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Brand strategies of Western MNCs as drivers of globalization in Central and Eastern Europe

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Abstract

Purpose – The purpose of this paper is to explore how selected fast-moving consumer goods markets in Central and Eastern Europe (CEE) have developed since the opening of CEE and what market structures have emerged since then. Particular attention is paid to the role of Western multinational corporations (MNCs) as drivers of globalization in this market-reshaping process.

Design/methodology/approach – Based on household panel data the dissemination of international brands is analyzed in four product categories and four countries of the region. In addition, the question of whether the level of economic development of countries or the product character has an impact on the penetration levels of international brand is examined.

Findings – The outcomes of this retrospective study furnish evidence for the globalization of fast-moving consumer goods markets in CEE. Although the level of diffusion of international brands varies by product category and country, the strong influence of Western MNCs in the shaping of market structures can be documented. The findings also mirror the predominantly-employed marketing and brand strategies of foreign MNCs in CEE, namely internationally-integrated as well as multi-tier brand strategies.

Research limitations/implications – The data provides only a snapshot of the situation in selected consumer goods markets in the region. In order to obtain a fuller picture of the extent of market globalization, the market share of international brands should be complemented by additional data on purchase and usage behavior.

Originality/value – The paper contributes to the current discussion of the market globalization thesis.

Keywords Brands, Globalization, Europe, Fast moving consumer goods, Multinational companies

Paper type Research paper

Introduction

Since the fall of the Iron Curtain in 1989, the liberalization of the political and economic systems in Central and Eastern Europe (CEE) has opened a huge new market for foreign firms. In particular, the enormous growth potential of the region prompted a rush into the emerging markets of this region. While the motivation to enter these markets was clearly understood, the choice of the adequate marketing approach turned out to be more complicated. The foreign firms almost faced a “tabula rasa”, a regional market that had been isolated from the modern Western marketing and consumption culture for more than four decades. What is the right marketing approach in such a situation? Should the management of the foreign firms opt for a more localized or a

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more standardized approach in international marketing strategy? Had management followed classic international marketing theory, it would have leaned towards a more localized approach given the huge differential in purchasing power and market development between Western and Eastern Europe. However, the asserted convergence of international consumption patterns and the ongoing portfolio restructuring and brand rationalization efforts by leading players in the saturated consumer goods markets of the world would imply us to expect a more globalized brand strategy in the emerging markets of CEE too (Levitt, 1983; Haden *et al.*, 2004). Does it then make sense to get involved in international marketing program differentiation?

This issue is not confined to the pragmatic managerial context but is also of theoretical interest. The market globalization thesis is a central assumption of the globalization philosophy (Li and Cavusgil, 1995). Proponents of the globalization perspective hold the assumption that the rapid developments in telecommunications, information and transportation technology and the removal of trade barriers in the last three decades have enhanced cross-national contacts and communications on the business and consumer level (Levitt, 1983; Ohmae, 1990). This produces increasingly convergent customer needs and interests as well as similarly shaped (national) market structures on a worldwide scale. The homogenization of markets allows MNCs pursuing global strategies encompassing highly standardized product and marketing strategies aiming at similar customer groups across national markets (Yip, 1989).

However, MNCs should not be seen as passive actors in this process. Rugman (2000) and Dicken (2003) refer to the MNCs as the drivers of the "economic globalization" and "primary movers and shapers" of the global economy. MNCs not only integrate, through their internationalization and activity location strategies, local suppliers and industries into the world economy, they also integrate local markets. In particular, in the transitional markets their role as change agents is very obvious: foreign MNCs shape, stimulate and create markets through immense investments, the establishment of supply and distribution networks, the transfer of marketing technology and know-how, the introduction of new brands as well as massive advertising and promotion efforts. Foreign and local producers, wholesalers and retailers, media groups and marketing service providers are all involved with different roles and interests in this market-reshaping process whose outcomes in the end depend on the acceptance of the innovations and the general response to the changes by the local consumers. One of the outcomes of this integration process, namely the homogenization of market structures and consumption patterns across countries, is the subject of heated debate (Douglas and Wind, 1987; De Mooij, 2004). In the case of CEE this would mean the approximation of local market structures to the Western market model.

