

Standardization potential within the marketing mix in the central European region: analyzing the subsidiaries of Kia Motors Central Europe

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Univ. Prof. i. R. Dr. Reiner Springer

Mag. René Petzner

9460778

Vienna, 15.12.2010



Affidavit

I, **MAG. RENE PETZNER**, hereby declare

1. that I am the sole author of the present Master's Thesis, "STANDARDIZATION POTENTIAL WITHIN THE MARKETING MIX IN THE CENTRAL EUROPEAN REGION: ANALYZING THE SUBSIDIARIES OF KIA MOTORS CENTRAL EUROPE", 121 pages, bound, and that I have not used any source or tool other than those referenced or any other illicit aid or tool, and
2. that I have not prior to this date submitted this Master's Thesis as an examination paper in any form in Austria or abroad.

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List of abbreviations

CEE	Central Eastern Europe
ECB	European Central Bank
FOB	Freight on board
GDP	Gross domestic product
HICP	Harmonized index of consumer prices
KMA	KIA Motors Austria GmbH
KMCE	KIA Motors Central Europe
KMC	KIA Motors Corporation
KMCz	KIA Motors Czech s.r.o.
KME	KIA Motors Europe GmbH
KMHu	KIA Motors Hungary K.f.t
KMSs	KIA Motors Sales Slovensko s.r.o.
MPV	Multipurpose vehicle
MSRP	Market selling retail price
PPP	Purchasing power parities
PPS	Purchasing power standards
SoM	Share of market
SUV	Sub urban vehicle

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Abstract

The subsidiaries of the KIA Motors Europe GmbH in Austria, Czech Republic, Hungary and Slovakia are forming the company internal KIA Motors Central Europe business division, while all four parties are single legal entities lead by local management. Looking at current macroeconomic facts and figures of these countries, it becomes clear that KIA is operating in four completely different markets but also cultures and peoples. Analyzing further the concept of standardization in international marketing and addressing standardization respectively differentiation approaches within the marketing mix policies, similarities or differences in the marketing mix execution of the four subsidiaries are claimed. In order to research concrete standardization potentials for the KIA Motors Central Europe business division expert interviews are held with managers of the four subsidiaries and analyzed accordingly. Consequently the achieved results are presented and depending on the marketing mix area common functional approaches or even completely different functional approaches are identified. Based on the researched findings recommendations are addressed per marketing mix policy in order to realize business advantages for the subsidiaries such as cost advantages through common production of point of sale material, raising quality standards in logistics when focusing on one supplier, improving company internal coordination and controlling of marketing activities or building a corporate consistent brand image across the markets when following the pan European advertising guidelines. However for certain areas a differentiated approach is necessary when different local purchase power or local automotive competitive situations request different market selling retail prices and sales promotion activities or local target group behaviours and local media landscapes result in country specific media plans for advertising.

1. Introduction

1.1 Motivational factors

In the last decades the term globalization became reality when more and more companies not just focused on their local markets anymore but expanded their business on a worldwide scale. Liberalization of trade policies, common currencies, simplified transaction payment methods or improved transportation, communication and information technologies are some important factors that supported making this global business expansion finally possible.

Therefore companies are challenged to develop strategies how to sell their products at their home markets and at the same time to export products to foreign markets. In most cases this happens because of stagnating local markets where companies are confronted with high competition and overcapacities.

But as sustainable growth is one of the main objectives of many companies, going international has become a reasonable solution in order to achieve it. Other objectives may be to increase turnover, profit, productivity, market share and extend the product life cycles, use technological or taxation advantages and so on.

One big challenge however to sell products or services successfully around the globe is to meet all the different customer demands so far as it is possible in order to satisfy the various number of tastes and needs. Therefore companies have also to decide how to use the marketing mix elements¹ in those newly entered markets. How far should the marketing mix elements be adapted to the requirements and needs of the newly entered markets or would it be even appropriate to keep the same settings as in the already covered markets?

In other words, is it more appropriate to use standardization or an adaptation of marketing strategies when it is commonly acknowledged that this matter is of crucial importance for the competitiveness and performance of companies in world markets?²

¹ The marketing mix elements consist of product, price, communication and distribution mix.

² See Richter, 2002, p. 13

Looking at the KIA Motors Corporation³ it can be said that KIA is a pioneering force behind Korea's rising automotive industry, and it is today a part of that industry's living history. Originally founded as Kyungsoong Precision Industries Ltd. in 1944, KIA Motors Corporation today is a member of the Hyundai-KIA Automotive Group, with a latest annual output of over 1.5 million units (2009), thirteen foreign and domestic production plants, and sales in 169 countries all across the globe. Innovative designs, high-impact marketing, strong customer relationships and 65 years of technical know-how are just a few fields that help KIA Motors Corporation to be a rising star of the global automotive industry nowadays. To become a global leader in future KIA Motors Corporation focuses in the strategic and operative business execution on four strategic driving forces, which are using leading technologies, improving the product mix, exchanging brand values and taking responsibilities.⁴

Taking responsibilities also means to structure and run the worldwide sales network consisting of private distributors, 100% fully owned subsidiaries and local independent dealers which are the final link to the worldwide customers. In Europe, KIA Motors Europe⁵ is directly responsible for all private distributors and twelve 100% fully owned subsidiaries⁶ in terms of achieving overall marketing, sales and after sales objectives.

Because of the geographical location and market size, KIA Motors Austria GmbH, KIA Motors Hungary K.f.t., KIA Motors Czech s.r.o. and KIA Motors Sales Slovensko s.r.o. form and represent officially the company internal KIA Motors Central Europe (KMCE) business division in terms of sales and financial results reporting towards

³ KIA Motors Corporation (www.KIA.com) -- a maker of quality vehicles for the young-at-heart -- was founded in 1944 and is Korea's oldest manufacturer of motor vehicles. As part of the Hyundai-KIA Automotive Group, KIA aims to become one of the world's premier automotive brands. Over 1.5 million vehicles a year are produced in 13 manufacturing and assembly operations in eight countries which are then sold and serviced through a network of distributors and dealers covering 172 countries. KIA today has over 42,000 employees' worldwide and annual revenues of over US\$14.6 billion. It is the major sponsor of the Australian Open and an official automotive partner of FIFA -- the governing body of the FIFA World Cup™. KIA Motors Corporation's brand slogan -- "The Power to Surprise" -- represents the company's global commitment to surpassing customer expectations through continuous automotive innovation, http://www.kmcir.com/eng/kire5000/kire5210.asp?idx=7287&page=1&search_type=&search_string=, 09.08.2010

⁴ See KIA Motors Corporation, 2009, pp. 2

⁵ KIA Motors Europe GmbH is 100% fully owned by KIA Motors Corporation

⁶ KIA Motors Deutschland GmbH, KIA Motors Polska S.p.z.o.o., KIA Motors Sales Slovensko s.r.o., KIA Motors Belgium N.V., KIA Motors Czech s.r.o., KIA Motors (UK) Ltd., KIA Motors Austria GmbH, KIA Motors Hungary K.f.t., KIA Motors Iberia S.L., KIA Motors Sweden AB, KIA Motors France SAS, KIA Motors Nederland BV.

KIA Motors Europe (KME) and KIA Motors Corporation (KMC). A team of five employees consisting of a chief operating officer, chief financial officer, two marketing & sales assistant managers and one IT manager represent the KIA Motors Central Europe business division by executing mainly reporting functions towards the headquarter KME and KMC. However all four subsidiaries (KMAs, KMSs, KMCz, KMHu) still operate their markets fully independently from each other in terms of marketing, sales or after sales operations, however following the overall Pan European guidelines from KIA Motors Europe.

Thinking about further development of this company internal KIA Motors Central Europe business division in terms of strengthening the position within KIA Motors Europe and taking the more or less independent marketing mix executions in the four countries of Austria, Hungary, Czech Republic and Slovakia under control, it is worth analyzing the marketing mix elements of KMAs, KMHu, KMSs and KMCz in order to get a status about the actual standardization and propose further implications either to standardize or differentiate the marketing mix approach of the four markets representing KIA Motors Central Europe.

1.2 Research question

Taking the motivational factors into account, the central objective of this thesis are the following concrete research questions:

Are there further development opportunities for the KIA Motors Central Europe business division by standardizing certain tasks of the marketing mix when being aware of the homogenous or heterogeneous markets and does it make sense to define a more standardized, regional marketing mix strategy for the KIA Motors Central Europe markets (KIA Austria, KIA Hungary, KIA Czech, KIA Sales Slovensko)?

To answer these central research objectives the actual marketing mix concept of the four companies will be analysed in certain areas in order to identify actual results of standardization. Further, when looking in detail at the product, price, communication and distribution functions, concrete possibilities within these four areas will be addressed, either to be standardized or even to stay differentiated. A clear practical

result, containing practical proposals and implications for the marketing mix shall be achieved, in order to generate business advantages in terms of e.g. cost saving, increasing flexibility, ensure a consistent brand image or optimizing processes for the KIA Motors Central Europe business division.

1.3 Structure of the thesis

The thesis consists of five chapters. In the first chapter the motivational factors, the research question, the structure of the thesis and the empirical method are described.

After this introduction part the second chapter discusses the basic concept of standardization in international marketing.

Firstly important basic economic figures of the four central European markets will be compared to get an overview about the similarities or differences between Austria, Hungary, the Czech Republic and Slovakia.

Secondly, the standardization as a main challenge when handling those markets will be discussed and thirdly some main influencing factors for standardization decisions are outlined.

Fourthly the marketing mix will be theoretically and literarily analyzed and explained in terms of standardization versus differentiation possibilities.

The third chapter gives some basic figures of the KIA Motors Central Europe subsidiaries and presents and documents the results of the latest research in all marketing mix areas.

Finally the fourth chapter verifies the research questions and describes implications for the marketing mix strategies of the KIA Motors Central Europe business division.

The fifth chapter summarizes the worked out result, critically discusses possible borders and barriers for the approach but also looks at further opportunities of the KIA Motors Central Europe region.

1.4. Empirical method

As primary research method the face to face interview is selected by carrying out expert interviews in the four market subsidiaries. As four specific companies of KIA are objective of the research, this method is much more efficient and versatile than written questionnaire or telephone interview, because many more questions can be asked and additional observations can be monitored during the face to face interview.

The interview partners for the expert interview are selected because of their special knowledge in the researched area of the marketing mix and general superior experience of the market and the company. The interview partners are the managing director, marketing manager, product manager, communication manager and sales manager of each of the four subsidiaries.⁷ With the selection of these KIA organization experts, all relevant decision makers regarding the broader marketing mix task and challenges have been captured. In total 20 expert interviews are held and an adequate sample therefore is ensured.

For the interview itself a specific interview guideline⁸ is used consisting of total 24 questions divided into the four marketing mix areas product, price, communication, and distribution policy. When using this guideline during the interview, individual needs are considered and the topics are discussed as intensely as necessary and reasonably depending on the polled person. The duration of the interviews is between 30 and 100 minutes.⁹

As already mentioned a big advantage of this survey method in comparison to a written questionnaire is the fact that a lot more detailed information can be gathered and for example occurring misunderstandings during the interview can be explained and solved immediately. Disadvantages of this survey method are the high costs and the time needed due to travelling across the four countries.¹⁰

⁷ KIA Motors Sales Slovensko s.r.o.; KIA Motors Czech s.r.o.; KIA Motors Austria GmbH; KIA Motors Hungary K.f.t.;

⁸ The interview guideline can be found as appendix to this thesis.

⁹ With the experts like product manager and communication managers the interview lasted from 30 – 60 minutes and with the sales manager, marketing manager and managing director between 60 – 100 minutes in average.

¹⁰ In most cases the subsidiaries have to be visited two to three times as the five needed interview persons per subsidiary where not in the office at once.

In addition to the expert interviews the author also conducted additionally primary research methods when executing product, price and communication surveys in the four countries. Relevant literature has been reviewed and especially Bolz (1992) and Meffert/Bolz (1998) delivered fundamental results for the first part of the theoretical chapter 2 of this thesis.

As desk research, a lot of studies from different institutes are used additionally. Advertisement screening institutes or market development institutes delivered a lot of necessary data to analyze the market situation and compare the marketing mix of the four countries.

2. The concept of standardization in international marketing

2.1 Basic economic figures of the four Central European markets

In order to highlight the economic development of the Central European Markets that are further discussed in this paper, some basic economic figures are presented in the following in order to get a basic understanding. Employment level, inflation rate, earnings and purchasing power, consumer behaviour and gross domestic product finally have an impact on the marketing of goods and therefore these factors will be discussed in detail below.

The Central European markets that are mentioned in this paper are Austria, Hungary, Slovakia and the Czech Republic.

2.1.1 Gross domestic product

Gross domestic product (GDP) is described as the overall monetary value of all production activities within a specific area. It is frequently used to describe the size of an economy.¹¹ GDP at market prices comprises the production activities of all producer units in a certain geographical region. GDP per capita is used to describe the standard of living of the residents of the respective country and measures the competitiveness of an economy. GDP per capita in purchasing power standards (PPS) is shown in relation to the EU average. The EU average level is set at 100. If the index of a specific country is higher than 100, the GDP per capita in this region is higher than the EU average and vice versa. Using GDP per capita in purchasing power standards allows comparing economies of different sizes when in addition differences of price levels are taken into account.¹²

Table 1 presents the GDP per capita at current market prices in absolute figures.

¹¹ See Eurostat yearbook, 2009, p. 66

¹² See Eurostat yearbook, 2009, p. 67

(PPS, EU-27=100)											GDP per capita	GDP per capita
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2007 (PPS)	2007 (EUR)
EU-27	100	100	100	100	100	100	100	100	100	100	24800	24800
Euro area (1)	115	114	114	114	113	112	111	111	110	110	27300	27800
Austria	132	132	132	128	127	127	127	128	127	127	31600	32600
Czech Republic	71	70	69	70	71	74	75	76	78	82	20200	12400
Slovakia	52	51	50	53	54	56	57	61	64	69	17000	10200
Hungary	53	54	56	59	62	64	63	64	65	64	15700	10100

(1) EA-13 instead of EA-15 for 1998-2003

Table 1 - GDP per capita at current market prices¹³

Looking at 2007 Austria is around 27% above the EU-27 area whereas the Czech Republic is 18% below the EU-27 index. Slovakia is down 31% and Hungary 36% which shows a big gap in terms of PPS especially to Austria. Figure 1 illustrates the data for 2001 from table 1 graphically.

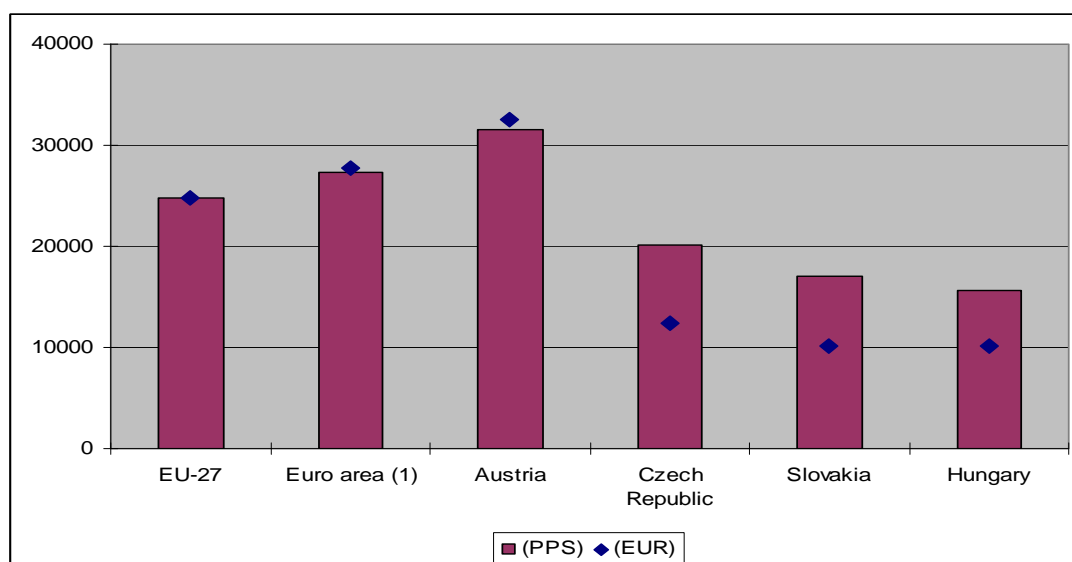


Figure 1 - GDP per capita at current market prices, 2007¹⁴

Table 2 below shows the GDP at current market prices. Austria's GDP at current market prices from 2007 accounts for 2.2% of the EU-27 average. Considerably below is Slovakia's GDP with 0.4% of the EU average. Hungary and the Czech Republic account for 0.8% respectively 1.0%.

¹³ See Eurostat yearbook, 2009, p.73

¹⁴ See Eurostat yearbook, 2009, p. 72

(EUR 1.000 million)	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	Share of EU-27 2007 (%)
EU-27	8142	8558	9173	9549	9911	10077	10577	11035	11641	12304	100
Euro area	6140	6422	6757	7051	7299	7511	7819	8109	8499	8919	72,5
Austria	190	198	208	212	219	223	233	244	257	271	2,2
Czech Republic	55	56	61	69	80	81	88	100	113	127	1,0
Slovakia	20	19	22	24	26	29	34	38	45	55	0,4
Hungary	42	45	52	60	71	75	82	89	90	101	0,8

Table 2 - GDP at current market prices¹⁵

2.1.2 Inflation rate and price levels

The inflation rate is defined as a change in the price of consumer goods and services.¹⁶ It measures the decrease of living standards as a result of increasing prices for consumer goods and services.

Price stability, as defined by the European Central Bank (ECB), is achieved, if the increase of the harmonized index of consumer prices (HICP) is below 2% compared to the previous year.¹⁷ HICPs measure the change in prices of goods and services purchased by households and therefore give comparable measures of inflation.¹⁸

Purchasing power parities (PPPs) evaluate the differences in price-levels between specific countries. PPPs are “aggregated price ratios calculated from price comparisons over a large number of goods and services.”¹⁹ Comparative price levels are the correlation between PPPs and exchange rates. These indices are used to compare the countries’ price levels with the EU average. If the index is higher than 100, the specific country is expensive in comparison to the EU average and vice versa.

Table 3 presents the annual average inflation rates of 2007 for Austria, Hungary, Slovakia and the Czech Republic.

¹⁵ See Eurostat yearbook, 2009, p. 74

¹⁶ See Eurostat yearbook, 2009, p. 104

¹⁷ See http://www.ecb.eu/ecb/educational/facts/monpol/html/mp_002.de.html, 31.8.2010

¹⁸ See Eurostat yearbook, 2009, p. 104

¹⁹ See Eurostat yearbook, 2009, p. 105

(%)	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
EU (1)	1,3	1,2	1,9	2,2	2,1	2,0	2,0	2,2	2,2	2,3
Euro area (2)	1,1	1,1	2,1	2,3	2,2	2,1	2,1	2,2	2,2	2,1
Austria	0,8	0,5	2,0	2,3	1,7	1,3	2,0	2,1	1,7	2,2
Czech Republic	9,7	1,8	3,9	4,5	1,4	-0,1	2,6	1,6	2,1	3,0
Slovakia	6,7	10,4	12,2	7,2	3,5	8,4	7,5	2,8	4,3	1,9
Hungary	14,2	10,0	10,0	9,1	5,2	4,7	6,8	3,5	4,0	7,9

(1) The data refer to the official EU aggregate, it's country coverage changes in line with the addition of new EU Member states and integrates them using a chain index formula.

(2) The data refer to the official euro area aggregate, it's country coverage changes in line with the addition of new EU Member States and integrates them using a chain index formula.

Table 3 - HICP-all items, annual average inflation rates²⁰

This table shows that Slovakia with an annual inflation rate of 1.9% meets the criteria for price stability in 2007, as defined by the ECB. Austria is close by with an annual inflation rate in 2007 of 2.2%. The Czech Republic is 1% over the price stability limit, whereas Hungary is furthest from meeting the price stability criterion. This particular high inflation rate is a result of increasing energy prices and food prices, due to frost in spring and a particularly dry summer, as well as an increase in health services.²¹

Table 4 below presents comparative price levels of the four Central European countries discussed in this paper, among others.

(EU-27 = 100)	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
EU-27	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0
Euro area (1)	102,8	102,2	100,5	101,0	101,1	103,5	103,6	102,5	102,5	102,0
Austria	105,3	104,9	101,9	104,8	103,4	103,3	103,3	101,9	101,2	100,0
Czech Republic	47,4	46,4	48,1	50,0	57,1	54,4	55,4	58,4	61,5	62,6
Slovakia	41,9	40,5	44,4	43,4	44,8	50,7	54,9	55,8	58,3	63,0
Hungary	54,7	47,1	49,2	52,9	57,4	58,2	62,0	63,5	60,0	65,7

(1) EA-13 instead of EA-15

Table 4 - Comparative price levels²²

The price level of Austria in 2006 is the same as the average of the EU-27, whereas the price levels in Slovakia, Hungary and the Czech Republic approximately account for two-thirds of the EU average. Nevertheless, it can be seen that since these countries became members of the EU in 2004, their price levels are very slowly but constantly converging to the EU average. However they are still far below Austria.

²⁰ See Eurostat yearbook, 2009, p. 108

²¹ See BA-CA CEE quarterly, 04/2007, p. 39

²² See Eurostat yearbook, 2009, p. 109

2.1.3 Earnings and purchasing power

Table 5 shows the development of earnings in industry and services over a certain period of years.

(EUR)	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
EU-27					27948	30142	30349	28226	28992	
Euro area (1)				28786	29588	30379	31089	32471	33164	
Austria								34995	36032	36673
Czech Republic						6016	6137	6569	7405	8284
Slovakia	3179	3292	3125	3583	3837	4582	4945	5706	6374	7040
Hungary	3543	3686	3770	4173	4898	5846	6196	7100	7798	7840

(1) EA-13 instead of EA-15

Table 5 - Earnings in industry and services (average gross annual earnings of full time employees in companies with 10 or more employees)²³

The table illustrates that the average gross annual earnings in 2006 are in Austria substantially higher than in the other three countries. The employees in industry and services earn only something between one-fourth and one-fifth compared to employees in Austria. When you examine the previous years the situation is even worse. Figure 2 highlights the data from 2005 graphically.

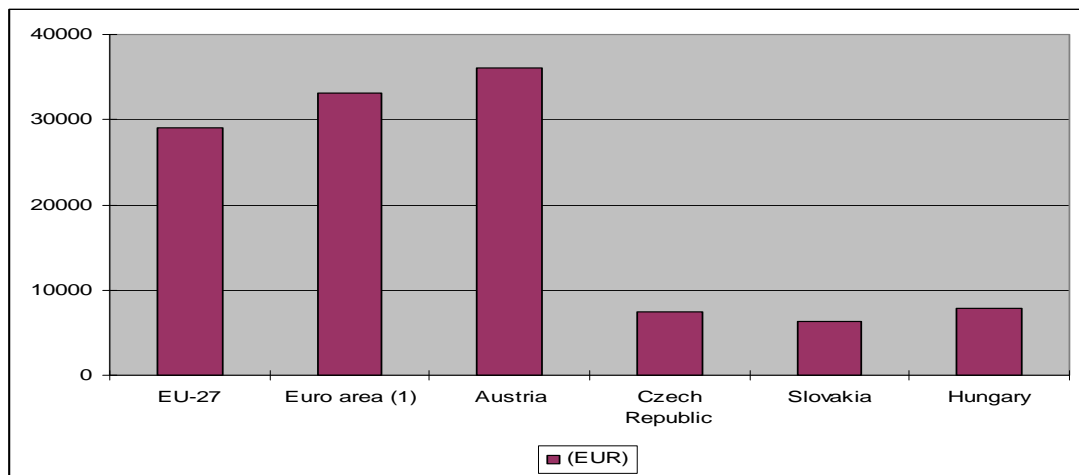


Figure 2 - Earnings in industry and services (average gross annual earnings of full time employees in companies with 10 or more employees), 2006²⁴

In order to determine the living standard of a certain country, it is important to take a look at the purchasing power of the respective country. This is achieved by dividing the average annual salary by the total price of a basket of goods and services.²⁵

²³ See Eurostat yearbook, 2009, p. 100

²⁴ See Eurostat yearbook, 2009, p. 101

Table 6 shows gross and net hourly pay in different cities in 2009.

City ³	Hourly pay ¹	Hourly pay ¹	Annual income ²	City ³	Hourly pay ¹	Hourly pay ¹	Annual income ²
	gross	net	net		gross	net	net
	New York=100	New York=100	New York=100		New York=100	New York=100	New York=100
Zurich	106.8	110.5	106.9	Manama	41.8	55.4	60.2
Sydney	102.2	108.2	95.9	Rome	58.1	54.8	49.4
Luxembourg	94.3	106.4	96.4	Johannesburg	52.8	54.8	53.0
Dublin	90.7	106.4	96.9	Hong Kong	41.6	52.3	58.1
Miami	101.4	104.8	101.8	Seoul	48.3	51.3	57.4
Los Angeles	103.7	104.7	101.0	Tallinn	45.4	50.0	44.7
Geneva	104.4	100.6	93.9	Prague	43.2	46.8	43.4
New York	100.0	100.0	100.0	São Paulo	39.1	45.2	41.2
Chicago	97.9	96.3	88.8	Doha	30.3	41.8	48.5
Nicosia	77.5	95.3	81.4	Bratislava	35.7	39.5	37.0
Berlin	93.5	89.4	77.6	Rio de Janeiro	36.4	38.6	36.2
Montreal	84.5	88.9	83.9	Kuala Lumpur	33.1	38.4	39.5
Brussels	97.2	88.5	76.2	Singapore	32.7	38.2	39.9
Helsinki	86.1	88.1	78.1	Warsaw	38.3	38.0	34.0
London	81.5	86.7	76.9	Bogotá	32.3	37.9	33.7
Copenhagen	115.8	86.2	73.1	Vilnius	38.4	37.0	32.8
Toronto	82.9	85.7	80.4	Riga	34.4	36.0	32.8
Amsterdam	95.3	85.5	75.9	Buenos Aires	30.5	34.9	34.4
Frankfurt	92.9	84.6	73.8	Bucharest	33.5	33.7	29.3
Munich	95.3	83.9	72.4	Santiago de Chile	29.3	33.1	36.0
Lyon	79.6	83.0	66.3	Lima	29.6	32.5	32.4
Stockholm	85.6	81.6	73.5	Istanbul	29.9	31.0	33.2
Tokyo	72.6	81.4	82.2	Budapest	34.2	29.6	28.3
Vienna	77.0	79.0	69.7	Caracas	22.0	27.7	23.3
Madrid	68.0	77.7	65.9	Sofia	25.6	26.5	25.8
Milan	80.6	77.0	69.5	Shanghai	23.5	25.3	24.7
Paris	73.7	75.2	61.3	Cairo	22.4	24.1	27.3
Oslo	83.0	74.4	66.8	Bangkok	18.4	24.1	26.0
Barcelona	65.7	73.6	66.0	Beijing	21.7	24.1	23.8
Auckland	64.8	70.8	68.9	Kiev	21.1	23.7	22.4
Lisbon	60.6	66.0	60.0	Delhi	18.2	21.8	23.2
Athens	61.8	63.3	58.1	Mexico City	17.1	20.8	23.6
Dubai	45.1	62.3	65.9	Mumbai	16.2	19.7	21.8
Tel Aviv	52.5	60.1	58.6	Manila	15.9	18.7	18.4
Taipei	47.9	57.5	58.9	Nairobi	16.4	17.7	17.5
Ljubljana	68.0	56.4	53.0	Jakarta	12.0	14.5	15.3
Moscow	47.4	55.6	49.4				

¹Gross and/or net hourly wage divided by the cost of the entire basket of commodities excl. rent

²Net annual income divided by the cost of the entire basket of commodities excl. rent

³Listed according to the index value per net hourly wage

Table 6 - Domestic purchasing power²⁶

New York City is set as a reference figure (=100). Vienna's net hourly pay is 79.0, whereas Prague's and Bratislava's hourly pay is 46.5 respectively 39.5. Significantly lower is the pay level of Budapest at 29.6. It shows that the purchasing power in Vienna is at least almost twice as high as in Prague, Bratislava and Budapest.

This illustrates the fact UBS has discovered in its study, that in a Western European city one year's gross income can buy roughly 13 of the baskets of goods and

²⁵ See UBS, 2009, p. 10

²⁶ See UBS, 2009, p. 10

services²⁷, while in Eastern European cities it can buy approximately six of them. Therefore it can be said that the purchasing power in Western European cities is nearly twice as high as in Eastern European cities.

2.1.4 Employment level

The labour force includes employed and unemployed persons. An employment rate corresponds to employed persons as a percentage of the total population of the same age.²⁸ The dispersion of regional employment rates illustrates regional deviations within specific countries. It is zero when all the employment rates within the different areas of a country are identical. On the other hand, it increases, when there is a rise in the differences between the employment rates among areas.²⁹

The following table shows the employment rates of different countries, including the KMCE markets over a certain period of time.

(%)	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
EU-27	61,2	61,8	62,2	62,5	62,3	62,6	62,9	63,5	64,5	65,4
Euro area	59,2	60,4	61,5	62,2	62,4	62,7	63,2	63,8	64,8	65,7
Austria (1)	67,9	68,8	68,5	68,5	68,7	68,9	67,8	68,8	10,2	71,4
Czech Republic	67,3	65,6	65,0	65,0	65,4	64,7	64,2	64,8	65,3	66,1
Slovakia	60,6	58,1	56,8	56,8	56,8	57,7	57,0	57,7	59,4	60,7
Hungary	53,7	55,6	56,3	56,2	56,2	57,0	56,8	56,9	57,3	57,3

(1) Break in series 2004

Table 7 - Employment rate³⁰

It can be seen that the Czech Republic and Slovakia have an employment rate that is close to the one from the EU-27. Hungary's rate is a little lower at 57.3 %, whereas Austria's employment rate is at 71.4 % above the EU average.

Figure 3 illustrates the data from 2007 graphically.

