

ENCYCLOPAEDIA BRITANNICA INTERNATIONAL: EXPLORING EMERGING MARKET OPPORTUNITIES

Laurence Maher, Executive Vice President of Encyclopaedia Britannica International, leaned back in his chair as another staff meeting concluded in his office at Britannica Centre on Chicago's Michigan Avenue. "Another meeting," he thought, "and still no proposal concerning a marketing strategy for the division in Europe now that the European Economic Community was established, the Berlin wall had fallen, Communism appeared doomed, and the Soviet Union had disintegrated." The major points of disagreement among the staff were assessing the level of opportunity in these new markets and determining the best marketing strategy to use to enter them.

Thomas Gies, President of the international division of the firm, had asked that another meeting on the same topic be scheduled for next week. Norman Wasz, Director of International Marketing Information, and Polly Sauer, Vice President of Marketing of the division were also asked to attend.

CORPORATE AFFAIRS

Maher had concluded that the firm at the corporate level was in a good position for taking advantage of growth opportunities. He had witnessed a number of changes in the organizational structure, the opening of several new markets, the creation of many new products, and the start of several new business ventures in the company during the last 20 years.

Encyclopaedia Britannica International was a division of Encyclopaedia Britannica, Inc., an American firm which could trace its roots back to the publication of the first edition of the Encyclopaedia Britannica in Scotland on June 30, 1768. The company, a privately held organization, had its corporate offices in Britannica Centre at 310 S. Michigan Avenue, Chicago, Illinois.

Encyclopaedia Britannica, Inc., had a wide array of interests in the education field. In addition to the Encyclopaedia, which appeared in the 15th edition as The New Encyclopaedia Britannica the firm produced yearbooks, alternate reference works, and learning systems under a variety of names and formats.

Although the firm did not release exact figures, total annual sales were estimated at \$650,000,000. Through wholly owned companies plus agreements with distributors, Britannica did business in more than 100 countries.

This case was prepared by James W. Camerius of Northern Michigan University and is intended to be used as a basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation. It is based on interviews with corporate executives on August 17, 1990.

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The corporate operating departments of Encyclopaedia Britannica, Inc., are shown in Exhibit 1. In addition to the departments of Corporate Finance, Editorial, Public Relations, Corporate Planning and Development and Human Resources, the division also contained the Department of Asia Product Development. This department coordinated product development and joint ventures for the firm in Japan and China. It also recently had assisted in the development of a Korean Britannica, was planning for expansion in other Asian countries, and was developing a new Italian language Encyclopaedia.

Encyclopaedia Britannica USA (EBUSA), one of the principal income producing divisions of the firm, as indicated in Exhibit 2, had the responsibility for sales of Encyclopaedia Britannica products in the United States, Puerto Rico, Guam, Virgin Islands, and U.S. Military. It was established in 1974 as a separate division consolidating the U.S. field sales organization and the company's support service departments.

Encyclopaedia Britannica products were traditionally sold door to door to consumers by a staff of independent contract salespeople. Although direct home sales by a highly motivated sales staff still accounted for a majority of sales, in the late 1970's, EBUSA expanded its methods of reaching the consumer. It established many more over-the-counter locations in which the product could be sold, including state fairs, shopping malls, theme parks such as Great America, and through large bookstore chains, such as Waldenbooks.

