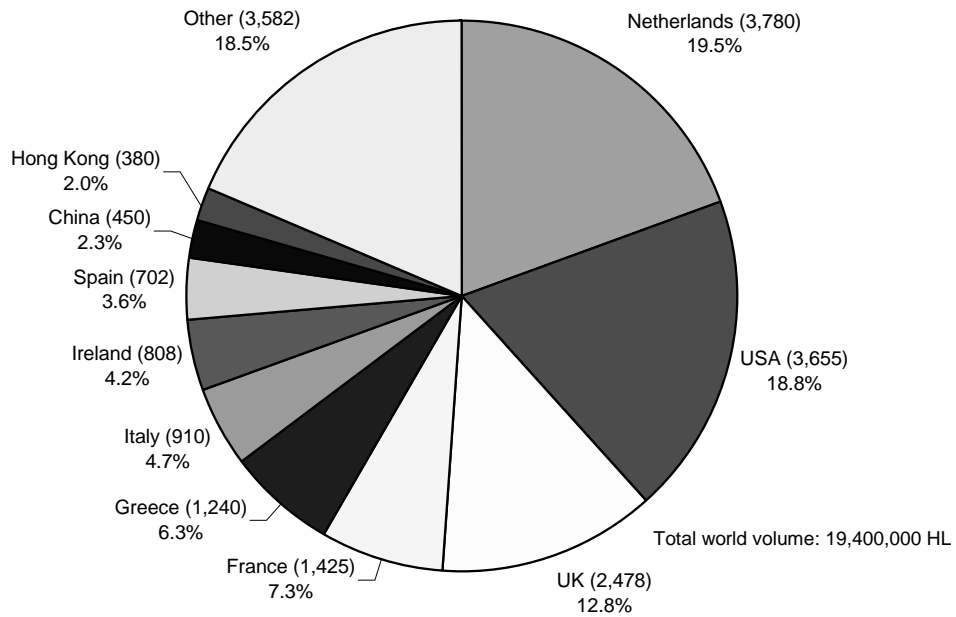


EXHIBIT 8: 1998 FOSTER'S WORLD SALES PROFILE

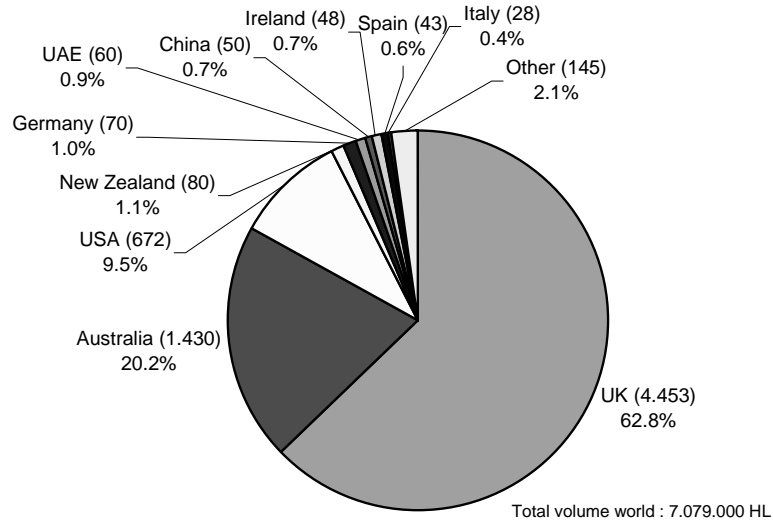


EXHIBIT 9: 1998 CARLSBERG WORLD SALES PROFILE

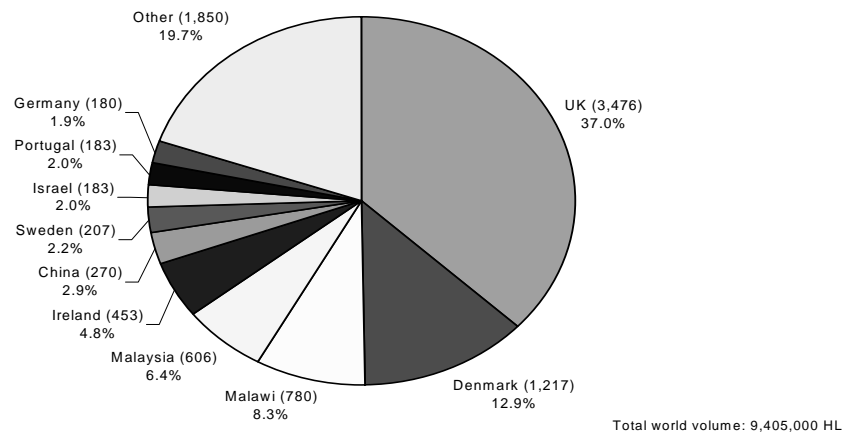


EXHIBIT 10: GLOBAL POSITIONING STATEMENT

Brand Positioning

To males, between 21 to 45 years of age, that are premium lager drinkers, Stella Artois is a European premium lager beer, differentially positioned towards the product.

Stella Artois offers a modern, sophisticated, yet accessible drinking experience with an emphasis on the very high quality of the beer supported by the noble tradition of European brewing.

The accent is on the emotional consequence of benefit: a positive feeling of self esteem and sophistication.

Character, Tone of Voice

- Sophistication
- Authenticity, tradition, yet touch of modernity
- Timelessness
- Premium quality
- Special, yet accessible
- Mysticism
- European

EXHIBIT 11: A COMPARISON OF CARLSBERG AND HEINEKEN

Profit Exposure by Market Type

Market Return	High	Carlsberg = 19% Heineken = 2%	Carlsberg = 22% Heineken = 46%
	Low	Carlsberg = 56% Heineken = 2%	Carlsberg = 3% Heineken = 50%
		Low	High

August – December 2008 ONLY

APPENDIX 1 – Country Background Information

Argentina

Background: Following independence from Spain in 1816, Argentina experienced periods of internal political conflict between conservatives and liberals and between civilian and military factions. After World War II, a long period of Peronist authoritarian rule and interference in subsequent governments was followed by a military junta that took power in 1976. Democracy returned in 1983, and has persisted despite numerous challenges, the most formidable of which was a severe economic crisis in 2001-02 that led to violent public protests and the resignation of several interim presidents. The official language is Spanish, the capital is Buenos Aires, and the currency is the peso, currently valued at an exchange rate of 3.09 pesos to the dollar.

Geography and Population: Total area - 2,766,890 sq km, slightly less than three-tenths the size of the US, second largest country in South America. The total population is 39.9 million inhabitants growing at .96% annually. The largest cities include Buenos Aires (2.9M), Cordoba (1.3M), and San Justo (1.2M).