²⁷ The reference basket includes 122 products and services (see UBS, 2009, p. 6)

²⁸ See Eurostat, 2009, p. 267

²⁹ See Eurostat, 2009, p. 268

³⁰ See Eurostat yearbook, 2009, p. 270

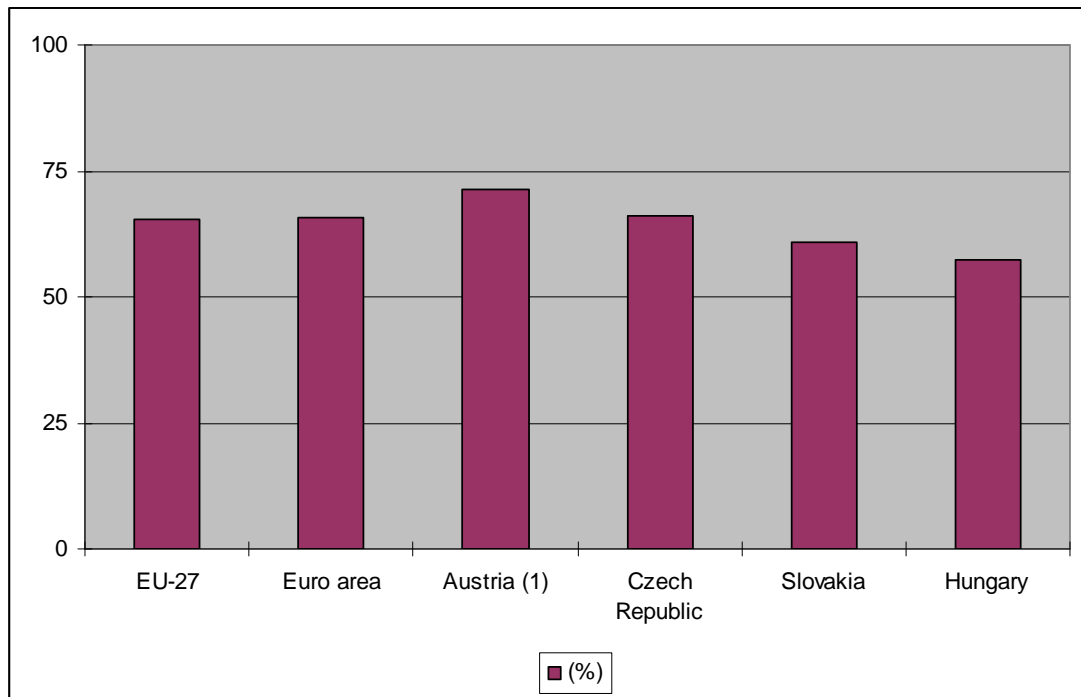


Figure 3 - Employment rate, 2007³¹

Summing up the findings regarding the basic environmental factors of the four countries, a ranking order among those countries can be seen. It's no surprise that Austria has higher or better data when it comes to economic figures, except for the inflation rate, than the other three countries. Even though there is always a wide difference between the data of Austria and the Czech Republic, the Czech Republic shows, overall, the second-best economic data. Slovakia and Hungary sometimes have similar economic data, nevertheless it can be said that in general Slovakia shows better data than Hungary and therefore is ranked third and Hungary fourth.

2.2 Standardization as a main challenge by handling markets

One of the main challenges in international marketing is to define marketing strategies and activities for different countries and therefore markets. Decisions concerning the handling of the markets are thus linked to all affected countries. For this reason it has to be decided which approach is more appropriate – standardization or differentiation.³²

³¹ See Eurostat yearbook, 2009, p. 269

³² See Meffert/ Bolz, 1991, p. 1

*Buzzell already defines standardization as "...the offering of identical product lines at identical prices through identical distribution systems supported by identical promotional programs, in several countries..."*³³ Beutelmeyer's and Mühlbacher's definition is more widespread. It says that standardization is the transfer of concepts or regional successful strategies from the corporate headquarters to preferably all subsidiaries.³⁴ Whereas Takeuchi and Porter say that standardization is the transfer of marketing know-how to other countries.³⁵

There is no general consent as to what international marketing standardization actually is and how it is applied successfully. Supporters of the standardization approach mostly argue that world markets have become more similar and that standardization can generate several advantages like economies of scale and therefore cost reductions and a higher level of efficiency. Other arguments in favour of standardization are learning curve effects gained through international experience, the opportunity for a company to cross-subsidize its activities and the existence of a global brand name.³⁶

On the contrary, proponents of the differentiation approach argue that "... the differences among various markets in terms of a large number of influencing factors require marketing activities which take these specific country requirements into account."³⁷

Within the literary framework of cross-country or cross-cultural marketing standardization there are six dimensions that have to be considered (in order that marketing standardization is successful), which are discussed below.

The first dimension comprises the question for which countries or regions marketing contents and methods shall be standardized.³⁸ Some authors argue that standardization is only promising within certain regions, for example the so called TRIADE-markets. Others say that because of the adjusting environmental

³³ Buzzell, 1968, p. 103

³⁴ See Mühlbacher/ Beutelmeyer, 1984, p. 245

³⁵ See Takeuchi/ Porter, 1989, p. 129

³⁶ See Richter, 2002, p. 15.

³⁷ Richter, 2002, p. 16

³⁸ See Meffert/Bolz, 1998, p. 156

development of European countries, a higher degree of standardization is possible.³⁹

The second dimension deals with the question of what shall be standardized. It can be differentiated between the standardization of marketing contents and marketing processes. The standardization of processes means a consistent and standardized structuring and a standardized activity of marketing decision processes. This means, in most cases, the standardization of information processes, planning processes, control processes and personnel processes in cross-national marketing.⁴⁰ On the other hand, the standardization of marketing programs implies that marketing strategies and the marketing mix are designed uniformly for cross-national usage.⁴¹

The next aspect contains the question which target groups the standardization of marketing contents and processes affects. Concerning the standardization of contents most studies assume that the target group to be considered is the end customer.⁴² Scarcely anywhere the marketing agent or department is included as another target group. These results imply the presumption that companies mostly design their marketing programs for directly controllable subsidiaries in foreign markets or for direct distribution. When it comes to the standardization of processes it has to be differentiated between processes, that should ensure a standardized implementation of marketing programs in different countries and standardized processes which facilitate a cross-national design. Thus it becomes apparent that the former affect the subsidiaries within the respective countries, whereas the latter are related to the corporate headquarters.⁴³

The fourth aspect involves the marketing intensity. It deals with the degree of standardization for marketing instruments, strategies and processes. It is assumed that conceptual frameworks are standardized more easily than single marketing instruments. With regard to the conceptual frameworks umbrella campaigns for cross-national advertisements are said to have a high potential for standardization.⁴⁴ Within the marketing mix product policy is expected to have the biggest standardization potential, whereas price policy and distribution policy are rarely

³⁹ See Bolz, 1992, p. 6

⁴⁰ See Bolz, 1992, p. 7

⁴¹ See Bolz, 1992, p. 8

⁴² See Bolz, 1992, p. 10

⁴³ See Bolz, 1992, p. 11

⁴⁴ See Meffert/Bolz, 1998, pp. 157

unified. Similar applies for the standardization of processes. Of vital importance is therefore the “correct” combination of the standardization intensity of marketing concepts and the standardization of processes.⁴⁵

The fifth factor comprises the question of the context of marketing standardization. It is said that the “correct” level of standardization is influenced by specific situational circumstances.⁴⁶ It is assumed that basically the more similar the respective markets are as to situational facts, the higher the level of standardization that can be aimed for.⁴⁷

The last dimension affects the goals of standardization. For both, concept and process standardization, the goals of efficiency and effectiveness can be identified. More effectiveness is accomplished when customer value is enhanced, due to standardization. This enhancement can be achieved through a consistent high product quality, a faster diffusion process of new products and the utilization of the transfer of product and company images. When it comes to efficiency, the realization of learning curve effects and economies of scale gained from complex concepts and instruments have to be mentioned.⁴⁸

When the basic economic figures of Austria, Slovakia, Hungary and the Czech Republic are examined (as shown in chapter 2.1 Basic economic figures of the four Central European markets), it can be seen that these countries have different basic economic levels. Only Slovakia and Hungary show e.g. a similar GDP per capita level.

Substantial differences between countries and markets in terms of economic wealth can represent significant restraints towards standardized marketing programs because of their influence on aspects such as the price consciousness of consumers and furthermore their capability and frequency of purchasing.⁴⁹ This finding is clarified by the economic data that show to some extent huge deviations concerning the GDP per capita levels and earnings (as demonstrated in more detail in chapter 2.1.1 Gross domestic product and 2.1.3 Earnings and purchasing power),

⁴⁵ See Bolz, 1992, pp. 11

⁴⁶ See Meffert/Bolz, 1998, p. 158

⁴⁷ See Bolz, 1992, p. 13

⁴⁸ See Bolz, 1992, p. 16

⁴⁹ See Richter, 2002, p. 66

which allows the conclusion that for example a standardized pricing policy for all four markets won't be successful.

Furthermore some authors argue that opportunities for standardization are more likely to occur if the economic level of certain countries is similar.⁵⁰ Considering the economic figures of the four countries, the possibility of a standardization approach only for Slovakia and Hungary might be considered, as both countries have a similar GDP per capita and net hourly pay level (see Table 1 - GDP per capita at current market prices and Table 6 - Domestic purchasing power). Austria and the Czech Republic seem to be too far away and therefore might be not appropriate for standardization. However economic levels are no final indicator that standardization generally is not possible because single market segments within the countries (as e.g. the automotive market) can be very identical even the country markets themselves are very different.

Despite these facts the advantages of standardization should not be forgotten. As mentioned earlier in this chapter the positive aspects of standardization include among others economies of scale, cost reductions, learning curve effects and the existence of a global brand name. On the other hand the possibility or risk exists that in case of standardization the product doesn't correspond to the customers' needs.

2.3 Main influencing factors for standardization decisions

In the following some main influencing factors of marketing standardization are examined.

2.3.1 Environmental factors

2.3.1.1 Competitive environment

In situational and system theoretical research the environment of a company is split into a global and a task environment. The global environment is classified into

⁵⁰ See Richter, 2002, p. 66

natural, economic, political-judicial and socio-cultural environment. On the other hand, the task environment comprises these environmental elements, with which a company interacts directly or has the possibility to interact directly. These are customers, marketing agents and competitors.

Various authors state some attributes of these environment levels which are dynamics, heterogeneity, hostility of the environment and the state of the market life cycle.⁵¹

Dynamics refers to the period, in which developments of the company environment are predictable with a high degree of certainty. It results from the frequency and the amount of changes in the environmental factors as well as from the irregularity with which these changes occur. A dynamic environment makes high demands on the definition and design of cross-national handling of the markets, as marketing activities involve a high risk concerning outcome. Because of the high amount of information that has to be assembled and processed in a dynamic environment, especially international companies have problems concerning the information coordination. The more dynamic the changes in the international competitive environment, the more unpredictable and uncertain the accomplishment of tasks during the handling of the markets will be.

With the competitive environment in mind, especially the dynamics of the markets is of high relevance. A high uncertainty of the development of the demand and competitive behaviour has an effect on high market dynamics. This fact leads to efforts to deal with occurred uncertainties in the development of competitive environments by means of instruments to absorb uncertainty. This is accomplished by the use of information and market research systems, which show at an early stage changes in demand behaviour and competitor activities. In order to react to cross-national changes in demand behaviour and competitor activities, the corresponding processes and systems must offer a high degree of standardization and formalization. This affects the design of cross-national marketing activities as well, as the standardization of the planning and design is aimed for as a prevention of "muddling through" (in terms of hectic reactions to changed environmental circumstances).⁵²

⁵¹ See Bolz, 1992, pp. 90

⁵² See Bolz, 1992, pp. 92

Heterogeneity of the competitive environment represents the amount of different consumer segments and therefore the differentiation of the market. Different studies arrive at the conclusion that high market heterogeneity allows the demand of adjustment to rise. Multitude functional-technical problems and strategic decisions during the handling of numerous consumer segments demand for a stronger assistance of the executing entities by the corporate headquarters. In doing so it depends in particular on an assistance applied to information and planning. Therefore especially internationally active companies aim to accomplish a process-related standardization in the context of their handling of the markets. Concerning the standardization of marketing contents it is assumed that a high heterogeneity of demand leads by trend to a differentiated design. The higher the amount of overall handled or workable segments, the higher is the possibility that these segments are cross-national not congruent. This in turn leads to a differentiated handling of the markets. Furthermore it is expected that with higher amounts of handled segments, the amount of local decision makers will rise as well. Therefore, the higher the amount of decision makers, the more unlikely it will be to enforce standardized concepts for handling of the markets without any opposition.⁵³

Another criterion for the classification of the environment is the degree of hostility from the company's point of view. A hostile environment is only terminally controllable and manageable by a company. As criteria for a hostile environment are mentioned the exercise of influence of external groups from outside the company on company decisions, strict regulatory rules, scarcity of resources and the **intensity of competition**. Intensity of competitive behaviour can be caused through price competition as well as quality competition. Quality competition is existent, when the price for all competing products is equal and competition is taking place because of different grades of quality of products and services. On the other hand, price competition implies homogeneity of competing products from the consumer's point of view, where changes in quality are not possible and competition occurs through different price levels.⁵⁴

Finally it is assumed that the **market life cycle** affects type and degree of marketing standardization. Central task of marketing in young growth markets is in the penetration of these markets with a relatively narrow, standardized range of

⁵³ See Bolz, 1992, pp. 95

⁵⁴ See Bolz, 1992, p. 97

products and the development of brand loyalty and high profile. Therefore it can be expected that the corporate headquarters wants to reserve higher influence on the handling of the markets through standardization of marketing programs. On the other hand it was shown that in situations of the development of the markets marketing processes were by trend less strongly standardized.

In mature and stagnating markets the strategy focus lies in rationalization and utilization of synergies. At the same time a high product quality and an image oriented brand shaping gain importance. Beyond that a criterion of mature markets is a concentrated structure of suppliers. Within oligopolistic structures the company aims to keep up a narrow coordination and regulation of the various subsidiaries. Therefore it can be assumed that in stagnating markets is a high standardization of marketing instruments as well as marketing processes existent.⁵⁵

2.3.1.2 International competitive environment structure

After general criteria of the environment levels and their impact on type and degree of marketing standardization have been discussed, in the following shall be dwelled on the structural criteria of the international competitive environment, which are the reasons for marketing standardization. These are the globalization of markets and the globalization of industries.

Numerous authors have dealt with criteria that accelerate an intensified integration and coordination of marketing. So they refer to the homogeneity of markets and globalization drivers that result from a global mass production. These drivers are as already mentioned in the previous chapter 2.3.1.1 learning curve effects and economies of scale.

It is assumed that internationally active industrial clients show an increased significance, which is characterized by a strongly coordinated and centralized demand behaviour. It can be detected that mainly preliminary products are centrally bought on a global basis, in order to realize consistent cross-national quality and service at standardized, preferably low prices (“global sourcing”).

Furthermore, appears an increasing globalization and regionalization of purchase of big trade chains respectively purchase cooperation between companies. The advantages of such economies of scope lie mainly in coordinated procurement,

⁵⁵ See Bolz, 1992, pp. 99

rationalization and the construction of powerful cross-border information systems. For the worldwide manufacturers, as KIA Motors Corporation, this may mean the necessity of widely consistent marketing programs and standardized products.

The importance of internationally active customers is controversially discussed in literature. On the one hand it is said that with customers a standardized handling of the markets is possible because of increasing similar interests and patterns of behaviour. On the other hand, some authors argue that behavioural trends more and more grow apart. Behind this development stands a trend of individualization, which can be monitored cross-nationally. A stronger solidarity of consumers to country specific traditional values and norms argues for a country specific differentiated handling of the markets. Nevertheless, various studies indicate that the "traditionalist" segment in European countries is comparatively small. For this reason companies start to aim for an integral segmentation. There the consumer groups are built cross-nationally with the help of similar characteristic on certain segmentation criteria.⁵⁶

Globalization of industries is thereby characterized that industrial enterprises are no longer able to realize learning curve effects and economies of scale in their national markets. Because of rising research and development costs within the context of technology dynamics and high capital intensity this is referred to as cost inefficiencies of non global activities. This results in the claim to orientate mainly production and marketing toward the global market in view of costs to be internationally competitive.⁵⁷ A study conducted by Cray already in 1984 shows a positive correlation between research and capital intensity and the cross-national degree of integration.⁵⁸

Later Geroski showed in 1989 for the European textile and automotive industry that a higher technology and capital intensity call for economies of scale (necessity of standardization) but at the same time lead to advantages concerning flexibility in production (possibility of differentiation).⁵⁹

⁵⁶ See Bolz, 1992, pp. 100

⁵⁷ See Bolz, 1992, p. 104

⁵⁸ See Cray, 1984, pp. 90

⁵⁹ See Geroski, 1989, p. 81

2.3.2 Intra-company factors

2.3.2.1 Handling of the market

Within the context of marketing conception certain goals constitute the guidelines whereby fundamental strategies as well as operative tasks orientate themselves. These goals affect efficiency, impact, coordination and flexibility.

Efficiency goals comprise economies of scale, learning curve effects and synergy effects. Economies of scale express decreasing cost in combination with higher output. As well as economies of scale, the effect of fixed cost digression has an impact on efficiency, as it refers to decreasing average costs at increasing output. With product standardization it is possible to realize economies of scale, whereas the standardization of the other (marketing) instruments and processes effectuate first and foremost a fixed cost digression.⁶⁰ In contrast to economies of scale, learning curve effects are dynamic cost advantages. The more experience a company gains with the production of certain goods, the execution of specific marketing mix activities (i.e. the preparation of communication concepts) or process-related accompanying actions (i.e. market research studies), the lower the costs will be over a specific period of time. Because of the experience fewer mistakes happen and the company has a better command of the production and planning processes and other process flows.

Economies of scope circumscribe the phenomenon that the overall costs of two activities, that are accomplished together, are lower than in the case of separate creation of those activities. With the economies of scope synergy effects are closely connected. Synergy effects occur when it is possible to use shared resources, grounds and personnel for different activities.⁶¹

Goals of impact lie primarily in a standardized increase of customer value. A worldwide standardized high image of quality has a share in an increased customer value. Some authors state that because of an increasing mobility of people and products, especially in Europe, a standardized high image of quality is a crucial

⁶⁰ See Bolz, 1992, pp. 114

⁶¹ See Bolz, 1992, p. 119

factor of success.⁶² Another external goal of impact is a cross-national standardized market approach, which enables a high degree of brand awareness and brand loyalty by the customers. At last, a standardization of the brand and communication policy boost a cross-national identification, as the products in different countries are equipped with a standardized product promise. This seems important, as some authors argue that differentiated brand and communication concepts evoke considerable irritations by customers and lead to a weakening of brand loyalty.⁶³

Further two fundamental coordination goals have to be mentioned. On the one hand the integration of the most important company activities, which are aimed at a market-oriented, standardized approach of the subsidiaries that complies with the company-wide philosophy, strategy and goals. For that, standardization of the content as well as standardization of the processes is suitable. On the other hand the conjunction of the know-how that is spread within the group of single companies and the encouragement of the organizational learning aptitude in the context of a marketing standardization have to be mentioned. This can be accomplished through a standardized and institutionalized flow of information. By the use of standardized field and profitability reports a company-wide know-how transfer can be achieved on a regular basis. An increase in impact experience standardized processes through the combination with other instruments of control and coordination. This results in an enhancement of network and planning quality, when the conjunction comprises the inclusion of strategic groups of coordination and decision. So, not only the potential of the employees of the corporate headquarters is used for the conceptual design of the processes that have to be standardized, but also the potential of exceptionally qualified subsidiaries.⁶⁴

An integration of the subsidiaries enables an increase in the company-wide scope of action, but it might be accompanied by a loss of flexibility of action. This affects particularly the flexibility of activity during changed market requirements as well as the flexibility of structure concerning the management and coordination of countries. On the other hand, an excessive integration leads to losses in flexibility. This can happen if high standardization, linked with high centralization, does not allow for

⁶² By beginning of 2010 KIA Motors introduced in Europe a 7 year manufacturer warranty in order to proof the high quality of their products.

⁶³ See Bolz, 1992, pp. 120

⁶⁴ See Bolz, 1992, pp. 123

enough scope of action for reactions of country-specific needs. Therefore it is important to guarantee an adequate scope of flexibility.⁶⁵

2.3.2.2 Competitive strategy

In the following an analysis of the effects of cross-national competitive strategies on marketing standardization will be presented.

A company has two possibilities – either appear as international market leader or constrain its activities to a market niche. The foundation of the decision in which position to compete is based on the disposable resources. At the same time it appears that even small companies that are able to specialize on a certain buying group secure themselves a cross-national attractive position. In this case the strategic and competitive positioning occurs over the cost as well as the differentiation dimension.

The advantages of international niche coverage lie in the fact that a limitation of activities on few segments allows generally a concentration of resources and a more intensive engagement with the needs and specifications of the respective buying group. As a result, this facilitates a cross-national integration and coordination of the activities and can lead to the realization of cost digression effects because of the specialization on certain segments.

Cross-national total market coverage is usually followed by the biggest companies of an industry, because they possess the potential to realize economies of scope.⁶⁶

It is argued that international niche coverage leads to the use of standardized instruments. Companies that specialize cross-nationally in a single or a few segments will generally deal in the markets of the respective countries with the same buying groups with similar needs. Therefore there is no distinctive necessity for an adaptation of the marketing contents to the respective countries.⁶⁷

⁶⁵ See Bolz, 1992, pp. 125

⁶⁶ See Bolz, 1992, pp. 130

⁶⁷ See Bolz, 1992, p. 132

The second dimension encompasses the product portfolio coverage. Through focusing on few products it is possible to realize special production competencies and efficiency advantages.

Companies with a broad portfolio are confronted with an increased complexity of their environments and task fulfilment in international markets. Various studies detect that internationally active companies with a broad product line try to organize themselves according to product groups, because international organizations of product groups are able to fulfil the information processing requirements that are connected with a broad product line. On the other hand those product-related information processing requirements can be secured through standardized marketing planning and information supply. Therefore it can be assumed that companies with a large product offer by trend standardize their processes more strongly.⁶⁸

Orientation on quality is characterized by the creation of advantages of benefits, which shall meet the customer's differentiated demand. A requirement for this is a high product quality and an adequate brand image, which shall reduce the consumer's price sensitivity. There are two perceptions of quality. An objective, supplier-related quality, where companies deal with aspects of quality control and the compliance of predetermined specifications and scrap rates and an external conception of quality, which refers to a relative quality, as perceived by the customer. A differentiation between those two aspects is important, because they have a different impact on the standardization of contents and processes.

A fundamental element of a cross-national competitive strategy is an internationally-oriented quality management. There, the focus lies in the control of raw material, semi-finished and finished goods as well as in the control of the production process. To secure a high cross-national quality level it is necessary to provide subsidiaries with certain procedures and specifications that help secure a specific quality level.

Relative quality, as perceived by the customer, can stand for the quality image of the product as well as for aesthetics or durability. Various studies show that these subjectively perceived aspects of quality differ from country to country and therefore a quality-oriented competitive strategy leads by trend to a differentiated use of marketing instruments. Especially instruments, that take effect on perception and

⁶⁸ See Bolz, 1992, pp. 132

preferences, i.e. communication policy and product positioning, are therefore differentiated.⁶⁹

The fourth dimension affects innovations. It covers a high orientation on innovation in the branch of production and the attempt to realize an innovative leading role on the market. Globally acting companies are confronted with other internationally active competitors that have a similar position concerning size and geographical expansion. Therefore it is not sufficient enough to aim for a competitive position that builds on international economies of scale, access to resources and cross-national market presence. In addition to product specialization a distinctive orientation on innovation gains in importance to secure and expand a company's international competitive position. In various companies the conceptual design of new products takes place for global use in order to allow for a high degree of standardization especially in the product range.⁷⁰

Finally, cost oriented competitive strategies are aimed at reducing the average cost under the cost level of other globally active competitors with the use of innovations in the production process to raise productivity. To secure the supply of cheaply produced standard products quantitative and integration-oriented cost effects are to be used.

Many cross-national active companies have a high cost fraction for purchased raw material and components. Therefore the objective is to reduce the average cost for purchased components by the use of coordinated procurement. On the other hand, a reduction in the vertical range of manufacture in the content of a cost oriented strategy leads to a cost reduction as well as to the fact that additional achievement potential from subcontractors has to be asked for. Those potentials have to be considered during the design of cross-national activities. Of particular importance are just in time concepts, the adjustment of production control through capacity processes of the subcontractor and a system and production process related integration ability of complete aggregates and assembly groups by means of subcontracting. Many major companies run a different product specialization in various countries and therefore add up to considerable requirements of vertical (between subcontractor and company) and horizontal (between the respective manufacturing plant and marketing and sales department) adjustment. That is why

⁶⁹ See Bolz, 1992, pp. 133

⁷⁰ See Bolz, 1992, pp. 136

mechanisms of coordination and integration are critical factors of success for the coordination of subsidiaries, corporate headquarters and subcontractors. First and foremost it is assumed that the efficient design of information and planning processes facilitates such an adjustment. Generally this leads to standardization of the corresponding processes.⁷¹

2.4 Standardization vs. differentiation of the marketing mix

After the main influencing factors for standardization decisions have been discussed in the previous chapter in detail, the following part deals with the standardization and differentiation possibilities regarding international product, pricing, communication, and distribution policy.

Supporters of standardization argue that the necessity of the standardization of the marketing mix follows from the international convergence of markets. The reasons for that are multifaceted. First of all, the technical design of transport systems is increasingly getting cheaper and easier. This advances a global product presence. The migration of manpower and an expanding cross-national and cross-cultural tourism contribute to the reduction of the physical distance between countries and cultures. Another reason is that mass media, like radio, internet, TV, etc. facilitate the decline in information deficits and therefore lead to an assimilation of knowledge levels and as a consequence to cross-national and cross-cultural assimilations of habits and consumer buying habits. Also from companies that are internationally active, come convergence stimuli that contribute to an elimination of national discrepancies. The reasons for that lie in the often similar assignment in different countries, the transfer of personnel and management know-how and cross-national communication. Additionally globally active trading firms demand from their suppliers that they offer standardized product and marketing concepts for the marketing of products in their different countries.⁷²

On the other hand, supporters of the differentiation strategy point out that there are still essential differences between various countries that are amplified by the return

⁷¹ See Bolz, 1992, pp. 139

⁷² See Wutzl, 2005, pp. 61

of customers to national origin and culture. Therefore they favour a differentiated, country-specific approach.⁷³

2.4.1 International product policy

International product policy implies for internationally active companies what products and product characteristics are able to best satisfy the customers' needs in the global markets, where they compete. Therefore, the companies have to decide whether they standardize their products or differentiate them in order to satisfy the specific needs of each country.⁷⁴

The identification of relevant product features is important to decide if a product that has been successfully implemented on the national market, can be standardized in order to internationalize it profitably or if it has to be differentiated so as to account for country-specific aspects.

The core of each product is its **basic function**, which refers to the basic use that is satisfied with it. For example the basic need for light bulbs would be illumination and for cars transportation.

Technical and functional attributes reflect how the basic need is physically fulfilled. In the front there are used materials and technical construction and objective quality features like durability and performance.

Aesthetic product features are design, colouring and shaping of the product. They are affected by trendy aspects, are relatively short-lived and often require adjustments to cultural characteristics.

Symbolic product properties include the labelling and brand name and intended or unintended product associations. Various studies specify the country-of-origin-effect. It describes the fact that in some countries positive or negative attitudes exist toward foreign products.

⁷³ See Wutzl, 2005, p. 62

⁷⁴ See Sturmbauer, 1999, p. 85

Additional services comprise mainly the customer service like advisory service, preliminary estimates, assembly, maintenance and repair, delivery, replacement, etc.⁷⁵

However, often it is not possible to create identically products and brands for cross-national use. With these single elements of products in mind, the following reasons can be mentioned.

An **adaptation of aesthetic product features** like colour and shape necessitate three main influencing factors:

- handling and consumption requirements: the shape of a piece of clothing for example has to be adjusted according to climatic circumstances,
- handling and consumption habits: different household sizes require for example variations in packaging size,
- measurement category: different measurement, weight and norm systems demand for differentiations in shape and/or size.

The following influencing factors are important in reference to the differentiation of the **physical attributes** of a product:

- handling and consumption requirements: for example, a tropical climate can lead to a substantial differentiation of food due to durability,
- handling and consumption habits: differences in customers' preferences concerning flavourful attributes of consumer goods necessitate the variation of physical-chemical elements of a product,
- Governmental regulations: national food and pharmaceutical laws, regulations of maximum alcohol and nicotine levels, specifications on environmental protection and safety.

Especially with investment goods the differentiation of **functional features** is of significance. Two main influencing factors are recognizable:

- handling and consumption requirements: adjustments to different amperage or to professional qualification of personnel,
- Governmental effects: specifications on environmental protection and safety.

⁷⁵ See Meffert/Bolz, 1998, pp. 161

Necessary differentiation activities concerning **symbolic attributes** of a product like brand name and packaging can be determined by the following influencing factors:

- handling and consumption habits: in some countries the possibility of subsequent use of the packaging after handling or consumption of a product is an important factor for purchase decisions,
- handling and consumption requirements: comprehensibility and memorability of the brand name – linguistic problem,
- Business objectives: differentiation of promotional elements of the packaging for an increase in sales.⁷⁶

In general, the possibility of standardization is dependent on the **product type**. Investment goods are said to have high potential for standardization, followed by long-lived consumer goods, whereas most short-lived consumer goods and the bigger part of services are often country-specifically differentiated.

Some authors recommend a classification of products and services according to their standardization potential. Therefore culture-free products (i.e. airplanes, watches), high-tech products (i.e. computers, TV sets, DVD players), lifestyle products (i.e. jeans, coke) and prestigious products (i.e. perfumes, haute couture) possess a high potential for standardization, whereas technical products with design-components (i.e. household appliances), products with national identity (i.e. wine) have an average and basic foods a low potential for standardization.⁷⁷ These findings are illustrated in figure 5 below.