The opening up of formerly for Western brands inaccessible CEE markets is predestined for a retrospective study to explore how the markets of the region developed and what market structures emerged since then. The analysis of actual market data could provide an answer to this market globalization controversy – at least in the context of consumer goods in CEE. This paper tries to explore how selected fast-moving consumer goods (FMCG) markets have developed since the economic opening and what market structures have emerged since then. The paper consists of three parts. First, the strategy dilemma that Western firms face when they plan to market their products in CEE markets is outlined. The arguments for local adaptation are contrasted with those for global standardization in the context of CEE. Furthermore, a brief overview of marketing and brand strategies typically pursued by Western MNCs in the region is given. Second, the "market reality" is introduced by presenting the findings of a study comprising market share data for four selected product categories in four countries of the region. Finally, based on the results of the "4 product $\times$ 4 country" study conclusions are drawn with regard to the validity of the market globalization perspective and the role of Western MNCs as drivers of globalization.

The strategy dilemma of Western consumer goods firms in CEE

The management of the conflict in international business and marketing strategy development between forces towards unification and integration across national markets and those resulting in fragmentation and localization has always been a central issue in international business research (Buzzell, 1968; Doz, 1986; Douglas and Wind, 1987). In the area of international marketing, scholars show a natural tendency towards customization. The occupation with the customers and their buying behavior as well as with the developments and structures of markets breeds quite understandably an emphasis on demand aspects *vis-à-vis* supply side considerations and leads to a higher sensitivity towards variances in the consumer behavior in different national markets (De Mooij, 1998). Success in a foreign market, so the credo, results from a good fit between the marketing strategy and the existing local market conditions.

The localization perspective

Following this line of thought, looking at some key characteristics of CEE markets and comparing them with the West European market situation reveals a great many differences that could be relevant when considering the transfer of a marketing and brand strategy from Western markets:

- *Huge differential in purchasing power:* The average GDP per capita (2003), in purchasing power standards, ranges from 29 percent of the EU-25 average in Bulgaria, 30 percent in Romania, 46 percent in Poland, 61 percent in Hungary to 69 percent in the Czech Republic and 77 percent in Slovenia (Staple *et al.*, 2004). Lower levels can be found in Russia, the Ukraine and Belarus. However, it has to be noted that the gap has been closing slowly but constantly during the last decade. Despite this favorable development, the low purchasing power has led to stagnant demand and, not surprisingly, price has become a decisive factor in buyer behavior (Shama, 1992; Schuh and Holzmüller, 2003).
- *Lagging product market development:* The average consumption of typical consumer products such as toiletries, soft drinks, confectionary, detergents and household cleansers is still well below Western levels. A lot of product categories did not exist before the transition or only basic product versions had been available. These markets have been built from scratch by the Western entrants who brought new product technologies, packaging and advertising techniques with them.