Economy: Argentina benefits from rich natural resources, a highly literate population, an export-oriented agricultural sector, and a diversified industrial base. Over the past decade, however, the country has suffered problems of inflation, external debt, capital flight, and budget deficits. Growth in 2000 was a negative 0.8%, as both domestic and foreign investors remained skeptical of the government's ability to pay debts and maintain the peso's fixed exchange rate with the US dollar. The economic situation worsened in 2001 with the widening of spreads on Argentine bonds, massive withdrawals from the banks, and a further decline in consumer and investor confidence. Government efforts to achieve a "zero deficit," to stabilize the banking system, and to restore economic growth proved inadequate in the face of the mounting economic problems. The peso's peg to the dollar was abandoned in January 2002, and the peso was floated in February. The exchange rate plunged and real GDP fell by 10.9% in 2002, but by mid-year the economy had stabilized, albeit at a lower level. GDP expanded by about 9% per year from 2003 to 2005. Growth is being led by a revival in domestic demand, solid exports, and favorable external conditions. The government boosted spending ahead of the October 2005 midterm congressional elections, but strong revenue performance allowed Argentina to maintain a budget surplus. Inflation has been rising steadily and reached 12.3 percent in 2005.

GDP is now estimated at \$182 billion and growing at a rate of 8.7% annually. It is comprised of 10.5% agriculture, 35.8% industry, and 53.7% services. Inflation is currently running at 12.3% annually and unemployment is 11.1%. Import partners include Brazil 36.1%, US 16.6%,

Germany 5.7%, China 4.3%. External debt is \$119 billion. Per capita purchasing power is \$13,100 (2005 est.)

Summary Policy Issues and Highlights: Since his election in 1989, President Menem has aimed at reforming the Argentine economy by means of far-reaching restructuring programs. When inflation came under control (1991-2001), these policy reforms became more long-term in nature. Until January of 2002, the Argentine peso was pegged to the US dollar on a 1:1 rate. Trade politics liberalized, major parts of the public sector were privatized, deregulation took place in many sectors, and the country welcomes foreign direct investments. Among the main trade agreements is the Mercosur-agreement, which aims at a regional economic integration between Argentina, Brazil, Uruguay and Paraguay, whereas trade agreements have also been established with Chile and Bolivia. Unemployment has risen, partly because of new labor legislation that facilitates dismissal. In October 1997, when elections took place for parliament, President Menem's Justicialist party faced large losses. During the presidential elections of October 1999 his successor failed to overcome the allegations of Menem's party's wide spread corruption and abuse of power. His opponent Fernando de la Rúa won the elections comfortably. It is clear the Argentine people have opted for a new approach towards politics already cited as 'boring but solid'. The IMF in its February 2000 report congratulated the new government's quick action on reforms and easily approved a new loan. In addition, the market eagerly accepted a 20-year bond offering, raising US \$ 1 bn at the end of January 2000. However, in 2002, after several years of weak economic output, and mounting pressure on the currency, the peso was devalued and the peg ratio was removed resulting in a 72% decline against the dollar 6 months later. The full fallout from these events is still uncertain, though some predict that the economy will rebound in 2003 as exports grow. In 2003, Menem withdrew from a run-off election, awarding the presidency and head of state to his opponent, Nestor Kirchner.

Trends Export/Import: Over the last few years, agriculture has become less dominant in Argentine exports. Conforming to the aims of the economic restructuring programs, trade has become one of the pillars of the economic modernization process. For many foreign investors who set up production facilities in Argentina, the country is an interesting gateway to the Mercosur countries, for it has a relatively stable economy that encourages investment. Free-trade agreements have increased international trade flows, especially within the Mercosur. Brazil has become a key market, though the devaluation of the Real in '99 sharply raised Argentinean prices causing a trade crisis between both countries.

Main Business Issues: A ghost of the past for employers was Argentine labor legislation, which made it virtually impossible to dismiss personnel. That legislation has, however, been eliminated, so that the risks of hiring personnel have diminished. The Argentine public sector has been reduced enormously through several privatization programs. Anti-trust laws, however, are hardly found so that a concentration of capital and market power can take place. The newly established regulatory bodies that should secure market functioning have proved to have little authority. Legislation is often non-transparent. Foreign investments are warmly embraced, for they are believed to stimulate economic growth.

Additional information is available in the simulation software in the Consolidated view by choosing Argentina, or by choosing In-Depth in the Argentina view.

Brazil (Brasil)

Background: Following three centuries under the rule of Portugal, Brazil became an independent nation in 1822 and a republic in 1889. By far the largest and most populous country in South America, Brazil overcame more than half a century of military intervention in the governance of the country when in 1985 the military regime peacefully ceded power to civilian rulers. Brazil continues to pursue industrial and agricultural growth and development of its interior. Exploiting vast natural resources and a large labor pool, it is today South America's leading economic power and a regional leader. Highly unequal income distribution remains a pressing problem. The official language is Portuguese, the capital is Brasilia, and its currency is the Real, currently at an exchange rate of 2.23 BRL to US \$1.00.

Geography and Population: Total area - 8,511,965 sq km, just slightly smaller than the United States, and the largest country in South America. The total population is 188 million, growing at 1% annually. The largest cities include Sao Paulo (9.4M), Rio de Janeiro (5.6M), and Salvador (2.2M).



Economy: Characterized by large and well-developed agricultural, mining, manufacturing, and service sectors, Brazil's economy outweighs that of all other South American countries and is expanding its presence in world markets. From 2001-03 real wages fell and Brazil's economy grew, on average only 2.2% per year, as the country absorbed a series of domestic and international economic shocks. That Brazil absorbed these shocks without financial collapse is a tribute to the resiliency of the Brazilian economy and the economic program put in place by former President CARDOSO and strengthened by President LULA DA SILVA. In 2004, Brazil enjoyed more robust growth that yielded increases in employment and real wages. The three pillars of the economic program are a floating exchange rate, an inflation-targeting regime,

and tight fiscal policy, all reinforced by a series of IMF programs. The currency depreciated sharply in 2001 and 2002, which contributed to a dramatic current account adjustment; in 2003 to 2005, Brazil ran record trade surpluses and recorded its first current account surpluses since 1992. Productivity gains - particularly in agriculture - also contributed to the surge in exports, and Brazil in 2005 surpassed the previous year's record export level. While economic management has been good, there remain important economic vulnerabilities. The most significant are debt-related: the government's largely domestic debt increased steadily from 1994 to 2003 - straining government finances - before falling as a percentage of GDP in 2005, while Brazil's foreign debt (a mix of private and public debt) is large in relation to Brazil's small (but growing) export base. Another challenge is maintaining economic growth over a period of time to generate employment and make the government debt burden more manageable.