⁷⁶ See Meffert/Bolz, 1998, pp. 182

⁷⁷ See Meffert/Bolz, 1998, p. 183

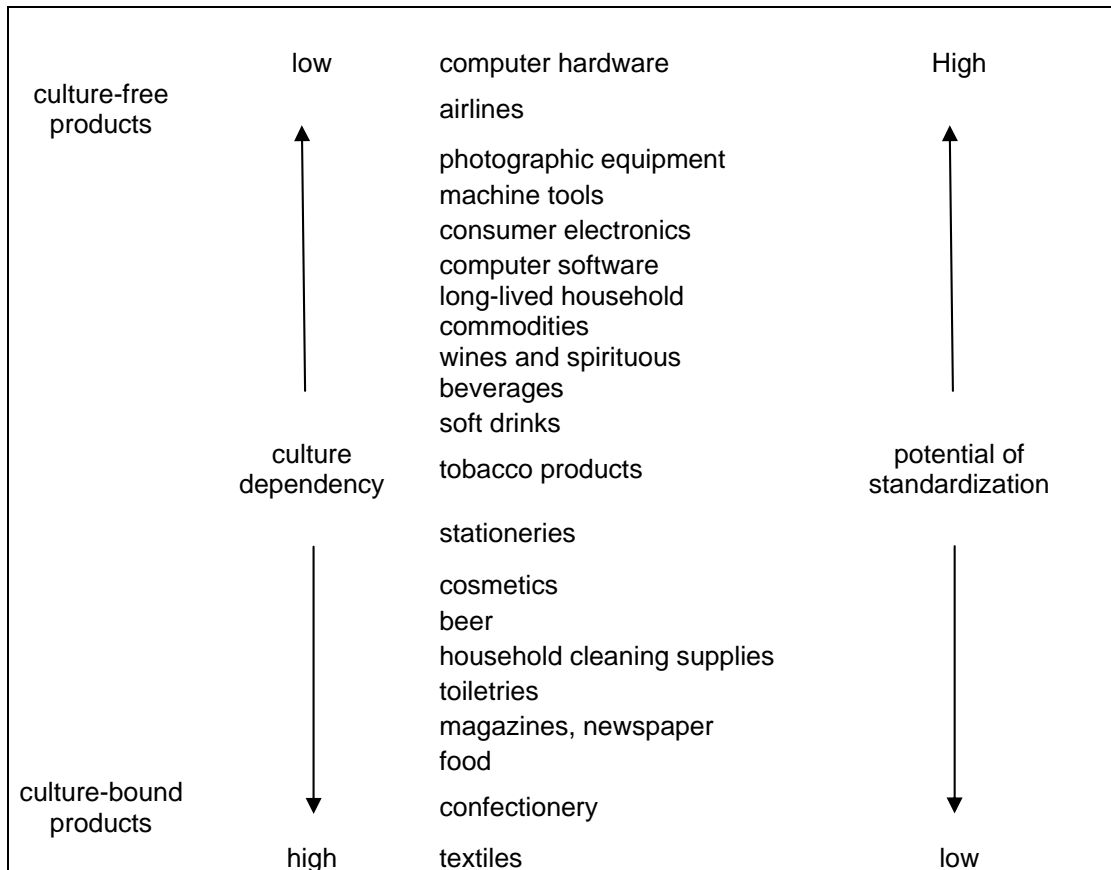


Figure 4 - Culture dependency and potential of standardization of products⁷⁸

Below the potentials of standardization for the activities of the product and brand policy are discussed.

Instrument-related efforts for standardization of marketing have been directed primarily at the product policy in the past. In this context the standardization of the **core product** and **brand-political activities** are of importance. With a view to the physical attributes of a product it can be differentiated between uniform, modified and adjusted products. A **complete standardization of the physical product** can occur through the enlargement of the national product line on other markets as well as through the development of a product that is tailored to similar cross-national consumer segments. The product is standardized to the greatest possible extent if the product is worldwide brought to market in identical shape, like in the case of watches. A **product modification** takes place through modular design within the product policy. A series of product components is produced in large quantities and assembled in different configurations. Thereby the advantages of mass production can be used as well as country-specific features can be included. By the realization

⁷⁸ According to Meffert/Bolz, 1998, p. 183

of a **built-in-flexibility**, the product is designed for various possible applications (i.e. different amperage on small household appliances).⁷⁹

Further standardization potentials for brand-political instruments are discussed below.

A **consistent brand name** and **identical brand labels** constitute the core element of an international brand identity. Requirements for a standardized labelling are an easy pronunciation of a short, easy to learn brand name and the international, legal protection of it. Provided that with brand names a relationship to the product performance is established, standardization mostly proves to be not possible. Therefore for new, internationally consistent brand names an artificial word, that has everywhere the same meaning, is defined (i.e. KIA **cee'd**).

Concerning **product design** and **package design** literature has detected no consistent degree of standardization. Nevertheless, a standardized packaging contributes greatly to a cross-national brand identity. Otherwise country-specific features concerning packaging have to be considered (i.e. cylindrical packaging of bed linen in France).

A **consistent brand positioning** is another requirement for brand standardization. A positioning approach, valid for all markets, can secure even for regional brands, that the, for each country favourable, product-political degree of adaptation can be defined, without any danger to the core image. A cross-national positioning is based on the following dimensions:

- specific product value,
- certain product characteristics,
- exceptional handling requirements,
- certain user categories.

In the case of minor country differences a **modular brand strategy** is used, where the cross-national core value of a brand is modified by additional cross-national value elements and the brand concept is only slightly altered.⁸⁰

⁷⁹ See Meffert/Bolz, 1998, p. 184

⁸⁰ See Meffert/Bolz, 1998, pp. 185

2.4.2 International pricing policy

International pricing deals with price and condition directed marketing decisions. In addition to the sales price and the price to the ultimate consumer respectively the profit margin, the long-term pricing strategy has to be determined.⁸¹

During the determination of the price-strategic degree of standardization, it has to be decided which part the pricing policy within the framework of international marketing strategies shall fulfil. The most important parameters are product attributes and the competitive situation that affect the degree of price-political standardization.⁸²

When it comes to international pricing policy there can be various influencing factors identified that can take effect directly or indirectly on the corporate policy. Hünenberg distinguishes between company-internal and company-external factors.

Internal factors comprise the following:

- access to procurement sources, factor productivity/quality,
- company-specific wage level, know-how/use of technology,
- labour productivity, company-specific costs of production and distribution.

External factors are:

- demand situation/ price elasticity,
- market structure (amount of competitors and their competitive position),
- prices of competitors, price corridor on the market,
- common terms and conditions (terms of payment and delivery),
- distribution structure (demand power of retail markets),
- nature of goods and perception of value by the customer.⁸³

Additionally to those primary influencing factors mentioned above, general environmental factors appear. They can lead to a facilitation or restriction of the company's activities and can have a significant effect on pricing. Governmental interventions are part of those environmental factors. Governmental interventions can be directly price-related (e.g. governmental price-fixing) or can affect indirectly the pricing policy (e.g. reduction in tax for profits).⁸⁴

⁸¹ See Meffert/Bolz, 1991, p. 22

⁸² See Diller, 1989, p. 1688

⁸³ See Hünenberg, 1994, p. 188

⁸⁴ See Hünenberg, 1994, pp. 187

Further, globalization and common markets like the European Union, higher pressure of competition and an increasing aggressiveness of re-importers, force companies to accept the development toward increasing assimilation of prices.

According to Kreutzer, thereby the following factors have to be taken into account.

- **Competitive situation and achieved stage of product life cycle:** Pricing strategies of international competitors present an important factor for a company's price-fixing. Their strategies are influenced by the company-specific goal system as well as the supply and demand structure and the thus determined product life cycle.
- **Appreciation of products:** Identical products can experience on the part of consumers differing appreciation. This defines the frequently country-specifically distinct reference price and therefore the consumers' willingness to pay. Adjustments according to different psychological price barriers often have to be carried out in the respective countries. Additionally, country-specific price-quality-relations have to be taken into account, as they often necessitate a diverging price-fixing.
- **Country's/ target groups' level of purchasing power:** The different levels of purchasing power in various countries have an impact on price-fixing and financing, required for sales promotion. Thus, vehicles and TV sets are mass products in the United States of America, whereas in Latin America they are luxury goods that, because of the limited purchasing power, cannot be sold without finance support by the manufacturer. Therefore the relation of purchase price to average earnings serves as an orientation factor for international price-fixing.
- **Differences in country-specific cost situation:** The varying amount of trade levels and distribution channels, different levels of county-specific wholesale and retail margins as well as differing costs for communication and transport affect the cost-oriented pricing between countries. By the differing specification of these factors, a standardization of prices is considerably hindered.
- **Tax-political regulations and regimentations:** Many laws and norms restrict price-fixing by determination of maximum and minimum price (e.g. pharmaceuticals), directive of price stops, interdiction of fixing of prices and recommended prices, limiting of possible discount granting and enforcement to disclose cost calculations. Beyond that an assimilation of the price policy

is hindered by various tax-political regulations, different cartel and competition laws and differing export and import regulations about customs duties and import accessory duties.⁸⁵

Price policy is among the most problematic instruments in international marketing concerning standardization. Hüttner states that a country-specific price differentiation has to take place, as the idea of perfect competition and market with standardized prices is absurd.⁸⁶ Therefore it is often necessary to differentiate price-political decisions. Price differentiation means to demand different prices for the same product, in fact:

- from different customer groups at the same time (customer group or geographical differentiation),
- from different customer groups at different times (time differentiation),
- from similar customers at similar times for different amounts (amount-related differentiation = discount),
- from similar customers at similar times for different purposes (usage-related differentiation).⁸⁷

Different price-fixings require a low cross-national market transparency, when they are carried out at the same time. Market power is another important factor for differentiation in international price-fixings. The stronger the competitive position of a supplier, the easier different prices for different consumer groups can be accomplished.⁸⁸

Basically, price differentiation means to check the total market for segments with different price elasticities and to deploy these profit-optimized with an adjusted respectively differentiated price policy. Pricing theory distinguishes between price differentiation at given market allocation (vertical price differentiation) and at arbitrary market allocation (horizontal differentiation). Considering vertical price differentiation, every segment can be differentiated by specific external attributes (e.g. Austrian, Korean, American customers). If it is determined that price elasticities on these sub-segments are different, a utilization of price differentiation leads to a higher overall profit. Horizontal differentiation means that customers are willing to

⁸⁵ See Kreutzer, 1991, pp. 378

⁸⁶ See Hüttner, 1994, p. 530

⁸⁷ See Berekoven, 1985, pp. 183

⁸⁸ See Berekoven, 1985, p. 184

pay different respectively higher prices for the same goods, due to different valuations and price perceptions.⁸⁹ Especially discounts and rebates are suitable for a differentiated price policy. Despite a standardized gross price, a country-specific design of net-prices can be achieved.⁹⁰

Regardless of the factors described above, a certain degree of price standardization may be beneficial for an internationally-active company. On the one hand it can help avoid consumer annoyance and insecurity. Sharp differences in prices of similar goods in various countries can lead to dissatisfaction and insecurity of customers. Is the price differentiation the consequence of a local price policy it can get difficult if the company competes on the global market against other suppliers that in turn carry out a standardization of prices. On the other hand re-imports and company-internal competition can be prevented. With adapted price strategies a company-internal competition of similar products in different markets can be prevented. By means of price adjustments it can be prevented that license holder, independent retailers and sales branches are affected by price competition of its' own units or companies that are served by the same corporation. Only with a minimum degree of price standardization re-imports can be limited.⁹¹

A promising approach for a stronger standardization of pricing strategies exists therein that for all company entities pricing strategies are defined that permit a beforehand fixed tolerance for country-specific price adjustments. The pricing strategy can be developed by the corporate headquarters, in agreement with the particular subsidiaries, whereas the product manager is responsible for the operational pricing, i.e. market selling retail price. Relating to the pricing strategy, a mandatory fixing for all subsidiaries in relation to the prices of other competing products is configured. In this context it has to be decided if a price or quality leadership is more appropriate. A cross-national fixation of a targeted price range as a guideline for the operational pricing is aimed for. Here, classical pricing strategies can be adopted (i.e. market-skimming pricing, penetration pricing or price differentiation).⁹² Global market-penetration pricing strategies that facilitate a fast realization of economies of scale and experience curve effects are met more

⁸⁹ See Berekoven, 1985, p. 185

⁹⁰ See Hünerberg, 1994, p. 201

⁹¹ See Kreutzer, 1991, pp. 377

⁹² See Kreutzer, 1991, pp. 380

frequently.⁹³ If it is not possible to realize one of these strategies for all countries, price strategies for closely connected groups of countries shall be developed. But also partly global strategies have to work with different prices, due to the presence in important markets, e.g. triad markets. Thereby the calculatory balance is of great importance. A minor profit margin or loss of an object can be compensated by a high profit margin or profit of another object. The different profit margins are caused by differentiated pricing.⁹⁴

For coordination purposes of price variations a price corridor can be defined. It is based on the basic price respectively reference price which is connected with the pricing strategy and shows in which scope an adjustment has to take place. Thereby re-imports can be avoided as the price differences are not higher than the necessary shipping charges for the appropriate product.⁹⁵

Even price-tactical measures (i.e. discounts for dealers and customers) are to be integrated into the scope of action by designing adequate guidelines. Scope for development of market-specific differentiation can be granted by providing a point of reference through price lists and it can be customized by means of condition policy, i.e. discounts and granted terms of payment. So a standardized pricing strategy can be sustained without the abdication of country-specific price adjustments.⁹⁶

2.4.3 International communication policy

Communication policy deals with a company's customers and aims at creating awareness, interest, desire and action on the part of the consumer.

*"The firm communicates with its various audiences so as to inform, persuade and stimulate a response from the appropriate market segment in its attempt to achieve certain corporate goals."*⁹⁷

In international communication policy it must not be ignored that identical content (e.g. colour, symbols, brand names, etc.) can be interpreted differently because of

⁹³ See Meffert/Bolz, 1991, p. 23

⁹⁴ See Hünenberg, 1994, p. 198

⁹⁵ See Kreutzer, 1991, p. 381

⁹⁶ See Beutelmeyer/ Mühlbacher, 1986, p. 33

⁹⁷ Chee/Harris, 1998, pp. 518

the customer's country-specific experience level and therefore this can result in different image positions.⁹⁸

The following factors influence design and transferability considerations of international communication policy and therefore have to be comprised according to their weighting:

- national traditions, customs, values,
- particular cultural, civilizing and economical stage of development,
- established habits and conceptions of taste,
- relevant prejudices, mental attitudes and preferences against foreign companies and their service offering.⁹⁹

The standardization of communication policy is limited, especially in international advertising, because of e.g. different national laws.¹⁰⁰ Further a different media landscape and different significance of particular media in various countries mean additionally hindered surrounding conditions for a standardization, which leads in many cases to differentiated communication policy.¹⁰¹

Another important influencing factor is communication behaviour which can be very different in various countries. Specific discrepancies are due to the culture-specific acceptance of advertising.¹⁰²

Above all, communication generally describes a certain process. It consists of a source, encoding, message, decoding and destination. That means that effective communication happens with a sender, a receiver, a message and a communication channel. In this case the communication channel denotes marketing communication. At first the sender encodes a message, which means that the information is transformed into an adequate form that can be transmitted, e.g. a spoken or written word. Then the message is transmitted through a channel and the receiver decodes the message. The message has to consist of information that the receiver comprehends and has to be ciphered with pictures and words common to the receiver's experience. Otherwise, the receiver cannot decode the message or he will

⁹⁸ See Kornandt, 1986, p- 100

⁹⁹ See Berekoven, 1985, p. 164

¹⁰⁰ See Bolz, 1992, p. 55

¹⁰¹ See Hensmann, 1989, pp. 59

¹⁰² See Hünerberg, 1994, p. 244

not be convinced and act upon the information as intended.¹⁰³ The communication process is illustrated in the next figure below.

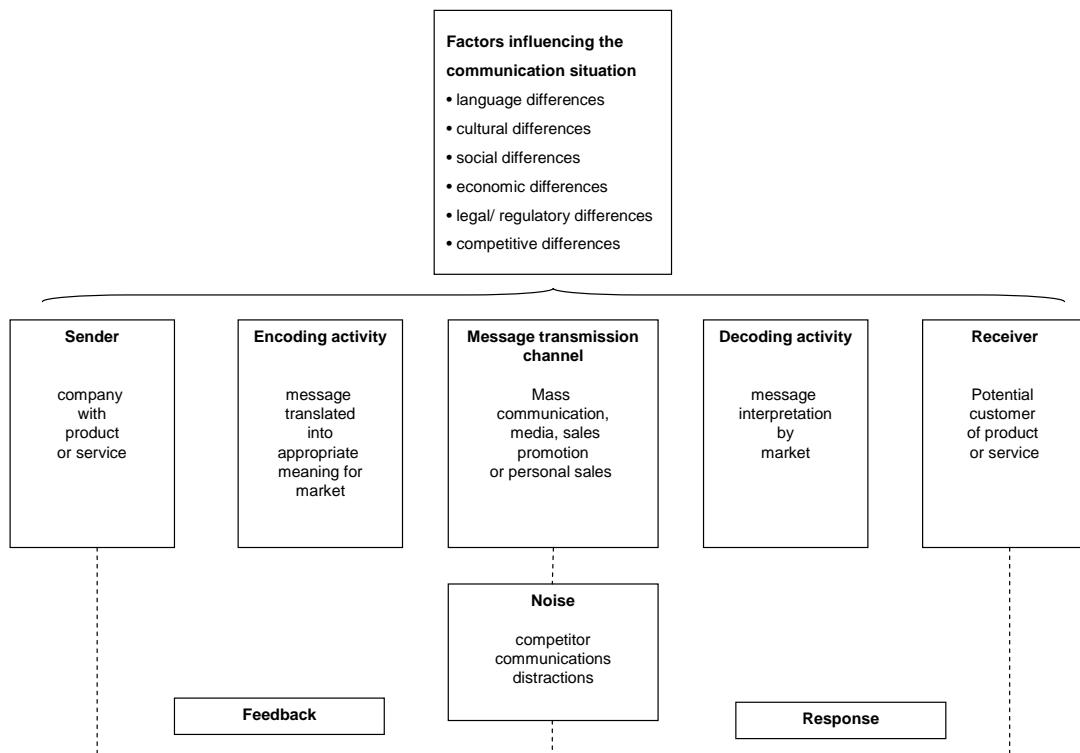


Figure 5 - Elements of the international communication process¹⁰⁴

Communication consists of several elements, the so-called promotional mix. Firstly there is advertising. According to Semenik and Bamossy advertising is any paid form of non-personal presentation of information about a product and/or service by an identified sponsor.¹⁰⁵ Secondly personal selling has to be mentioned. It comprises the demonstration of information about a company's products and/or services by an individual to a small group of people or another person.¹⁰⁶ The third element is sales promotion. Sales promotion contains all marketing activities, except advertising, personal selling and publicity that boost sales and enhance retailer and middlemen cooperation and effectiveness. Examples of sales promotion are coupons, contests, samples, sponsoring and in-store demonstrations.¹⁰⁷ The fourth and last element of the promotional mix is public relations. Public relations deal with how a company affects and is perceived by its key constituents. It represents a

¹⁰³ See Chee/Harris, 1998, p. 520

¹⁰⁴ Own design, according to Toyne/ Walters, 1993, p. 522

¹⁰⁵ See Semenik/Bamossy, 1995, p. 332

¹⁰⁶ See Semenik/Bamossy, 1995, p. 333

¹⁰⁷ See Cateora, 1987, p. 439

communication function charged with executing programs to obtain public acceptance and understanding.¹⁰⁸

Through the standardization of **advertising** it is possible to realize synergy advantages by media-overlapping and the design of cross-national image profiles. According to Bolz this leads to a world-wide consistent product and company profile and to a standardized dissociation from competitors.¹⁰⁹ If a company emphasizes an international company image, a central marketing department should determine the world-wide advertising policy and monitor the individual national planning of advertising. In doing so it should use the specific experiences and skills of foreign employees concerning their knowledge of local market and competition conditions and furthermore give them appropriate possibility of co-determination and freedom for local adaptations.¹¹⁰

Also the orientation on international brand policy, which aims for the international standardization of essential things like brand labels and names, letters and colouring, package design, etc. to the greatest possible extent, asks for centralization. On the other hand, if companies allow for national particularities, because they encounter intense differences in purchase motives and consumer buying and handling habits, they strive to install cooperative designs of planning of advertising in order to establish a national image.¹¹¹

By the conceptual design of international advertising it has to be decided if it is possible to create it uniformly for all affected markets or if it is necessary to create different advertisings for all national markets.¹¹²

By advertising campaigns that are geared directly to the product, the question if and to what extent it has to be standardized or differentiated depends on the respective function, degree of brand awareness and market position of the product.

- The more unmistakable a product is in application, the easier the information content of the advertising message can be standardized,
- the more novel a commodity is for a market in contrast to other markets, the more discriminative the argument has to be from country to country,
- the more distinct the possible use of a product, the more likely is the necessity to argue differently in different countries,

¹⁰⁸ See Czintoka/Ronkainen, 1989, p. 664

¹⁰⁹ See Bolz, 1992, p. 55

¹¹⁰ See Berekoven, 1985, p. 163

¹¹¹ See Berekoven, 1985, p. 164

¹¹² See Berekoven, 1985, p. 164

- the stronger the basic benefit affects the purchase, the more standardized the advertising can be,
- the stronger a commodity is culture bound, the more differentiated the advertising has to be,
- the more widespread the product category in the markets already is, the more differentiated the advertising has to be in order to set oneself apart from competitors,
- the more a commodity shows world-wide specialty or originality, the more standardized the advertising message can be.¹¹³

As to media rather a differentiation strategy than standardization policy is advisable as to different media structures especially in Europe.¹¹⁴ In addition to the availability of media, there are several other media characteristics of particular importance. These are different media costs, intensity of utilization, controllability, reach and image of the media.¹¹⁵

The content of communication strategy deals with tonality. Dimensions of tonality can be “serious or humorous”, “rational or emotional”, “direct or indirect”. Because of cultural differences it is difficult to accomplish a standardization of the content without concessions.¹¹⁶ When it comes to standardization of details of advertising, the language respectively the fluency might be problematic. Therefore only highly shortened statements, so called slogans, are reasonable.¹¹⁷

Should a broad target group be addressed often visual messages instead of verbal information are sought after. Studies show that visual or figurative messages have a significant higher standardization potential than textual elements.¹¹⁸ However, there is a culture-dependent significance of colours and designs which can easily lead to misunderstandings and unwanted reactions in terms of the objective target of advertising. Therefore compromise solutions have to be found.¹¹⁹

¹¹³ See Berekoven, 1985, p. 166

¹¹⁴ See Hensmann, 1992, pp. 55-63

¹¹⁵ See Hünerberg, 1994, pp. 255

¹¹⁶ See Kreutzer, 1991, p. 388

¹¹⁷ See Kreutzer, 1991, p. 390

¹¹⁸ See Meffert/Landwehr/Gass/Waltermann, 1986, p. 21

¹¹⁹ See Hünerberg, 1994, p. 251

Personal selling comprises all types of personal communication and the therewith associated functions, e.g. recruiting and training of employees, the organizational design of communication tasks as well as the personal sales talk between supplier and consumer. In international context personal selling gains importance if other communication forms like advertising or sales promotion are narrowed, for example because of legal restrictions, or the necessity of explanations, which is high especially for industry goods.

Further reasons for the promotion of personal selling in connection with the question of standardization of differentiation of the marketing mix activities are the following:

- personal selling allows for a fallback on local potentials and therefore the adaptation on the particularity of consumers,
- in the cultural environment of the consumer personal communication has a special significance,
- in foreign trade/ business personal contact to authorities, organizations, etc. is an indispensable requirement.¹²⁰

Personal communication is affected by the settings in situ which barely establish standardization potentials apart from certain aspects, like training, compensation systems, recruiting principles and the like. It can be assumed that the sales force consists of national employees, depending to the respective culture group. In some countries personal relationships are of great importance and access to personal relationships can be very difficult for foreigners.¹²¹

The job training of the sales force has to be designed centrally or locally. By the use of standardized procedures corporate identity effects are possible which are expandable from the company to the respective country markets. Job training is in tight relationship with compensation and motivation. Examples are:

- competitions and awards,
- trips to company headquarters,
- vacation trips,
- in-kind transfers,
- free time compensation,
- promotion, etc.

¹²⁰ See Hünenberg, 1994, pp. 270

¹²¹ See Hünenberg, 1994, p. 272

Monitoring of personal selling has to account for the particular differences in the various countries and therefore has to be differentiated.¹²² In general the corporate headquarters should concentrate on the consultation and strategic leadership in their personal selling policy and furthermore it should offer assistance where necessary.¹²³

Sales promotion is another important part of communication. Especially many brands within the automotive industry use are forced to heavily invest in sales promotion activities due to high competition when competitors are expanding their model line up and more models are competing in one segment for the customers. Sales promotion mostly is of short term nature (limited special action model offer) and therefore standardization is possible and reasonable only in the minority of cases.

Because of strong dependencies of sales promotion from the nature of distribution channels, standardization within this area is only possible in international companies with their own, completely manageable distribution system.¹²⁴ This is why most multinational companies delegate sales promotion to the national management of their subsidiaries.¹²⁵

For the design of sales promotion cultural and other environmental factors are to be considered. Examples are high awareness and reach of specific sales promotion activities in the respective country. Thus give-aways or incentives can become naturally in some countries or markets, so that companies are forced to follow.¹²⁶ Discounts in between 3% to 6% are standard nowadays when buying a new car. In some countries it is customary to pay for a certain listing in the retail market.

Because of these country-specific particularities standardization is hard to imagine. Standardization potentials only arise for special racks, brochures, posters, displays and the like. But there are examples of global events that are among the scope of event marketing. Here, there is a smooth transition to public relations.¹²⁷

¹²² See Hünenberg, 1994, p. 278

¹²³ See Hill/Still/Boya, 1991, p. 30

¹²⁴ See Meffert/Bolz, 1991, p. 19

¹²⁵ See Berekoven, 1985, p. 174

¹²⁶ See Hünenberg, 1994, p. 268

¹²⁷ See Hünenberg, 1994, p. 268

Public relations policy comprises all activities for stabilization and positive influence of the integration and reputation of the company in all of its attended markets. This contains basically the design of the company's image in order to accomplish a lasting mutual trust with the relevant public of the company and to avoid conflicts.¹²⁸

Cross-national public relations are geared to multitude company internal and external target groups, which are characterized by a high degree of heterogeneity. This diverseness is due to different characteristics of socio-cultural, social and political factors, whereby standardized public relations are strongly influenced. The opportunities of cross-national standardized public relations can therefore be described as limited.¹²⁹

The multilayer target groups of public relations include, among others, one's own employees and their relatives, shareholders, debtors, suppliers and marketing agents, competitors and mass media, governments and administrative agencies. The higher the degree of international activities, the higher the number and importance of these target groups. Thereby the relative influence of these groups on the company result can differ from country to country.¹³⁰

Therefore most companies prefer the design of a self-contained image, which is independent from dominant products and associations with the country of origin. In this context standardization can be implemented by means of creation of consistent standards and goals through one's own employees as well as through information of the same of the development and plans of the group of companies. For that purpose various instruments exist, e.g. company internal magazines, staff meetings, contact talks and exchange of information and opinions. As to the handling of external media an analysis of the approached target group has to take place on a national level, in order to define the general communication context and to adjust it to the particularities of the respective country by means of local adaptations.¹³¹

¹²⁸ See Berekoven, 1985, p. 175

¹²⁹ See Meffert/Bolz, 1991, p. 19

¹³⁰ See Berekoven, 1985, p. 175

¹³¹ See Berekoven, 1985, p. 176

2.4.4 International distribution policy

Distribution policy relates to all decisions that are linked with the channel a product or service has to pass in order to arrive at the consumer. It comprises the selection of distribution channels as well as the physical distribution of the products.¹³²

In addition to general marketing goals, e.g. sales volume or market share, distribution-political goals can contain the following objective targets:

- distribution costs respectively profit margin,
- degree of distribution,
- image of distribution channel,
- willingness to cooperate,
- duration of development and flexibility,
- interference and check-ability of distribution channel.¹³³

The missing access to global distribution networks can be a market entry barrier for internationally active companies.¹³⁴ Prahalad and Hamel argue that an investment in world-wide manufacturing without efforts in global distribution at the same time presents an unbearable risk.¹³⁵ Therefore highly effective distribution channels have to be established in order to implement a global marketing strategy successfully. In this context the question is, if in world-wide marketing it is possible to build standardized channels of distribution or if country-specific solutions have to be used.¹³⁶

Standardization or differentiation of distribution policy affects primarily the choice and design of distribution channels and the activities of physical distribution.¹³⁷

Within the framework of the realization of international distribution channels and the determination of possible standardization potentials, the following aspects, among others, have to be taken into account.¹³⁸

¹³² See Meffert/Bolz, 1998, p. 221

¹³³ See Ahlert, 1996, p. 174

¹³⁴ See Grant, 2007, p. 75

¹³⁵ See Hamel/Prahalad, 1985, p. 146

¹³⁶ See Kreutzer, 1991, p. 374

¹³⁷ See Meffert/Althans, 1982, p. 155

¹³⁸ See Kreutzer, 1991, p. 375

- **Availability and market mindshare of distribution channels:** In developing countries and emerging markets a standardized approach is often impossible due to missing required channels of distribution. The subsequent gaps can often only be overcome by means of high capital spending. Crucial differences between various countries and culture groups exist even in the perception of distribution channels by customers and the thus qualified market mindshare. Also distribution activities of competitors have to be considered as in some cases one distribution channel is blocked, whereby a company is forced to search for alternative solutions.
- **Willingness to co-operate and costs of distribution organizations:** The enforceability of a standardized marketing concept is dependent on a reseller's willingness to cooperate that is normally associated with the terms and conditions structure of other distribution channels.
- **Legal requirements:** Legal requirements in different countries have to be taken into account as they can, for example, affect the distribution of certain product classes.
- **Characteristics of distribution institutions:** In addition to costs for the development and use of distribution channels, risks, e.g. untrustworthiness, inflexibility, risk of dependency and the like related to carriers, forwarding agencies, etc., become more important.¹³⁹
- **Environmental factors:** Infrastructure, overall size of the market and possibility of prevention of selective choices have to be mentioned.¹⁴⁰
- **Company internal factors:** Restrictions concerning funds, personnel, international experience and know-how constrain the choice of distribution bodies.¹⁴¹

Basically, within the scope of distribution policy strategies should be managed consistently, whereas the functional implementation should be adjusted to the local general conditions of the respective country. At first general distribution-oriented guidelines should be developed in order to assure compatibility between the aspired price level and the distribution bodies. In doing so various concepts can be generated for the market development. For the market entry in countries with average market mindshare, the use of existing distribution systems or the placing of

¹³⁹ See Hünerberg, 1994, p. 321

¹⁴⁰ See Hünerberg, 1994, p. 321

¹⁴¹ See Hünerberg, 1994, p. 320

licenses can be considered. The next step would be the design of one's own distribution channels, whereas in key markets own distribution bodies are established.¹⁴²

By means of standardization of distribution activities consonance between the distribution channel and the, through product, price setting and communication, constructed image is achieved. Thus, cost-reduction potentials as well as standardization possibilities in other marketing mix areas can be opened up. Distribution channels work in two directions. On the one hand information, products, documents and components flow to the consumer, whereas, at the same time, information flows from the consumer to the producer. This information flow contains suggestions concerning product improvements, customer complaints, requests for quote and orders. These functions have a different relevance in various countries and therefore must not be affected by standardization.¹⁴³

A fundamental structural criterion is the differentiation between vertical and horizontal distribution channels.¹⁴⁴ With a vertical distribution structure the producer chooses between distribution levels, whereas the horizontal structure affects the choice of marketing agents within the respective distribution levels.¹⁴⁵

The vertical structure includes direct and indirect distribution. The highest standardization potential of marketing concepts exists with **direct distribution** respectively indirect distribution with one's own sales body (e.g. chain stores), because of monitoring and supervision possibilities.¹⁴⁶

With **indirect distribution** it can be distinguished between one's own and external sales bodies. Company external distribution agents, which most automotive brands use as final link to the customer, are legally independent distribution bodies which are called in buying and selling procedures. Company external distribution bodies can be classified into merchant middlemen (wholesale and retail) and agent middlemen (salesmen, middlemen, general commission agent, vendee master, etc.).¹⁴⁷

¹⁴² See Kreutzer, 1991, p. 376

¹⁴³ See Kreutzer, 1991, p. 374

¹⁴⁴ See Ahlert, 1996, pp.153

¹⁴⁵ See Bolz, 1992, p. 59

¹⁴⁶ See Meffert/Bolz, 1991, p. 135

¹⁴⁷ See Hünenberg, 1994, pp. 308

Does an indirect distribution system with several external distribution levels exist, the company will try to install its own distribution system. Reasons for it are limited monitoring and supervision possibilities and incoming costs (e.g. gross margin). Beyond that the blocking of distribution channels through competitors leads to increased efforts to establish one's own channels of distribution.¹⁴⁸ This happens if the respective marketing agents have a passive attitude toward the products or are not willing to carry the entire product program or are not able to provide certain after-sales services satisfactorily.¹⁴⁹ In addition it is also easier to run standardized advertising campaigns in order to create or enforce the desired brand image.

