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Thought Leader
by Randall Rothenberg

John Quelch: The Thought Leader Interview

It's no longer enough to act local, says London Business School dean and global marketing guru John Quelch. Coke, P&G, and Unilever now must learn to think local, too.

John A. Quelch is a practical strategist — a hands-on brain, if you will. He is energetically guiding the London Business School, of which he became dean in 1998, through a transformation he confidently believes will make it the most prestigious institution for international business education and training in the world. With one eye on that lofty goal — and the other trained on such competitors as the University of Pennsylvania's Wharton School, his alma mater; the Harvard Business School, where he received his doctorate and taught for 18 years; and a vigorous European competitor, INSEAD — Prof. Quelch has unloosed a panoply of arrows from the marketer's quiver: a new faculty, a new mission ("transforming futures"), a new logo, and an unabashed dedication to making his teachers, students, and school, as he puts it, "famous."

If it all sounds a trifle unacademic, a little too earthy, it merely represents the managerial manifestation of his scholarly bent. That's because Prof. Quelch, 49, the "polar opposite of a stuffy Oxford don," according to London's *Guardian* newspaper, has devoted a large portion of his career

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to steering students and CEOs alike through the thickets and landmines of global marketing.

During the 1980s, consumer products companies and advertising agencies both succumbed to a theory posited by Prof. Quelch's Harvard colleague, Theodore Levitt. In an influential 1983 *Harvard Business Review* article, "The Globalization of Markets," Prof. Levitt held that international economic and cultural integration were making it possible to sell the same products with similar campaigns, themes, and devices in multiple markets around the world. That thesis helped propel the megamerger boom in the ad industry; Mr. Levitt even ended up on the board of Saatchi & Saatchi, the British company most identified with global concentration in advertising. His predictions about cross-border standardization in products, pricing, and marketing also induced many companies to centralize their marketing planning in corporate headquarters.

Prof. Quelch, the author of numerous articles, more than 100 case studies, and 15 books, among them *Global Marketing Management* (Addison Wesley Longman, 1994), urged a practicality which, against Levitt and his acolytes, seemed almost iconoclastic. Only certain products can be marketed globally, he cautioned. Local differences will continue to require different approaches to pricing, marketing, and brand management. Prof. Quelch's grounded wisdom prompted Martin Sorrell, chairman of the WPP Group PLC, to ask him to serve on the board of directors of that advertising conglomerate, which recently became the world's largest with its acquisition of Young & Rubicam Inc.

While that acquisition would, from the outside, seem to betoken a resurgence in globalist marketing thinking, to Prof. Quelch, it shows quite the opposite. Interviewed in May in his office overlooking London's Regents Park, he was quite forthright about the need for all marketers to look locally for answers — and for profits.

S+B: It's been 17 years since Ted Levitt published "The Globalization of Markets," and almost as long since you began arguing for a more balanced approach to global marketing. Marketers seem to have accepted those more measured views espoused by you and Northwestern's Philip Kotler. Yet at the same time, the great global brand marketers — Procter & Gamble, Unilever, others — are in the doldrums. Has globalism — however it's managed — been oversold?

QUELCH: The most interesting quote I've seen in the last six months on this issue is from Coca-Cola CEO Douglas Daft in *The Wall Street Journal*: "Think local, act local." For the new CEO of what many would consider the bellwether global brand to be quoted in that vein suggests that many companies have found it difficult to penetrate country markets, beyond just skimming off the segment of the population that happens to be enamored of global brands and is willing to pay a price premium for them. Once they've done that, they then have to penetrate further into the guts of the mass market in order to build sales volume. That's when they find that the standard global marketing program is simply not going to be adequate.

S+B: Not to put too fine a point on it, but you're saying marketers believed the world consisted of business-class–flying global road warriors, but in reality it consists of a lot of Iranian revolutions?

QUELCH: Exactly. It's easy to go international with a standard global cam-

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paign. But it’s not easy to build global sales volume decade after decade with a standard global approach. Attention has to be given to local adaptation. It’s not just WTO related. There has been brewing for about a decade a desire, perhaps led by national governments, to fight the trend toward globalization and the increasing influence of multinational corporations.