EXHIBIT 1

ENCYCLOPAEDIA BRITANNICA, INC.
ORGANIZATIONAL CHART

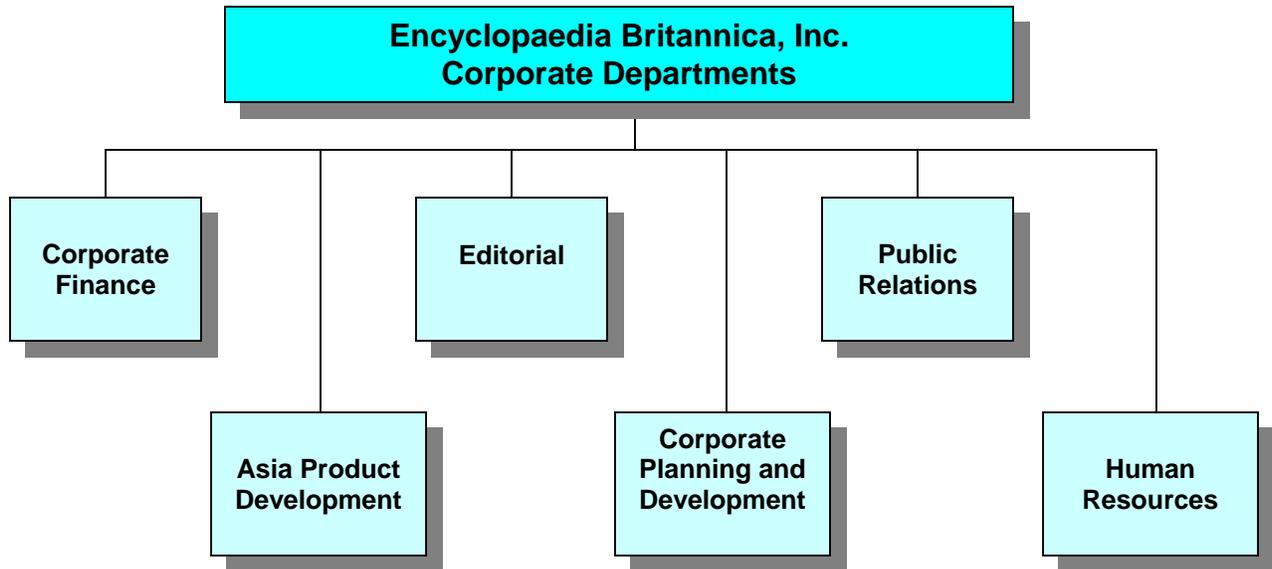
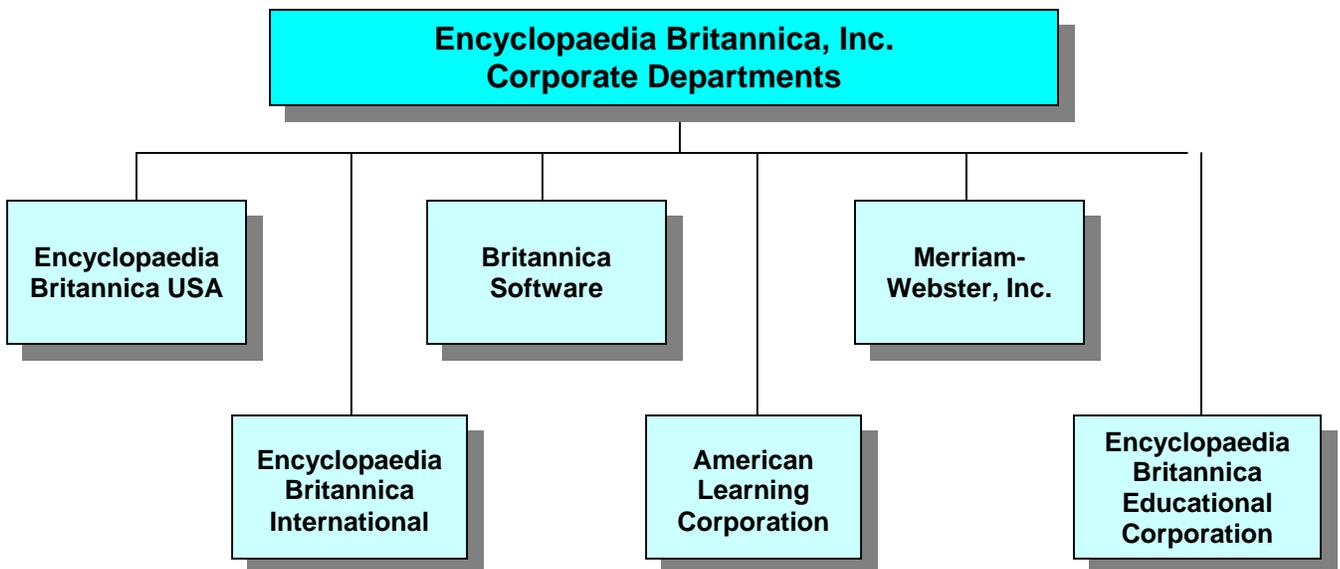


EXHIBIT 2

ENCYCLOPAEDIA BRITANNICA, INC.
ORGANIZATIONAL CHART



The sales field organization was backed by extensive public relations, national advertising on television and in print, special offers to groups, and direct mail programs which generated inquiries as sales leads. In a third-party program, mailings were made over the name of firms like American Express to reach potential customers at relatively high income levels. Prices in the product line in the United States were established in the Chicago office. Encyclopaedia Britannica, Inc. had approximately 1,800 employees and more than 2,000 independent sales representatives in the United States.

The other principal income producing divisions of Encyclopaedia Britannica, Inc., were Encyclopaedia Britannica International which had responsibility for international interests; Merriam-Webster Inc., which published dictionaries and other reference works; Encyclopaedia Britannica Educational Corporation which was a major producer and distributor of educational films and multimedia audiovisual materials; 2 Learning Corporation which provided programs in individualized learning; and Britannica Software which specialized in business and financial planning simulation software.

THE SPIRIT OF WILLIAM BENTON

Laurence Maher knew that the issues of maintaining control of the organization and planning for expansion had been perceived as problems in the organization for a considerable length of time. Much of the drive, determination, and creative practice of present management was attributed to the entrepreneurial spirit of William Benton who for thirty years had controlled the firm.

William Benton (1900-1973), a former advertising agency executive, was publisher and chairman of the board of Encyclopaedia Britannica, Inc., from 1943 until his death in 1973.

When the Encyclopaedia Britannica was offered as a gift to the University of Chicago by owner, Sears, Roebuck and Company, Benton offered to put up his own money as working capital. The university accepted the gift in 1943 and committed the management and the stock control to Benton, retaining a royalty arrangement providing for editorial assistance from the University.

As publisher and chairman, Benton made the corporate commitment of time, resources and money to completely control and expand the company. He was responsible for producing the 15th Edition of Encyclopaedia Britannica. His longtime friend and colleague Robert M. Hutchins observed that “although he was under no pressure to publish a new edition, his own standards led him to conclude that he must do what he could to make Britannica better still.” He was closely involved in every step of research, planning, design, and initial production of the 15th Edition while concurrently leading several other distinguished careers including that of U.S. Senator from Connecticut, 1945-1952.