If it is not possible to establish one's own distribution system, within the scope of standardized concepts contractual distribution system can be installed. Authorized dealers and franchise concepts are numbered among those contractual distribution systems. **Authorized dealers** play a significant role in automotive industry as it allows the producer a broad cross-national distribution.¹⁵⁰ The marketing agent offers for his own account products and services of the producer and commits to selling the products and to the compliance of quality standards, e.g. as for the appearance or service level. In contrast to franchising the marketing agent comes to the fore more intensely and is to a lesser extent subject to authority and monitoring right of the producer.¹⁵¹ Within the scope of **franchise** the franchisee purchases specific service and technology know-how as well as support in the development and the handling of the company. Under the aspect of standardization franchise systems have gained great importance in international marketing.¹⁵² With franchise contracts it is possible to create a consistent appearance in multiple countries. The advantage of the franchise system lies in the flexibility to agree on a consistent marketing concept with differentiated country-specific components.¹⁵³

Horizontal structures offer better standardization possibilities than vertical structures. Thereby it has to be decided on breadth (number of marketing agents per level) and depth (nature of marketing agents per level) of the distribution channel structure.¹⁵⁴ Particularly with the selection and choice of retail-types of

¹⁴⁸ See Meffert/Althans, 1992, p. 161

¹⁴⁹ See Bolz, 1992, p. 60

¹⁵⁰ See Meffert/Bolz, 1991, p. 21

¹⁵¹ See Bolz, 1992, p. 61

¹⁵² See Kriependorf, 1989, pp. 714

¹⁵³ See Quelch/Hoff, 1986, p. 109

¹⁵⁴ See Meffert/Bolz, 1991, pp. 21

business standardization efforts can play a significant role, even with indirect distribution, in order to ensure a globally consistent market appearance. It can be determined that in all target markets only specialized dealers and markets are served in order to support the standardized marketing concept with the distribution policy as well. Therefore a checklist is developed which the considered marketing agents have to fulfil in terms of appearance, image and performance.¹⁵⁵

Standardization of decisions on distribution channels have only a marginal potential, because of country-specific distribution structures that often enforce a differentiated and therewith adjusted approach.¹⁵⁶

Finally, another element of international distribution is **distribution logistics**. It comprises all activities and process flows that lead to the delivery of the right products at the right time in the right quantities to the desired place.¹⁵⁷ A central goal of supply logistics is the attainment of a set delivery service level.¹⁵⁸ The parameters that are of importance in this context are delivery time, willingness to supply, delivery condition and delivery flexibility.¹⁵⁹ Further standardization possibilities arise from processes. These processes comprise particularly the planning of storage, shipment and order processing.¹⁶⁰

¹⁵⁵ See Bolz, 1992, p. 61

¹⁵⁶ See Meffert/Althans, 1992, p. 163

¹⁵⁷ See Meffert/Althans, 1992, p. 165

¹⁵⁸ See Specht, 1988, p. 87

¹⁵⁹ See Bolz, 1992, p. 63

¹⁶⁰ See Specht, 1988, p. 92

3. The Marketing-Mix concept of KIA Motors Central Europe

In this chapter the collected data of the empirical research will be presented and analyzed. The basic topic of the thesis, questioning if there are further development opportunities for the KIA Motors Central Europe business division by standardizing certain tasks of the marketing mix and does it make sense to define a more standardized, regional marketing mix strategy for the KIA Motors Central Europe markets (KIA Austria, KIA Hungary, KIA Czech, KIA Sales Slovensko), will be explicated within the four marketing mix areas product, price, communication and distribution policy. Implications out of the results and the theoretical approach will be finally considered in order to come up with further development opportunities and potential business advantages for the company internal KIA Motors Central Europe business division in chapter 4.

Based on the findings of chapter 2 and especially chapter 2.4 a questionnaire as interview guideline has been developed for researching the actual execution of certain marketing mix policies of KIA in the four central Europe markets Austria, Czech Republic, Slovakia and Hungary. The expert interviews delivered valuable results in the questioned areas and were held with selected managers of KIA Motors Austria, KIA Motors Hungary, KIA Motors Czech and KIA Motors Sales Slovensko. Empirical studies were collected from market research companies, which are business partners from the KIA subsidiaries in the four markets.

Market insights were gathered through online research and locally as central marketing agencies which do regular business with the four KIA companies in the market.

A detailed explanation of the research approach is described above in chapter 1.4.

The interviews held with the selected KIA managers provided in depth information about the specific country situation and actual status about the marketing of the KIA brand. Further the achieved insights were compared with available market research data or through online research in order to verify it as well as possible. For example in case of the product policy when discussing the offered trim lines per model an additional survey on the specific websites was done. However detailed background

explanations why specific equipment features are selected for a certain model were received through the possibility of the face to face interviews with the managers.

The results of the research of the marketing mix of the four KMCE markets Austria, the Czech Republic, Slovakia and Hungary are presented in the next chapters.

3.1 Basic figures of the KIA Motors Central Europe subsidiaries

3.1.1 Market share development

In the following graphs some key figures of four subsidiaries forming the KIA Motors Central Europe business division will be described.

The following figure shows the market share development of **KIA Motors Austria** between January until May 2008 and January until May 2010.

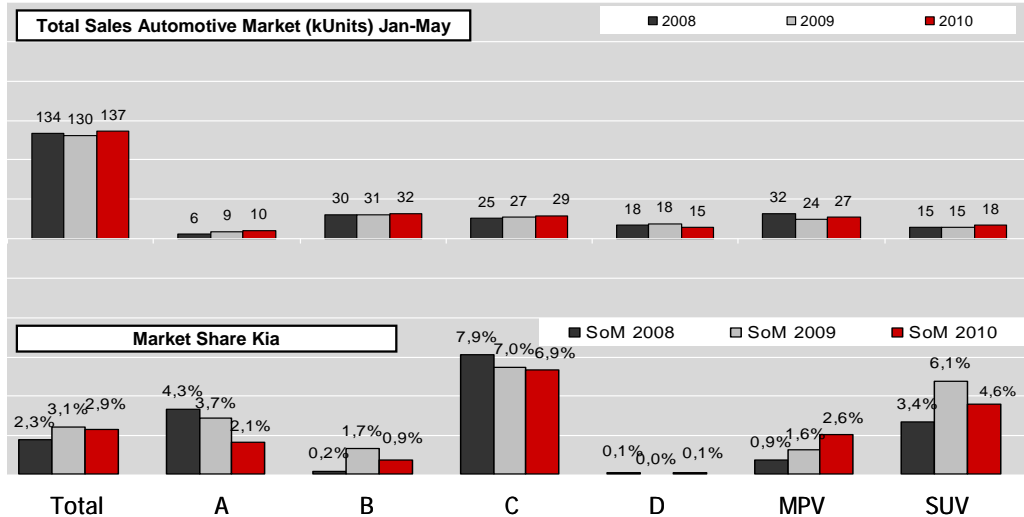


Figure 6 - Market share development KMAs¹⁶¹

KIA Motors Austria could significantly increase the total market share within the compared period from 2.3% in 2008 by 26.1% to 2.9% in 2010. Within the A-

¹⁶¹ Company internal source, KIA Motors Austria brand tracking report, 2010; The total numbers e.g. 137.000 sales in 2010 are not the sum of the single sub-segments (A, B, C, D, MPV, SUV) because other sub-segments where KIA does not offer vehicles, are not displayed in the graph. This also applies to the following same graphical figures.

segment (small vehicles like KIA Picanto) it lost in the same period 2.2 %, in the B-segment (medium vehicles like KIA Rio) it gained 0.7%, in the C-segment (compact vehicles like KIA cee'd) it lost 1%, in the MPV-segment (vans like KIA Carnival) it gained 1.7% and in the SUV-segment (off-road vehicles like KIA Sportage) it gained 1.2%.

While KIA Motors Austria could benefit from last year's moderate decline in sales in the overall automotive market¹⁶², it now cannot keep up with the general market recovery and is slightly losing market shares again, especially in the A, B and C segment. However, KIA Motors Austria's market share in the MPV segment is constantly growing – the KIA Venga launch in February 2010 may be one reason.

The next figure shows the market share development of **KIA Motors Czech** between January until May 2008 and January until May 2010.

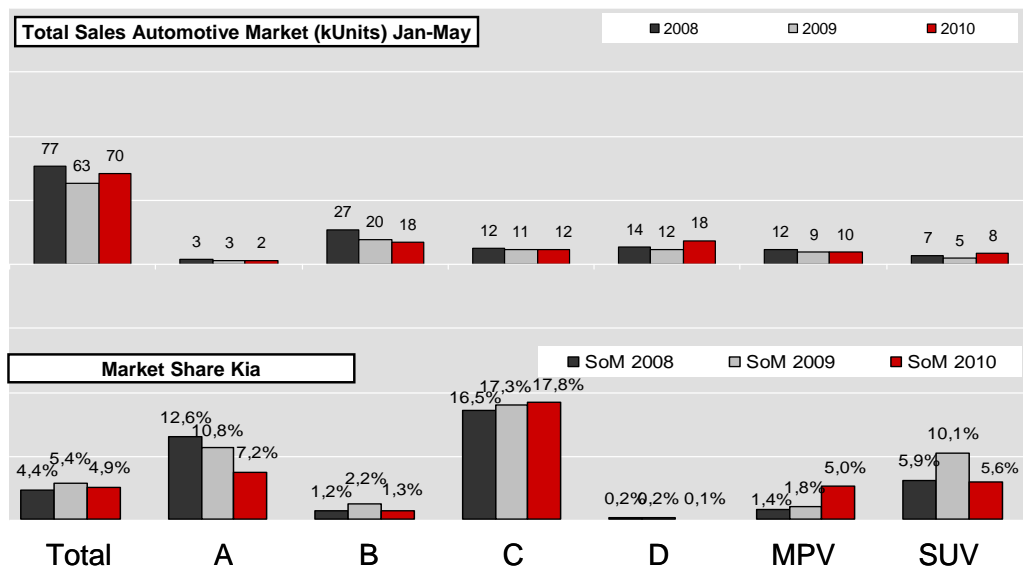


Figure 7 - Market share development KMCz¹⁶³

KIA Motors Czech could also increase the total market share within the compared period from 4.4% in 2008 by 11.4% to 2.9% in 2010. Within the A-segment (small vehicles like KIA Picanto) it lost in the same period 5.4 %, in the B-segment (medium vehicles like KIA Rio) it gained 0.1%, in the C-segment (compact vehicles like KIA cee'd) it gained 1.3%, in the MPV-segment (vans like KIA Carnival) it gained 3.6% and in the SUV-segment (Off-road vehicles like KIA Sportage) it lost 0.3%.

¹⁶² Down from 134.000 to 130.000 units while KIA Motors Austria increased from 3.082 to 4.030 units in the same period Jan-May 2008 vs. Jan-May 2009.

¹⁶³ Company internal source, KIA Motors Czech brand tracking report, 2010

After the decrease of sales in the total automotive market in the previous period in 2009, the figures grow again in the first months of 2010. KIA Motors Czech share of market went below 5% as already mentioned, which was influenced by the lower market share in the A- and SUV-segments. The MPV-segment's evolution is positive, reaching a SoM (share of market) of 5% (increased sales due to launch of KIA Venga like in Austria).

The market share development **KIA Motors Sales Slovensko** between January until May 2008 and January until May 2010 is shown below.

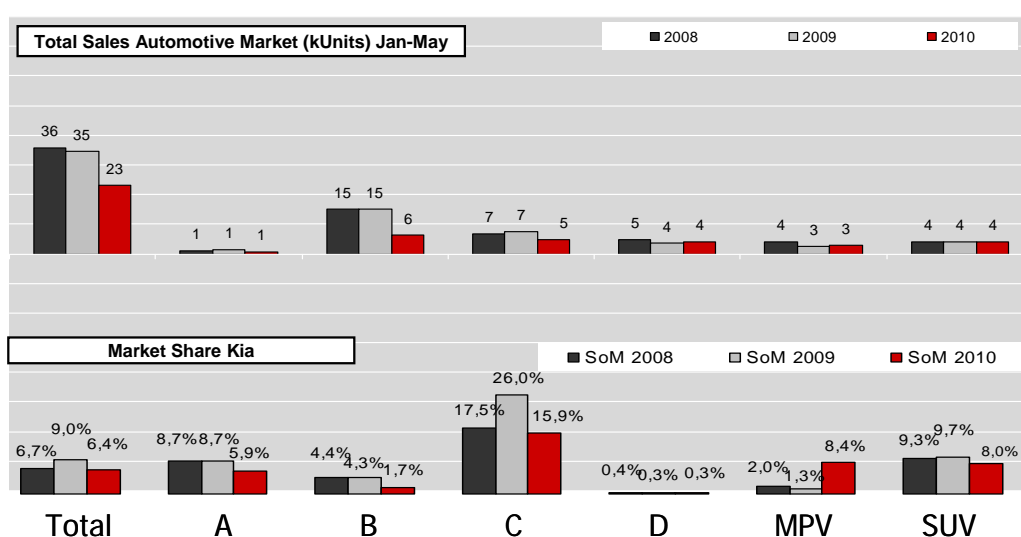


Figure 8 - Market share development KMSs¹⁶⁴

KIA Motors Sales Slovensko slightly lost total market share within the compared period from 6.7% in 2008 by 4.5% to 6.4% in 2010. Within the A-segment (small vehicles like KIA Picanto) it lost in the same period 2.8 %, in the B-segment (medium vehicles like KIA Rio) it lost 2.7%, in the C-segment (compact vehicles like KIA cee'd) it lost 1.6%, in the MPV-segment (vans like KIA Carnival) it gained 6.4% and in the SUV-segment (off-road vehicles like KIA Sportage) it lost 1.3%.

After an increase in 2009, KIA Motors Sales Slovensko market share is declining and now falling very slightly behind the level of 2008.

However it must be pointed out that in 2010 there are severe losses of car sales in the overall automotive market in Slovakia. It is forecasting that full-scale economic recovery will begin from the late 2010, and economic growth by more than 3% will be made from 2011. The weak point of Slovakia's economy is that they are too

¹⁶⁴ Company internal source, KIA Motors Sales Slovensko brand tracking report, 2010

much dependent on the EU market and automotive industry. It finally means that the recession in Western European market leads in Slovakia to a recession.

Finally **KIA Motors Hungary market share development** between January until May 2008 and January until May 2010 is shown below.

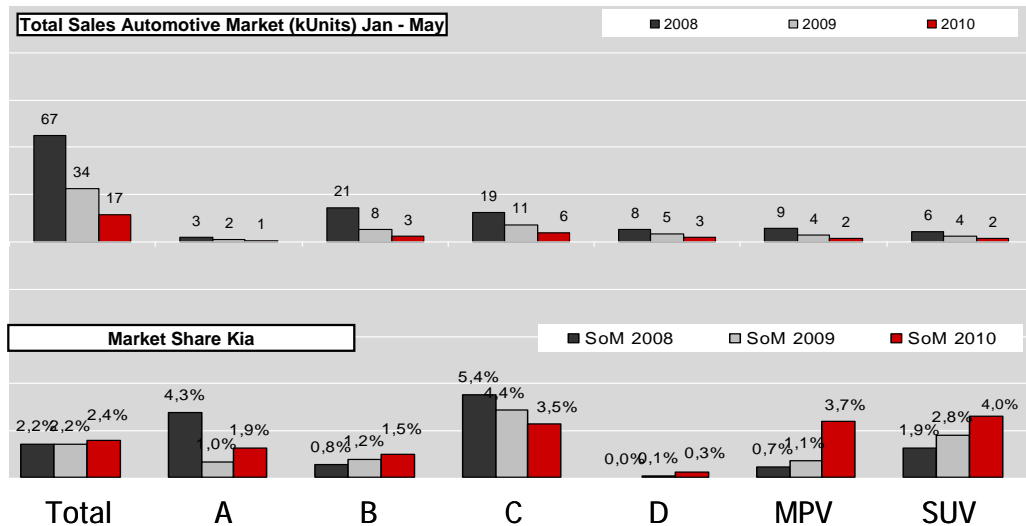


Figure 9 - Market share development KMHu¹⁶⁵

KIA Motors Hungary slightly gained market share within the compared period from 2.2% in 2008 by 9.1% to 2.4% in 2010. Within the A-segment (small vehicles like KIA Picanto) it lost in the same period 2.4 %, in the B-segment (medium vehicles like KIA Rio) it gained 0.7%, in the C-segment (compact vehicles like KIA cee'd) it lost 1.9%, in the MPV-segment (vans like KIA Carnival) it gained 3.0% and in the SUV-segment (off-road vehicles like KIA Sportage) it gained 2.1%.

The overall market volume in Hungary is decreasing clearly from year to year among all segments. The registration figures were cut in halves over the periods due to the strong impact of the economic crisis in this country which led to a serious recession in the growth rate by -6.5%.

However, the current slow drop in economy leads to the extension of the manufacturing economy (such as the increase in purchasing management index), so it is expected to begin to stabilize by end of 2010 compared with 2009. Since 80% of Hungary's GDP depends on exports, development of exports to Western Europe will be the key word for recovery from the recession.¹⁶⁶

¹⁶⁵ Company internal source, KIA Motors Hungary brand tracking report, 2010

¹⁶⁶ Company internal source, KIA Motors Hungary brand tracking report, 2010

Positive is that KIA Motors Hungary could maintain its market share and shows even a slight increase as mentioned above. Even an evolution in the MPV-segment, driven by the launch of KIA Venga is recognized.

To sum up the results below figure and table show the market share deviation of the four countries in the defined period.

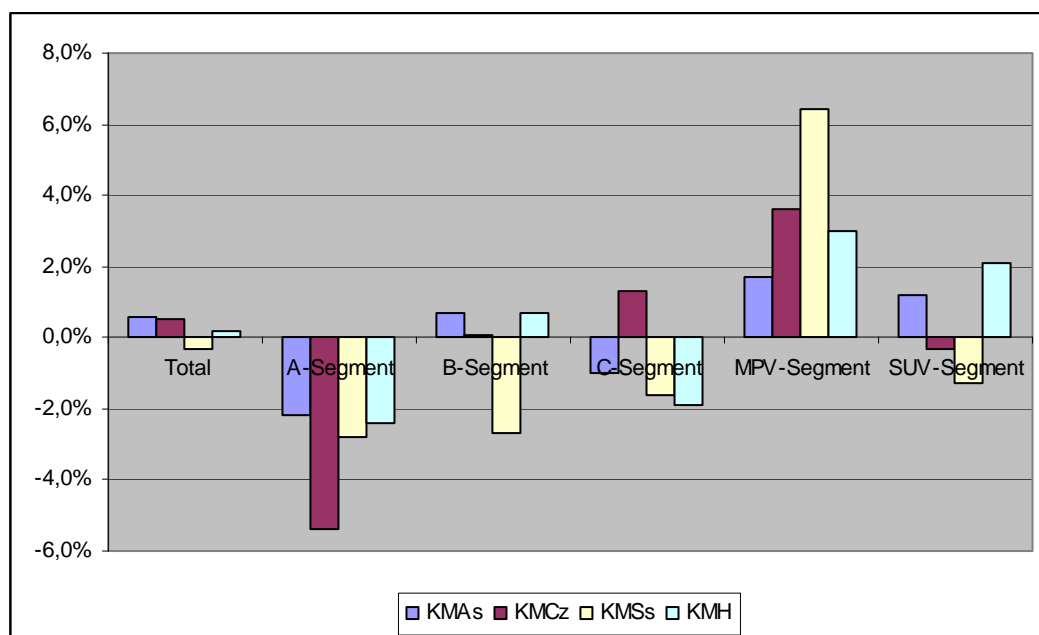


Figure 10 – Market share deviation overview per country January – May 2008 versus January – May 2010¹⁶⁷

	KMA	KMCz	KMSs	KMH
Total	0,6%	0,5%	-0,3%	0,2%
A-Segment	-2,2%	-5,4%	-2,8%	-2,4%
B-Segment	0,7%	0,1%	-2,7%	0,7%
C-Segment	-1,0%	1,3%	-1,6%	-1,9%
MPV-Segment	1,7%	3,6%	6,4%	3,0%
SUV-Segment	1,2%	-0,3%	-1,3%	2,1%

Table 8 - Market share deviation overview per country January – May 2008 versus January – May 2010¹⁶⁸

¹⁶⁷ Own research, 09/2010

¹⁶⁸ Own research, 09/2010

Despite the different basic economic figures as already described earlier in chapter 2.1, there are some similarities in terms of market share deviation. All four markets lost significantly market share in the A-segment, which can be explained through the end of the product life cycle of the currently sold KIA Picanto. However all four markets gained market share in the MPV-segment, which is due to the market launch of the new KIA Venga in early 2010.

There are also major differences when looking at the B-segment where only KMSs lost significantly market share, KMAs and KMHu could improve their market share and KMCz shows no market share change. Further in the C-segment only KMCz improved the market share and in the SUV-segment only KMAs and KMHu gained market share.

As the Austrian car market has been stagnating since years, it is recognizable that basically KMAs has the lowest amplitudes in the market share deviation except in the B-segment and total market figure. Looking at the car market data in the Czech Republic, Hungary and Slovakia the market B-segment and the total market dropped significantly in the compared period whereas in Austria the B-segment and the total market slightly expanded.

3.1.2 Brand development

The KIA brand identity in Europe and therefore also within the KMCE markets is measured through three major brand values that are trustworthy, dynamic and fun as shown below in figure 11. During a bi-annual computer assisted web interview new car buyers in the last five years or intenders who consider buying a car in the next two years are selected. Every target person is the key purchase decision maker. If the respondent qualifies in both ways for the interview (buyer (last five years) & intender (next two years)) then the interview is based on the segment of intention.

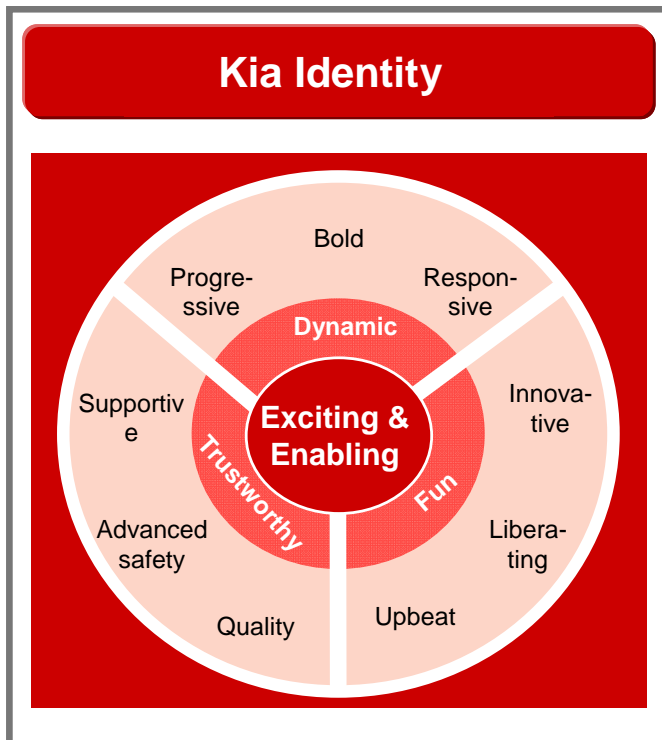


Figure 11 – 2010 KIA Motors Europe brand identity values¹⁶⁹

Firstly the result for the brand value **trustworthy** is calculated out of the number of all respondents who agree to the following three criteria:

1. KIA produces high quality cars,
2. KIA offers cars designed to meet a range of different needs,
3. KIA offers cars with advanced safety features.

Secondly, the result for the brand value **dynamic** is calculated out of the number of all respondents who agree to the following three criteria:

1. KIA offers cars with distinctive design,
2. KIA delivers great driving experience,
3. KIA always develops new ideas.

Thirdly, the result for the brand value **fun** is calculated out of the number of all respondents who agree to the following three criteria:

1. KIA is an innovative brand,
2. KIA makes cars that make it easier to enjoy life,
3. KIA is a brand with positive and optimistic attitude.

¹⁶⁹ Company internal resource, KIA Motors Austria brand tracking report, 2010

The following figure shows the development of the perception of the three brand values and the value “quality” of KIA in Austria and a comparison the main local competitors. The single value quality is additionally measured because the quality perception itself is one of the main drivers for customers when purchasing a car.

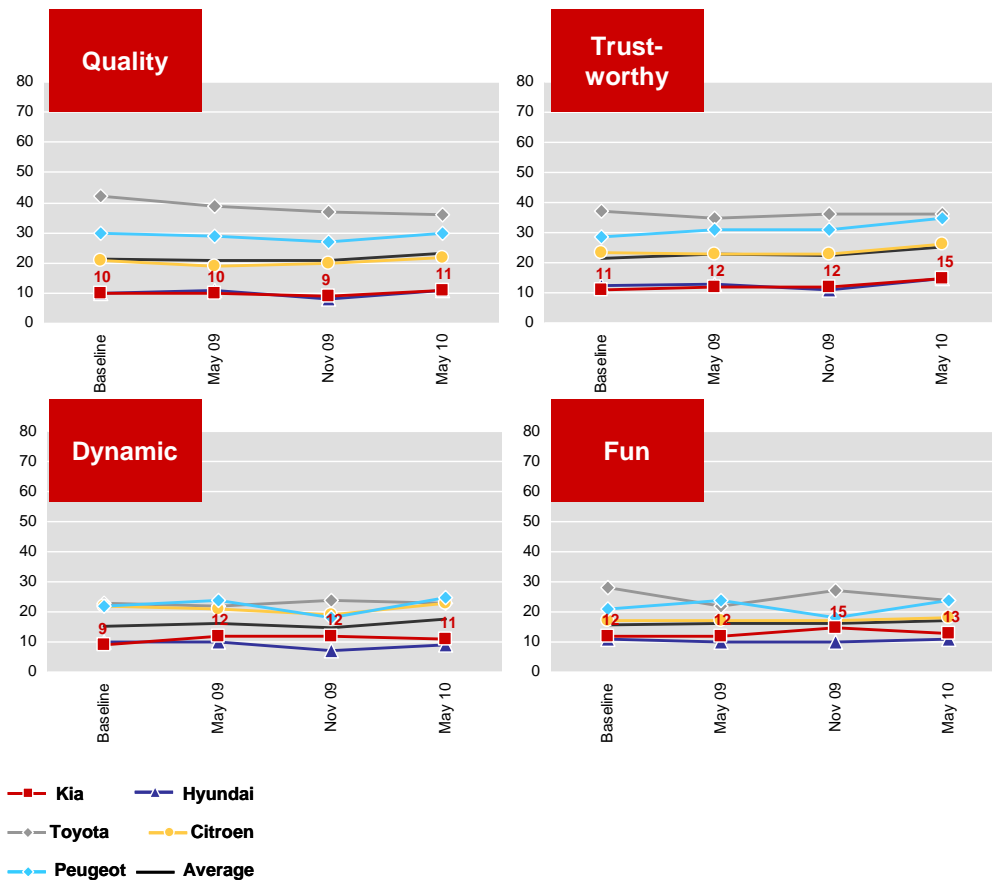


Figure 12 – KIA brand value perception time series in percentage in Austria¹⁷⁰

¹⁷⁰ Company internal resource, KIA Motors Austria brand tracking report, 2010

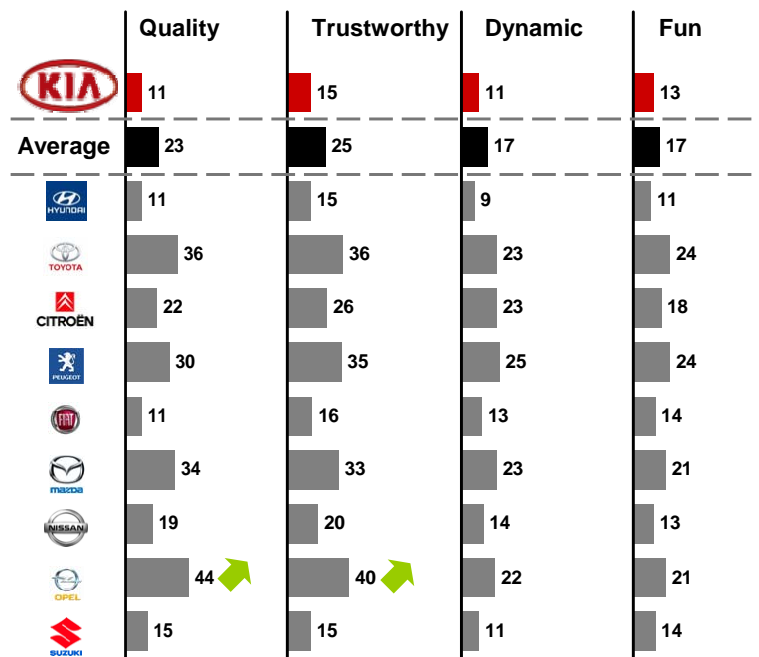


Figure 13 – KIA brand value perception in percentage in Austria compared with competitors¹⁷¹

Looking at figure 12, it can be seen that since the baseline study in October 2008 the rating in the four categories still remain unchanged. Just in the value category “trustworthy” there is a slight upward trend from 12% to 15% noticeable. This results from better scorings within criteria 1. KIA offers cars designed to meet a range of different needs and 2. KIA offers cars with advanced safety features.