So in a sense, there has been a national government agenda against global marketing. It’s unarticulated, but definitely present. Governments want to assert local differences, to assert national differences, and to encourage populations, on a patriotic basis, to subscribe to those differences.

S+B: I’d argue that it actually is articulated and explicit in many countries. For years, we’ve tended to accuse Japan of favoring the local. But France has acted in largely the same way.

QUELCH: Of course. Whenever there’s an economic recession, or an economic downturn, free trade goes on the back burner, and the protectionists come out of the woodwork. And when there is the threat of a downturn, whether it be in France or in India — or, for that matter, a decade ago in the United States — you will then see patriotic “buy national” campaigns asserting themselves.

S+B: Go back to the Coke example. Are you saying there really is no such thing as global marketing?

QUELCH: No, not at all. What we’re saying is that global marketing can only carry you so far in terms of market penetration. Obviously, in many product categories, one can identify a segment of consumers or customers that is driven by the same benefit requirements, the same attribute priorities, across national boundaries. But there comes a point at which, once one has skimmed off that particular group of customers, one has to accommodate more of the local preferences of the remaining consumers.

S+B: So what does this mean organizationally?

QUELCH: First, common sense dictates that every time you adapt your marketing program, it costs money — in extra administration and in added complexity costs associated with shorter production runs, different product formulas, etc. This means that the cost of the marketing-plan adaptation must be more than covered by the extra profit generated as a result of the adaptation. That extra profit can come from selling more units at the same price; presumably, a portion of the market that wasn’t interested in the unadapted product will now be interested in it. Or the extra profit can derive from selling the same number of units at a premium price, because the market is prepared to pay a price premium for the local adaptation. You end up with 8,000 brand SKUs like Nestlé has, but the question again arises: Are the complexity costs associated with all these SKUs more than offset by the upside profit that you have generated as a result of all the adaptation?

The organizational issue is very challenging for a company like Coca-Cola. Having said “think global, act local” for years, if you suddenly start saying “think local, act local,” the question arises: How many people does the company have at the local level who *can* think locally. Atlanta is finding that the depth of strategic management talent at the operating subsidiary level is, in some cases, short of where it needs to be in order for better decision-making to be done.

S+B: You could argue that the

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optimum model for global marketing management is a Cisco or Dell model, in which you create a "value web" where goals are set, but decisions on how to achieve those goals are made in the field, by independent operations.

QUELCH: Sure.

S+B: And in this Cisco model of marketing management, they're linked to the corporate core in some way. Of course, that also requires these operations to follow the GE model, and be number one or number two in their fields.

QUELCH: Exactly. But probably the greatest talent that Cisco CEO John Chambers has brought to the table is not a technology vision, but an organizational vision — creating a learning organization and a network of strategic alliances. I have a feeling that Cisco model is a very difficult form of organization to graft onto a corporation that has traditionally operated with a more hierarchical type of structure.

S+B: So what is the alternative for Coca-Cola and Procter & Gamble?

QUELCH: There are two. One option, of course, is to have a global headquarters and to have sales and distribution companies in each country market, which may or may not be owned. And those sales and distribution companies obviously are not dealing in the realm of marketing strategy. They're dealing in the realm of execution.

Option number two is to go back to the traditional decentralized model. And it's curious, actually, that this model went out of fashion at the same time people were preaching the gospel of decentralization in the domestic U.S. market.

S+B: The traditional decentralized model being what in this case?

QUELCH: Just pushing down decision-making responsibility to the lowest possible level, typically a manager on the ground in each country market.

It was fascinating to me in the '80s to note how much conversation there was in the United States about decentralization, empowerment, getting decisions made as close to the consumer as possible. Yet within those same corporations, we saw at their world headquarters a tendency to rein in overseas subsidiaries with a view to extracting the cost efficiencies that allegedly would come from global centralization and standardization.

S+B: Well, not to pick on Coke's marketing, but isn't that what Sergio Zyman did?