GDP is estimated at \$619 billion and growing at a rate of 2.4%. It is comprised of 10% agriculture, 39.4% industry, and 50.6% services. Inflation is currently running at 5.7% annually

and unemployment is 9.9%. Import partners include the US (18.3%), Argentina (8.9%), Germany (8.1%), and Japan (4.6%). External debt is \$211.4 billion. Per capita purchasing power is approximately \$8,400.

Summary Policy Issues and Highlights: Possessing large and well-developed agricultural, mining, manufacturing, and service sectors, Brazil's economy outweighs that of all other South American countries and is expanding its presence in world markets. Since the 1950s, Brazil has promoted the development of the industrial sector. Due to economic populism, the sector became inefficient, and deteriorated during the 1980s. The 1990 reforms, however, have focused at re-improving the industrial sector, and at liberalizing the state's economy. Trade politics have been liberalized, several parts of the public sector have been privatized, deregulation has taken place in many sectors, and the country is open to foreign direct investments. The most well-known is the Real Plan, as launched in May 1993, that mainly focused at economic stabilization through linking the national currency to the US dollar. Since then, tight monetary policy has brought inflation under control. The Real Plan faced its strongest challenge in 1998, as the world financial crisis affected the Brazilian economy. After crafting a fiscal adjustment program and pledging progress on structural reform, Brazil received a \$41.5 billion IMF-led international support program in November 1998. In January 1999, Brazil made an abrupt shift of course in exchange rate policy, abandoning the strong currency anti-inflation anchor of the Real Plan. On 13 January 1999, Central Bank officials announced a one-time 8% devaluation of the real, and on 15 January 1999, the currency was declared to be freely floating. After a rough ride in most of '99, the Real has stabilized and little inflation was generated. The industrial restructuring, combined with the global recession, has increased unemployment levels. Since the 1960s, the un-equality of the income distribution has worsened: nowadays, about 60 percent of the population lives outside the formal economy. Among the main trade agreements is the Mercosur-agreement, which aims at a regional economic integration between Argentina, Brazil, Uruguay and Paraguay, whereas trade agreements have also been established with Chile and Bolivia.

Trends Export/Import: Since 1995, the Brazilian government has started to attract foreign investments through liberalizing legislation. Serious trade balance deficits, however, have made the government raise new import restrictions and quotas. Immediate WTO objections, however, have eliminated these backtracks in import policies. The USA remains the key trading partner for Brazil though trade with Argentina has increased enormously ever since the Mercosur agreement. However, Brazil's devaluation in '99 gave national exporters a strong advantage over Argentinean business causing a trade crisis. This has since stabilized once the Argentine Peso was no longer pegged to the \$US dollar.

Main Business Issues: Brazil's nationalistic policies favor foreign investments, but tend to promote local production, in order to stimulate investment in manufacturing processes, training and research. Examples of investment incentives are (among others): accelerated depreciation on new machinery for industrial production; income tax deduction for expenses of feeding workers and providing transportation; income tax deduction for cultural donations/sponsorships; and value-added tax deductions for R&D spending in the telecommunications sector.

Additional information is available in the simulation software in the Consolidated view by choosing Brazil, or by choosing In-Depth in the Brazil view.

Chile

Background: Chile gained independence from Spain in 1810. Sound economic policies, maintained consistently since the 1980s, have contributed to steady growth and have helped secure the country's commitment to democratic and representative government. Chile has increasingly assumed regional and international leadership roles befitting its status as a stable, democratic nation. The official language is Spanish, the capital is Santiago, and its currency is the Chilean Peso, currently at an exchange rate of 550 pesos to US \$1.00.

Geography and Population: Total area - 756,950 sq km, or about twice the size of Montana, but with a very different shape. Total population is 16.1 million inhabitants, growing at 0.94% annually. The largest cities are Santiago (4.6M), Puente Alto (363K), and Concepcion (363K).



Economy: Chile has a market-oriented economy characterized by a high level of foreign trade. During the early 1990s, Chile's reputation as a role model for economic reform was strengthened when the democratic government of Patricio AYLWIN - which took over from the military in 1990 - deepened the economic reform initiated by the military government. Growth in real GDP averaged 8% during 1991-97, but fell to half that level in 1998 because of tight monetary policies implemented to keep the current account deficit in check and because of lower export earnings - the latter a product of the global financial crisis. A severe drought exacerbated the recession in 1999, reducing crop yields and causing hydroelectric shortfalls and electricity rationing, and Chile experienced negative economic growth for the first time in more than 15 years. Despite the effects of the recession, Chile maintained its reputation for strong financial institutions and sound policy that have given it the strongest sovereign bond rating in South America. By the end of 1999, exports and economic activity had begun to recover, and growth rebounded to 4.2% in 2000. Growth fell back to 3.1% in 2001 and 2.1% in 2002, largely due to lackluster global growth and the devaluation of the Argentine peso. Chile's economy began a slow recovery in 2003, growing 3.2%, and accelerated to 6.1% in 2004-05, while Chile maintained a low rate of inflation. GDP

growth benefited from high copper prices, solid export earnings (particularly forestry, fishing, and mining), and stepped-up foreign direct investment. Unemployment, however, remains stubbornly high. Chile deepened its longstanding commitment to trade liberalization with the signing of a free trade agreement with the US, which took effect on 1 January 2004. Chile signed a free trade agreement with China in November 2005, and it already has several trade deals signed with other nations and blocs, including the European Union, Mercosur, South Korea, and Mexico. Record-high copper prices helped to strengthen the peso to a 5½-year high, as of December 2005, and will boost GDP in 2006.

GDP is estimated at \$116 billion and growing at 6% annually. It is comprised of 6.2% agriculture, 46.5% industry, and 47.3% services. Inflation is currently running at 3.2% annually and unemployment is 8%. Import partners include Argentina (16.8%), US (13.7%), Brazil (11.2%), and China (7.5%). External debt is \$44.8 billion. Per capita purchasing power is approximately \$11,300.

Summary Policy Issues and Highlights: Ever since 1975, Chilean government has abandoned import-substitution policies and has favored free-market ideology. The limited domestic market has forced Chile to export. As a consequence, exports have become the engine of economic growth over the last two decades. Chile is the ultimate example of free-market thinking: free entrepreneurship is encouraged, and government intervention through regulation is limited as much as possible. The majority of the state-owned enterprises have been privatized. If Chile wishes to obtain the status of a developed country, however, income distribution has to be equaled; dependency on minerals in total exports has to be lowered; backward road- and ports infrastructure have to be improved; and education needs to be improved. In August 1999, after 15 years of a fixed exchange band mechanism, Chile adopted a freely floating exchange rate. During the Presidential elections in January '00, socialist Ricardo Lagos clinched a narrow victory over Joaquin Lavin, a true sign of the country's democratic spirit. In March 2006, Michelle Bachelet became the new president, holding both the chief of state and head of government positions.