Similar results in the four value categories for follower brands like KIA, Hyundai, Fiat and Suzuki are shown in figure 13. Hygiene factors “quality” and “trustworthy” are not established, yet. So far, the announcement of the seven year manufacturer warranty of KIA in Europe did not have an effect on KIA’s quality perception.

The next figures show the development of the perception of the three brand values and the value “quality” of KIA in the Czech Republic and compared to the main local competitors.

¹⁷¹ Company internal resource, KIA Motors Austria brand tracking report, 2010

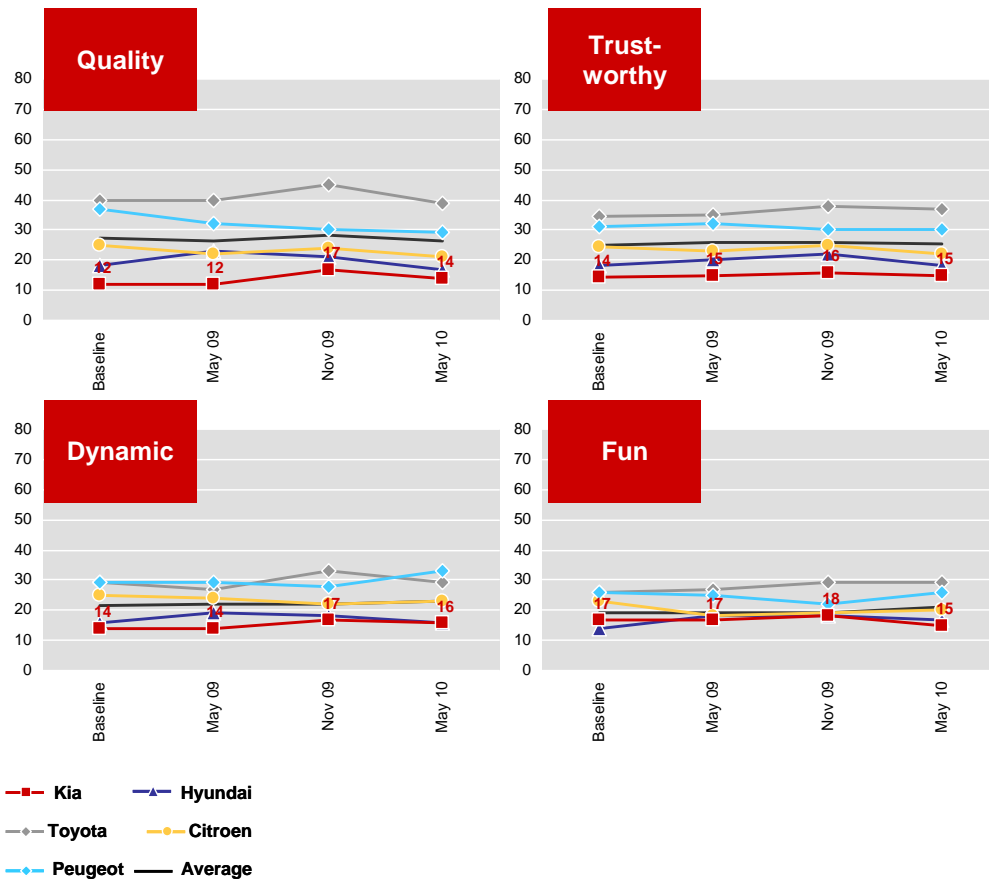


Figure 14 - KIA brand value perception time series in percentage in the Czech Republic¹⁷²

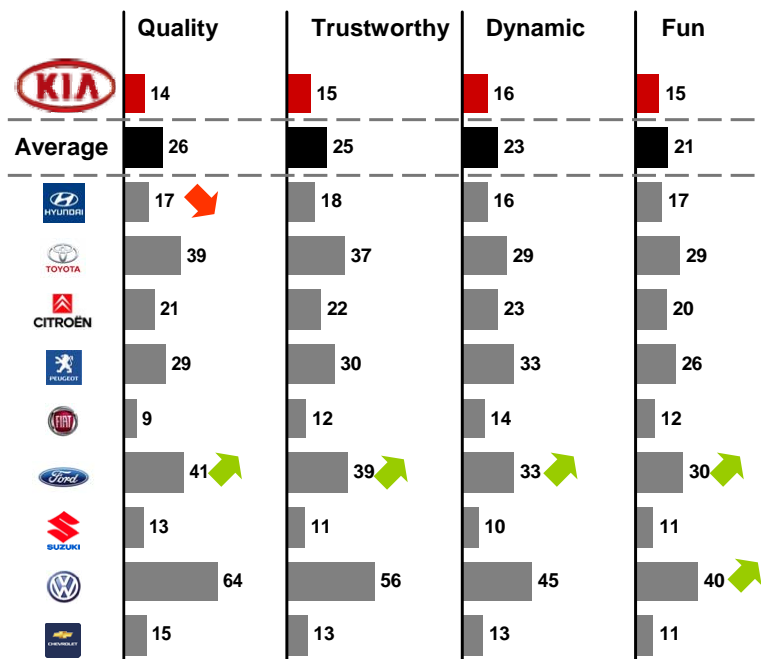


Figure 15 - KIA brand value perception in percentage in the Czech Republic compared with competitors¹⁷³

¹⁷² Company internal resource, KIA Motors Czech brand tracking report, 2010

Figure 14 shows that KIA's quality perception cannot maintain the slightly better results from November, further no positive development vs. May 2009 can be measured. All other image criteria remain stable on a mid-term perspective.

Comparing with competitors the results for KIA are slightly ahead other follower brands like Fiat, Suzuki and Chevrolet – but the gap to more established brands at hygiene factors “quality” and “trustworthy” is relatively wide as visible in figure 15. Hyundai e.g. shows a notable decrease in “quality” over the past year while Ford improved among all key image criteria.

The following figures show the development of the perception of the three brand values and the value “quality” of KIA in Slovakia and compared to the main local competitors. In 2006 KIA Motors Corporation opened a newly build factory in Zilina with a yearly capacity of 300.000 vehicles where it produces the KIA cee'd and KIA Sportage for the European market.

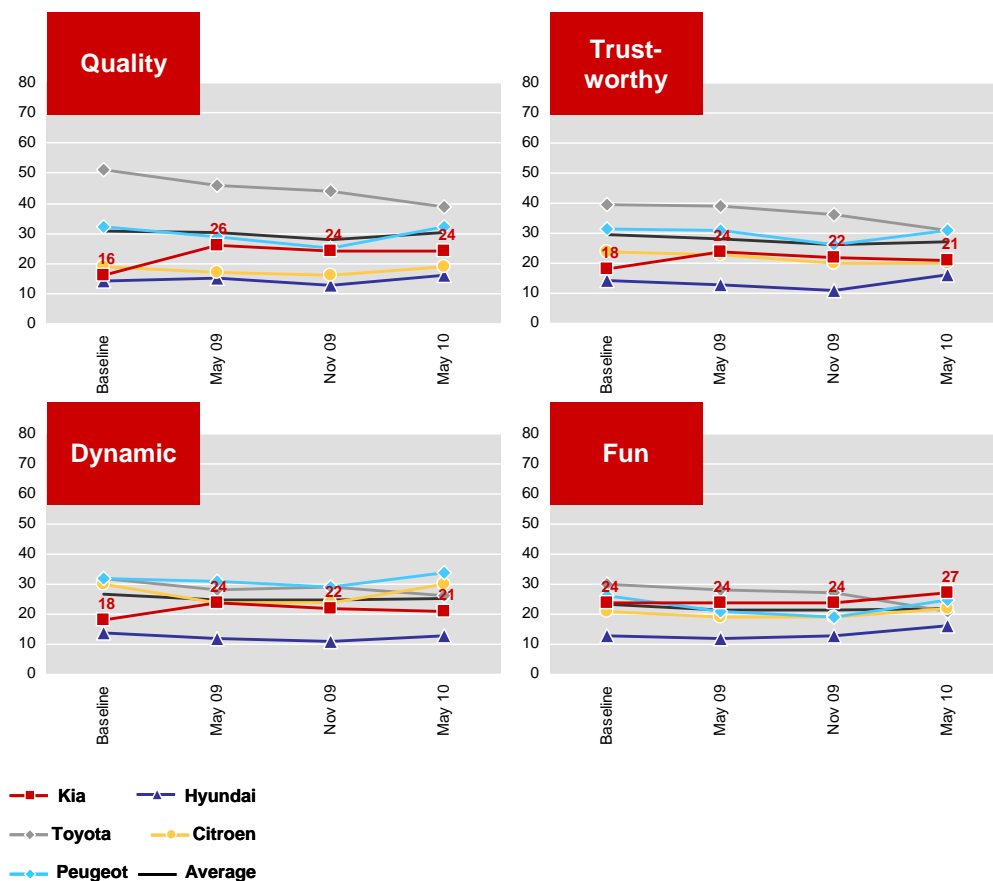


Figure 16 - KIA brand value perception time series in percentage in Slovakia¹⁷⁴

¹⁷³ Company internal resource, KIA Motors Czech brand tracking report, 2010

¹⁷⁴ Company internal resource, KIA Motors Slovakia brand tracking report, 2010

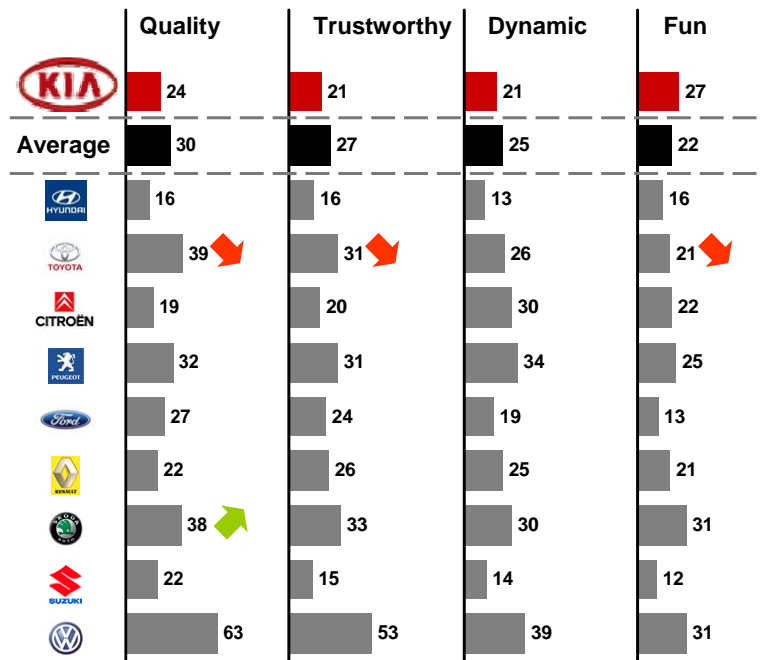


Figure 17 - KIA brand value perception in percentage in Slovakia compared with competitors¹⁷⁵

Ratings for KIA on identity image scores remain stable within the last year, but it measures an overall positive development for “quality” compared to the baseline as shown in figure 16. A significantly negative trend for Toyota on “quality” and “trustworthy” is visible, probably also a result of recent quality problems and negative PR happened in the 1st half of 2010.

In Slovakia, KIA is perceived as being almost as “fun” a brand as VW and Skoda and is rated clearly better than Ford, Hyundai and Suzuki. Nevertheless the hygiene factor “quality” is not yet fully established, but KIA is also not at the bottom end of the market regarding this aspect, as it is the case in the three other KMCE markets.

Finally the development of the perception of the three brand values and the value “quality” itself of KIA in Hungary and compared to the main local competitors is shown in the following figures.

¹⁷⁵ Company internal resource, KIA Motors Slovakia brand tracking report, 2010

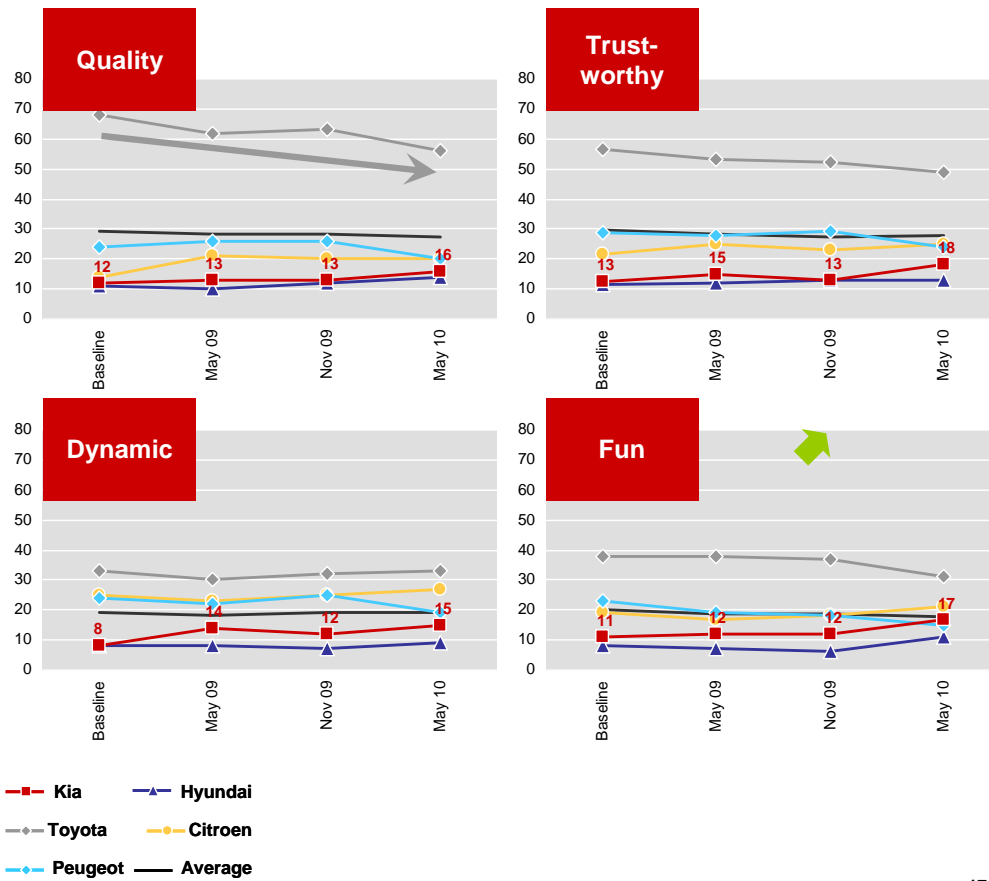


Figure 18 - KIA brand value perception time series in percentage in Hungary¹⁷⁶

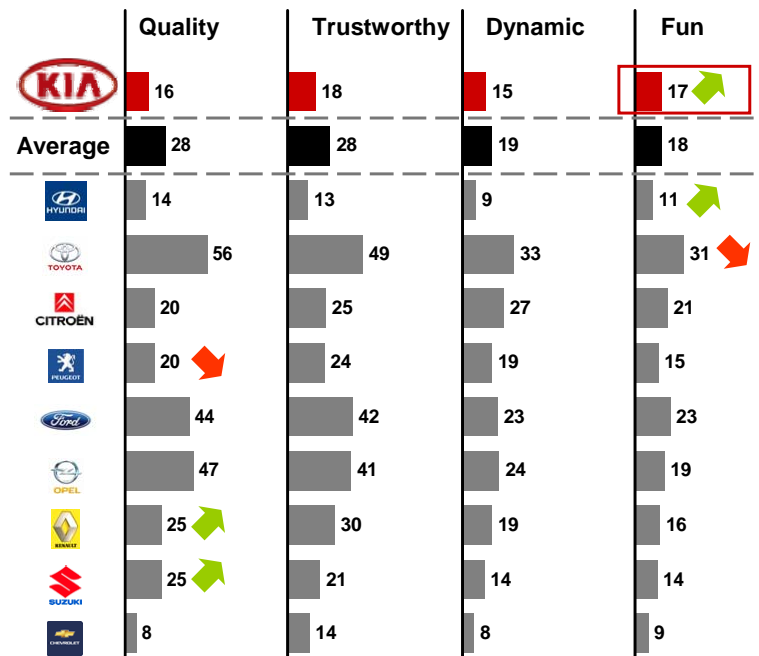


Figure 19 - KIA brand value perception in percentage in Hungary compared with competitors¹⁷⁷

¹⁷⁶ Company internal resource, KIA Motors Hungary brand tracking report, 2010

¹⁷⁷ Company internal resource, KIA Motors Hungary brand tracking report, 2010

During the past research waves, KIA's results remain stable at nearly all key image dimensions – after the recent positive development, “fun” can almost reach the average as shown in figures 19 and 20. Toyota indicates to follow a slight negative trend at “quality” and “trustworthy” since the baseline study which may have the same reason as in Slovakia, Austria or Hungary.

Among the key image criteria, KIA together with Hyundai and Chevrolet achieve the lowest results, but KIA and Hyundai show a notable increase in the dimension “fun”. KIA's brand image dimensions do not benefit from the improvement on “warranty” (yet). Toyota is the strongest competitor across all dimensions, but also lost in terms of “fun”.

The next figure and table show the brand value perception of KIA in the four countries in May 2010 as an overview.

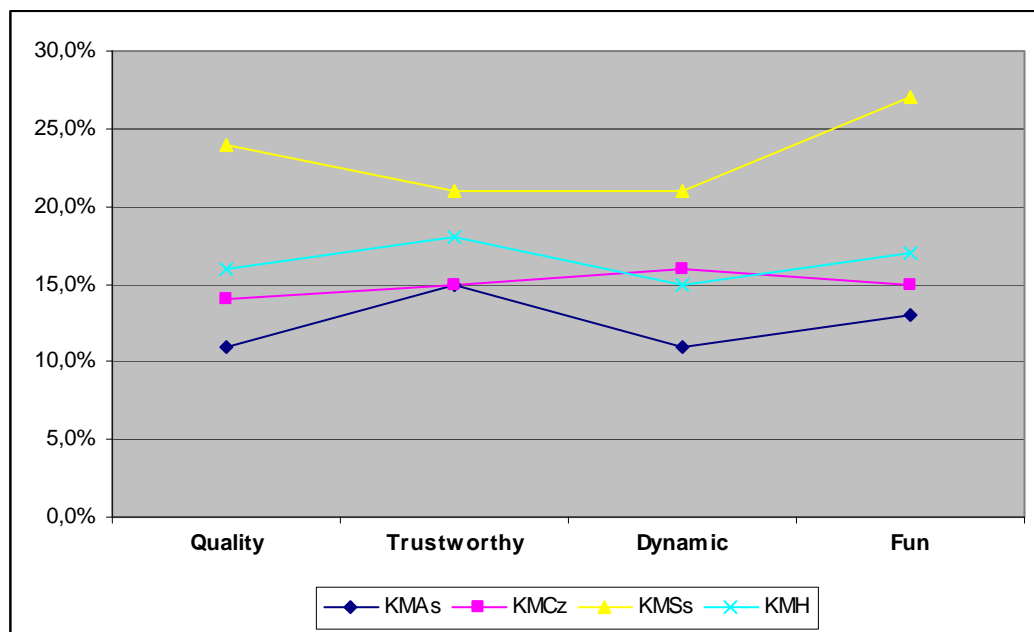


Figure 20 – Brand value perception of the KMCE markets overview¹⁷⁸

¹⁷⁸ Own research, 09/2010

	KMAs	KMCz	KMSs	KMH
Quality	11,0%	14,0%	24,0%	16,0%
Trustworthy	15,0%	15,0%	21,0%	18,0%
Dynamic	11,0%	16,0%	21,0%	15,0%
Fun	13,0%	15,0%	27,0%	17,0%

Table 9 - Brand value perception of the KMCE markets overview¹⁷⁹

As visible in figure 20 the defined brand values of KIA are most perceived in Slovakia. This result from the fact that KIA Motors Corporation decided to set up a new factory and invest heavily in the country. From 2004 onwards KIA was present in the media landscape and until now is in the daily press headlines few times a quarter. This additional PR caused “advertising” presence boosted also unaided awareness levels and resulted in high brand value scoring levels. KMHu has the second best ranking among the KMCE markets followed by KMCz.

Finally KIA in Austria is still far away from achieving a proper brand image when measuring the defined three brand values. As Austria is the most matured and even old Western European market it may need much more time and advertising budget to break through the brand values in order to develop the desired brand image. At least in terms of “trustworthy” they can catch up with KIA Motors Czech.

3.2 Analysis of the marketing mix of KIA Motors Central Europe

3.2.1 Standardization of product policy within KIA Motors Central Europe

In the following the results of the expert opinion survey¹⁸⁰ concerning section 1 in the interview guideline – product policy – are presented.

3.2.1.1 The technical product and brand name

The findings relate to the selling of the complete model range of KIA in the markets and if there are specific technical requirements necessary. Considering the offered

¹⁷⁹ Own research, 09/2010

¹⁸⁰ See the appendix for the interview guideline.

product range within the KMCE markets there are minor differences in the availability of products and no general different technical requirements which lead to a more or less standardized result. KMA offers 9 models¹⁸¹, KMCz offers 10¹⁸², KMSs offers 11¹⁸³ and KMHu offers the same line up than KMCz.

In all three former Eastern Europe markets the KIA Magentis, a four door sedan is on sale and in addition in Slovakia the light commercial vehicle KIA K2900 is offered on the market. Austria does not offer the KIA Magentis because the market potential for D-Segment four door sedans is very limited (< 5% of the total segment) and the top seven among 27 brands in this segment occupy over 80% of the sales volume. Out of that 80% of the vehicles are sold as company cars where the potential demand for buying a KIA is still very limited.

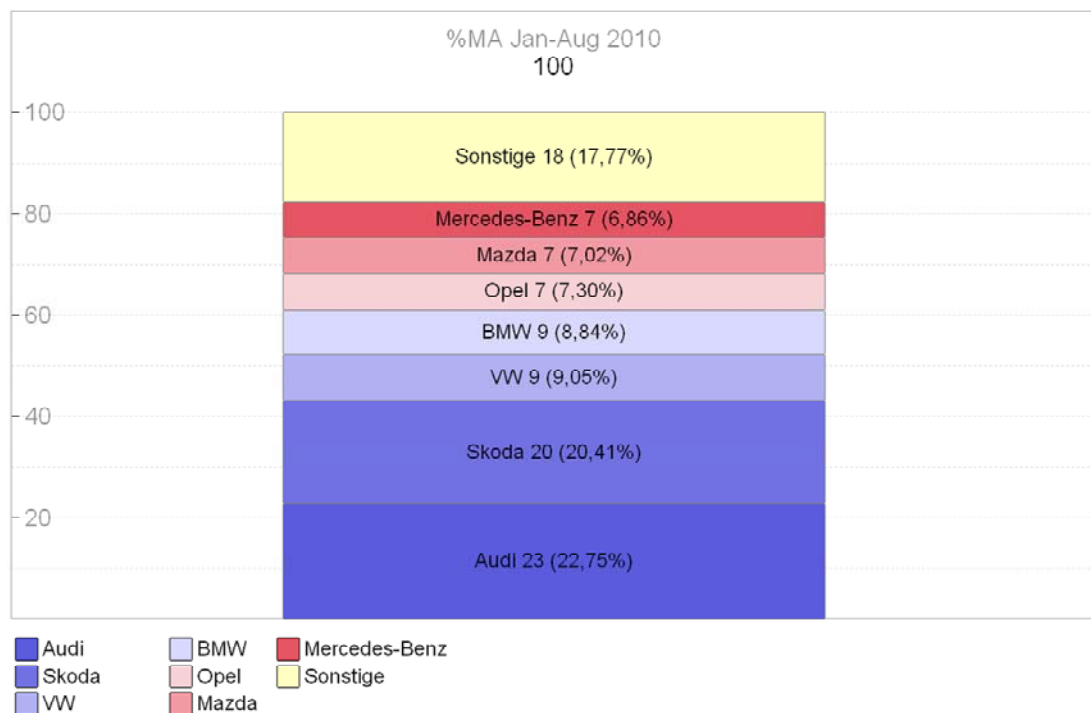


Figure 21 – Sales per brand / D-Segment in Austria January until August 2010¹⁸⁴

The KIA K2900 is sold in Slovakia because KMSs managed to jump into this segment through focusing on small enterprises and sole traders with very aggressive offers concerning prices. However there are product technical

¹⁸¹ Picanto, Rio, Venga, cee'd, Carens, Carnival, Soul, Sportage, Sorento

¹⁸² Picanto, Rio, Venga, cee'd, Magentis, Carens, Carnival, Soul, Sportage, Sorento

¹⁸³ Picanto, Rio, Venga, cee'd, Magentis, Carens, Carnival, Soul, Sportage, Sorento, K2900

¹⁸⁴ See, MIS - Market Information System, January – August 2010

disadvantages when comparing the K2900 to the recently launched main sellers like Citroen Jumper, Ford Transit, Fiat Scudo, Renault Master or Opel Movano because customer required specifications especially in Austria like driver and passenger airbags, anti-lock brake system, electronic stability control or simple rear headrests are not available from factory. Therefore the K2900 is not sold in KMAs, KMCz and KMHu.

Coming back to the passenger car market there are no important differences in terms of technical requirements because all four countries are depending on the European Union whole vehicle type approval (WVTA) which defines the overall technical standards for vehicles sold in the European Union.

Further all four KIA subsidiaries are using the same brand name for the products in their markets. Therefore the brand names are also standardized.

3.2.1.2 Trim lines and specification

The analysis of the trim lines and specifications of the KIA product range in the four markets delivers a quite differentiated result as such.

KIA Motors Austria uses six single standard trim line/level names across the whole product portfolio as shown in the figure below.

KMAs	Trim1	Trim2	Trim3	Trim4	Trim5	Trim6	# Trims	# Options
Picanto	Hot	Cool	Motion		Active Pro		4	1
Rio	Hot	Cool		Active	Active Pro		4	1
cee'd		Cool	Motion	Active	Active Pro	xR	5	4
Magenits								
Venga		Cool	Motion	Active	Active Pro		5	7
Carens		Cool		Active	Active Pro		3	2
Carnival			Motion	Active	Active Pro		3	1
Soul		Cool	Motion	Active	Active Pro		4	5
Sportage		Cool	Motion	Active	Active Pro		4	6
Sorento		Cool	Motion	Active	Active Pro		4	7
K2900								

Figure 22 – Product portfolio & line up of KMAs¹⁸⁵

¹⁸⁵ Own research, 09/2010

As entry trim version “Hot” is chosen as trim line name across the models, defining a specification without climate control as main difference to the more expensive and better equipped trim lines. The top equipped trim line is called “xR” and includes so-called sport items as specific sporty looking bumpers, leather seats and so on. The number of trim levels per model varies between three (KIA Carens, KIA Carnival) to five (KIA cee’d, KIA Venga). However the research identified that even if the same trim line name across models (KIA cee’d Active, KIA Carens Active, KIA Sportage Active, etc.) is given, the detailed specification per model differs in certain single specification items.¹⁸⁶

Offered single selectable options range between one selectable item (metallic colour) and seven selectable single items per model¹⁸⁷.

The next figure presents the product portfolio as available in the Czech Republic market.

KMCz	Trim1	Trim2	Trim3	Trim4	Trim5	Trim6	Trim7	# Trims	# Options
Picanto			Active	Active Plus	Comfort	Comfort Plus		4	4
Rio		Fresh	Active	Active Plus	Comfort			4	3
cee’d		Fresh	Active	Active Plus	Comfort	Comfort Plus	Exclusive	6	3
Magenits			Active		Comfort		Exclusive	3	4
Venga		Fresh	Active		Comfort	Comfort Plus	Exclusive	5	5
Carens			Active		Comfort	Comfort Plus		3	4
Carnival			Active		Comfort	Comfort Plus		3	3
Soul	Base		Active		Comfort	Comfort Plus	Exclusive	5	5
Sportage			Active	Active Plus	Comfort	Comfort Plus	Exclusive	5	2
Sorento			Active		Comfort		Exclusive	3	6
K2900									

Figure 23 - Product portfolio & line up of KMCz¹⁸⁸

KMCz uses seven different trim names which represent different specifications starting with a so called “Base” trim line version and ending up in a so called “Exclusive” trim line version. Looking at the number of trims per model it varies between three standard trim lines (KIA Magentis, KIA Carens, KIA Carnival) and six standard trim lines (KIA cee’d). The same result as already identified in Austria, that one trim line name can consist of different equipment items when comparing to other models, is also valid for the line up of KMCz models.