- *Differences in buyers' behavior:* Under the socialist system the economy was characterized by shortages in supply of goods and particularly services. Consumers had a limited choice of products and had not been able to make informed choices about products or judge prices and quality. Brand awareness is still underdeveloped because most products in the socialist past were sold as generic or local brands. The transition to a market-oriented economy turned the former sellers' market to a buyers' market and brought about a change from a deficit in supply to a deficit in financial resources. Consumers in CEE are faced today with an excessive supply and variety of products but are constrained by their low disposable household incomes. Affordability is a key criterion for selling products to the mass market. Brand loyalty is relatively low and people look for the best value they can get for their money. So it is a difficult task for Western marketers to convince consumers to be willing to pay more for typical value-added features of modern brands like innovativeness, convenience, brand image, design and top-quality. Furthermore, the emergence of "buy-national" motives in many markets has caused a stronger consumer loyalty to cheaper local or locally-produced brands (Marinov *et al.*, 2001).
- *Different competitive situation:* While in the early 1990s the pioneers among the foreign firms competed against local firms, today the picture is more multi-facetted. In technology-driven consumer product categories (e.g. detergents, cosmetics and body care products) the competition is mainly international, but local producers are major players in the food and beverage sector, where local tastes and a strong affection for traditional (and cheaper) local brands are challenging the marketing efforts of foreign MNCs.
- *Differences in trade structures:* Fragmented and long distribution channels have been common in CEE. Traditional store formats like general stores, small grocery shops, boutiques, kiosks, street vendors and open markets still dominate the distribution scene in South-Eastern Europe and in Eastern Europe: they represent 91 percent of total grocery retail sales in 2002 in Bulgaria and 86 percent in Romania, while modern store formats like hypermarkets, supermarkets, cash and carry and discounters made up the balance. On the other hand the more advanced economies in the transition process in Central Europe already show higher proportions of modern store formats in 2002 (modern/traditional store formats): Poland (50/50), Hungary (52/48) and Czech Republic (57/43). Western retail chains like Metro/Makro, Auchan, Tesco, Billa/Penny, Delhaize and Spar, which entered the region through the acquisition of local retailers and greenfield investments have been acting as change agents by introducing modern store formats and retail management techniques (Domanski, 2003).

Pointing at these obvious differences in the overall economic development and in the development of product markets in particular, local customization of the marketing strategies in CEE is suggested as the most appropriate approach (Czinkota *et al.*, 1997; Marinov *et al.*, 2001). Marinov *et al.* (2001) doubt the success of standardized strategies for the CEE countries because foreign companies with growing insight and commitment in this region will realize that to be effective they need to address the diversity of cultures by identifying the similarities and differences in the cultural, historical, political and economic environment of these countries. Consequently, a holistic understanding of marketing and cultural diversity is needed and a "contextualized marketing strategy" is even advisable for a standardized marketing approach. Thus, from an extremely local market perspective there are strong arguments in favor of a more responsive international differentiation strategy.

The market globalization perspective

However, an exclusive market-oriented perspective does not suffice to explain strategic decisions in MNCs. Firm-related aspects such as corporate goals and values, the strategic orientation towards internationalization, the organizational structure and configuration of value activities and, of course, profitability and risk considerations have always played a major role in the decision making process (Doz, 1986; Porter, 1986). Leading branded goods marketers would rather forgo entering a foreign market than make sacrifices in their product quality or to tarnish the image of their global brands. Furthermore, profit and risk considerations are areas that are often underestimated from a pure marketing point of view. This is well reflected in the currently ongoing rationalization process in the brand portfolios of consumer goods giants such as Unilever, Nestlé or Procter & Gamble and the resulting concentration on core or global flagship brands (Knudsen *et al.*, 1997; Haden *et al.*, 2004). High up-front investments in product development and major adjustments of the product and marketing program for a specific foreign market are rather the exception than the norm. Leveraging existing assets and resources such as brands, product technology and experience, in new regional markets is a central consideration for MNCs following a globalization philosophy (Ghemawat, 2003). Major adaptations of the local marketing strategy may happen in a later stage of the market penetration when markets become saturated and management begins to seek new directions for growth and expansion (Douglas and Craig, 1989; DeMooji, 2004).