Trends Export/Import: Import restrictions hardly exist in Chile, except for used cars. Nevertheless, the importer has to apply for an import approval at the Central Bank for each shipment exceeding the value of US\$3,000 fob. Most of the high added-value products are exported to the Mercosur countries. European Union, Chile's largest trade partner in terms of trade blocks, has signed a provisional treaty (in May 1991), as a first step towards the preparation of a political and economic association. Late 1997, the Chilean government lowered common import tariffs in order to lead to an increased internationalization of the Chilean economy. The associated membership of Mercosur (signed in July 1996) resulted in increased exports and the 2004 free trade agreement with the US is another sign of Chile's policy toward lowering trade barriers to encourage increased trade. Chile also signed a free trade agreement with China in November 2005, and has several trade deals signed with other nations, including the European Union, Mercosur, South Korea, and Mexico.

Main Business Issues: While Chile welcomes foreign investment, controls and restrictions do exist. Under the law that regulates nearly all foreign direct investment, profits may be repatriated immediately, but none of the original capital may be repatriated for one year. Foreign direct investment is also subject to pro forma screening by the Government of Chile. The government has begun to reject 'speculative' investments from qualifying as foreign direct investment, although the funds can enter as ordinary foreign capital. In addition, foreign capital introduced into Chile for most lending purposes, for investment in government securities, and for other so-called non-productive purposes is subject to a non-interest bearing reserve deposit requirement, thereby significantly raising the financial cost of such capital transactions.

Additional information is available in the simulation software in the Consolidated view by choosing Chile, or by choosing In-Depth in the Chile view.

Mexico

Background: Mexico gained independence from Spain in 1810. The GDP of Mexico represents 26% of Latin America's GDP, second after Brazil (36%). Mexico also has a large population and is experiencing significant new growth opportunities thanks to new agreements with the United States (NAFTA) and with Europe. Elections held in July 2000 marked the first time since the 1910 Mexican Revolution that the opposition defeated the party in government, the Institutional Revolutionary Party (PRI). Vicente Fox of the National Action Party (PAN) was sworn in on 1 December 2000 as the first chief executive elected in free and fair elections. The official language is Spanish, the capital is Mexico City, and its currency is the Mexican Peso, currently at an exchange rate of 11.4 pesos to US\$ 1.00.

Geography and Population: Total area - 1,972,550 sq km, or slightly less than three times the size of Texas. Total population is 107.5 million inhabitants and is growing at a rate of 1.16% each year. The largest cities are Mexico City (8.5M), Guadalajara (1.6M), and Ecatepec (1.5M).

Economy: Mexico has a free market economy that contains a mixture of modern and outmoded industry and agriculture, increasingly dominated by the private sector. Recent administrations have expanded competition in seaports, railroads, telecommunications, electricity generation, natural gas distribution, and airports. Per capita income is one-fourth that of the US; income distribution remains highly unequal. Trade with the US and Canada has tripled since the



implementation of NAFTA in 1994. Mexico has 12 free trade agreements with over 40 countries including, Guatemala, Honduras, El Salvador, the European Free Trade Area, and Japan, putting more than 90% of trade under free trade agreements. The Fox administration is cognizant of the need to upgrade infrastructure,

modernize the tax system and labor laws, and allow private investment in the energy sector, but has been unable to win the support of the opposition-led Congress. The next government that takes office in December 2006 will confront the same challenges of boosting economic growth, improving Mexico's international competitiveness, and reducing poverty.

GDP is estimated at \$693 billion and growing at 3% annually. It is comprised of 4% agriculture, 26.5% industry, and 69.5% services. Inflation is currently running at 3.3% annually and unemployment is 3.6% with underemployment of about 25%. Import partners include US (55%), China (7%), and Japan (5%). Per capita purchasing power is approximately \$10,000.

Macroeconomic Trends: In December 1994, Mexico abandoned its exchange band mechanism, in favor of a free-floating exchange rate. In spite of the December 1994 peso crisis, the peso still floats freely, with infrequent interventions by Mexico's central bank. Since 1983, the Government has set as a priority the sale to the private sector of interest in all non-strategic commercial enterprises. In 1982, the government controlled 1,155 public-sector enterprises. By 1997 the number was reduced to 189 as a result of sales to the private sector, mergers or liquidations.

NAFTA: On 1 January 1994, the Northern American Free Trade Agreement (NAFTA) took effect after being ratified by the governments of Canada, United States and Mexico. Under NAFTA, all tariffs will be phased out over a 15-year period. On 28 December 1993, a new Foreign Investment Law became effective. Foreign investors may now hold up to 100% of the capital stock of Mexican enterprises or partnerships. As a result, foreign investment participation in financial institutions has increased significantly, which has, as a by-effect, proved the Mexican economy to be very vulnerable to opportunity capital and therewith to international financial markets. Under NAFTA, Mexico is not allowed to expropriate (foreign) properties, except those for public interest, on a non-discriminatory basis.

Other international agreements include the Economic Complementary Agreement since 1992 with Chile and Group of Three Free Trade Agreement: with Colombia and Venezuela. In April 1994, Mexico joined the OECD. Finally, trade agreements have also been achieved with Bolivia and Costa Rica since 1995. Mexico now has free trade agreements with over 40 countries, which puts 90% of their trade under free trade agreements. Because of the Mexican entry to the NAFTA, the trade between Mexico, the US and Canada has tripled in recent years. Two primary reasons for the growth of trade are that the companies are attracted by Mexican's low-cost labor and by duty-free access to the market. But just as important, NAFTA guarantees foreigners the same rights as Mexican investors and reassures them that Mexico will continue on its free-market course. The US remains the key trade partner for Mexico, and this tie has only been strengthened with the NAFTA trade agreement. In 1991, Mexico's Trade Balance with the US showed a deficit of 2.9. Nowadays, we find a surplus of 12.3.

Main Business Issues: To expand employment and training opportunities, the Mexican government has established a 'maquiladora' program, which allows duty free imports of machinery, parts and raw materials for the assembly and finishing of products in Mexico for re-export to the US or elsewhere. Special investment incentives are available to companies that set up manufacturing plants within 20 km of the northern or southern border and the free zones that include both states on the Baja California peninsula, Quintana Roo, and the northern part of Sonora bordering on the US. Companies in these areas may obtain up to 100% reduction of import duties on machinery, equipment, spare parts, and raw materials for a maximum of 10 years when they begin operations. The sector is now Mexico's largest generator of export revenues. But as well as growing, the maquila industry is also becoming much more sophisticated and increasingly high-tech. Factories have replaced the first maquila operations, which were textiles and clothing. These are now home to some of the world's largest electronics and car components companies.

Additional information is available in the simulation software in the Consolidated view by choosing Mexico, or by choosing In-Depth in the Mexico view.