¹⁸⁶ For example the KIA cee’d **Active** trim line includes a hill assist control amongst others whereas the KIA Carens **Active** not (does not include this).

¹⁸⁷ If you buy for example a KIA cee’d Active, you can select in addition a factory built in navigation system, sunroof and metallic colour as an option.

¹⁸⁸ Own research, 09/2010

The number of selectable options range from three selectable options (KIA Rio, KIA cee'd, KIA Carnival) to six selectable single options (KIA Sorento).

KIA Motors Sales Slovensko's actual product portfolio is shown as an overview in the following figure 24.

KMSs	Trim1	Trim2	Trim3	Trim4	Trim5	Trim6	# Trims	# Options
Picanto			LX	LX+	EX		3	4
Rio			LX	LX+	EX		3	4
cee'd	L		LX		EX	TX	4	16
Magenits			LX		EX	TX	3	5
Venga		Base	LX		EX	TX	4	16
Carens			LX		EX		2	4
Carnival			LX		EX		2	3
Soul			LX		EX	TX	3	16
Sportage		Base	LX		EX		3	14
Sorento			LX		EX		2	11
K2900			S/C		D/C		2	3

Figure 24 - Product portfolio & line up of KMSs¹⁸⁹

Like in Austria, KMSs uses six single trims to represent the standard available trim lines for the Slovakian customer. The introductory specifications "L" and "Base" are just offered for 3 models, "LX" and "EX" are available for all products and "LX+" or "TX" is only defined for some specific cars. The number of trim level names differs from two (KIA Sorento, KIA K2900) to a maximum of four (KIA cee'd, KIA Venga) per model. Also within the offered trim lines per product in Slovakia one trim line name can consist of different equipment items when comparing to other models. Finally the number of selectable options ranges from three (KIA Carnival, KIA K2900) up to sixteen (KIA cee'd, KIA Venga, KIA Soul) available single items per model which is quite different to KMAs and KMCz so far.

In the fourth market, Hungary, KIA is selling a product portfolio like illustrated in figure 25.

¹⁸⁹ Own research, 09/2010

KMH	Trim1	Trim2	Trim3	Trim4	Trim5	Trim6	Trim7	Trim8	Trim9	# Trims	# Options
Picanto			LX Cool							1	2
Rio					EX	EX Safety				2	3
cee'd	L			LX	EX				TX	3	14
Magenits					EX		EX Premium	EX Premium Plus		3	3
Venga		LX Base		LX	EX				TX	4	12
Carens				LX	EX					2	5
Carnival					EX					1	3
Soul		LX Base		LX	EX					3	12
Sportage				LX	EX		EX Premium			3	11
Sorento				LX	EX		EX Premium			3	6
K2900											

Figure 25 - Product portfolio & line up of KMHu¹⁹⁰

There are nine single trim line names while “L” and “LX Base” representing the entry versions without climate control amongst other things and “EX Premium Plus” or “TX” are defining the best equipped trim lines. The number of trims reaches from one trim line per product (KIA Picanto) up to four trim lines per model (KIA Venga). Also in Hungary one trim line name can include different single equipment items when comparing between models (KIA cee’d LX versus KIA Sorento LX). The same trim line name “LX” does not mean the same equipment level.

However starting from the entry trim line name “L” for the KIA cee’d the following trim line name “LX” delivers more standard equipment which also results in a higher market selling retail price.

The number of selectable options ranges from two (KIA Picanto) to fourteen (KIA cee’d) available single items per model, similar high numbers as offered by KMSs.

In total 22 different single trim level names are identified (L, LX, LX+, LX Base, LX Cool, EX, EX Safety, EX Premium, EX Premium Plus, TX, Hot, Base, Fresh, Cool, Motion, Active, Active Plus, Active Pro, Comfort, Comfort Plus, Exclusive, xR) when looking at the product portfolio of the four subsidiaries. There could be no specific reason identified during the interviews why those specific trim level names were selected to describe the created trim lines. However each market confirmed the assumption that the ranking of trim level names within all models shall always be the same.¹⁹¹

¹⁹⁰ Own research, 09/2010

¹⁹¹ For example in Austria a „Cool“ version must be always better equipped in terms of trim value than a “Hot”, a “Motion” must be better equipped than a “Cool”, an “Active” must be better equipped than a “Motion”, an “Active Pro” must be better equipped than an “Active” and a “xR” must be better equipped than an “Active Pro”.

Within the KMCE markets the KIA cee'd and the KIA Venga have the highest number of single trim level names accumulated as shown in figure 26 below.

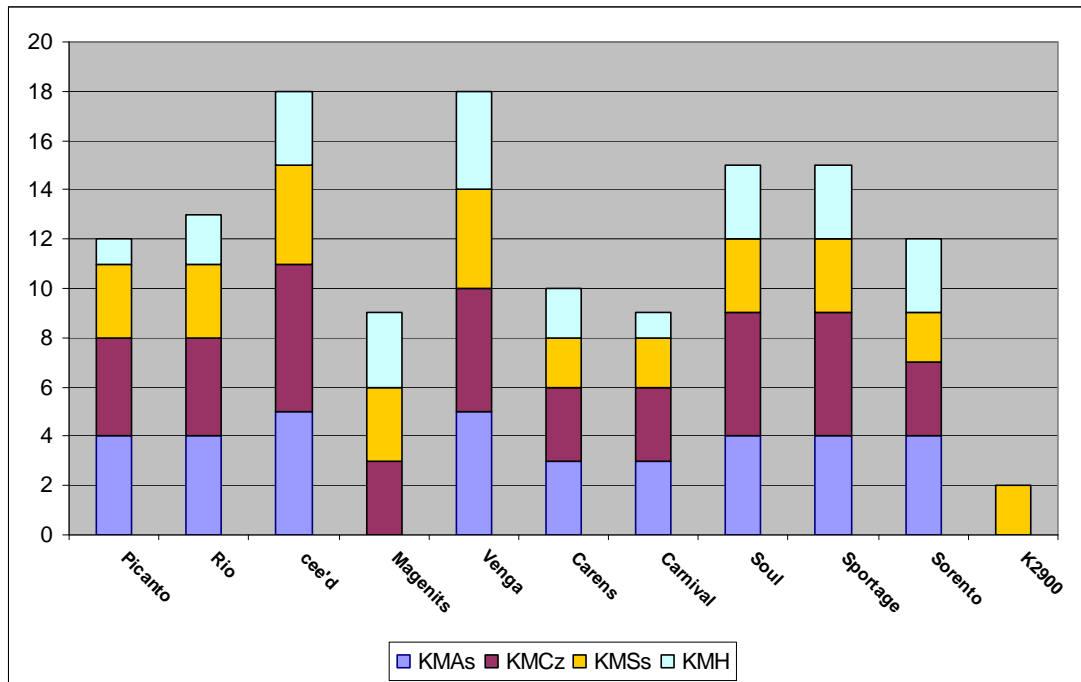


Figure 26 – Number of single trim level names per model accumulated¹⁹²

KIA Soul and KIA Sportage are ranked as 2nd most, followed by KIA Rio, KIA Picanto, KIA Sorento, KIA Carens, KIA Magentis, KIA Carnival and finally KIA K2900.

Figure 27 shows the number of trim level names per model and figure 28 the number of available single options per model compared between the countries.

¹⁹² Own research, 09/2010

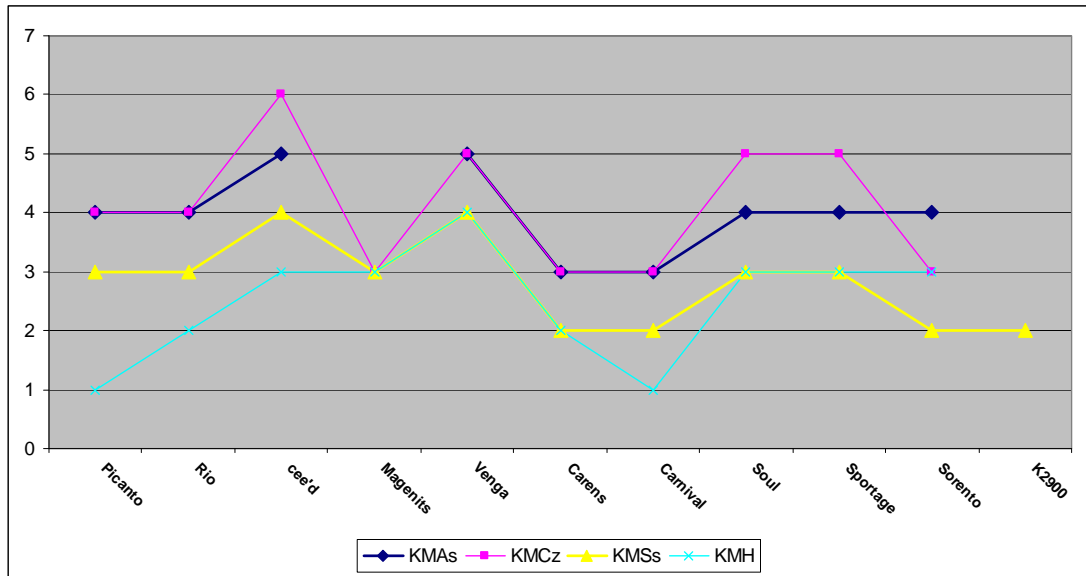


Figure 27 – Number of single trim level names per model¹⁹³

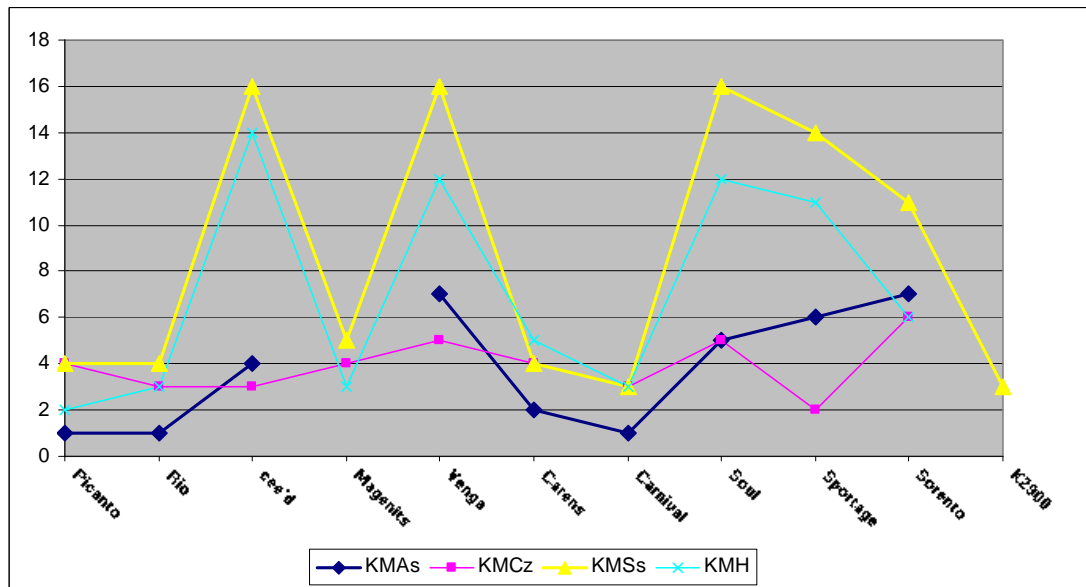


Figure 28 - Number of single selectable options per model¹⁹⁴

From the interview it became clear that there are two reasons that have significant influence on that ranking. Firstly, the more units a country sells the more different trim lines can be offered. Secondly, but of same importance, is the fact that KIA cee'd, KIA Venga and KIA Sportage are produced in the European factory in Zilina, Slovakia¹⁹⁵ and the markets are saving at least 5-6 weeks shipment time from Korea into the market. Therefore the customer receives a factory ordered product earlier.

¹⁹³ Own research, 09/2010

¹⁹⁴ Own research, 09/2010

¹⁹⁵ All other KIA models are produced in Korea.

In general customer is not willing to wait at least in average 3 ½ months for a factory order from Korea.¹⁹⁶

Going further into detail it is realized that KMAs and KMCz are having similar numbers of trim level names and similar numbers of selectable options while on the other hand KMSs and KMHu are having similar numbers of trim level names as well as selectable options as shown in figure 30 below.

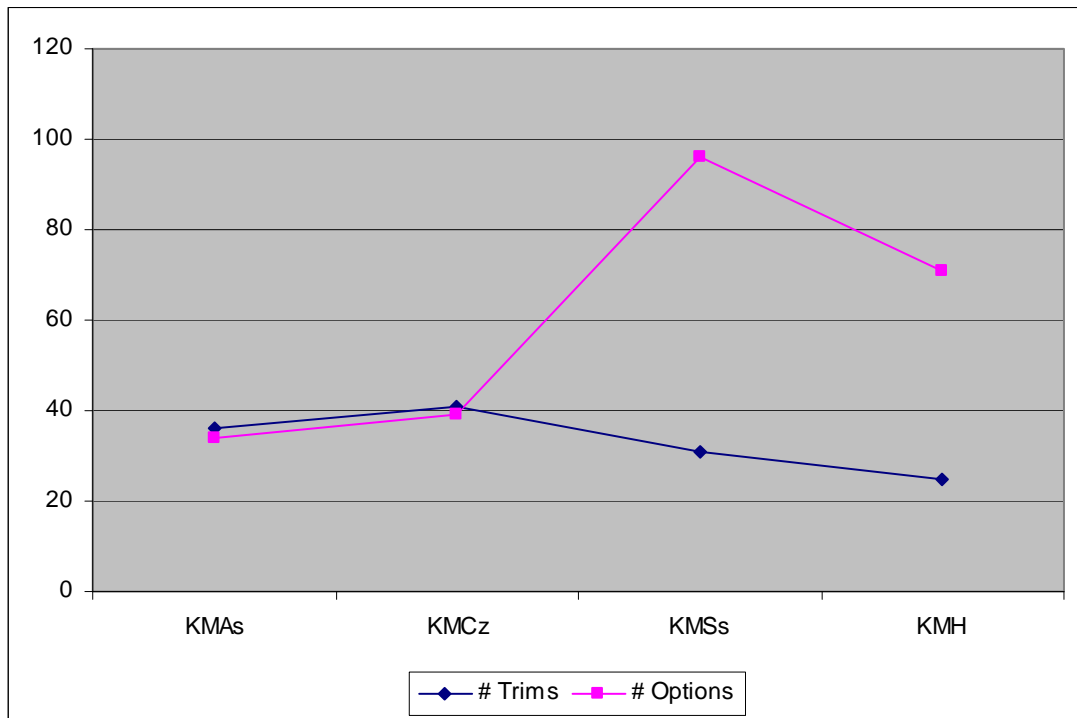


Figure 29 – Total number of trim level names and single selectable options per market¹⁹⁷

This finding mainly results from the different information technology system KMSs and KMHu are using compared to KMAs and KMCz. While KMAs and KMCz are operating with the European corporate SAP system, KMHu and KMSs are still operating with locally suited solutions where multiple option combinations can be easier reflected in the dealer ordering system and a specific interface to the corporate factory ordering system has been established. Another reason comes from the general country specific strategy to offer both less standard trim lines and more options or vice versa.

¹⁹⁶ To solve this situation the subsidiaries build some stock in their local markets to ensure a faster delivery of Korean build products but therefore generally limit the total number of trim level names and options.

¹⁹⁷ Own research, 09/2010

By all means it is confirmed by the interviews that the four subsidiaries did not compare each other's model line ups in terms of trim level names and specifications similarities.

3.2.1.3 Special action models

Special action models define temporarily limited trim levels with an extraordinary value for money ratio. KMAs uses the same special action model trim level name for different models¹⁹⁸ and standard trim lines by adding some local content to the model¹⁹⁹. KMCz and KMSs labelling the special action models trim levels with different names²⁰⁰ and order new specific trim lines in addition to the standard trim level portfolio from factory. KMHU is not offering special action models at all.

KIA Motors Austria is generally introducing special action models once per year, KMCz and KMSs are introducing them several times a year. The reasons seem to be similar namely due to life cycle stimulation or local competitor actions in order to create short to midterm sales push through internal challenges or develop special run out models. The demand and point of time for creating such special action models are quite different per subsidiary.

Therefore the management of special action models across the four markets is not standardized.

3.2.2 Standardization of pricing policy within KIA Motors Central Europe

Remembering the basic economic figures in chapter 2.1, price levels or especially purchasing power, one is aware of a big gap between Austria and the three other former Eastern European markets as summarized in the next figure. When Austria is at or above the EU average, the Czech Republic, Slovakia and Hungary have a GDP per capita less than 50% of Austria's and have comparative price levels less

¹⁹⁸ KIA cee'd "Navigator", KIA Rio "Navigator", KIA Picanto "Navigator"

¹⁹⁹ In case of the „Navigator“ model each vehicle is equipped with a mobile navigation cell phone.

²⁰⁰ KIA Picanto „Ready“, KIA Rio „Play“, KIA cee'd „Navigator“

than 40% of Austria's. Another interesting index is the purchasing power which can be shown through the annual net income divided by the cost of the entire basket of commodities excluding rent and New York is set as a benchmark at 100%. As visible in figure 30 the differences are very high between Austria and the three other countries. However one can also see that there are further differences between the Czech Republic, Slovakia and Hungary, whereas Hungary has the weakest purchasing power available as drawn in figure 31.

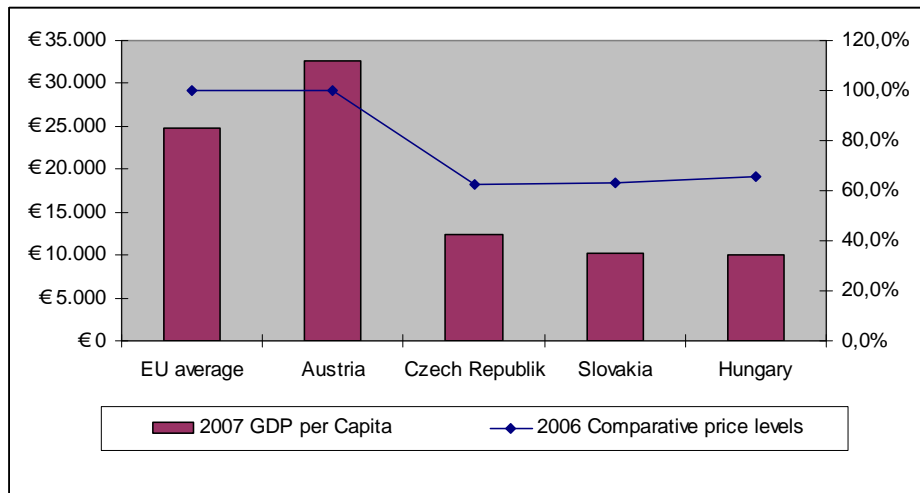


Figure 30 – Comparison of GDP per capita and comparative price levels²⁰¹

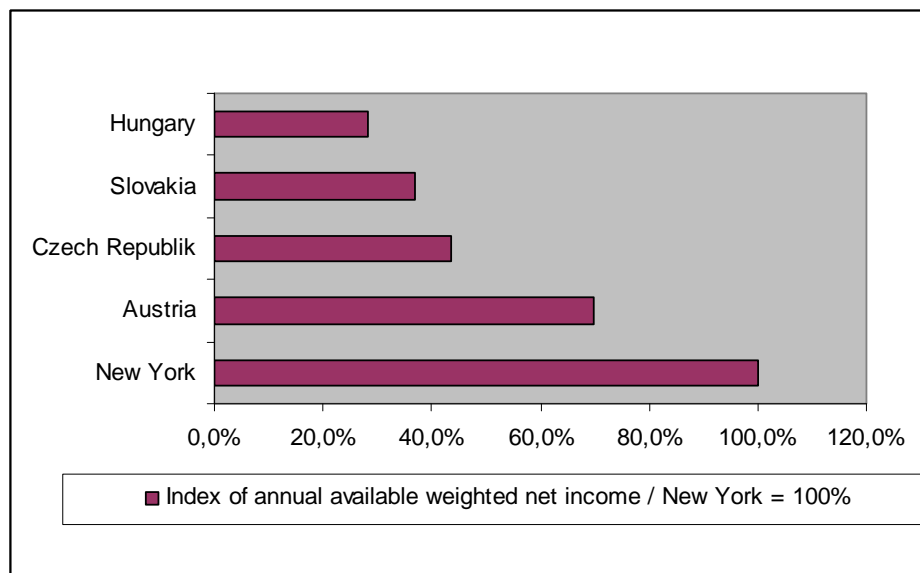


Figure 31 - Annual net income divided by the cost of the entire basket of commodities excluding rent²⁰²

²⁰¹ See chapter 2.1, pp. 15-17

²⁰² See chapter 2.1, p. 19

3.2.2.1 Market selling retail prices

The question if KIA Motors Europe standardizes the market selling retail prices of the models between the four countries has been answered generally with no by all respondents. However KME sets certain targets in terms of competitiveness index²⁰³ per model when comparing the MSRP to an average MSRP of a certain set of competitor models. Further, no detailed comparisons of MSRPs per model between the countries by the four subsidiaries are executed. However it is answered by Austria that KMCz, KMSs and KMHu are selling their products at a much cheaper MSRPs than in Austria because of the basic economic differences as highlighted in the introduction before and because the average equipment level of the products is generally lower than in Austria.²⁰⁴ After questioning if KMAs is confronted with imports by such vehicles from Austrian customers from these countries, this has been denied. The following figure confirms the collected answers regarding the MSRP levels between in the countries.

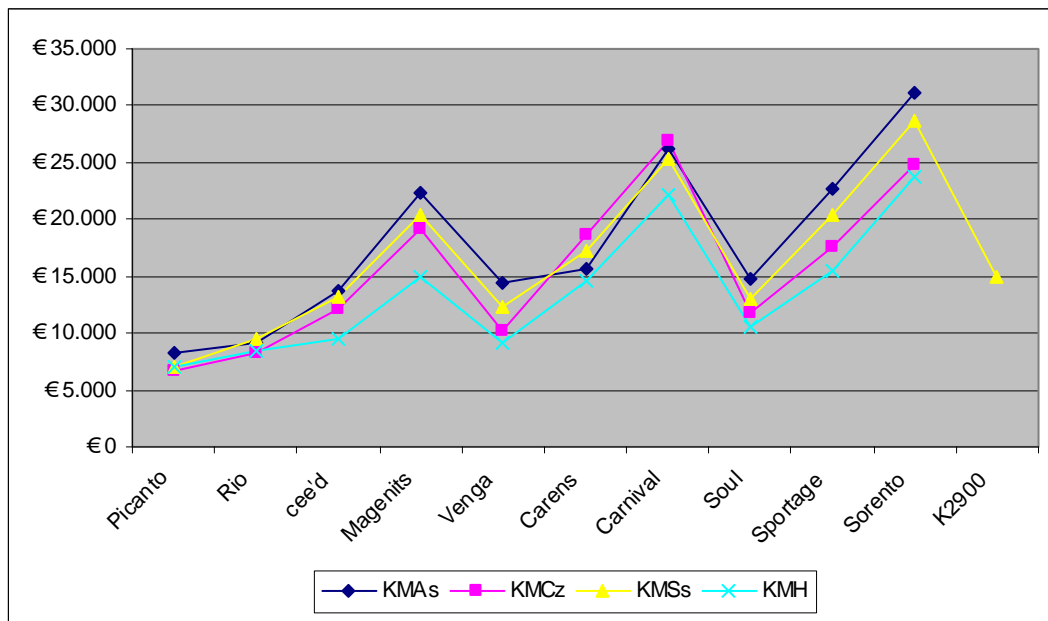


Figure 32 – Average net market selling retail prices per model in the KMCE markets²⁰⁵

As each of the four countries has different governmental taxation rules, the compared MSRPs are therefore net market selling retail prices excluding all local

²⁰³ For example the MSRP of the KIA Picanto has to be 93% of the average MSRP of a certain set of competitor models after specification adjustment.

²⁰⁴ For example in the C-Segment in Austria a manual climate control is requested by the market as a standard whereas in the Czech Republic, Slovakia or Hungary it is not.

²⁰⁵ Own research, 09/2010

taxes. An overview of the governmental taxation can be seen in figure 33. Except in case of KIA Rio, KIA Carens and KIA Carnival the net MSRP of Austria is always the highest. The difference for these three models is explained through a permanent MSRP reduction caused by the competitive environment in Austria in these vehicle segments.

This finally confirms the researched result that KIA Motors Europe does not standardize the MSRP of the models across the four markets. The different economic situations per country including the general local price level of vehicles in the country, different competitive situations which sometimes require permanent MSRP reductions and different taxation systems do not favour for standardization.

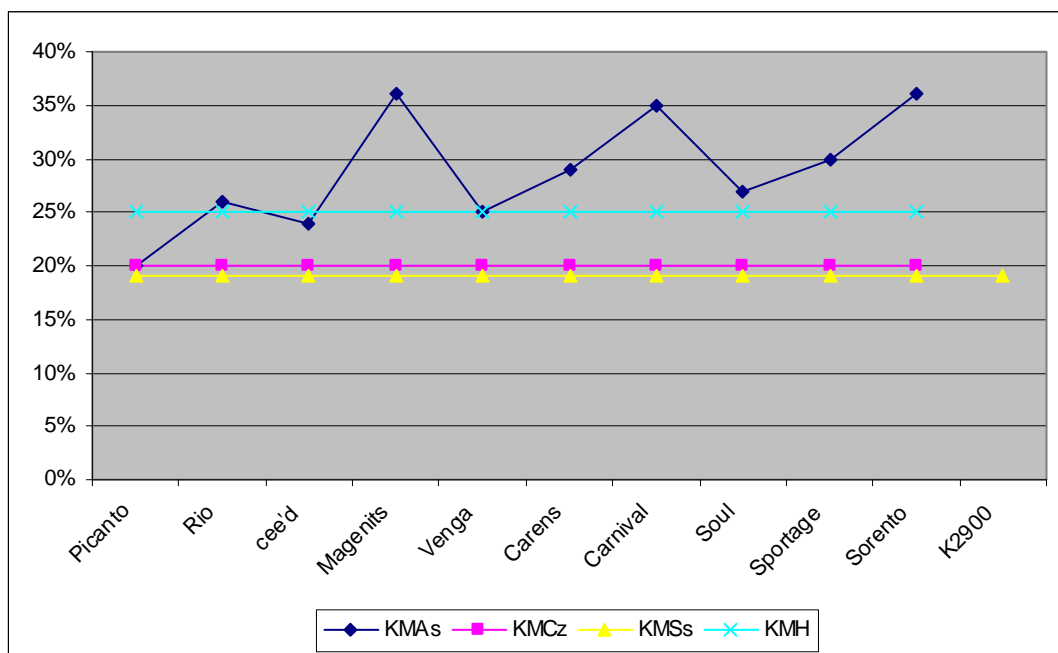


Figure 33 – Vehicle added average taxation per model in the KMCE markets²⁰⁶

In the Czech Republic and Slovakia the taxation is nearly on the same level whereas Hungary is charging 5-6% more compared to the Czech Republic and Slovakia. Even higher is the taxation in Austria where the customer has to pay in addition to the net market selling retail price a certain percentage of fuel consumption tax including a certain amount depending on the CO₂, NO_x and particle mass emission plus 20% value added tax on this basis of calculation.²⁰⁷

²⁰⁶ Own research, 09/2010

²⁰⁷ The fuel consumption tax ranges between 0% and maximum 16% and is added to the net customer retail price. In addition to the percentage, if you are below 80g/km (for diesel) and 60g/km of NO_x emission € 200 can be deducted, if you are below 120g/km CO₂ emission another € 300 can be deducted but if you are above 160g/km CO₂ Emission you have to pay

Finally when adding the local taxations to the net prices the price gap between Austria and the other markets further increases as shown below.

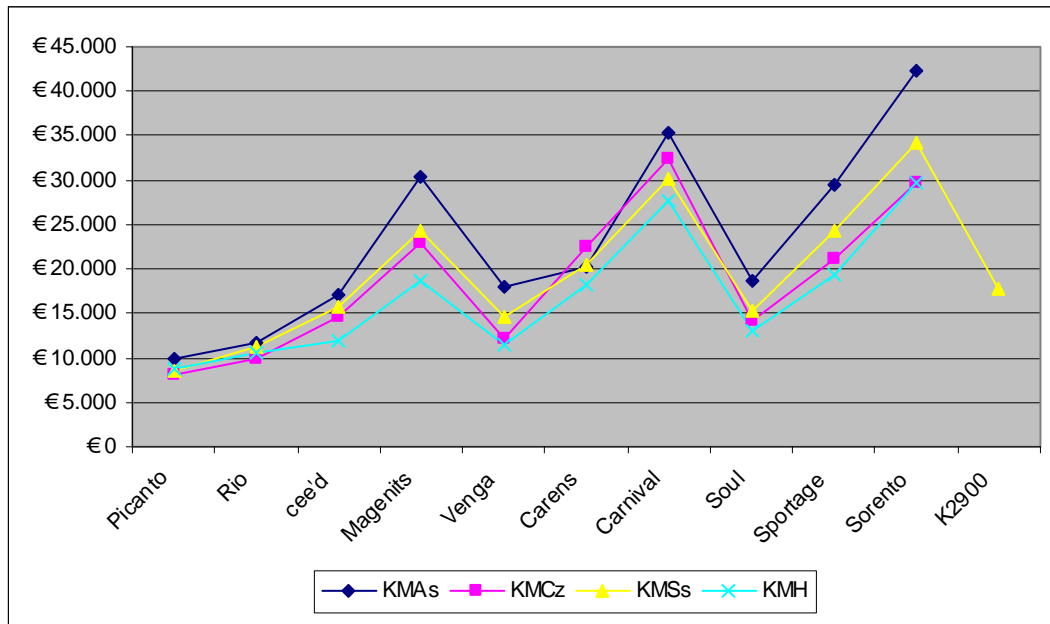


Figure 34 - Average market selling retail prices gross per model in the KMCE markets²⁰⁸

Remembering the four countries ranking in terms of purchasing power index it goes mostly in line with the gross MSRPs where Austria has the most expensive vehicle prices followed by the Czech Republic, Slovakia and Hungary. It has to be considered as well that the vehicle prices in Hungary are most expensive for the population in relation to the available net income, followed by the Czech Republic, Slovakia and Austria as shown in the next figure.