Under Benton leadership the volume of Britannica’s domestic business increased more than fifty fold. Upon his death he was succeeded as publisher by his wife of 43 years, Helen Hemingway Benton. Robert P. Gwinn, then chairman of Sunbeam Corporation, became board chairman of Britannica in 1973. Under Gwinn’s stewardship, Britannica experienced major

growth at the international as well as at the domestic level. The William Benton Foundation, a not-for-profit organization, was the primary stockholder.

MARKETING IN THE INTERNATIONAL DIVISION

The international division, Encyclopaedia Britannica International, Inc., was headquartered at Britannica Centre in Chicago. A small staff, consisting of the division's President, Thomas A. Gies; Executive Vice President, Laurence J. Maher; and Director of International Marketing Information, Norman Wasz, maintained offices there. The division's Vice President of Marketing, Polly Sauer, who traveled extensively on a world wide basis, also operated out of the Chicago office. An order handling section, consisting of five people, handled merchandise orders from international subsidiary companies and independent distributors.

The division had primary responsibility for the management of wholly owned companies that sold Encyclopaedia Britannica and other products outside of the United States. These subsidiaries did business in 18 countries: Canada, Japan, Australia, New Zealand, the Philippines, Germany, Belgium, France, the Netherlands, Spain, Switzerland, Austria, South Korea, Italy, England, Scotland, Wales, Northern Ireland, and the Republic of Ireland. Each of these wholly owned companies was considered a profit center and was a complete self contained unit. Each had its own president, chief financial officer, national sales manager, collection department, and sales forces. The products sold in each subsidiary were usually produced in the United States, but in some cases they were produced and manufactured in the local country. There were more than 230 offices staffed by 1,200 administrative employees and 2,000 independent sales representatives in the international division.

The division also had distribution agreements with a number of independent firms in more than 130 countries in the Middle East, Africa, Asia, Europe, and Latin America. An administrative center in Geneva, Switzerland, supervised the distributors in European countries where the firm did not have a subsidiary and in Africa. Asian and Latin American distributors were supervised from division offices in Britannica Centre in Chicago.

The international division was involved in a number of other endeavors such as a joint venture with Encyclopaedia Universalis in France. It also handled distribution of the concise Chinese-language version of the Encyclopaedia Britannica in all countries other than the United States and the People's Republic of China.

The product line of the international division consisted of a wide variety of Encyclopaedia, books, accessory products, yearbooks, dictionaries and language courses. The Encyclopaedia Britannica published in English in a number of different bindings, was considered the cornerstone of the product mix. The EB international products are listed in Appendix A.

The International Division used a number of methods on the national and local level to obtain sales leads for the direct sales forces of subsidiaries. Management identified three types of these activities: (1) advertising, which was conducted on a national level through the various media to encourage response from potential consumers;

(2) over the counter selling, which took place in high traffic locations like shopping malls, train stations and amusement parks to take advantage of “walkups”; and (3) “effort business”, which involved leads and/or sales that salespeople created on their own without company support programs. The division Vice President of Marketing spent a considerable amount of her time traveling to plan, implement, and coordinate this part of the marketing program.

Management used a “Source of Order Report” to summarize and review the marketing activities which each subsidiary used to generate sales leads. The use of these tactics changed from country to country depending on trade tradition, custom, legality, interest, and other factors. The report was a complete listing of all of the tools that were used to generate leads for sales representatives. It represented the firm’s effort in stimulating demand for the product line. As Maher noted, “In the old days, you went out on the street and knocked on the doors. We don’t do that at all. Our salesperson has a name and an address and a place to go when he or she leaves the office.” A list of the major items in the report appears in Appendix B.

For most products, prices were established through an annual agreement between the subsidiary president and the Chicago office. Once established in the operating plan for the fiscal year beginning on October 1, prices could not be changed without prior approval from Chicago. The corporate controlled pricing policy did not permit direct negotiation of the price of the product at the consumer level. Variations in price to the consumer would appear in the individual sales presentation as the sales representative suggested different types and styles of bindings or made special offer deals. The bindings ranged from a high quality platinum leather binding to a basic red one which was sold primarily to schools. The special offer deal included an extra book or free gift if the customer ordered at that time. Individual subsidiaries were provided considerable latitude in the operations provided they maintained their operating plan and did not make adjustments in prices. A similar program was established in maintaining sales commissions for sales representatives.

THE EXTERNAL ENVIRONMENT

Britannica management had identified two basic types of competition in the world market, international and local. International competition came from U.S. firms like World Book, Inc., and Grolier, Inc., which produced the Encyclopaedia Americana. In the “direct to the consumer market,” competition was considered negligible. In some countries, however, these firms had a fairly sizable presence in the mail order business selling a range of books including Encyclopaedia. World Book, Inc., for instance, had scattered success in its operations in many countries such as Australia, Canada and the United Kingdom.

At the local level, competition was much more intense and varied from country to country. In Australia there was no significant local competition. In England there were a number of local competitors, but Britannica management did not consider the market saturated. In Japan, however, competition intensified because of the nature of the product line and sales force relationships. Britannica Japan Inc., was but one of many different companies that sold English language courses in Japan.