Peru

Background: Peru gained independence from Spain in 1821. Although Peru moved to a democratic form of government in 1980, the nation experienced economic problems and saw the growth of a violent insurgence. In 1990, President Alberto Fujimori was elected, which produced a dramatic change and stopped much of the guerilla activity. Although Fujimori won reelection for a third term in the spring of 2000, Congress ousted him in November of that year due to his increasing reliance on authoritarian leadership. A caretaker government oversaw the spring 2001 election of Alejandro Toledo, whose presidency has since been hindered by allegations of corruption. The official language is Spanish, the capital is Lima, and its currency is the Nuevo sol (New Sol), currently at an exchange rate of 3.27 nuevo sol to US\$ 1.00.

Geography and Population: Total area - 1,285,220 sq km, or slightly more than twice the size of California. Total population is 28.3 million inhabitants. The largest cities are Lima (5.0M), Piura (1.2M), and Cajamarca (1.1M).

Economy: The Peruvian economy has become increasingly market-oriented, with major privatizations completed since 1990 in the mining, electricity, and telecommunications industries. After several years of inconsistent economic performance, the Peruvian economy was



one of the fastest growing in Latin America in 2002 and 2003, growing by 5% and 4%, respectively, with the exchange rate stable and an annual inflation lower than 2%. Foreign direct investment also was strong, thanks to the ongoing Camisea natural gas pipeline project (scheduled to begin operations in 2004) and investments in gold mining. Risk premiums on Peruvian bonds on secondary markets reached historically low levels in late 2003, reflecting investor optimism and the government's fiscal restraint. Despite the strong macroeconomic performance, political intrigue and allegations of corruption continued to swirl in 2003, with the TOLEDO administration growing increasingly unpopular, and local and foreign concern rising that the political turmoil could place the country's hard-won fiscal and financial stability at risk. Unemployment and poverty rates have

stayed high with 54% of the population below the poverty line, but economic growth will be driven by the Camisea natural gas mega project and by exports of minerals, textiles, and agricultural products. Peru is also expected to sign a free-trade agreement with the US in 2006.

GDP is estimated at \$69.8 billion and growing at 6.7% annually. It is comprised of 8% agriculture, 27% industry, and 65% services. Inflation is currently running at 1.6% annually and unemployment is 8.7% with extensive underemployment. Import partners include US (30.3%), Spain (11.5%), Chile (7.2%), Brazil (5.4%), and Columbia (5.2%). External debt is \$30 billion. Per capita purchasing power is approximately \$5,900.

Additional information is available in the simulation software in the Consolidated view by choosing Peru, or by choosing In-Depth in the Peru view.

Venezuela

Background: Venezuela gained independence from Spain in 1811. It has been under Democratic leadership since 1959. Current concerns include a weakening of democratic institutions, political polarization, a politicized military, drug-related violence along the Colombian border, increasing internal drug consumption, overdependence on the petroleum industry with its price fluctuations, and irresponsible mining operations that are endangering the rain forest and indigenous peoples. The official language is Spanish, the capital is Caracas, and its currency is the Bolivar, currently at an exchange rate of 2.15 Bolivars to US\$ 1.00.

Geography and Population: Total area - 912,050 sq km, or slightly more than twice the size of California. Total population is 25.7 million inhabitants, growing at 1.38% annually. The largest cities are Caracas (2.0M), Maracaibo (1.8M), and Valencia (1.3M).

Economy: Venezuela continues to be highly dependent on the petroleum sector, which accounts for roughly one-third of GDP, around 80% of export earnings, and more than half of government operating revenues. Despite higher oil prices at the end of 2002 and into 2003, domestic political instability, culminating in a disastrous two-month national oil strike from December 2002 to February 2003, temporarily halted economic activity. The economy remained in depression in 2003, declining by 9.2% after an 8.9% fall in 2002. Output recovered strongly in 2004-2005, aided by high oil prices and strong consumption growth. However, inflation and unemployment continue to be fundamental problems.



GDP is estimated at \$106.1 billion and increasing at 9.3% annually. It is comprised of 4.6% agriculture, 48.2% industry, and 47.2% services. Inflation is currently running at 16% annually and unemployment is 18%. Import partners include US (28.8%), Columbia (9.9%), Brazil (7%), and Mexico (4%). External debt is \$39.8 billion. Per capita purchasing power is

approximately \$6,100.

Summary Policy Issues and Highlights: Venezuela has endured a series of political challenges since 1989. Major rioting in Caracas in 1989 was put down with military support. President Carlos Andres Perez successfully fended off two attempted military coups in 1992. However, in 1993, he was constitutionally removed from office on grounds of misuse of government funds. The interim government of Ramon J. Velasquez upheld the country's traditions and held democratic elections in December 1993, resulting in the presidency of Rafael Caldera. The Caldera administration inherited a difficult economic situation, exacerbated by the collapse of the banking system and government measures to respond to the crisis. Frequent changes in economic planning and in key economic decision-making posts also contributed to a contraction of the economy. 1994 price and exchange rate controls adversely affected international business perceptions of the Venezuelan investment climate, and failed to achieve their intended goal of economic stabilization. In April 1996, the president announced an about-face on economic

policy, instituting policies designed to pull the country out of its economic stagnation and come to an agreement with the IMF. Since that time, the Caldera government had some success in restoring political stability, and in particular, in resolving problems within the armed forces and re-establishing military unity and discipline. On the other hand, no real structural economic reforms have been undertaken, due to heavy public protesting. In 1998, former coup-leader Hugo Chávez was elected new President, based on a very populist approach, promising he'd stand up for the poor. His goals of spreading wealth among the population, fighting corruption and bringing prosperity to a flagging economy got a serious setback in the November '99 floodings in which at least 20,000 people were killed. In addition to these problems, many national and international sources quote his autocratic behavior in politics, pressing through a new constitution after having eliminated his political opponents. His supporters claim this was necessary to break with the “rotten culture of corruption and bureaucracy” inherited from former governments. Chávez was barely able to hold on to power through the most recent military coup.

Macroeconomic Trends: The major pillar of the economy is founded by the oil sector. Although the plans for privatizing several state-owned enterprises are old, delays to the restructuring process have still not reduced the role of government. Announced privatizations include enterprises from the steel and electricity sectors, but also the auction of oil fields. Venezuela, however, badly needs capital. Private investment in the sector has been rekindled over the past few years through strategic ventures and a program to contract out drilling of marginal fields. The 1996 ‘Apertura Petrolera’ program aims to attract upwards of \$25 billion in added investments and is necessary if the government is to reach its objectives of increasing petroleum output from 3 million barrels per day to 5.5 billion barrels per day by 2006. Expansion of the petroleum sector is expected to dramatically improve Venezuela’s medium and longer-term economic performance. There is also an urgency to open the mining and metals sectors to foreign investment through strategic partnerships, and raising revenues by privatizing state companies. Dramatic developments in these areas could result in an additional surge in foreign investment in Venezuela in the medium-term.