The balancing of investments and returns as well as the handling of the risks involved is a major concern in all market entry decisions. Strategic decision making in the MNC is the constant search for optimal trade-offs between market-related claims and what is acceptable from an internal perspective – aggravated by an exceptional complexity stemming from the operation in multiple geographic markets with multiple product lines and different constellations of value-added activities (Doz and Prahalad, 1993). Placed in the context of the nowadays prevailing globalization philosophy, the economic and competitive arguments often outweigh demands resulting from differences and peculiarities of local markets (Yip, 1989; Ohmae, 1990; Bryan *et al.*, 1999). The market globalization perspective is built on the assumption that customer needs and interests as well as market structures are becoming increasingly homogeneous worldwide – when compared on an industry level – and that the supposed convergence allows the international standardization of products and marketing elements (Levitt, 1983; Douglas and Wind, 1987; Yip, 1989). In such a global industry it would be unwise for the management of MNCs to forgo the benefits of a global strategy. Benefits of a (standardized) global strategy are mainly seen in cost savings through the exploitation of economies of scale and the reduction of variety, in an improved quality of products and programs, in enhanced customer preference due to global availability and global recognition, in a coherent brand image and in more rapid diffusion of products (Jain, 1989; Yip, 1989).

Although extreme international marketing program standardization – understood as using a common product, price, distribution and promotion program on an international scale – is rare, it has to be noted that MNCs have always had a strong tendency towards standardization of marketing and brand strategies (Buzzell, 1968). The propensity for a global strategy does not rule out adjustments to local market conditions (Schuh, 2000). As the rise of a global consumer culture doesn't mean that consumers share exactly the same tastes and values, global brands have always to be adapted to local cultures especially in the area of communication (Holt *et al.*, 2004). Further adjustments are often demanded by national regulations (e.g. labeling requirements, "localization" of product names) or address important concerns of local consumers (e.g. variations in taste, package size and design). Global strategies must not be equaled with a simple concept of globalization, namely a single global product and advertising campaign and isolated, centralized decision-making at headquarters and imposed local execution (De Mooij, 1998). Nuanced approaches to global branding that build on the cooperation between all relevant participants from headquarters, local subsidiaries as well as external marketing service providers (e.g. marketing research and advertising agencies) and focus on the international brand-planning process and the following execution of brand-building strategies are regarded as the most effective approach in a corporate world that is still marked by decentralized cultures and structures (Aaker and Joachimsthaler, 1999).

It is hard to find any arguments why the market globalization process should not affect CEE too. MNCs have a strong interest to increase their presence in these growth regions of the world and in the internationalization of their flagship brands, especially in the emerging markets of CEE, Asia and Latin America (Quelch, 2003). And they are not hindered in their efforts by ideological barriers and legal regulations anymore. Before the collapse of the communist regime CEE countries were isolated from the global (capitalist) economy. The reforming countries of CEE have in the meantime all embarked and made progress on the transition process from a centrally planned to a market economy, which has exposed them to global influences (World Bank, 1996; UNCTAD, 2000; Lewis, 2005). Proponents of the localization approach underestimate the fact that there are several demand side characteristics of CEE markets which are in support of international marketing program standardization: the existence of similar and transnational customer groups as in the West, the appreciation of Western products and life-style, the geographic proximity to and growing interdependence with Western Europe and the political and economic integration of Central European and Baltic countries into the European Union (in the case of South-Eastern Europe the prospect of becoming a member of the EU) are backing the standardization of products and marketing programs (Schuh, 2000).