In addition, at the sales level, loyalties were such that if competition hired away an influential sales manager, the manager typically would take the sales force to the new position. This proved to be extremely frustrating to management in the international division. The firm not only competed with firms that were selling similar products, but it competed for manpower to sell the product. Management had concluded that the situation was true worldwide, and it had become “a more important consideration from a competitive viewpoint than competition for the product.”

In some countries, like in Italy, France, and South Korea, local firms produced an Encyclopaedia in the first language of the country. Also, in Europe, many companies produced sets of what were really encyclopedic dictionaries. They were labeled as Encyclopaedia and accepted by some consumers as substitutes in the marketplace.

A more recent development was the selling of pirated editions of the Chinese language Encyclopaedia Britannica. In Taiwan, for instance, several different companies duplicated the 20 volume Chinese [language] version of Encyclopaedia Britannica, rebound it, and sold it at a greatly reduced price. A similar situation also occurred with the English language version. The firm had some court convictions, but the practice continued.

Some companies like Amway, Mary Kay, and Encyclopaedia Britannica found that expansion into foreign markets met with mixed success. The concept of door-to-door selling was not equally accepted in all countries. Moreover, many cultures did not accept the concept of making a profit from selling to a friend, colleague at work, or a neighbor. As a result, alternative ways had to be found by marketing management to reach the consumer on an international level.

A EUROPE OPPORTUNITY

At the beginning of 1992, the drive for a unified market in Europe had converged with the fall of communism to make Europe a far bigger and more competitive place to do business. The result, according to Fortune was “a new Europe with big risks and big opportunities.” As Executive Vice President of the International Division, Maher had read a number of reports on the topic, had traveled extensively, and had recently discussed the issue with representatives of subsidiaries and other organizations that distributed the firm’s product line.

The European Community (EC) provided a new free trade zone through the Single Europe Act (EC-92). The 12 original members were the countries of Belgium, Britain, Denmark, France, Germany, Greece, Ireland, Italy, Luxembourg, The Netherlands, Portugal, and Spain. The European Free Trade Association (EFTA) comprised of the countries of Austria, Finland, Iceland, Norway, Sweden, and Switzerland. It was linked with the EC through a free-trade agreement. Industry analysts had predicted that this move to a single market in Europe in 1992 would stimulate a wealth of new regional business incentives.

The Republics of the former Soviet Union and the other Eastern European nations of Poland, Hungary, Yugoslavia, Czechoslovakia, Romania, Albania, and Bulgaria were experiencing great political and economic change.

The Communist Party was being replaced by democratic institutions in most of these countries. Czechoslovakia, Hungary, and Poland, Eastern Europe's three strongest economies, had agreed to open their markets to EC products within ten years. Albania, Bulgaria, and Romania, the least developed countries of Europe, had trade agreements with the Economic Community. They were expected to develop their home markets first. Yugoslavia had disintegrated in the turmoil of a civil war.

Challenges included a multitude of legal, fiscal and physical barriers to trade and exchange, as well as linguistic and cultural diversity. Because of the swift and uncontrolled nature of the changes taking place in Eastern Europe, marketing analysts had suggested that firms marketing their products in these countries should carefully monitor events and proceed cautiously. The nations were very different in terms of technology, infrastructure, foreign investment laws, and speed of change. As Fortune magazine noted as it described the opportunities and the challenges facing Europe in the decade ahead, "The risks are real, the problems deep."

Industry experts in 1992 were suggesting that the largest single market opportunity for U.S. firms would be in the developing nations of Eastern Europe. With the fall of Communism, Central Europe was expected to start growing slowly in 1993, then sprint ahead at up to an 8% annual rate toward the end of the decade, according to Scott Vicary, an analyst with the London investment firm of James Calpel. This promising growth was expected to lift the collective GNP of a number of Central European countries as well as the Economic Community and the European Free Trade Association.

Britannica management had already taken some steps to respond to the development of European Economic Community. A group had been formed at the division level to study the issues. The presidents of the existing European subsidiaries were brought in to corporate headquarters to compare how they did various things. They also discussed what they might be able to do better as a joint effort. Emphasis was placed upon improving the quality of the tasks that were performed as well as provisions for cost savings. One example of this effort was in the preparation of promotional material. Division management felt it could save money by using common art work and localizing it by putting it in different languages. The cost savings from this effort could be used to hire a better promotion staff and get a better product.

The computer was another area which was perceived as a source of saving and improved effectiveness. One computer was proposed for all of Europe to replace computer operations in Rome, Paris, Madrid, Geneva, and London. The division reasoned that it would have more control and get better service with a centralized staff, more capacity, and faster machines, if it could use one computer for all of Europe.

The fear of losing control became a major issue in this setting. "One thing we found out very quickly when we got into this," Maher noted, "everyone was protecting their own turf." Existing subsidiary management was reluctant to give up anything. "They wanted to maintain their own functions," Maher continued.

“And of course, the five subsidiary presidents are afraid we’ll end up with one company president in Europe.”