Main Business Issues: The Venezuelan government has eliminated legal barriers to foreign investment in most sectors. It has also attempted to move toward a more export-oriented and diversified economy. Current concerns include: an embattled president, a divided military, drug-related conflicts along the Colombian border, increasing internal drug consumption, over-dependence on the petroleum industry with its price fluctuations, and irresponsible mining operations that are endangering the rain forest and indigenous peoples.

Additional information is available in the simulation software in the Consolidated view by choosing Venezuela, or by choosing In-Depth in the Venezuela view.

August – December 2008 ONLY

APPENDIX 2 – Country Attractiveness Analysis Spreadsheet

The CountryManager simulation provides you with a spreadsheet-based model for calculating an assessment score for each country. This Microsoft® Excel® spreadsheet is called CountryAttractiveness.xls. It is located in the folder where your CountryManager program files are installed. You may also run it directly from the CountryManager software at the consolidated level by choosing **BACKGROUND – MARKET ATTRACTIVENESS SPREADSHEET**.

Country Attractiveness Analysis											
		Argentina		Brazil		Chile		Mexico		Peru	
	Importance Weight	Rating (1-10)	Assessment	Rating (1-10)	Assessment	Rating (1-10)	Assessment	Rating (1-10)	Assessment	Rating (1-10)	Assessment
4	Demand Criteria										
6	1)		0		0		0		0		0
8	2)		0		0		0		0		0
10	3)		0		0		0		0		0
12	4)		0		0		0		0		0
14	5)		0		0		0		0		0
16	Supply Criteria										
17	6)		0		0		0		0		0
19	7)		0		0		0		0		0
21	8)		0		0		0		0		0
23	9)		0		0		0		0		0
25	10)		0		0		0		0		0
27	Competition Criteria										
28	11)		0		0		0		0		0
30	12)		0		0		0		0		0
32	13)		0		0		0		0		0

There is a considerable amount of economic, political, and social data on each country. In addition, there is a variety of market and competitive data for each country. Your job is to determine what data are the key indicators of market attractiveness.

A useful approach for in-depth screening is to weight the importance of each criterion, as well as rate how each country performs on the criteria. First, weighting criteria importance is necessary since not all criteria are equally important. Obviously, criteria are selected because they meet some minimum threshold level of importance. Yet some criteria are more important than others, and these differences need to be taken into account. A common approach is to allocate 100 points (or 100%) across all of the criteria, where more points (or a higher percentage) are awarded to criteria that are more important.

Second, each country needs to be rated on each criterion. The rating is designed to determine how well a country performs or is characterized on a particular criterion. A common rating scale ranges from one to ten, where 1 = very poor and 10 = very good.

To determine country attractiveness using the Country Attractiveness spreadsheet, there are four steps that you need to follow:

1. Determine which of the social, economic, political, geographic, industry, and category data to use as criteria in your country attractiveness analysis. Refer to the Basic Economic Characteristics, Basic Social Characteristics, and In-Depth reports on each country. In addition, you will find other reports, such as Tariffs and Shipping and Cost Structure, useful. Finally, you will want to incorporate market and competitor information from each country. For instance, what kinds of products do potential customers want? Are they price sensitive? Does one firm have a strong position? How profitable are the competitors? You should include between 10 and 20 criteria in your analysis. Enter the criteria in the CRITERIA column of the spreadsheet. To aid in your analysis, there are up to 20 criteria cells that can be entered, and these have been divided into four general categories as outlined in Section 4, Country Attractiveness Analysis: *Demand, Supply, Competition, and Distance/Other*.
2. Assign importance weights to each of the criteria. You should allocate 100 points across all of the criteria, with more points being assigned to more important criteria. Use the IMPORTANCE WEIGHTS column of the spreadsheet to enter this data. Make sure the weights add up to 100%.
3. Rate each country on each of the criteria. Rather than use the “raw data,” it is useful to re-scale the data on a 10-point rating scale. It is important to be consistent in assigning high scores (10) to desirable levels and low scores (1) to undesirable levels. For example, population is a good indicator of market size. Comparing the populations of each country, the largest one may be rated a “10.” The remaining countries can be rated in terms of how close their populations are to the largest country. The smaller a country’s population, the lower its rating should be. In contrast, low unemployment is more desirable than high unemployment. So countries with low unemployment rates should receive high scores, while countries experiencing high unemployment levels should receive low scores.

Enter the ratings under the RATING column for each country. As you enter the information, the spreadsheet automatically calculates an assessment score for that criterion.

4. When finished, review the TOTAL assessment scores in the spreadsheet to help you determine how attractive each country is for market entry.

APPENDIX 3 – Market Entry Forecasting Model

One of the more difficult decisions in CountryManager is the initial entry into one of the country/markets. Included with the CountryManager simulation is a spreadsheet to help you forecast units sold in the initial period. This forecast model can be used in conjunction with the Pro-Forma tool in the simulation to help understand the financial implications of your decisions. This Microsoft® Excel® spreadsheet is called CM Forecasting Model.xls and is located in the folder where your CountryManager program files are installed. You may also select it from any of the country specific decision menus (“Forecasting Model Spreadsheet”). If you are running CountryManager from a network drive, please ask your network administrator or professor how to access the file.

A common error in CountryManager is over-estimating initial demand. The Excel-based forecasting model will provide a “reality check” on your forecast by comparing your product offering and marketing support with one of your competitors who is already in the market. A sample for Brazil is provided when you initially load the spreadsheet and is shown below.

	Allsmile	Competitor	Source
6 Market Size			
7 Overall Unit Sales in Country:	461.4	461.4	Competition - Market Share Report (Brazil)
8 Targeted Cross Section % of Demand (Families, White)	6.2%	6.2%	Consumer - Brands Purchased with Approval
9 Size of Target in Units (Families, White)	28.6	28.6	
10 Estimated Target Growth Rate	5.0%	5.0%	
11 Estimated Size of Target (Next Period w/ Entry)	30.0	30.0	
12			
13 Current Market Share Overall (N/A for Allsmile, Actual for Comp)	N/A	8.9%	Consumer - Brands Purchased with no Approval
14 Share of Target Market (Estimated - Allsmile, Actual for Comp)	5.0%	9.2%	Consumer - Brands Purchased with Approval
15 Unit Sales Target Market (Calculated)	1.5	2.8	
16			
17 Non-targeted Segments % of Demand	93.8%	93.8%	1.0 minus Targeted Cross Section% from
18 Size of Non-targeted Segment	432.8	432.8	
19 Estimated Growth Rate	5.0%	5.0%	
20 Estimated Size of Non-targeted Segment (Next Period w/ Entry)	454.4	454.4	
21			
22 Share of Non-targeted Segment (Estimated - Allsmile, Calculated for Comp)	4.0%	8.8%	
23 Unit Sales Non-targeted Segment (Estimated - Allsmile, Actual for Comp)	18.2	40.1	
24			
25 Product Line			
26 Breadth of Product Line (# skus for target market)	3	2	Competition - Brand Formulations (Brazil)
27 Quality of Product Line (fit to target market 5=Excellent, 1=Poor)	4	3	Consumer - Decision Criteria (Brazil) Judgement
28 Quality of Product Offerings for Other Segments (5=Excellent, 1=Poor)	1	1	
29			
30 Pricing			
31 Price Positioning (5=Low, 3=Average, 1=Premium)	4	3	Competition - Pricing (Brazil) Judgement