Typical marketing and brand strategies of Western MNCs in CEE

Given these developments in the region it is not surprising to find authors that see clear advantages for an internationally more integrated and coordinated approach to the market (Kozminski and Yip, 2000; Schuh and Holzmüller, 2003). Schuh and Holzmüller (2003) distinguish three types of marketing and brand strategies that Western MNCs can choose from when operating in consumer goods markets of the region: the transfer of the Western home market strategy, the multi-tier product and brand strategy and the regional strategy. Transferring the strategy used in Western markets is typical for the entry stage as it is optimal from a cost – risk perspective. Market entry into this new region is regarded as a natural market extension, the core elements of the marketing mix (brand, physical product, packaging design and communicative positioning) remain unchanged, adaptations are limited to peripheral elements such as labeling, package size and promotional activities. When Western MNCs face difficulties in the penetration of markets with their comparably expensive international brands, especially in the more price-sensitive lower end of the market pyramid, they often switch to a so-called multi-tier product and brand strategy, in which local brands are marketed alongside the international brands (Batra, 1997; Schuiling and Kapferer, 2004). Typically, such brands have been acquired through the purchase of a local competitor or have been specifically developed for the price-conscious "economy-segment". While the well-known international brands are aimed at the upper segment of the market, the local brands are either catering to the brand loyal consumers by using the strong heritage of the brand or to the "value-for-money" seeking consumers by offering extremely low priced products of a fair quality. Particularly, the incorporation of Western quality and modern image into reasonably priced products is of course very appealing to the mass of CEE households, which are struggling to make ends meet. In order to keep costs of those local brands low, foreign MNCs, which are present in the whole region, turn increasingly to regionalization concepts (Ferencikova and Schuh, 2003). The centralized production of products for a group of countries or the whole region allows firms to realize economies of scope and scale, as well as the opportunity to cater to regional preferences and tastes in product composition and design (Schuh, 2000).

Study of market globalization in the FMCG markets of CEE

The purpose of this study is to examine the dissemination of international brands in a "4 product × 4 country" sample in CEE. A high share of international brands *vis-à-vis* local brands would indicate an increasing globalization of market structures in CEE. The study includes the following analyses:

- determination of the level of diffusion of Western brands in selected fast-moving consumer goods (FMCG) markets of CEE; and
- examination of whether the level of economic development of countries and the product character has an impact on the penetration level of international brands.

Research methodology and analyses

The data set was provided by the market research agency Fessel-GfK in Vienna, Austria, the latter being the regional headquarters for the region Central and Eastern Europe of the GfK-Group. The market share data was drawn from the national household panels. Four product categories were selected for the study: detergents, toothpastes, carbonated soft drinks, and confectionary. They all represent two important "non-food" and "food categories" of the fast moving consumer goods sector. The country markets chosen were Hungary, Poland, Bulgaria and the Ukraine. The former two countries stand for the more advanced economies in the transition process (which also became members of the European Union in May 2004), while the latter two are still lagging in their reform process and economic development (EBRD, 2002). A major limitation stemming from the database is that comparable market share data across the four countries and four product categories are only available from 1999 on.

Thus, only two years, 1999 and 2001, are available to determine the extent of diffusion of international brands and changes in the level of diffusion over time.

The national offices of GfK in the four countries conducted the transformation of the raw data into the three brand categories according to our definitions:

(1) "International brands" are those brands that have their origin abroad and are imported to CEE or are locally manufactured there. The owner of the brand is a foreign firm. As the data showed the majority of the foreign firms was headquartered in Western Europe or the USA.
(2) "Local brands offered by foreign firms" are those brands that are marketed by foreign firms only in the specific local market. The foreign MNC owns the local brand either directly or through its national subsidiary. In the case of a joint venture the foreign MNC would hold a majority stake.
(3) The category "local brands offered by local firms" contains all those brands ("Pure local brands") that are marketed by a predominantly local firm in the national market.

Besides documenting diffusion patterns of international brands we were also interested whether differences in the penetration level can be attributed to differences in economic development and product characteristics. The GDP per head is a common indicator for the economic development of a country. When international brands are priced considerably above local brands, then the smaller household budgets set a natural limit to the consumption of those products (Stremersch and Tellis, 2004). Therefore, the higher the GDP per head in a country, the higher the share of international brands is expected to be. In the context of our sample this means that in the economically more-advanced reforming countries in Central Europe, in our sample Hungary and Poland, we assume we will find a higher tendency to adopt international brands than in the lagging economies in South-Eastern Europe (Bulgaria, Ukraine). The relative distances in the economic development of the countries are reflected in the GDP per head figures for 2001 (Bank Austria, CEE Report, No. 3/2002): Hungary €5776, Poland €5100, Bulgaria €1840 and the Ukraine €876.