THE PLANNING MEETING

Maher and Gies were well aware of how important expansion in the European marketplace was to upper level management of Encyclopaedia Britannica and to the International Division. For one thing, an increased demand for English language courses was predicted in the Eastern European countries as people sought ways to learn English. English courses sold by Britannica appeared to be too expensive for the individual consumer in most Eastern European countries. A second problem concerned how to sell the product at the retail level. “It may be that the home-field sales force is not the avenue,” Maher said. “Perhaps they’ll have to go through bookstores. Perhaps newspaper stores or direct mail. It’s not only creating the product, identifying the product need,” he noted, “but it’s also the distribution method and the restrictions on the amount of disposable income they have.” He also suggested Eastern Europe as a source for manpower for a European operations sales force. Sales force expansion and retention had always been primary goals in direct selling activity.

The week had passed quickly. Senior management executives of the International Division assembled again in President Gies’s office to consider the question of entry alternatives and market expansion opportunities in Eastern Europe. President Gies opened the meeting with a statement reflecting on one of the goals of the division: “to get quality educational products into the hands of people of all countries.” Gies felt that it was absolutely necessary at the meeting to resolve the question of how this goal applied to developing strategies for Europe’s new markets.

Maher knew that a detailed analysis of the cultural, social, economic, political, legal, and technological forces of the environment was essential before the company entered a foreign market. He suggested in his initial report that given its capital constraints, the firm should limit the number of markets it chose to enter. It should only select markets that have (1) low political risks, (2) few restrictions on business, and (3) high purchasing power. He felt that these factors should be considered when analyzing the relevant environments in each of the countries of Eastern Europe to assess market attractiveness.

Four possible Eastern Europe market entry strategies were identified by the executives of the International Division. Each of these possibilities involved an increasing amount of commitment or involvement on the firm’s behalf and thus allowed management to have more control over marketing efforts. A fifth view favored consolidation of existing activity.

One viewpoint favored exporting selected products and selling them through an existing subsidiary. The executive supporting this view cited a number of factors favoring this approach. First, experience suggested that this would be a way to get into the market quickly. Second, using an existing subsidiary did not require a great deal of investment or risk-taking since it would use the expertise of established wholly owned companies that already sold Encyclopaedia Britannica and other products in Western Europe.

The second viewpoint suggested that an existing firm be given the right to market selected items in the product line for an agreed upon commission or fee. This type of licensing arrangement would be a low-investment form of market entry that would give the organization some form of control since the licensing arrangement could stipulate specific marketing methods. The firm already had contractual agreements with a number of firms worldwide to sell its products.

A third viewpoint called for entering into a joint venture with an existing foreign company. This proposal would also establish a legal presence in the European marketplace and position the firm for European expansion. Existing expertise would be used and market opportunities could be explored quicker. The partner would know the language, understand the culture, and be aware of the need of the various markets. The executive that supported this approach acknowledged that it might be difficult to find a suitable partner since there was some question whether anyone would have expertise in how to take advantage of what was occurring in Eastern Europe. The operation of such a joint venture, if established, could be supervised from the administrative center in Geneva, Switzerland. It controlled agreements Encyclopaedia Britannica had with the independent distributors which operated in countries without wholly owned subsidiaries of the firm.

A fourth viewpoint suggested the direct ownership of a new subsidiary which would establish a separate legal presence within a selected country. This approach would not only meet potential regulations, but would establish a presence in countries like Germany to suggest that Encyclopaedia Britannica was a company that cared about different cultures and markets. It would also allow management to have control over service standard levels.

The alternative would require increased investment, the establishment of managerial and operational expertise and additional time to establish. The risk would therefore be greater. A fifth proposal voiced by another executive was not to change. The executive believed that the international division could explore ways in which the existing subsidiaries could consolidate some of the functions to do a better job with the current marketing strategy. Hadn't they brought in the presidents of the European subsidiaries a little over a year ago to consider this very issue? Executive management at that time had concluded that this was an area where there might be a lot of cost savings while still maintaining the autonomy of existing subsidiaries.

The planning meeting adjourned without resolution. Tom Gies asked Laurence Maher to give the "opportunity" issue further consideration. He was to prepare recommendations for another meeting scheduled within the next 30 days.

DISCUSSION QUESTIONS

1. What differences and similarities do you see between domestic marketing and international marketing at Encyclopaedia Britannica, Inc.?
2. Identify and discuss the nature and scope of the problem confronting management of Encyclopaedia Britannica International, Inc. What factors did management consider as part of the process of choosing an Eastern European market entry strategy?
3. Once interested in international expansion, firms choose to customize their marketing strategies for different regions of the world or to standardize their marketing strategies for the entire world. What evidence is there to suggest that these alternatives are understood and applied by Encyclopaedia Britannica International Management?
4. How much emphasis is placed on the management function of control by Encyclopaedia Britannica International management?
5. Review the changes in the external environment that affect the marketing strategy of Encyclopaedia Britannica International.