Please note that the spreadsheet is not a true representation of the model, but instead one that you may use to help you think through all the various aspects of what drives revenues and unit sales in CountryManager. In fact, your professor may even have you redesign the spreadsheet based on your own experiences or preferences. A spreadsheet similar to this could be used for any market, as the analysis is fundamentally the same for any industry.

The basic idea behind the model is to estimate your sales based on one of the competitors decisions and their results. Presumably, by comparing your product offering and marketing

effort with that of your competition, one can arrive at a reasonable estimate of initial sales. Of course, the estimate will only be as good as the assumptions and the model, but in our experience, even thinking through the general process and comparing your offering with that of the competition in-depth will create a more realistic forecast than if you only “guesstimate” it.

After you have determined which country to enter, use the Forecasting Model to help determine initial forecasts for production. You’ll need to use the information from several reports in the Brazil market research.

Under the Competitive menu:

- Market Share Report
- Brand Formulations
- Pricing Report
- Advertising Report
- Sales Force Report
- Promotion Report
- Distribution Coverage

Under the Consumer menu:

- Brands Purchased Report
- Decision Criteria
- Shopping Habits

Note that the areas shaded in blue in the spreadsheet are where you should enter your assumptions. The other fields are calculated fields. Also, those fields marked as “judgment” means there is no place in the simulation where the specific value is located. It is up to you to use your own judgment in assigning these values. There is no right or wrong answer; however, these inputs are used in determining your overall marketing effort ratio, so they should be carefully considered.

APPENDIX 4 – Brand Equity Index

This index is calculated for each country where products are sold and, when multiple countries are entered, for the region as a whole. The administrator report is the only place where the brand equity index can be found. The objective is to gauge the relative strength of marketing programs for the Allsmile brand. All measures are on a scale of 0 to 100 where 0 is poor and 100 is excellent. Measures such as creative execution and product line breadth are fairly easy to score high on whereas other measures such as market leadership are more performance driven, and typically more long-term in nature. Below is some sample output.

The screenshot shows a software window titled "Country Manager v. 1.10" with a menu bar (File, Edit, Options) and a title bar. The main content area is titled "Administrator Report" and contains two tables. The first table, "Brand Equity Index by Country", has columns: Benefit Pos., Creative Exec., Price Pos., Sales Leader, Share of Mind, and Brand Equity. The second table, "Overall Brand Equity Index", has columns: Product Standard, Regional Diversif., Consolidated Country Brand Equity, and Overall Brand Equity.

Brand Equity Index by Country						
	Benefit Pos.	Creative Exec.	Price Pos.	Sales Leader	Share of Mind	Brand Equity
Argentina	34	90	NA	28	20	43

Overall Brand Equity Index			
Product Standard	Regional Diversif.	Consolidated Country Brand Equity	Overall Brand Equity
NA	NA	3	3

The following table lists BEI criteria, measures, and point allocation.

Country Specific BEI	
BEI Criteria	Measures
Benefit Positioning	For each segment targeted (identified by SKUs), is there an associated ad campaign?
Creative Execution	Are the ad campaigns in the correct language, do they match the culture, and are they up-to-date?
Price Positioning	Are the SKUs appropriately priced relative to customer expectations regarding packaging and formulation variations?
Sales Leadership	How are your sales relative to the competition?
Share of Mind	Absolute and relative awareness.
Overall BEI	
Combined BEI for all six markets as calculated above plus the following cross-country measures:	Weighted by total toothpaste sales by country. All six countries are included whether entered or not.
Product Standardization	How consistent are the SKUs offered across chosen markets?
Regional Diversification	Extent to which sales revenue (or some other performance measure) is distributed across markets.

Here is an additional explanation of the factors included in the Brand Equity Index.

Benefit Positioning – This factor measures how a team's choice of SKUs reflects the demand for that benefit in the marketplace. Full credit can only be received if the SKU benefit is advertised and meets a minimum threshold for budget.

Thus, if a healthy toothpaste represents 50% of the demand in a country, and a firm introduces a healthy SKU and advertises it appropriately, they will receive a score of 50 on this factor. Failure to advertise healthy benefits or meeting the threshold budget will reduce this factor.

Creative Execution – This factor measures how appropriate a firm's message is for a culture and country. Full credit (100) if new ad, right culture, right language. Multiple ads are weighted by budget. Must meet minimum threshold for budget.

Price Position – Must have 4 SKUs for this factor to be calculated. Basically checks the pricing vs. expected pricing in the market. Is the firm's pricing consistent across SKUs? This factor makes sure that large tubes are more than medium, that multi-ingredient formulations are more than economy, etc. Full credit (100) if consistent. Reduced for inconsistencies.

Sales Leader – Your relative market share x 100 with max of 100.

Share of Mind – A combination of your relative awareness vs. the leading awareness in a category as well as absolute awareness. 50% of the factor is relative, 50% is absolute. Weightings by category are weighted based on category demand (economy, whitener, etc.)

Brand Equity (country) – Average of these five factors.

Product Standardization – Measures the degree to which a firm's products are standardized by comparing unique skus introduced to total skus introduced. If SKUs are the same across all countries entered, then the score is 100. Minimum of two countries and 4 unique SKUs for this factor to be calculated.

Regional Diversification – This measures the extent to which sales come from different countries. Must be in at least 2 countries to for this measure to be calculated. As sales are spread more evenly from all countries, this measure increases to a max of 100.

Consolidated Brand Equity – Weighted average of brand equity for all six countries. Weight is based on industry sales of that country.

Overall Brand Equity – Combines the consolidated brand equity with the product standardization and regional diversification measures.

APPENDIX 5 – CountryManager Glossary of Terms

Administrative Costs: Expenditures arising from the administration of a product, including some fixed overhead costs, some variable expenses, and some expenses related to the number of orders placed.

Advertising: Any paid form of non-personal presentation and promotion of ideas, products, or services by an identified sponsor.