QUELCH: Absolutely. At Coke, global marketing was Sergio marketing, but look at where Coke is today. The one person who really impressed me as never deviating significantly from the traditional decentralized multinational model, where the country manager has authority and responsibility, along with decision-making and budget power, was Helmut Maucher of Nestlé. For all the books Bartlett and Ghoshal wrote about the transnational corporation, and I'm sure for all of the consultants who knocked on Helmut Maucher's door, he didn't deviate. And I think that the strength of Nestlé today is very much a testimony to the continuity in the organizational modus operandi that resulted from Maucher just standing firm and saying, "For the food industry, where cultural sensitivities and local tastes are very important, it's absolutely imperative that we delegate substantial authority to local management."

S+B: What accounts for these continuing tensions between centralization and decentralization in global marketing management?

QUELCH: Ted Levitt and I had, as you know, quite different views on global marketing. But he once asked me, "Do you know what the role of a country manager is?" I was smart enough — particularly because I was untenured at the time — to say, "No." And Ted said, "The role of a country manager is to dream up differences." If you think about it, if you're a country general manager, and you can't come up with the 15 reasons your country's so different that it requires something other than the global program, then why do we need to pay you $300,000 a year?

S+B: Which companies are most in need of adjusting their models for global marketing management?

QUELCH: Probably the company that is in the biggest quandary at the moment is Unilever. Because Unilever is trying to have its cake and eat it, in a halfway kind of mode. It's shedding brands, but at the same time it's moving away from the Nestlé model, toward a more centralized Procter & Gamble model. But it's not movingwholeheartedlyandcompletely tothe P&G endof the spectrum, so the question arises, "Is Unilever going to beneitherfish norfowl?"

S+B: But even using Procter as a lodestar is problematic. Procter is stagnant. There is no growth. And worse, and much more frightening, there appears to be no foreseeable growth.

QUELCH: I dispute that. The buying power potential in emerging markets, especially for packaged and processed foods, is enormous in the long term. But because the food business is a strategic business, from a national defense point of view, and because it's a relatively low-technology business, it's perfectly feasible for smart entrepreneurs in emerging markets to develop homegrown, culturally sensitive, price-competitive local brands. That's limited the growth of the multinational marketers in these countries. Probably the most effective of the multinationals have been those that have really worked hard to acquire and upgrade local brands, as opposed to doing their market development all on a greenfield basis, with their own global brands.

S+B: Of course, it can now work the other way. Our contributor Stephan-G tz Richter writes about the emblematic nature of the acquisition of Tetley, the great British tea company, by the Indian conglomerate Tata. [See "Briefs," p. 12.] The point he makes is not only that this is a historical turnaround, but also that Third World producing nations are now getting up to speed on the very things the First World once controlled, notably distribution and marketing.

QUELCH: Certainly the prospect for brands from emerging markets to penetrate Western markets, initially on a value-proposition basis, but later on a quality basis, is totally plausible. You can look, in the field of kitchen appliances, at a company like Arçelik, a division of Koç Holding in Turkey. Around 10 percent of its revenue is generated outside Turkey. It has extremely efficient plants. It doesn't have brand recognition in Europe, or marketing and distribution capability at the level of the established players like Whirlpool. But it has been able to identify and exploit niches — for example, what we call in the U.K. the countertop refrigerator market, or refrigerators small enough to fit under counters. I believe that 15 percent of the share of that niche market in the U.K. is controlled by the Beko brand, which is owned by Arçelik. So yes, it's possible for a player like Arçelik to exploit a niche, and boost its international sales.

But to go from that point to becoming a global marketer of the likes of Gillette, with 70 percent of its sales outside the U.S. — that is an extraordinarily long leap. I am perfectly open to believing that Indian brands will potentially become prominent in the same way that Japanese brands, dismissed 50 years ago, are now icons of quality in the West. But I do believe that a long and hard battle will be fought, and that given the historical experience that Western brands have gone through with the Japanese, they are going to be more alert this time around.

S+B: So there's an interesting set of games the multinationals have to play simultaneously?

QUELCH: There's a line from a John Le Carré spy novel I include in all of my speeches on global marketing — a message to all of those people at headquarters who basically never get out and check out what's in the field. There's a character in a Le Carré novel who says at one point to one of the headquarters people at MI5, "You know, a desk is a very dangerous place from which to view the world."

The big question the global consumer products companies face is what proportion of their resources, both financial and human, to allocate to emerging markets versus the developed world, which in most cases still accounts for the vast majority of their profits, but not necessarily of their growth. These high-potential, high-population markets require a lot of patience, a lot of investment, a lot of learning. Yet the stock market is demanding quarterly performance, which can no longer easily be fueled by opening up the latest emerging markets in the way that it was in the last decade.