Appendix A
Encyclopaedia Britannica

International Product Line

Encyclopaedia Britannica
The Britannica Book of the Year
Medical and Health Annual
The Great Books of the Western World
The Great Ideas of Today
Webster's Third International Dictionary
Britannica Discovery Library
The Compton's Encyclopaedia
Compton's Precyclopedia
Britannica Pre-Reading Readiness Program
Britannica Reading Achievement Program
Children's Britannica
Children's Britannica Work Cards
Australian Educational Products
Ii Modulo
Anglotutor
Me Diverto Con Le Parole
Encounter English
Encyclopaedia Universalis
Encyclopaedia Universalis Yearbook
Atlas Universalis
Endle Littre Dictionary
Le Grand Atlas De L'Histoire Mondiale
Encyclopaedia Mirador International
The Mirador Atlas
Dicionario Brasileiro
Encyclopaedia Barsa Portuguese
Enciclopedia Barsa Spanish
New English Master Language Program
Gateway to the English Master
New English Master - Junior Course
New English Master - Senior Course
Effective Listening
Modern Business English
Let's Talk About Japan
Japan and I
The Children's Language Package
First Steps in English
Second Steps in English
Third Steps in English

Appendix A
Encyclopaedia Britannica

International Product Line

Master Steps in English
The Canadian Encyclopaedia
Encyclopaedia of Visual Arts
Japanese Young Children's Encyclopaedia
BIE-Britannica International Encyclopaedia
BIE-Britannica Yearbook
Korean Young Children's Encyclopaedia
Effective Listening
Deep—Rooted Tree
Interfield Computer Based Language Course

Appendix B
Encyclopaedia Britannica

Source of Order Report

Take One Box

 Available Here Sign/Take One

 Counter Display

Untended Displays (large traffic area display)

Passouts (cards with sales message)

 Residences and Public Locations

 Retail locations (bagging)

School Carding (literature handout)

School Lists (parents in area with children)

Local 3rd Party (Group Discounts)

Referrals (local sales office created)

Local Direct Mail (mail from sales office to customer)

Booklet Drop-off

Telephone Prospecting/Directory

 Special Lists

Inquiries/Call—in/Walk-in

 Direct Contact

Local/Free Standing Draw (free drawing)

SCAP (Small Community Appointment Plan)

 Retail Stores (counter)

 Special Functions (counter)

 Shopping Malls/Shopping Centers

 Others

 Free Draw Follow-up

OTC (Selling product Over the Counter)

 Exhibition/Fairs

 Professional/Trade Shows

 Shopping Malls/Shopping Centers

 Theme Parks/Zoo

 Transportation Centers

 Home Appointment plan (RAP)

 Others

 Free Draw Follow—up

Appendix B
Encyclopaedia Britannica

Source of Order Report (cont.)

Other Misc. — Local

National Advertising

National 3rd Party (home office leads)

Company Direct Mail

Other Misc. — National

ENCYCLOPAEDIA BRITANNICA INTERNATIONAL: EXPLORING EMERGING MARKET OPPORTUNITIES

TEACHING NOTE

CASE OVERVIEW

Encyclopaedia Britannica International, Inc., is a division of Encyclopaedia Britannica, Inc., a privately held American firm which could trace its roots back to the publication of the first edition of the Encyclopaedia Britannica in Scotland on June 30, 1768. Now an international corporation with several divisions, it had a wide array of interests in the education field in addition to the 15th edition of The New Encyclopaedia Britannica. It produced and distributed Encyclopaedia, yearbooks, alternate reference works, learning systems and other items under a variety of names and formats. At the beginning of 1992, total sales of the firm were estimated at over \$650,000,000. There were approximately 3,000 administrative employees and more than 3,200 independent sales representatives worldwide. Through wholly owned companies plus agreements with distributors, Britannica did business in more than 100 countries.

For nearly thirty years, the concrete Berlin Wall loomed as both a physical barrier and a symbol of the political, social, and economic differences between Western Europe and the Soviet bloc. Its fall in 1989, together with the establishment of the European Economic Community, the decline of Communism and disintegration of the Soviet Union was perceived by many firms including Encyclopaedia Britannica as an opportunity for international expansion in sales. As sales force expansion and retention had always been primary goals in direct selling, Eastern Europe was also perceived as a source for additional manpower.

Management in the international division believed that the firm at the corporate level was in a good position to take advantage of growth opportunities. It had an established product line which included courses in the English language, an international network of subsidiaries and independent distributors, and a management team which was committed to expansion. The situation in the case involves a consideration of environmental forces, standardization versus customization of marketing strategies, and the selection of alternative market entry strategies. It also involves concerns about the degree of control present in the system.

TEACHING OBJECTIVES

This case can be used to achieve several learning objectives:

1. It can highlight the need for management to monitor the external environment as a prerequisite to successful international marketing;
2. It can be used to discuss the types of foreign market entry strategies;

3. It can suggest levels of involvement in international marketing activities;
4. It can dramatize the importance of control in developing a marketing strategy which will allow the firm to take advantage of expansion opportunities in the international marketplace.

TEACHING SUGGESTIONS

This case is suitable for use in a principles courses in management or marketing and also in advanced courses in channels of distribution, retail management, marketing management, marketing strategy, international marketing, or international business. It could be used in a business policy course to evaluate the importance of a mission statement in the organization. Students could be asked to develop mission statement for Encyclopaedia Britannica, Inc. and Encyclopaedia Britannica International.

Before international marketing could achieve its current level of importance, enterprises with the necessary resources had to develop an interest in expanding their business beyond national boundaries. In introducing the issues of international marketing, students can be asked to speculate on this issue by using the Ansoff corporate strategy matrix (1965) which suggests considering the alternative competitive strategies including intense growth, diversified growth, and integrated growth. Selected topics for additional research include: (1) Issues in Regional Economic Integration; (2) Product/Marketing Management for the Multinational Corporation; (3) International Marketing Organization and Control; and (4) Alternative Growth Strategies in International Markets.