With regard to the type of product a higher international brand share is more likely to be observed for non-food products than for food products. The extent of "cultural grounding" is often mentioned as a determining factor for the cross-national transferability of products (Quelch and Hoff, 1986; Jain, 1989). Food products are typically seen as more influenced by local culture and traditions than non-food products (Berekoven, 1978). Occasions of purchase and consumption, taste preferences, and the regional origin of the product play a greater role in the buying process (Schuh, 1997).

Findings

In Table I the market shares of each brand category broken down by products and countries are depicted for the years 1999 and 2001. The total market is composed of the "international brands" (a), "all local brands" (b) and "other" (e), "Other" refers mainly to retail brands which cannot be categorized by country of origin. The "local brands" category (b) is divided into "pure local brands" (c) representing the share of local brands owned by local firms and "foreign-owned local brands" (d). The ownership of some of the local brands could not be determined. The market share figures provide

Table I.
Value-based market shares (2001, 1999) by product category and country

	Value-based market shares 2001 (1999[a])									
	(a)		(b) = (c) + (d)		(c)		(d)		(e)	
	International brands[b]		All local brands		Pure local brands		Local brands foreign owned		Other (private lab.)	
Detergents:										
Hungary	50.4	(56.0)	46.3	(43.4)	*10.1*	*(8.7)*	*36.2*	*(34.7)*	3.3	(0.6)
Poland	58.8	(56.9)	41.2	(43.1)	na		na		–	
Bulgaria	89.8	(88.0)	10.2	(12.0)	*10.2*	*(12.0)*	*0*		–	
Ukraine	55.0	(43.0)	45.0	(57.0)	na		na		–	
Toothpastes:										
Hungary	66.4	(72.4)	32.3	(27.2)	*3.9*	*(2.0)*	*28.4*	*(25.2)*	1.2	(0.4)
Poland	67.2	(69.0)	32.8	(31.0)	na		na		–	
Bulgaria	45.2	(56.0)	54.7	(44.0)	*54.7*	*(44.0)*	*0*		–	
Ukraine	99.0	(99.0)	1.0	(1.0)	na		na		–	
Confectionary:										
Hungary	20.1	(21.0)	72.5	(71.2)	*12.1*	*(5.8)*	*60.4*	*(65.4)*	7.4	(7.7)
Poland	15.6	(13.4)	84.4	(86.6)	na		na		–	
Bulgaria	16.5	(11.9)	83.5	(88.1)	*23.9*	*(23.0)*	*59.6*	*(65.1)*	–	
Ukraine	12.0	(11.0)	88.0	(89.0)	na		na		–	
Carbonated soft drinks:										
Hungary	64.5	(73.6)	24.0	(23.4)	*21.5*	*(17.1)*	*2.5*	*(6.3)*	11.5	(3.0)
Poland	42.9	(40.1)	57.1	(59.9)	na		na		–	
Bulgaria	46.9	(43.7)	53.1	(43.7)	*53.1*	*(56.3)*	*0*		–	
Ukraine	9.0	(10.0)	91.0	(90.0)	na		na		–	

Notes: [a]Figures for the Ukraine refer to 2000; [b] International brands are defined as imported branded products for the Ukraine. International branded products that are manufactured locally, are included in the local brand category

strong evidence that international brands have made considerable inroads into most of the product categories studied in the selected CEE markets. The value-based market shares of international brands in 2001 range for detergents from 50.4 percent (Ukraine) to 89.8 percent (Bulgaria), for toothpastes from 45.2 percent (Bulgaria) to 99 percent (Ukraine), for confectionary from 13 percent (Ukraine) to 20.1 percent (Hungary) and for carbonated soft drinks from 9 percent (Ukraine) to 64.5 percent (Hungary).

The data also reveals that a continuous market penetration must have happened throughout the 1990s leading to dominant market shares for international brands in many markets at the end of the decade. No clear trend can be noticed for the changes between 1999 and 2001. In Hungary the shares of international brands were falling in all product categories while in all the other countries figures were still rising (except in the toothpaste market). Furthermore, the figures also show the advent of private labels in Hungary, a new brand category that was not present yet in the other country markets at this time.