Advertising Campaign: The combination of advertising decisions that around a particular advertising theme including the target audience, budget, media choice and message.

Average Retail Price: The average price for a product charged by retailers, including both those stores with higher prices due to increased personal service, exclusive merchandise lines, attractive store atmosphere, special promotions, convenient location, or special services, and those who offer a no-frills, low-price approach.

Brand Awareness: The level of consumer familiarity with a product, brand, or promotional vehicle.

Brand Formulation: The physical structure or ingredients of a product or service.

Brand Image: The meaning consumers give to a product, based on the perceived benefits that the product provides.

Brand Loyalty: A favorable attitude toward, and exclusive purchase of, a brand over time.

Brand Equity Index: A compilation of several factors in CountryManager that attempt to measure the strength of a brand both in a particular country and in the region overall.

Break-even Analysis: An attempt to determine the volume of sales necessary (at various prices) for the manufacturer or merchant to cover costs or to make revenue equal costs. Break-even analysis is useful to help set prices, estimate profit or loss potentials, and help determine the discretionary costs that should be incurred.

Capacity Utilization: The extent to which the physical production ability of a plant facility is being used. Normally described as a percentage of total capacity (i.e., 50 percent of capacity).

Channel of Distribution: Any firm or individual participating in the flow of products and services as they move from producer to user (consumer or industrial).

Consumer Promotion: Promotional activities aimed at the consumer, including trial sizes of brands, coupons, and point-of-purchase displays.

Contribution after Marketing: The dollar amount remaining after subtracting total marketing expenditures from the gross margin.

Cost of Goods Sold: The total variable manufacturing cost of producing a product.

Customization: Marketing strategy where goods and services are developed specifically for the culture and needs of a particular country or market.

Demand: The desire of consumers for a certain product.

Demography: The study of people in the aggregate, including population size, age, income, occupation, and gender.

Direct Channel: The distribution flow of a product directly from manufacturer to retail outlet.

Direct Sales Force: Portion of sales force selling directly to retail outlets. The direct sales force maintains relationships with current retail accounts, develops new retail accounts, presents trade promotions and allowances, and introduces new products to retailers.

Exchange Rates: The value of one currency as described in another. This exchange rate may be freely traded on world markets or set by a country's government or central bank.

Fixed Costs: The unchanged financial obligations of a firm regardless of the number of units of a product that are produced and marketed, including amortization charges for capital equipment and plant, as well as such charges as rent, executive salaries, property taxes, and insurance.

Hypermarkets: Large retail stores with a wide variety of goods offered for sale such as Walmart Supercenters or Carrefour. Term used in Latin America more than in U.S.

Gross Margin: Revenue less the cost of products sold. $(\text{Price} - \text{unit cost}) \times \text{units sold}$.

Income Statement: A report of a firm's overall results for a period, including a breakdown of major expenditures and a calculated value of the net income.

Indirect Channel: Distribution channel from manufacturer to retail outlet by way of a wholesaler or other middle-person.

Inflation: A general rise in the prices that people must pay for products and services.

Manufacturer Sales: Receipts from all sales, both direct and indirect, net of volume discounts.

Margin: The difference between the price of a product and its per unit cost.

Market: People or businesses with the potential interest, purchasing power, and willingness to buy a product or service that satisfies a need.

Market Entry: The initial decision to sell a product or service in a new market. The mode of market entry refers to the methodology used during this initial entry.

Market Share: The percentage of sales of a product in a market in relation to other products in that market (i.e., Brand X / Total sales in market).

Marketing: The process of planning and executing the conception, pricing, promotion, and distribution of ideas, products, and services to create exchanges that satisfy individual and organizational needs or wants.

Marketing Research: The systematic and objective approach to the development and provision of information for marketing decision-making.

Markup Pricing: A price-setting method common in wholesaling and retailing that adds a markup to average total or variable cost.

Merchandisers: Part of the indirect sales force that provides special support to retailers for in-store activities, such as shelf location, pricing, and compliance with special programs.

MERCOSUR. Trade agreement among Argentina, Brazil, Paraguay and Uruguay including association agreements with Bolivia and Chile.

NAFTA. North American Free Trade Agreement. Agreement between the United States, Canada and Mexico to reduce trade barriers among the three countries.

Net Contribution: The contribution after marketing less fixed costs.

Net Income: The profit remaining after all costs are subtracted from revenues.

Price: The amount of money a seller requires to provide products or service to a customer.

Price Structure: The use of discounts, allowances, and shippings cost absorption in determining price.

Product Life Cycle: The stages that a product goes through during its time on the market, including introduction, growth, maturity, and decline.

Promotion: The communication mechanism of marketing designed to inform and persuade consumers to purchase.

Promotion or Slotting Allowance: Reduction in the actual price paid by a channel member resulting from an agreement to participate in promotional activity.

Quality: All features and characteristics of a product or service that bear on its ability to satisfy stated or implied needs.

Research and Development: A portion of a firm designated to research, analyze, and design products to meet consumer and market needs.

Retailer: A merchant whose main business is selling directly to consumers for personal, non-business use.

Sales Force: Employees hired to promote and sell a manufacturer's product through direct or indirect channels.

Segmentation: The process of dividing large heterogeneous markets into smaller homogeneous segments of people or businesses with similar needs and/or responses to marketing mix offerings.

Self-Serve Distribution Channel: Smaller stores offering a narrow line of goods where customers serve themselves. Convenience stores and small grocery stores are examples of this outlet.

Sensitivity Analysis: Calculating the financial effect of various sales and cost scenarios, usually through "what if..." assumptions.

Share of Channel Sales: Market share segmented by the type of retail outlet.

Shopping Habits: Consumer shopping preferences, including product and retail preferences.

Standardization: A marketing strategy that creates one product for many different markets allowing the firm to lower costs and prevent duplication of effort. Typically more successful where the costs of customization are high or where market needs are more homogenous.

Stock Keeping Unit (SKU): The particular configuration of an item for sale with a unique product code which will typically vary by price, ingredient, size, form, etc.

Trade Promotions: Sales promotion activities directed at wholesalers and retailers, including promotional allowances and co-op advertising.

Traditional Sales Channel: Small, independent stores or open market areas almost exclusively served by wholesalers (in CountryManager).

Unit Sales: The total volume of units sold by a manufacturer in a market.

Usage Rates: How often a product is used/purchased per period.

Variable Costs: Costs tied directly to production, including direct labor and raw materials charges.

Volume Discount: Reduction of list price based on the quantity a buyer purchases. May be based on a specific purchase (non-cumulative) or on total purchases over a period (cumulative).

Wholesaler: A business unit that buys and resells merchandise to retailers, other merchants, and/or industrial, institutional, and commercial consumers.

CountryManager Index

Note: Items in all capital letters are menu options or acronyms.

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