ANALYSIS OF THE COMPETITIVE ENVIRONMENT

In a review of the competitive environment in direct selling, students could be asked how the selling of Encyclopaedia and associated products compares with Mary Kay (cosmetics), ANWAY Corporation (home cleaning products), Shaklee Corporation (vitamins and health foods), Tupperware (plastic dishes and food containers), Electrolux (vacuum cleaners), and the Fuller Brush Co. (brushes and household products). Students might also be invited to contribute their own experiences and to discuss how the door to door experience in selling differs from over the counter selling in specialty stores, department stores, shopping center, state fairs, and amusement parks; and other forms such as catalogues.

DISCUSSION QUESTIONS

1. What differences and similarities do you see between domestic marketing and international marketing at Encyclopaedia Britannica, Inc.?

Encyclopaedia Britannica USA and Encyclopaedia Britannica International were income producing divisions of Britannica, Inc.

Encyclopaedia Britannica USA had the responsibility for sales of Encyclopaedia Britannica products in the United States, Puerto Rico, Guam, Virgin Islands, and the U.S. Military. Encyclopaedia Britannica International had primary responsibility for the sales of Encyclopaedia Britannica product on a world wide basis. A variety of marketing strategies were used on an international basis to adapt to the education and culture of the country in which the firm operated.

The product lines of both divisions included Encyclopaedia, yearbooks, alternate reference works under a variety of names and formats. The Encyclopaedia Britannica published in English in a number of different bindings, was considered the cornerstone of the product mix. In the international division, the product mix varied from country to country. In many countries, the main product was selling language courses to teach English as a second language. Other items peculiar to the market, like tea sets in South Korea, were also part of the product line.

EBUSA controlled the distribution of its products from corporate headquarters in Britannica Centre in Chicago. The international division had primary responsibility for the management of wholly owned subsidiaries that did business in 18 countries. The division also had agreements with independent firms in more than 130 countries and was involved in joint ventures and other agreements with foreign firms to produce and distribute EB products.

In the United States, Encyclopaedia Britannica products were traditionally sold door-to-door to consumers by a staff of independent contract salespeople. The product line was also sold at over-the-counter locations and through retail stores. A variety of techniques were used to establish sales leads. The sales field organization was backed by extensive public relations, national advertising on television and in print, special offers to groups, and direct mail programs. Third party programs were used to reach diverse segments of the population.

A similar promotional program was used on the international level. It changed, however, from country to country depending on trade tradition, custom, legality, interest, and other factors. The "Source of Order Report" was used by management to summarize and review the marketing activities which each subsidiary used to generate sales leads. Activities were coordinated in the international division by the corporate staff at Britannica Centre in Chicago and the Vice President of Marketing who traveled extensively.

The price of the product was established at the Chicago office in both divisions. The corporate controlled pricing policy did not permit negotiation of the price of the product at the consumer level. Variations in price to the consumer would appear in the individual sales presentation as the sales representative suggested different types and styles of bindings or made special offer deals.

2. Identify and discuss the nature and scope of the problem confronting management of Encyclopaedia Britannica International, Inc. What factors did management consider as part of the process of choosing an Eastern European market entry strategy?

The major points of disagreement among the staff were assessing the level of opportunity in Europe now that the European Economic Community was established, the Berlin wall had fallen, Communism appeared doomed, and the Soviet Union had disintegrated. The problem was perceived as one of “determining the best marketing strategy to use to enter these new markets.”

Management had already taken some steps to respond to the development of the Economic Community. The corporate staff had discussed this issue. The presidents of the European subsidiaries had been brought in to corporate headquarters to discuss ways activities could be consolidated and service offerings improved. A common computer for European operations was discussed. The fear of losing control by corporate and subsidiary management became a major issue in this setting.

Management had anticipated that the demand for English language courses would rise in the Eastern European countries as people sought way to learn English. It was also aware perceive such courses as being expensive, especially if they had limited enabling ability. A second problem concerned how to sell the product at the retail level. Management had already speculated that the traditional field sales force might not be the appropriate avenue to use to reach the consumer. A third opportunity was the possibility of Eastern Europe as a source for manpower for the sales force. Sales force expansion and turnover is a traditional problem in direct selling.

The planning meeting begins with a division goal, “to get quality educational products into the hands of people of all countries.” The need for a detailed analysis of cultural, social, economic, political and legal, and technological forces is stated. It is also noted that “given capital constraints, the firm should limit the number of markets it chooses to enter.” Management decided that it should select markets that have low political risks, few restrictions on business and relatively high purchasing power.

The president of the division had asked for recommendations on a market entry strategy for Eastern Europe at the next meeting.

3. Once interested in international expansion, firms choose to customize their marketing strategies for different regions of the world or to standardize their marketing strategies for the entire world. What evidence is there to suggest that these alternatives are understood and applied by Encyclopaedia Britannica International management?

Each subsidiary and independent distributor employed its own unique marketing strategy to meet the needs of the local market being served.

Five possible Eastern Europe market strategies were considered by executives of the international division: (1) Export through existing subsidiary; (2) Use independent firms; (3) Enter into joint venture with existing foreign firms; (4) Set up new subsidiary; (4) Consolidate activity of existing subsidiaries.