Remember: The most seminal event in marketing in the last 15 years was the fall of the Berlin Wall, because that triggered the opening of so many more millions of people around the world to Western goods. Who was first in? Well, of course, the low-unit-priced, consumer packaged goods from the West. But what we've seen since then is the development of local manufacturing capability in many of these product categories: locally sourced products that are therefore lower priced and more culturally adapted. Simultaneously, we've seen a tendency for emerging market consumers, who initially flocked to experiment with the new Western brands because previously they'd been the unavailable forbidden fruit, to revert to the tried-and-true local brands because they have now upgraded in quality. Some of those local brands were bought by smart multinationals, which then invested in the plants and kept them as local brands, rather than trying to fold them in under some global umbrella brand-management scheme. And some have remained locally owned brands. Which goes back to the earlier point, about governments being absolutely delighted, for any number of reasons, that local brands are asserting themselves against global brands.

S+B: If you look at this from an investment standpoint, it appears to break down into two unhappy choices, at least for packaged goods manufacturers. Either they take the risk and increase investment in new product and brand development in the developed countries, where most of their profit comes from, but growth is very slow. Or, they take the money and invest it in truly local marketing and distribution efforts in potentially high-growth markets that are showing signs of spurning them. From a strategic standpoint, then, how should they approach this dilemma?

QUELCH: These new markets were opening up and it looked like quick pickings to go in and capture market share. The other reason for going in early on was, of course, advertising rates were lower than they were ever going to be. Brand-building costs for Mars in Poland, for instance, where Mars has now established some excellent franchises for its brands, were absolutely minimal in the first five years of the 1990s. Mars was correct to pursue that opportunity.

But five years on, a lot of consumer goods companies are feeling they've perhaps over-invested in market development and under-invested in product development. There is a dearth of exciting new product development in consumer goods. Kellogg's, another company that for decades asserted it would never do the unthinkable, recently capitulated to the temptation of private label manufacturing. That is a further danger signal for the packaged goods companies.

In addition, in a dot-com world, the traditional consumer goods companies look extraordinarily unattractive as places to work. Therefore, their ability to attract the creative, strategic thinking that 20 years ago they were able to attract easily from the MBA schools is quite constrained.

S+B: What can the CEO of a Kellogg's do about that?

QUELCH: Apart from using their best efforts to retain talent, I'd recommend focusing on hiring top-quality people from undergraduate programs and putting them through outstanding in-house development programs.

S+B: Similar to P&G's recruiting program?

“A lot of consumer goods companies are feeling they’ve over-invested in market development and under-invested in product development.“

QUELCH: Now, with the shortage of MBA interest in consumer goods companies, I’m sure Procter is benefiting from its longstanding investment in attracting talent from top-quality undergraduate programs as well as recruiting MBAs.

S+B: Procter’s recruiting capabilities aside, the relative unattractiveness of packaged goods companies to budding talent almost forces one to conclude that brand management as a discipline has become quite ossified.

QUELCH: The brand management process has perfected itself to a point where it’s no longer useful. There is much less room for imagination and innovation to influence what a brand manager does or can do at these companies. The most innovative thinking in marketing these days is not coming from consumer packaged goods companies, as we historically expected it to, but rather from consumer service companies, from business-to-business service companies, and indeed from the high-technology world. These days, if you were to ask the question, “Who’s the best company in the world at doing a global product launch?” the answer would probably be Microsoft or IBM or Disney, not Coca-Cola.

S+B: Playing devil’s advocate, I’d say you’re giving them too much credit. Microsoft’s target market is the global road warrior. So they have an easy time. I’m wondering, who are the great marketers who lack that natural advantage? Who is traversing your radar screen?

QUELCH: In the world of the New Economy, Yahoo would be a very promising player. There are two reasons. The first is that the business model is more robust in the long term than, for example, the Amazon.com model. The second thing is the level of brand-name awareness that has been built up. In fairness to Amazon.com, you could count it here as well. These two brands have built up a level of international awareness close to what it took Gillette 75 years to achieve. This could be ephemeral. It could be pet rocks. But I think it’s actually a function of being able to get inside the New Economy consumer’s head, in a way the old economy companies, particularlyconsumerpackagedgoods companies, are not able to do.