€ 25 per gram in addition. Further a vehicle without diesel particulate filter receives an additional tax of € 300. Also there are further benefits of € 200 for electric vehicles. After having calculated the whole fuel consumption tax you have to pay another 20% value added tax from this amount. Like a double taxation system.

²⁰⁸ Own research, 09/2010

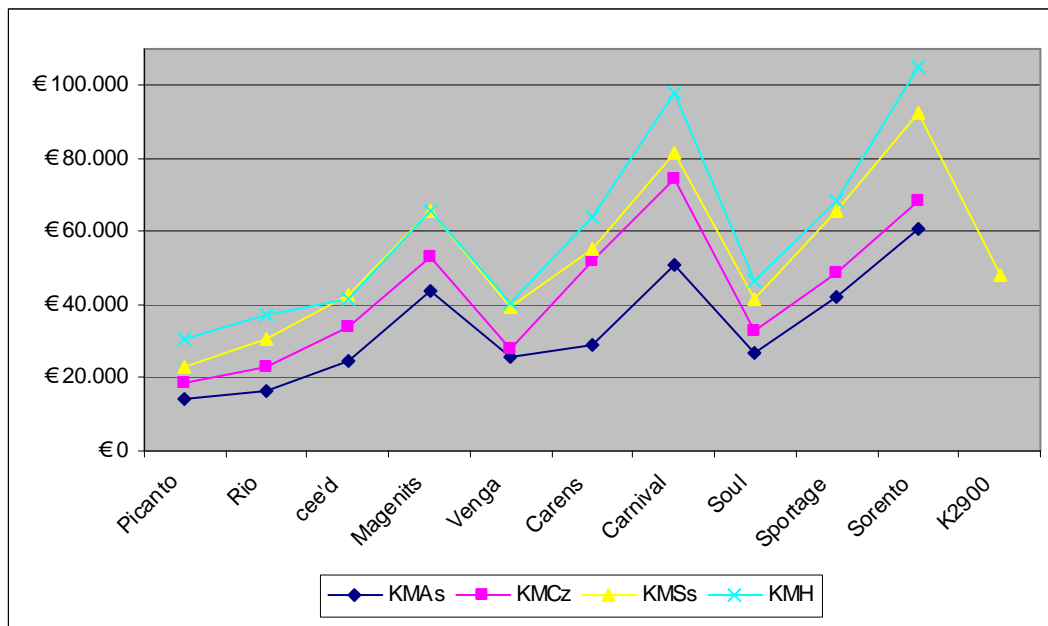


Figure 35 – Average market selling retail prices gross per model divided by index of annual available net income (see figure 32)²⁰⁹

Summing up it can be said that there is no standardization of MSRPs researched between the four KMCE markets. In some cases the MSRPs between KMCz, KMSs and KMHu markets are very close. However, this happens not on purpose rather than on local market circumstances like competition and price positioning strategies against competitors in the market. As a result neither from KMCE nor from KME based standardization between countries MSRPs is executed.

3.2.2.2 Purchase prices

The survey shows that the single subsidiaries do not compare in detail the purchase prices amongst each other. Each subsidiary operates as a single entity and cares exclusively about their responsible market in terms of marketing, sales and financial objectives.

Purchase or whole sale prices are calculated as well as finally fixed by the KME's and KMC's finance departments for the four markets in order to balance the profitability, finance the daily operational business and support the yearly business plans established by the markets amongst others. Therefore all the respondents answered that there is no harmonization of purchase prices between the four

²⁰⁹ Own research, 09/2010

countries. The next figure shows the researched freight on board purchase prices per vehicle for the markets. Logically it may be assumed that the FOB prices for KMAs should be the highest ones followed by the ones for KMCz, KMSs and KMHu because of the reasons and figures presented in the previous chapter as KMAs has basically the highest net MSRPs followed by KMCz, KMSs and KMHu for example.

However, when looking at the next figure it stands out that KMAs pays surprisingly the lowest purchase price for the KIA Picanto, KIA Rio and KIA Sorento and even the second lowest cost for KIA cee'd, KIA Carens and KIA Carnival. When asking in detail about the reasons for this low purchase price in comparison to the three other markets the following two significant facts are provided as an answer from the respondents:

- 1) in Austria the car market has been stagnating since years and the saturated market increases competitiveness in terms of direct cash incentives for customers.²¹⁰
- 2) KIA as a relatively young and therefore still unknown brand has to conquer the customers through relatively high investments in advertising.

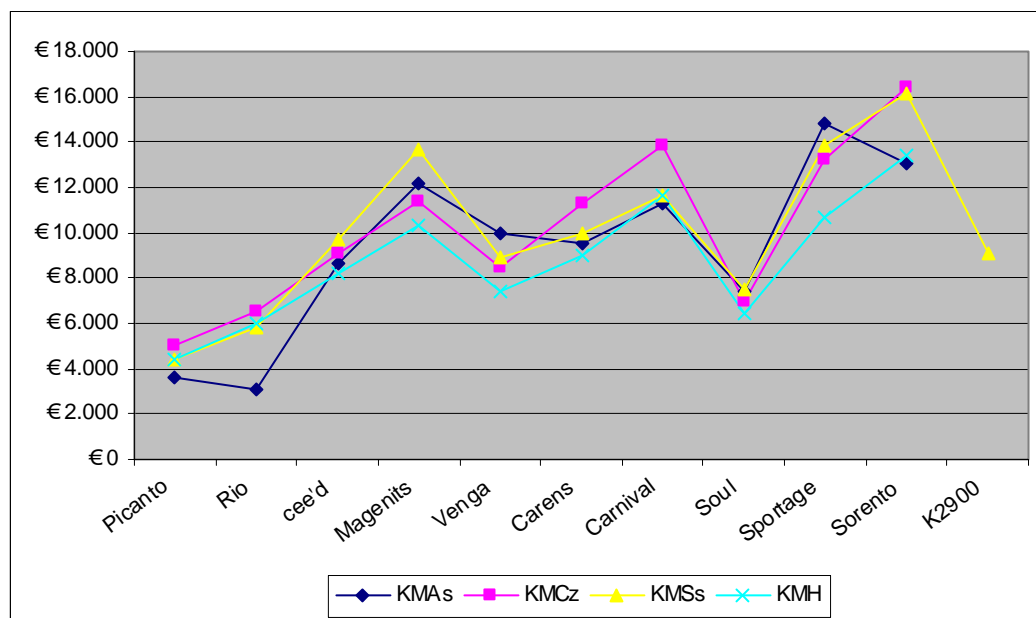


Figure 36 – Average FOB prices of the four subsidiaries per model²¹¹

²¹⁰ Toyota offered for their first time ever within 2010 official price discounts for their vehicles even broadly advertising it.

²¹¹ Own research, 09/2010

This result in relatively low purchase prices for KMAs compared to the other markets in order to secure sufficient profit for investing in required advertising campaigns and incentive cash supports.

Another explanation comes from the fact that there is a huge difference in the calculated dealer margins per model between the countries as shown in the next figure. KIA Motors Austria calculates nearly a flat rate of 9% from the net market selling retail price as margin for the KIA dealer (only for KIA Sportage 10%) which is the highest average margin across all vehicles.

This leads automatically to less profit for KMAs when comparing the average dealer margin with the other three markets.

To balance the overall gross profit for subsidiaries, KME's and KMC's finance departments are adjusting the subsidiaries purchase prices adequately.

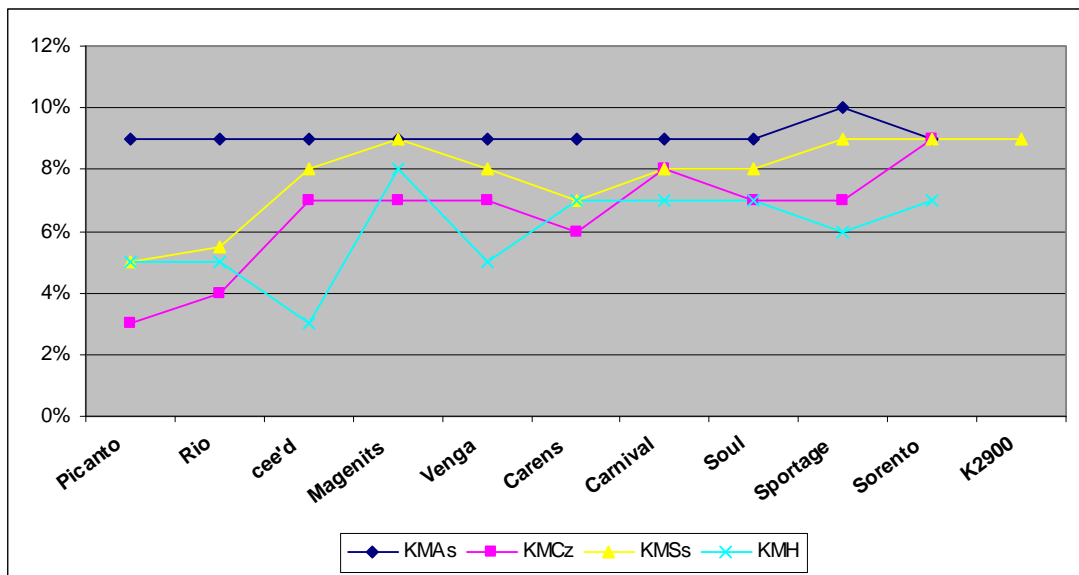


Figure 37 – Dealer margin per model and KMCE markets²¹²

Finally it may be repeated that there is neither a standardization of MSRP prices existing nor a standardization of purchase prices put into practice between the four KMCE markets.

²¹² Own research, 09/2010

3.2.2.3 Payment terms

Surprisingly on the contrary are the results from questions about the payment terms of the subsidiaries, which are fully standardized across the KMCE markets.

Even though the four companies did not know the payment terms of each other, the answered facts show a standardized result as all four entities have a due date for payment of 180 days net for vehicles produced in the Korean factories and a due date for payment of 120 days for vehicles produced in the European factories.

If invoices of vehicles are not paid until the due date, KME or KMC finance rolls over the due date up to a maximum of 360 days. Nevertheless the subsidiary has to pay a certain interest rate from 60 days onwards after invoicing for vehicles produced in Korea and from 45 days onwards after invoicing for vehicles produced in Europe. However, when prolonging the due date, the interest rate is increased by a certain amount.

In addition, KMCE as a company internal business division balances from a financial perspective cash among the four subsidiaries in order to pay due invoices in time. This means for example if KMAs is not able to pay a due invoice, this invoice will be paid by another subsidiary that has enough cash reserves at that time.

Within the so-called cash pooling system excessive cash from the local accounts is transferred every day to a mirror account of KME. If for example KMHu has not enough cash to pay due invoices the balance is transferred from the KMCE central mirror account to the local KMHu bank account and the invoice is paid toward the factory.

3.2.3 Standardization of communication policy within KIA Motors Central Europe

KIA Motors Corporation as a worldwide production company of vehicles has also to communicate their products towards the final customer. To differentiate from the competitors the company aims to create a certain brand profile identity as already described in chapter 3.1.2. In order to do so, certain brand values have been fixed for certain regions of the world and therefore also for Europe (see figure 11). As a consequence all markets have to design their advertising message in such a way

that during brand research the respondents finally recall these values freely from their minds. In the following the results of the expert opinion survey in section 4 of the interview guideline - communication policy - from the KMCE markets are presented.

3.2.3.1 Advertising

Looking at font, image or sound as key item of every **ad message** the research result shows a more or less standardized approach in the four countries. For sure with regards to the national languages content translations from an English master copy into the local languages are necessary.

When looking at the brand slogan KIA Motors Austria, KIA Motors Czech and KIA Motors Slovakia are using the English phrase “The Power to Surprise” without translating into the local language. Only KIA Motors Hungary translates the slogan into Hungarian like “A meglepetés erejével” which means when translated back into English “With the power to surprise”.

During the last researched ad campaigns many European subsidiaries used for example the KIA Motors European 7 year warranty TV creative execution “Famous Thinkers”; others used the European 7 year warranty images in print executions or in fewer cases created specific differentiated ads. As seen in the figure below all four KMCE markets amongst others used the standardized TV ad material developed by KME.


	Lead-Creation to promote 7YW
Germany	<p style="text-align: center;">European 7YW “Famous Thinkers” TVC</p> 
UK	
Italy	
France	
Spain	
Austria	
Belgium	
Hungary	
CZ	
Slovakia	

Figure 38 – Lead TV ad creation for 7 year warranty used in KMCE markets 2010²¹³

²¹³ See KIA Motors Europe brand tracking report, 2010

As core ad message the announcement of the KIA Motors Europe unique selling proposition “7 year warranty” has been achieved successfully across all markets. A fully consistent picture across all countries can be identified whereas the 7 year warranty ad campaigns were very strongly focused on the message “7 year warranty” itself. As a result the message is communicated very clearly – up to 74% of respondents mention the aspects “7 year warranty”, “long warranty” or “longer warranty than others” as shown in the figure below.

7YW (TV) Kia Motors Austria	7YW (TV) Kia Motors Czech	7YW (TV) Kia Motors Hungary	7YW (TV) Kia Motors Slovakia
Warranty Total 74	Warranty Total 52	Warranty Total 56	Warranty Total 72
7 year warranty 44	Warranty / good / long warranty 24	7 year warranty 31	Warranty / good / long warranty 31
Warranty / good / long warranty 24	7 year warranty 23	Warranty / good / long warranty 21	7 year warranty 27
High Quality Total 8	Longer warranty than others 8	High Quality Total 32	High Quality Total 10

Figure 39 – Perceived ad message of 7 year warranty campaign in KMCE markets²¹⁴

In Austria the 7 year warranty TV commercial is predominantly associated with “warranty” when 74 % of the respondents mention it explicitly. KIA Motors Austria also has the highest score of mentioning the “7 year warranty” by 44%, comparing to the other 3 countries. KIA Motors Slovakia achieves with 31% the highest results with “warranty / good / long warranty” and KIA Motors Hungary respondents mention “high quality” by 32% highest within the four KMCE markets. Interestingly no respondents link “long warranty” and “good quality” in the Czech Republic market. In Austria and Slovakia the link between warranty and quality is only perceived by a minority of respondents (8% respectively 10%). Only in Hungary as already stated before, “high quality” is mentioned by a notable share of respondents where many TV viewers were able to create a link between the long warranty and good quality.²¹⁵

Having a closer look at the results questioning about **ad material design**, there are differences between TV, outdoor, print, online and radio recognizable. In addition the survey shows that the four markets also differ between centrally provided model

²¹⁴ See KIA Motors Austria brand tracking report, 2010; KIA Motors Czech brand tracking report, 2010; KIA Motors Slovakia brand tracking report, 2010; KIA Motors Hungary brand tracking report, 2010;

²¹⁵ “Quality” perception is the key driver for people’s brand preference; i.e. a strong “quality” image is the foundation of every successful brand. See KIA Motors Europe brand tracking report, 2010.

introduction and brand campaigns where KME provides TV, print, outdoor and online master creative material and necessary local tactical campaigns where no ad material from KIA Motors Europe is produced. In case of brand campaigns mainly the provided material is used and due to specific market circumstances and necessary tactical campaigns, markets locally produce ad materials, however following the KME communication guidelines.²¹⁶

TV →

Mainly due to high production costs all four countries use the raw material of the available Pan European TV Spot and therefore the spots are standardized. In detail all markets develop their local voiceover and sometimes change the music and the cut of the spot. Especially when the spots are used two or three times a year for follow up campaigns the countries add a certain promotional cut at the end of the spot (5 to 10 seconds length) and also change the voiceovers.

TV spots for tactical campaigns are locally produced and differ from market to market. Whereas KIA Motors Austria or KIA Motors Slovakia use for example existing footage material of certain models and cut a spot out of it, KIA Motors Hungary produces a completely new spot. KIA Motors Czech sometimes buys tactical spots from other countries (e.g. KIA cee'd TV Spot produced by KIA Greece) and translates them to their local needs.

Radio →

Concerning radio spots the survey shows a totally differentiated result. Each market is producing its own locally demanded spot and develops the content. For some spots all four markets use at least the same ending when adding in English language "KIA – The power to surprise" (except Hungary which translates the claim into Hungarian language as mentioned before).

Print and out of home →

Analyzing the results for this category the used ads are standardized or differentiated, depending on the nature of the campaign (brand or product introduction campaign versus tactical campaign). The following figures show the

²¹⁶ The KME communication guidelines define basic elements (living colour, colour palette, colour palette specification, message by product, typeface, typography, photography, facet system structure) design principles for print advertising (logo corner facet, basic template, body copy and legal copy, using product cut outs), design principles for brochures, design principles for point of sale and out of home and finally design principles for internal communications. See KIA Motors Europe communication guidelines, 2008.

used print and out of home ads during the KIA Sportage product introduction campaign ad in the four markets in August 2010.



Figure 40 – KMCz (bottom left), KMSs (up right) and KMHu (up left) OOH layout 08/2010²¹⁷



Figure 41 - KMCz (bottom left), KMAs (bottom right) and KMSs (up left) print layout 08/2010²¹⁸

²¹⁷ Own research, 09/2010

²¹⁸ Own research, 09/2010

Considering the used out of home ad material a slightly differentiated appearance stands out. But all three markets use the orange collared car and keep to the KME standardized communication guidelines in terms of logo corner facet, typeface and centrally provided pictures. KIA Motors Austria did not execute out of home ads during the KIA Sportage product introduction campaign.

Analyzing the print ads a totally standardized approach is visible when the three markets use centrally provided photography and only translate copies into local language. KIA Motors Hungary did not use print ads for the KIA Sportage product introduction campaign.

Another interesting result delivers the question of the specific **media selection** in the KMCE markets. The following figure shows some introductory specific media usage rates in the four countries.

	Austria	Czech	Slovakia	Hungary
Print share in Media Mix	58%	44%	11%	20%
Mobile phone subscribers	86%	86%	98%	87%
TV usage time	243 min.	262 min.	278 min.	347 min.
TV prime tme peak	20:45	21:15	21:00	21:00
Digital video recorder	4%	n.a.	2%	n.a.
Broadband reach	46%	n.a.	58%	38%
Online reach	60%	54%	70%	43%

Table 10 – Media usage rate in KMCE markets, 08/2010²¹⁹

Looking at the table above Austria has far the highest print share mix, whereas Slovakia leads in terms of mobile phone subscribers. People in Hungary watch most TV whereas Slovakia has the latest prime time peak. The internet usage is best developed in Slovakia in terms of broadband and online reach while Hungary is less developed in these categories. This situation already assumes a differentiated media selection for KIA advertisements in the CE markets. However there are also general standardized efforts of KME when it is suggested to use TV ads in order to support the emotional brand building across Europe and also in the KMCE markets. Especially Hungary with 348 minutes average TV usage time benefits most from that fact.

²¹⁹ MPG market report, 08/2010

Other influencing factors for the media selection in the markets are e.g. the cost per thousand contacts per media, media reach objectives, short term sales growth objectives and the increase of customer showroom traffic. Dependent on the specific media channels per country the appropriate media is selected to activate potential customers most efficiently. In addition each product attracts a slightly different customer group per country and these customer groups cannot be reached with the exact same media selection in all four markets. As a result the KIA subsidiaries media budget allocation per market differs strongly as show in the next figure.

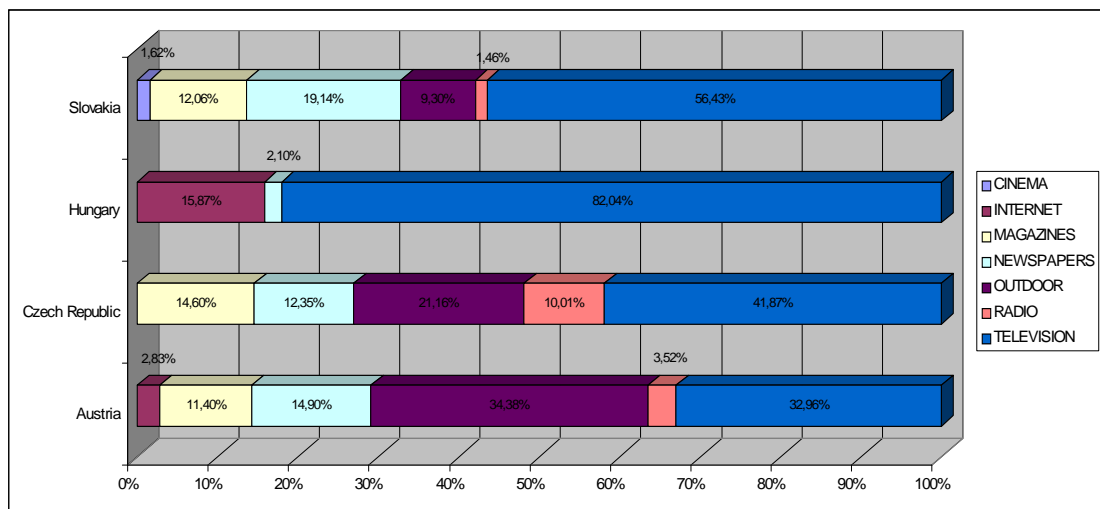


Figure 42 - Share of budget used per media by the KMCE subsidiaries January – June 2010²²⁰

This proves at least the TV media usage rate shown in table 10 above where KMHu is allocating most of his budget for TV advertisement, followed by KMSs, KMCz and KMAs. The low cost of internet ad in Hungary clarifies the high share of the total allocated budget when asking the respondents. Also significant is the high share of outdoor ad from KIA in Austria and the Czech Republic which results from a broad density of available sites throughout the countries. Cinema advertisement is only executed in Slovakia within this period and KIA Motors Czech even did not run any internet campaign.

In addition, as already mentioned before, each country has a different ranking of the importance of models. This results also in a different media budget split per model and market as shown in the next figure.

²²⁰ MPG market report, 08/2010

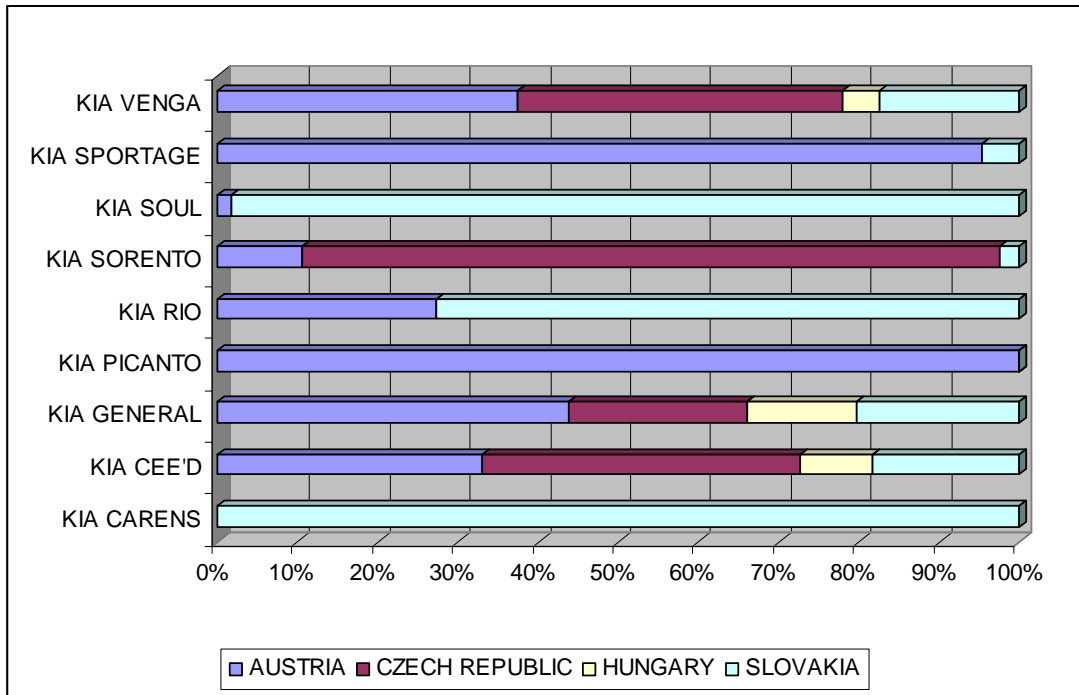


Figure 43 – Share of budget used per model in the KMCE markets January – June 2010²²¹

KIA Motors Slovakia is not advertising KIA Picanto at all. Hungary only allocates budget for KIA cee'd and KIA Venga whereas KIA Motors Austria runs campaigns for all models except KIA Carens. KMCz focuses on three major models, namely KIA Venga, KIA Sorento and KIA cee'd. The only two models which are advertised by all four KIA subsidiaries are the KIA cee'd and the KIA Venga. In addition all four subsidiaries executed the 7 year warranty campaign (KIA GENERAL).

This different budget allocation reflects the different focus on models per country. At least all markets reflect sufficient budget for KIA cee'd and KIA Venga as these models are covering big volumes in all four countries. Further the overall price competitiveness and the incentive activities of the competitor brands influence the allocation. Therefore KIA Motors Czech and KIA Motors Slovakia do not advertise the KIA Soul at all and even KIA Motors Austria only allocates a minor budget for that model.

The next figure shows the share of budget per model and country.

²²¹ MPG market report, 08/2010

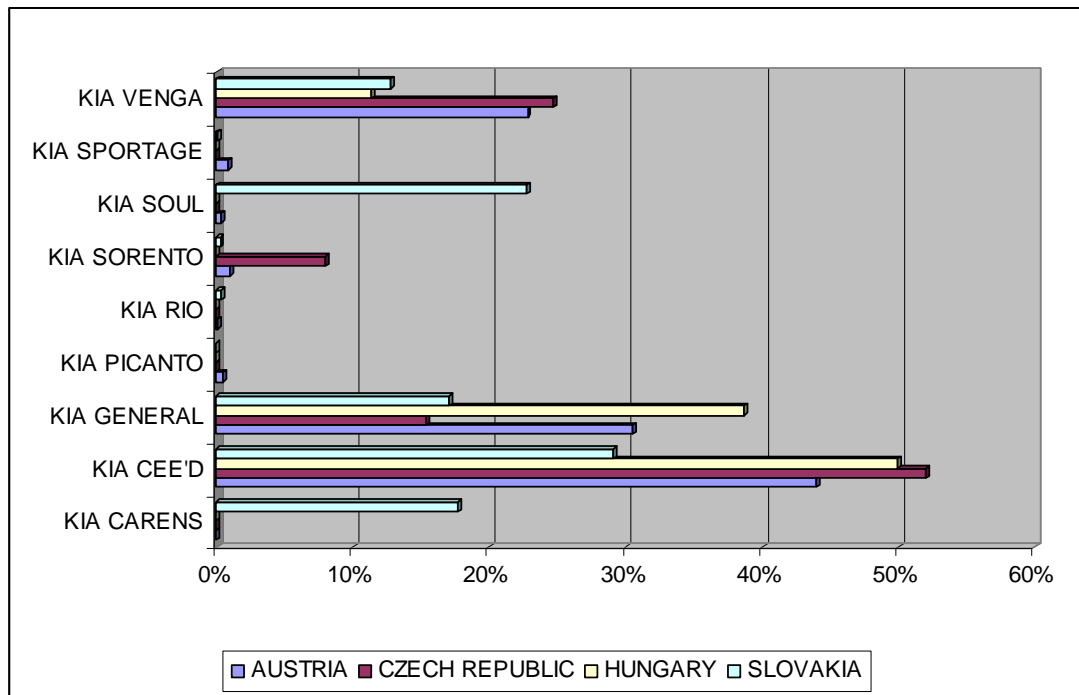


Figure 44 – Share of budget per model and country January – June 2010²²²

Analyzing KMAs budget allocation it strongly focuses on the KIA cee'd followed by communicating the 7 year warranty campaign (KIA GENERAL) and the KIA Venga. KIA Motors Czech spends more for advertising KIA cee'd and KIA Venga than Austria, reduces the budget for the 7 year warranty campaign but allocates significantly more budget for the KIA Sorento. KMSs allocates the media budget to the biggest number of models. It spends around 28% for the KIA cee'd, allocates the same share to KIA Carens and promotes the 7 year warranty campaign, advertises KIA Soul with around 22% and finally spends around 13% for launching the KIA Venga. None of the countries allocates budget for KIA Picanto and KIA Rio and only Austria already spends 1% for the new KIA Sportage, which is introduced in the 2nd half 2010.

As a result the media selection is adapted to the different market conditions like e.g. different media usage behaviour of target groups, specific objectives of the single subsidiaries, different media costs, number of planned ad campaigns and overall available total budget for advertising. There are minimum budgets recommended to run an effective campaign in terms of share of advertising and impact objectives.

²²² MPG market report, 08/2010

3.2.3.2 Point of sale material

All four KIA subsidiaries produce their own point of sale material which indicates a differentiated approach. This includes showroom stickers, banners, flyers, price lists, indoor and outdoor flags, magnetic stickers, give away material like T-shirts, jackets, caps and so on. Only in terms of product brochures KME provides centrally designed material which is translated and adapted to the market specifications and afterwards locally produced. The exception is KIA Motors Hungary which does not use the centrally provided brochure material. On the other hand KIA Motors Czech and KIA Motors Slovakia use a common print shop.

3.2.3.3 Sponsoring activities

Standardized as well as differentiated sponsoring activities have been researched in the four countries. Since 2006 KIA Motors Corporation is one of the major sponsors of the FIFA Soccer World Cup and since 2008 UEFA European Soccer Cup. Therefore all four KMCE markets are supporting local soccer activities. KMAs is one of the major LCD advertising board sponsors of the Austrian National Soccer League and local KIA dealers support local soccer clubs, mainly providing the car park and being one of the dress sponsors. KMCz sponsors one club of the Czech Republic national soccer league and also local dealers support local clubs. The Slovakian National soccer team is sponsored by KMSs as one of the major partner and KIA Motors Hungary is cooperating as fleet partner for some selected local soccer clubs in Hungary. In addition KIA Motors Austria supports with two local dealers two ice hockey clubs of the Austrian national ice hockey league. Ice hockey meant to be the second largest team sport in Austria in terms of visitors, especially since this season when the main games are even broadcasted in the free TV broadcaster "Servus TV". Due to the public interest in the Czech Republic and Hungary, KIA sponsors there also a local handball club. Finally KMSs supports a local volleyball club.