Each of these possibilities involved an increasing amount of commitment or involvement on the firm's behalf and thus allowed management to have more control over marketing efforts.

(1) Export From Existing Subsidiary:

A. Pros:

1. Enter market quickly
2. Minimum effort and cost since it uses existing expertise
3. Most flexible approach
4. Limited risk

B. Cons:

1. Would not have national identity
2. Limited resources
3. Would not know market, customs, culture

(2) Independent Distributor:

A. Pros:

1. Enter market quickly
2. Less risk
3. Low investment
4. Experience with independent distributors

B. Cons:

1. Suitable distributor may not exist
2. Possible incompatible goals and objectives

(3) Joint Venture:

A. Pros:

1. National identity of partner
2. Knowledge of language, culture, and market needs
3. Trade off between control and need for additional resources

B. Cons:

1. Satisfactory partner may not exist
2. Control subject to contract

(4) New Subsidiary:

A. Pros:

1. Legal presence in country
2. Nationalistic identification
3. Control over service level

B. Cons:

1. High risk
2. increased investment
3. Take time to set up
4. Need for managerial and operational expertise

(5) Consolidate

A. Pros:

1. Cost savings
2. More control

3. Eliminate redundant functions
4. Maintain autonomy of existing subsidiaries

B. Cons:

1. Limit market opportunities
2. Threaten existing management
3. Status quo approach to expansion with market opportunities explored in the long run

4. How much emphasis is placed of the management function of control by Encyclopaedia Britannica International management?

To achieve marketing objectives as well as general organizational objectives, marketing management must effectively control marketing efforts. This concept of control or lack of it is evident as marketing activities are established and coordinated on an international level. The following issues, discussed in the case, are representative of this leadership issue in developing an international marketing strategy at Encyclopaedia Britannica:

- (A) Separate international division created as “profit center” in 1974;
- (B) Implied “top-down” leadership of William Benton “who for thirty years had controlled the firm;”
- (C) Subsidiaries in the international division were wholly owned companies, each considered a profit center and a self contained unit;
- (D) Agreements with independent firms to distribute products were supervised from Britannica in Chicago and from administrative offices in Geneva, Switzerland;
- (E) Contractual relationships were present with foreign distributors to market products of the Learning Corporation division;
- (F) Small international staff at Britannica Centre plus marketing vice president who travels extensively to supervise, implies centralized control;
- (G) Source of Order Report used to summarize and review marketing activities. It varied from country to country;
- (H) Prices were established through an annual agreement between the subsidiary president and the Chicago office. The corporate controlled pricing policy did not permit direct negotiation of the price of the product at the consumer level. A similar corporate controlled sales commission program was in place to control the sales commissions of sales representatives;

- (I) Discussions had taken place at the division level to respond to the development of the European Economic Community to compare how things were done and what might be done as a joint effort to improve service efforts and provide for cost savings;
- (J) One computer was proposed for all of Europe as a source of saving and improved effectiveness;
- (K) Fear of losing control became a major issue with autonomy in the subsidiaries.

5. Review the changes in the external environment that affect the marketing strategy of Encyclopaedia Britannica International.

Marketing scholars have suggested that a detailed analysis of the environment is essential before management decides to enter a foreign market. If a marketing strategy is to be effective, it is suggested, the complexities of all environments involved must be understood. A familiar framework of the marketing environment includes differences in cultural, social, economic, legal/political, technological, and competitive forces that commonly affect marketing activities. The case notes that “a variety of strategies were used to adapt to and to contribute to the education and culture of the country in which the firm operated.” The author concludes that management is committed to customizing the marketing mix based on environmental differences.

Cultural Forces: (1) Use of independent firm in Latin America; (2) EB editions in language of the country; (3) Encyclopaedia introduced more fundamental level in Europe; (4) concept of door-to-door not accepted in all countries; (5) making a profit from selling to a friend, colleague at work, or neighbors not accepted in every country.

Social Forces: (1) Sold language courses to teach English as a second language in many countries; (2) Sold products that were peculiar to the local market like tea sets for ancient Korean tea ceremonies; (3) French Book Club sells by mail order; (4) Two sales organizations in France; (5) Encyclopaedia sold through schools in United Kingdom; (6) Home field sales force recognized as not the only avenue to reach the consumer.

Economic Forces: (1) Local economic and political instability noted in the Philippines; (2) limited disposable income of consumers.

Legal/Political Forces: (1) The European Economic Community was established, the Berlin wall had fallen, Communism appeared doomed, and the Soviet Union had disintegrated; (2) In the Philippines, new local companies were created at the retail level when laws were changed; (3) Joint ventures in France.

Technological Forces: (1) Sold computers and computer software in Japan to teach people how to use computers; (2) mail order operation in Australia; (3) Anglotuor part of product line in Italy to teach English; (4) Compton's MultiMedia Encyclopaedia on disk in Canada; (5) Computer seem as source of saving and effectiveness.

Competitive Forces: (1) International competition in direct to consumer market viewed as negligible; (2) Local competition varied from country to country; (3) Some substitute products available such as encyclopedic dictionaries; (4) presence of pirated editions; (5) limited "manpower" to sell the product.