S+B: So you think marketing in the New Economy differs from marketing in the old economy?

QUELCH: There are some enormous changes. For example, past research on word-of-mouth communication shows that if you have a really negative or positive experience with a company or a brand, you tell about 10 or 12 people. But with the Internet, that number becomes 60, just because of the speed and ease with which messages can be shared. This is going to require enormous attention by companies because of the increased need for individual consumer quality control and customized service that meets expectations.

S+B: Does this have implications for emerging markets?

QUELCH: About four years ago, I wrote one of the first articles on Internet marketing in the *Sloan Management Review*. I made the point that I thought the Internet’s impact was going to be far more substantial in emerging markets than in developed markets because, first, distribution systems in developed markets were relatively efficient, but in emerging markets were far less efficient; and therefore the opportunity to add value and take out cost was greater. And, second, related to that, the greatest benefit would be in the smallest emerging markets, where in so many product categories, local customers were hostage to whatever a single national importer/distributor charged for the product. The Internet now allows those customers to go online and check prices offered by alternative suppliers. And therefore, the power of the exclusive national distributor would be diminished.

S+B: That's true. You're creating almost an auction market in distribution, which facilitates increased penetration of new goods into a culture.

QUELCH: Absolutely. The same is true in business-to-business categories, as well. That came home to me about three years ago, when I gave a speech in Guatemala City and gave the same speech in Frankfurt two days later. And in both cases, I asked the audience, "How many of you have surfed the Internet? Put your hands up. How many of you have bought something on the Internet? Put your hands up." In Guatemala City, the number of respondents raising their hands for both questions was three times what it was in Frankfurt. Probably that ratio has narrowed now, but I still believe that Guatemala City would beat out Frankfurt.

S+B: How does the advertising industry need to configure itself to respond to these trends in localization, globalization, and communication? You're on the board of the WPP Group, and just a few days ago, it agreed to terms to acquire Young & Rubicam. Are we going to see more concentration in that industry? Will we see an ad industry composed of three global conglomerates?

QUELCH: No, because the advertising and marketing communications industry remains highly fragmented. And while there are certain global brands that one hears about quite often, collectively these global brands don't represent more than about 30 percent of the industry's total billings. It is a low-barrier-to-entry industry, and highly entrepreneurial; there are many, many local, city-based, or nationally based agencies, and they will continue to thrive because their cost structures are economical. And as we discussed earlier, there is a large and growing amount of local and national brands that need to be supported locally and nationally.

S+B: So a successful global advertising company has to reflect the need for local bias?

QUELCH: The advertising business is a perfect example of the need for balance in your portfolio. As a multinational, Ogilvy & Mather operates on a very rough guideline of seeking 50 percent of its business from global brands and 50 percent from local brands. Why? The global brands enable them to get more local business, because many managers running local brands want an agency that can draw on learning from all over the world. At the same time, the global brand-owners value the fact that 50 percent of the business in the local office of each country is local. Because they want the benefit of locally interpreting their brands in that particular market. I think achieving this balance is the most important determinant of success in running a multinational advertising agency.

S+B: When you have the kind of consolidation that's happening at a WPP, and an attempt to achieve certain financial efficiencies, can you still serve these increasingly localized needs and interests efficiently?

QUELCH: Yes. Local costs are usually lower than headquarters costs. Reducing costs at the center will make the Young & Rubicam agency stronger. Costs will not be taken out by deleting local talent. We'll focus on duplication of effort and reduction of fat at the center.

S+B: Last question: Is marketing a discipline or a gift?

QUELCH: There's a great answer to it, which I just saw in a quote from Martin Sorrell, who heads WPP. He said, "It's about getting people to kiss and punch at the same time." That really does sum it up. Because the punch is the discipline. And the kiss is the creativity. That combination is what WPP is bringing to the industry. It wasn't apparent initially, of course, that the balance was going to be there. It seemed simply to be about finance and market domination. But in the end, the effectiveness of WPP depends on that balance between discipline and creativity. +

Reprint No. 00309