As a result the international sponsoring activity is also supported on a standardized local level and additionally local relevant topics are supported by the subsidiaries.

In terms of motor shows KIA Motors Europe provides a standardized Pan European tool box where certain single elements can be rent by the local subsidiaries. However certain local motors show regulations from the local organizer restrict using

most of the standardized items. So, all four countries mainly produce their local material to set up the booth, however following the Pan European design guidelines to ensure the corporate design as much as possible.

Events are completely differentiated. All KMCE subsidiaries organize and execute their own locally needed events. Amongst others dealer conferences, product trainings, local dealer round tables or product introduction events are organized.

3.2.3.4 Public relation

Public relation is confirmed as a very important element for all subsidiaries. Each of it has a own public relation manager who is responsible for managing the information and news exchange toward the local motor press and other interested journalist target groups. In all markets KIA generates an excellent return on investment when comparing the money spent for public relation activities with the calculated advertising value.

The local operation is standardized through corporate public relation news provided by KIA Motors Corporation or KIA Motors Europe and stays differentiated with locally produced and relevant public relation content. Dealing with the ratio between international and locally produced content it has been answered that on average 30% locally produced and 70% internationally provided and locally adopted press releases.

3.2.4 Standardization of distribution policy within KIA Motors Central Europe

Analyzing the researched results about the distribution policy of KIA in the four countries, the chapter is divided into two areas. First findings of distribution channel structure and transportation methods and second logistics will be described. Distribution defines the channels used to deliver the goods from the factory to the final customer and logistics ensure that the goods are available in terms of quantity and quality throughout the whole channel any time.

3.2.4.1 Distribution channel and transportation

Analyzing the distribution of the four KIA subsidiaries the result shows a quite standardized approach. Through direct export the vehicles produced in the KIA factories in Europe or Korea are sold via KIA Motors Europe to the four local subsidiaries. Each subsidiary has contractual independent local KIA dealers who sell the product to the final customers. The following figure shows the channels at a glance.

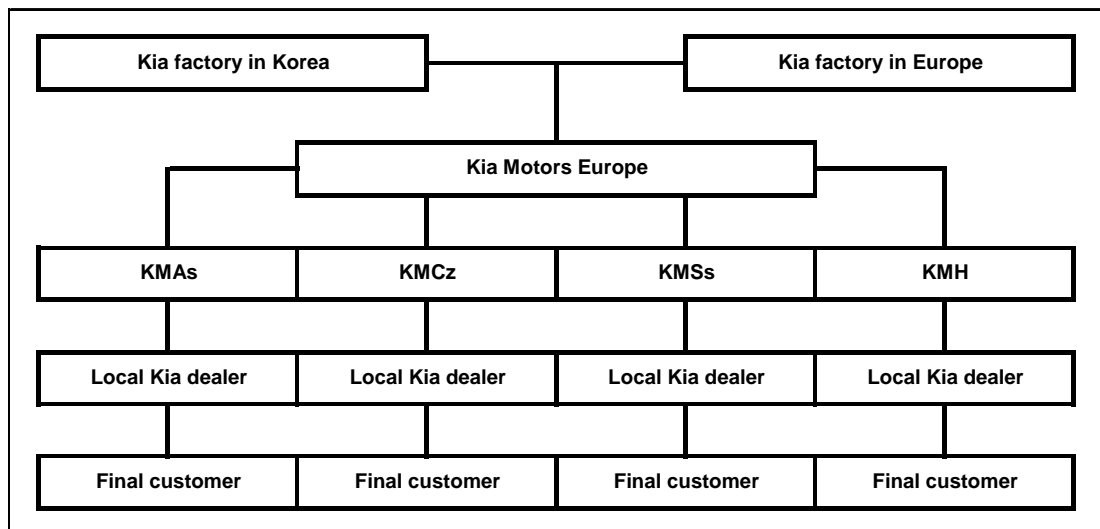


Figure 45 – Distribution of KIA vehicles in KMCE markets²²³

It is shown that KIA owns the whole chain from production to the foreign subsidiary, whereas sales to the customers are taken over by contractual local independent KIA dealers. Nevertheless they have to follow certain quantity and quality guidelines defined by KIA in order to maintain the privilege of selling officially KIA vehicles on the market.²²⁴

The transportation methods used from factories to the final customer are the same ones across all four markets. Vehicles from Korea arrive via container ships at port Koper (Slovenia), are transported via trucks to the countries' compounds and finally to the local KIA dealer.

²²³ Own research, 09/2010

²²⁴ The motor vehicle block exemption regulation of the European Union sets the overall standards and guidelines how automotive production companies set their quantitative and qualitative guidelines and standards to assign official sale and workshop contracts to independent entrepreneurs.

3.2.4.2 Logistics

The research of logistics organization in the four countries delivers a differentiated result. Even though the four countries are geographical neighbours, as shown in the next figure, each KIA subsidiary has its own stock yard and logistics provider.



Figure 46 – Geographical map of KMCE markets

KMAs currently has two stock yards and logistic providers, one in Koper for the vehicles delivered from Korea and one in Vienna for the vehicles produced in Europe. KMCz has one stock yard and logistics provider situated in Prague also like KMSs and KMHu which logistic providers and stock yards are located in Bratislava respectively in Budapest. However KMAs and KMCz respectively KMH and KMSs are using at least the same logistic provider and vehicle transportation company.

Finally the minimum and maximum distances of transporting the vehicles by truck to the local KIA dealers are very similar per market due to the geographical location of the logistic companies in the countries and the similar country sizes as well.

4. Recommendations for the marketing-mix strategies of KIA Motors Central Europe

Based on the researched results analyzing the marketing mix concept of KIA Motors Central Europe, which are described in the previous chapter 3, the following chapters provide practical recommendations and implications to implicate further development opportunities and potential business advantages when further standardizing or differentiating the marketing policy of the four KMCE subsidiaries.

Thinking backward of the basic figures of KIA in the countries, different positions in terms of market share have been researched as shown below.

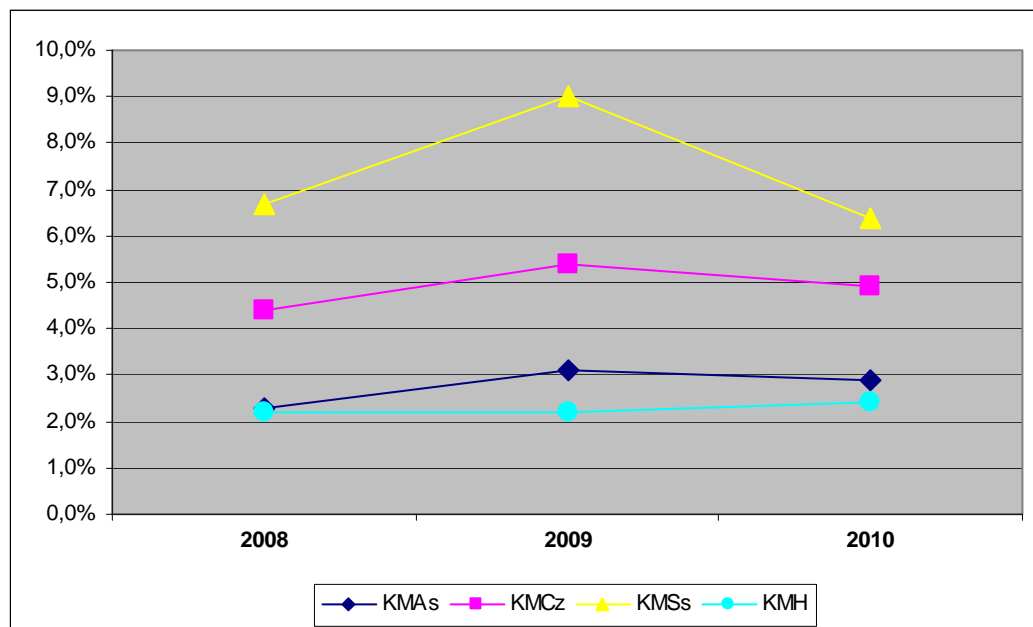


Figure 47 – Market share development January – May 2008/2009/2010²²⁵

In contrary to the achieved ranking of the four countries based on the researched basic economic data in chapter 2.1 where Austria has the best overall figures followed by the Czech Republic, Slovakia and Hungary the ranking based on KIA market share development is quite different as KIA gains the highest market share in Slovakia followed by the Czech Republic, Austria and Hungary. Further, looking at

²²⁵ Own research, 09/2010

the current brand values perception KIA again achieves the best results in Slovakia but is followed by the results in Hungary, the Czech Republic and Austria.²²⁶

So it is clearly observable that although the four markets even geographically stay close together and represent commonly the KMCE business division, the initial situation of KIA in the markets is a quite different one. Nevertheless there are further development opportunities for KIA in the markets through standardizing or adapting the marketing mix policy of the four countries as follows.

4.1 Implications for the KIA Motors Central Europe product policy

Nearly all subsidiaries offer the complete available product range of vehicles for sale in their country²²⁷, except KMAs is currently not selling the KIA Magentis and KIA K2900 and KMCz and KMHu are not selling the KIA K2900. Due to periodical supply shortages of certain models from factories, fluctuating market demands or too low advance orders from subsidiaries towards factories, markets sometimes cannot fulfil customer orders by delivering vehicles right in time to customers. As a certain percentage of these potential customers are not willing to wait for the delayed vehicle delivery, KIA is losing them to other brands. Therefore it may be useful to exchange the vehicle stock between the four countries in order to fulfil these customer orders in time.²²⁸

However, as it has been researched, the degree of differentiation, when analyzing the offered trim lines per model in the markets, is very high which results from different customer demands in the markets, competitor specifications or general sales volume objectives (the higher the total sales volume of a vehicle in a country the more trim lines are offered). Further, if markets are offering the same number of trim levels for a certain model the single equipment level is different.²²⁹ This means

²²⁶ See figure 20- Brand value perception of the KMCE markets overview, p. 72

²²⁷ The available model range in Europe consist of the following vehicles: KIA Picanto, KIA Rio, KIA Venga, KIA cee'd (3 body types), KIA Magentis, KIA Soul, KIA Sportage, KIA Sorento, KIA Carens, KIA Carnival, KIA K2900.

²²⁸ For example, if KIA Austria is out of stock of the KIA cee'd, it may be supplied by KIA cee'd from KMSs, KMCz or KMHu available stock to Austria in order to deliver vehicles for open customer orders.

²²⁹ KMAs is offering the same number of trim lines as KMCz for the following models: KIA Picanto, KIA Rio, KIA Venga, KIA Carens, KIA Carnival. KMCz, KMSs and KMHu are offering the same number of trim lines for KIA Magentis. KMSs and KMHu are offering the same number of trim lines for KIA Magentis, KIA Venga, KIA Carens, KIA Soul and KIA Sportage. KMCz and KMHu are offering the same number of trim lines for KIA Magentis and KIA Sorento.

that the proposed vehicle stock exchange among the four markets is not possible due to the different equipment levels.

In order to improve the overall availability of vehicles in the KMCE markets when stock shortages occur, there is a need for standardization of the detailed specifications per offered trim levels, if the countries want to exchange models in order to balance supply shortages and fulfil open customer orders. However, it is not recommended to enforce a complete standardization of all trim levels per model when customers and competition in the four markets demand certain specifications which are not requested in other markets. This could lead to loss of customers and finally market share decline.

As KMHu and KMSs respectively KMCz and KMCz offer similar numbers of trim levels for certain models, it is recommended to further analyze the detailed specifications and find common agreements between the markets in order to still fulfil the different market and customer requirements by creating some standardized and therefore exchangeable trim lines per model to reduce the overall common stock in the markets and balance the periodical supply shortages mentioned before. This finally leads to less complexity of the product line ups by reducing the total number of trim lines in between the KMCE markets, increases the inventory turnover and decreases the average storage time which also reduces inventory cost, tied capital and depreciation of stock vehicles at the end of the year.

Another implication in terms of special action models is to use standard trim lines for those offers as the basic equipment level and enhance the overall value by adding local accessories and if necessary decreasing the MSRP. As a result no additional new stock in terms of additional trim lines will be created and there has not to be an expensive sell out of remained vehicles on stock, in case the subsidiary orders too many units from the factory and is not able to sell it without extra cash discounts to the dealer.

Looking at the specific naming of the trim lines it is efficient to use the same naming of trim lines between the models within the country when all subsidiaries follow this approach. It provides a simple understanding of trim line hierarchy for the dealer salesmen and it is also easier for potential customers who compare between different models. Finally, it seems not necessary to standardize the trim line names among the countries and models which imply a high degree of differentiation is possible.

4.2 Implications for the KIA Motors Central Europe pricing policy

It has been researched that there is a strong correlation between the following factors when the MSRP pricing of vehicles in the single countries is done:

- 1) targeted price positioning against competitors,
- 2) equipment level of the trim line,
- 3) governmental vehicle taxation,
- 4) overall pricing level in the automotive market.

But there is absolutely no influence recognizable from MSRPs of comparable models between the four markets as every country is an independent entity and has specific country based regulations and taxations.

Therefore a country-focused differentiated MSRP pricing approach, like currently executed by KME in cooperation with the subsidiaries is seen as the appropriate strategy in order to reflect the desired market positioning per country market. A market selling retail price standardization would lead to competitive disadvantages in some markets, resulting in loss of market share and reputation. Vice versa in other markets however it could lead to competitive advantages, gain of market share and reputation. But the profitability of the business model may not be given anymore when too low MSRPs result in too low margins.

Further, a standardization of purchase prices between the subsidiaries is not recommended as the profit per model and trim line is calculative linked with the certain MSRP per model and trim line. So the purchase price is adapted to a certain value of the local MSRPs in order to secure the targeted profit margin per model and country.

Summing up the price policy has to stay differentiated in order to reflect the local requirements and to position the product competitively.

4.3 Implications for the KIA Motors Central Europe communication policy

KIA Motors Corporation is selling its products around the globe in more than 160 countries and amongst others in the KMCE markets. It has learned that different nationalities perceive the products and the advertisement of it in different ways as people speak different languages, have different cultures, behaviours, values, perceptions and so on.

Even though Austria, the Czech Republic, Slovakia and Hungary are geographical neighbours, and have some common history, there are at least three groups of different regional cultures identified namely the Austrian, Hungarian and the former Czech and Slovakian one, which still have slightly different behaviours, values and moral concepts. Therefore a 100% standardized execution of advertising material could miss some opportunity leverage the full potential of partly locally adapted advertising. As a result the centrally provided campaigns from KME in the four markets are translated into the local language and understanding. However, not to lose the general centrally defined advertising message of the campaign which has been planned by KME.

Because KIA aims toward a certain brand positioning in the European market and each single KMCE market is executing the local advertising campaigns in order to support the Pan European ad direction from KME. This happens through using a corporate standardized brand slogan and ad material design which is defined in the KME Pan European communication guidelines. Finally a more or less standardized use of centrally provided material with slight adaptations like language translation or adjusting material to specific media channel requirements is recommended. Thereby the local subsidiaries save production cost while not producing local campaign materials and shift the saved money toward media buying which increases finally their local share of advertising.

However for some media channels it is not recommended to use the standardized ad content, like for example radio spots when the languages between the four countries (except Slovak versus Czech) are coming from completely different tribes.²³⁰

²³⁰ However a corporate sound logo, used for radio, TV and internet spots across the markets might be useful to support building a common brand image.

Looking at the media selection, it must stay differentiated in terms of planning and executing media campaigns as the media consumption and media behaviour within the four countries varies and local media channels must be selected to meet the advertising target groups. In addition the same target group for an advertised model consumes different media channels with different intensity in Austria than in Hungary, the Czech Republic or Slovakia. So the local subsidiaries are responsible to plan the most efficient and effective media plans per campaigns.

An implication in order to get more media value for the invested money per country is to book cross border media selling companies, like some out of home or internet media companies that operate in all four markets. If the four KIA subsidiaries agree on joint media budget investments in those certain media channels, the media companies can offer higher rebates based on their increased total media budget turnover when calculating all four markets billings together.

In case of the differentiated point of sale material production per country there are also cost advantages possible through joint production when increasing quantities. However the four markets have to agree on a certain material package of items used for example in the showrooms of the KMCE local dealers in order to realize economies of scale effect caused via higher production numbers that lower the price per unit for the subsidiaries. As a first approach the production of brochures and price lists could be centrally produced by a commonly agreed supplier, preferable in Slovakia or Hungary where the production cost is cheaper than in the Czech Republic or Austria. For sure the minimum quality requirements for certain items shall be fulfilled for all participating parties.²³¹

4.4 Implications for the KIA Motors Central Europe distribution policy

The current situation, when looking at the logistic organization of the KMCE markets, delivers a quite differentiated result. Each country is having its own local stock yard and own local logistic provider – at least the vehicle transportation companies are the same for KMAs and KMCz respectively KMHu and KMSs.

²³¹ The research also showed that e.g. simple cartoon banners would already fulfil a quite good quality perception in Hungary whereas in Austria it would not fulfil the quality expectation of the dealers and customers.

Due to the geographical nearness, the similar size of the country and the actual location of the stock yard and logistics provider in the country, it is recommended to combine the logistic activities of the four KMCE markets. To do so the number of stock yards shall be reduced from actually four sites to at least to two sites and one common logistic provider and vehicle transportation company for all four KMCE markets shall be selected. Because of the projected overall increased vehicle volume when combining the stock yards of the countries, much cheaper stock yard costs, logistic costs and transportation costs can be expected from the finally exclusively selected logistic company. Further, common standards for vehicle storage, of vehicle inspection and for vehicle transportation can be set, monitored and compared more transparently between the countries which shall result in overall higher quality standards of the logistics process.

5. Final remarks

The main topic of this paper has been to survey, analyze and identify standardization potentials with the marketing mix of the KIA Motors Central Europe subsidiaries. As one of the main challenges in international marketing is the definition of marketing strategies and activities for different countries and markets it has been researched if there are either standardization potentials available or a more or less focused adaptation of marketing activities reflecting local customer demands is necessary. The results show that product as well as price, communication and distribution policy have different potentials either to be standardized or to stay differentiated when operating as KMCE business division at the Austrian, the Czech Republic, Slovakian and Hungarian automotive market.

Among others, advantages of standardizing marketing activities are generating cost savings through economies of scale, increased brand awareness, ensured international quality standards, improved company internal coordination and controlling or built a corporate consistent brand image across the markets as it has been described in chapter 4. However, not to forget that differentiation does not have any advantages at all, especially when different local purchase power, local competitive situation, local target group behaviours, local media landscapes or different product life cycle stages have to be taken into consideration in order to fulfil customer expectations.

5.1 Conclusion of the results

The achieved results in finding standardization potentials within the marketing mix of the KMCE markets, gathered especially during the expert opinion survey held with selected executives and expert staff level employees of the four KIA subsidiaries, cannot be exactly described with a measured value. However, to verify the given answers and results, section 5 of the interview guideline finally asked for a subjective ranking in terms of local versus central responsibilities as shown in next figure. The black bar shows the bandwidth from the lowest to the highest responded ranking of the interviewees per category.

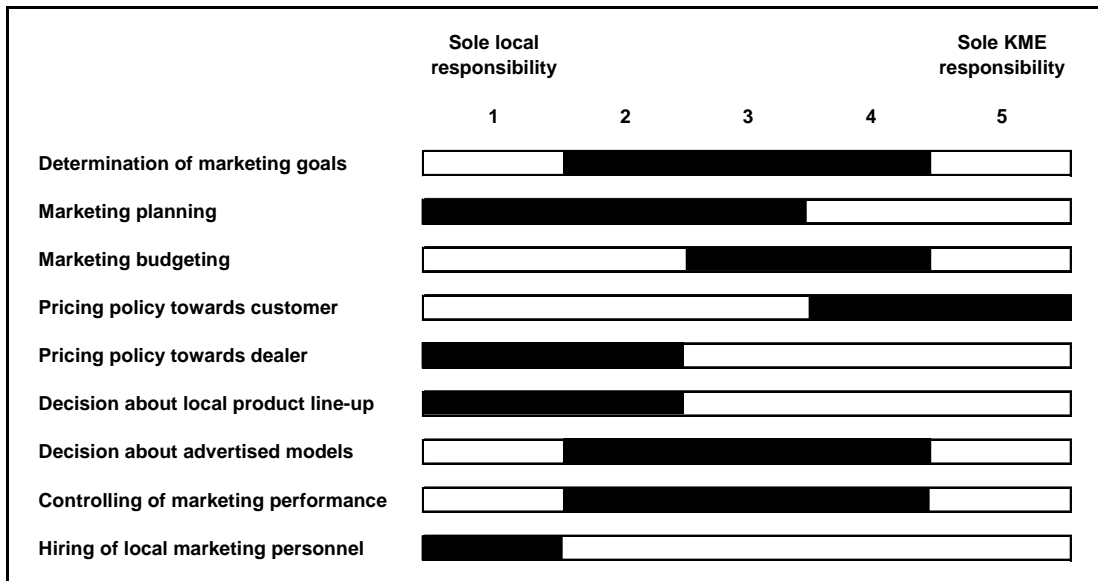


Figure 48 – Marketing decision-making authority within KMCE subsidiaries²³²

The determination of marketing goals and the overall marketing planning seems to be more locally responsible whereas the subsidiaries have to integrate certain centrally provided marketing guidelines into their local plans. Overall marketing key performance indicators like unaided brand awareness, advertising recall or brand image recall values are standardized objectives and measured within all KMCE countries via a centrally standardized bi-yearly executed online survey. The overall annual marketing budgeting shall also reflect a proper share of advertising budget and differs therefore country by country but finally is approved centrally.

Pricing policy is confirmed to be more in the responsibility of KME which means that the average price positioning target against main competitors is the same for all markets.²³³ As a result the final MSRPs then differ market by market. Different local vehicle added taxation increases the final gross MSRP even more. In contrary the pricing policy toward the dealer is more a local responsibility but also differs per market which is proofed by the researched varying margins per model and KMCE markets described in chapter 3.2.2. The purchase prices per country stay also differentiated when KME finance department fixes them in cooperation with the local finance departments in order to secure proper margins per models. Based on the

²³² Own research, 09/2010

²³³ For example the MSRP of the KIA cee'd has to be 95% of the average MSRP of a certain set of competitor models after specification adjustment in all four countries. This results in different MSRPs per market because the local price level and competitor situation is considered.

planned volumes per model, final competitive MSRP positioning, local vehicle added taxation and dealer margins the purchase price is also adapted market by market.

The local product line up created by a number of trim levels is also seen as a more local responsibility. This results in quite different specifications of same models offered in all four markets. A differentiated approach is executed while the countries adapt equipment levels to local customer demands. The markets achieve a proper offer fulfilling customer demands and achieving mostly an attractive value for money positioning against competitors but at the same time neglecting the possibility to exchange stock among the KMCE markets as explained in chapter 4.1. Therefore some standardization potential has been identified in order to bridge supply shortages amongst others when agreeing on partially same trim level equipments.

The central ad message is standardized among the four markets. Establishing KIA as the market leader in terms of manufacturer warranties, the centrally provided and locally translated ad material includes this main message at all in the researched area. All countries are using the centrally produces TV Spots and print layouts with slightly local changes which however have not to be seen as a differentiated approach. However, radio spots are explicitly locally produced at all. Another influencing factor for standardizing is the centrally provided KME communication guideline that provides all the ad material design principles valid for all countries. All four KIA subsidiaries are applying it, even if tactical ad campaigns are developed locally.

Different is the result when asking about the used media. In this case, KMCE executes media planning per country when among others taking care of different media consumption behaviours, the different media landscapes and focusing on the local available media companies. In spite of the differences, all four countries spend most of their media budgets for TV ads, followed by newspaper and out of home. Depending on different target groups the media plans are adapted accordingly, choosing the most effective media channels in order to generate highest reach and opportunity to contact values in the markets.

The distribution channel structure and transportation methods are 100% the same in the KMCE markets.

Logistics in contrary are still independently organized when each KIA subsidiary has its own stock yard, logistic provider and transportation company who deliver the

vehicles from the stock yard to the KIA dealers. As there are a number of Austrian registered companies nowadays operating also in the Czech Republic, Slovakia and Hungary further standardization potentials are addressed. Potential cost savings and quality improvements for the KMCE business division can be achieved when appointing one or two instead of four different logistic partners.

5.2 Further opportunities of the KIA Motors Central Europe region

One of the biggest challenges that have been observed during the survey is the fact that central strategies, recommendations, guidelines or rules have to be understood, agreed and accepted by the local management. However this does not mean that any local adjustment in these areas is not appreciated. Especially the translation of the corporate philosophy into local language, mindset and behaviour is one of the key factors for successful brand development while using corporate tools in most efficient ways.

But companies consist of humans who work, operate and finally contribute their personal commitment to the overall brand development, leading into success or failure. To coordinate the marketing strategy development and activity planning of the four different KMCE countries and adding value to local operation by putting standardization or differentiation potentials into practice, it might be necessary to enhance the KMCE department²³⁴ in terms of manpower by adding an overall marketing responsible person in addition to the actual team. However, it shall be considered that this position has direct authority toward the local management of the four KIA subsidiaries because at the end it may be not possible to achieve common agreements in all areas. The so called “not invented here” syndrome occurs occasionally when people cannot agree on one another decision because it is not their idea and even does not hypothesize that they are coming from different countries.

Even though the four KMCE markets consist of four independent nationalities and countries, are operated by four local independent subsidiaries and show various differences in lots of areas, there are researched potentials to improve the common

²³⁴ The KMCE department consists of a Chief operating officer, Chief financial officer, two Marketing and Sales assistant managers and one IT Manager who execute mainly reporting functions towards the headquarter in KME and KMC but do not direct authority towards local subsidiary management.

business result when executing a more joint approach of the marketing mix. However, keeping in mind that in some areas more standardization of marketing mix elements will deliver better results and in other areas differentiation cannot be dismissed.

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Appendix – Interview guideline

“Standardization potentials within the marketing mix in the Central European region: analyzing the subsidiaries of KIA Motors Central Europe.”

Interview – guideline for the expert opinion survey

The research topic of this survey is to analyze certain areas of the actual marketing mix execution of the four KIA Motors Europe sales subsidiaries in Austria, the Czech Republic, Hungary and Slovakia in order to identify possible standardization potentials and further development opportunities. The questions are asked to selected executives and expert staff level employees of the four subsidiaries.

Section 1 – Product policy:

- 1.1. Do you offer the whole model range of KIA vehicles on the
(particular country) market and do you have specific technical specifications?
(if not, specify why)
- 1.2. How many different trim lines do you offer per model on the
(particular country) market? (please also provide the names)
- 1.3. Do you use the same terms of trim lines between the models on the
..... (particular country) market? (if not, specify why)
- 1.4. Are there any minimum standard specification requirements per vehicle need
to be standard from the lowest trim line upwards on the
(particular country) market? (please specify per model)

- 1.5. Do you already compare the (particular country) vehicle trim line-up per model in terms of specification similarities or differences to the trim line-up of the other 3 countries? *(if yes, please specify the results)*
- 1.6. In case of special action models, do you use common trim names across different models in (particular country) and how often do you introduce such special action models per year?
- 1.7. Do you order specific trim lines for these special action models from the factory or do you use existing standard trim lines (vehicles on stock) by adding local equipment?

Section 2 – Pricing policy:

- 2.1. Does KIA Motors Europe standardize or harmonize the purchase prices of the different models between the 4 countries? *(if yes, why / if not, why)*
- 2.2. Are your(particular country) payment terms the same as in(other 3 countries)? *(if not, please specify why)*
- 2.3. Do you compare the market selling retail prices of your (particular country) model line-up with the(other 3 countries) market selling retail prices model line-up?
- 2.4. Does KIA Motors Europe standardize or harmonize the market selling retail prices of the different models between the 4 countries? *(if yes, why / if not, why)*
- 2.5. Do you compare the purchase prices of your(particular country) model line-up with the(other 3 countries) purchase prices model line-up?

Section 3 – Communication policy:

- 3.1. Does KIA Motors Europe provide you in (particular country) with centrally developed advertising campaigns? *(if yes, specify the available ad channels)*
- 3.2. In (particular country), how many advertising campaigns do you run per year and how often do you use the centrally developed material from KIA Motors Europe? *(if usage rate zero, please specify why)*
- 3.3. If using centrally developed material from KIA Motors Europe, how much of the content do you localize in (particular country)? *(headlines, pictures, TV-cut, music, etc.)*
- 3.4. How is your media channel selection in (particular country) for advertising your products? *(please specify per model)*
- 3.5. What is your allocating structure of advertising budget between the different media channels and models in (particular country)?
- 3.6. What type of sales promotion material (banner, sticker, flyer, leaflets, brochures, price lists, etc) do you use in (particular country)?
- 3.7. What kind of sponsoring activities, events or motor shows do you execute in (particular country)?
- 3.8. Is the public relation content going to be standardized or differentiated in (particular country) compared to provided material by KME?

Section 4 – Distribution policy:

- 4.1. Please describe your distribution channel from factory down to the customer in (particular country)!
- 4.2. How many stock yards and logistics provider do you use in (particular country) and how long is the shortest and longest distance of delivery?
- 4.3. Which transportation method do you use in (particular country) for the vehicle delivery to the dealer?

Section 5 – General questions:

- 5.1. To which extend do you have responsibility of the following marketing decisions? [1=sole local responsibility to 5=sole KIA Motors Europe responsibility] (*please indicate your ranking below and provide further explanations if necessary*)

Determination of marketing goals	1	2	3	4	5
Marketing planning	1	2	3	4	5
Marketing budgeting	1	2	3	4	5
Pricing policy towards customer	1	2	3	4	5
Pricing policy towards dealer	1	2	3	4	5
Decision about local product line-up	1	2	3	4	5
Decision about advertised models	1	2	3	4	5
Controlling of marketing performance	1	2	3	4	5
Hiring of local marketing personnel	1	2	3	4	5

Thank you very much for your time to participate in this interview! A copy of the results analyzed in the course of the specified master thesis will be delivered to you if requested.