In Table II the major owners of international brands are presented. The majority of international brands in the sample is owned by firms with a Western origin, most of them leading global consumer goods marketers. In Bulgaria and the Ukraine firms from Turkey, Russia and Bulgaria (only in the Ukraine) held noteworthy shares in some of the product categories.

In order to understand the full extent of the market globalization effect a closer look at the ownership is advisable. The confectionary category with a market share of at least 80 percent for local brands in all country markets studied offers an interesting case. The breakdown by ownership reveals that Western firms are the owners of the majority of those local brands. In Hungary international firms accounted for 67.8 percent of all sales of local brands in 2001. Together with the 20.1 percent share of international brands, this results in a combined market share of 87.9 percent of the Hungarian confectionary market that is under the control of Western firms. In Bulgaria 59.6 percent of all the local brands belong to non-local firms, leading to a combined market share of 76.1 percent for confectionary brands owned by Western firms. For Poland and the Ukraine the same analysis was not possible as a breakdown of local brands is not available. But given the strong presence of the global players in the whole CEE region and also across product categories a similar brand structure can be assumed for the other CEE markets too.

Despite the impressive market penetration of international brands in CEE in the last 15 years differences in the level of diffusion between country markets and product categories are noticeable. No clear evidence can be furnished for the assumption of a strong positive impact of the economic development of a country on the market share of international brands. For the two food categories a positive relationship between GDP per head and international brand share is given, while for detergents and toothpastes the expected positive relationship cannot be found. The expected influence of the cultural grounding dimension on the diffusion of international brands is on the other hand supported by the results (Table III). The less culture bound categories like detergents and toothpastes show significantly higher mean values over the four country markets than the more culture bound categories confectionary and carbonated soft drinks. The lowest share of international brands can be found for confectionary: here local brands dominate in all country markets with at least 80 percent market share.

Limitations of the study

Before drawing final conclusions let us point at the limitations of this study. In order to establish cross-country comparability, only data not earlier than 1999 was available for the study. However, given the particular situation in CEE where Western firms started from scratch to build their local businesses in the 1990s, the data provided are quite

Product category	Major international players in FMCG markets in CEE
Detergents:	Henkel (Germany), Procter & Gamble (USA), Unilever (UK/Netherlands), Reckitt Benckiser (UK/Netherlands), Hayat Kimya (Turkey)
Toothpastes:	Unilever (UK/Netherlands), Colgate Palmolive (USA), Procter & Gamble (USA), Smithkline Beecham (USA)
Confectionary:	Nestlé (Switzerland), Stollwerck (Germany), Ferrero (Italy), Storck (Germany), Kraft Foods (USA), Master Foods (USA)
Carbonated soft drinks:	Coca Cola (USA), Pepsi Cola (USA)

Table II. Leading marketers of fast moving consumer goods in CEE revealing and serve the purpose of this study well, namely to examine the extent of diffusion of international brands in CEE. A breakdown of the local brands by ownership was not available in all cases. Due to budgetary reasons a selection of products and countries had to be made. The four product categories and four countries were carefully selected in order to represent different and important types of fast moving consumer goods (food vs. non-food; extent of cultural grounding) and economies (more and less advanced in transition process). The choice of the market share of international brands as a measure for market globalization may be regarded as simplistic. The relevance of market share derives from its central role of the purchase in consumers' buying behavior. This decision stands at the end of the consumer's decision process in which alternatives have been evaluated based on past experiences with the brand and competing offerings as well as currently available information at the point of purchase. Situational influences such as the availability of a brand in retail outlets are also included in this decision. A high penetration by international brands in CEE markets is certainly a strong indicator of market globalization although admittedly it cannot be automatically linked with identical buying behavior in various national markets. What would complement the picture is additional data on purchase and usage behavior covering purchase motives and occasions, brand loyalty as well as volume, intensity, and frequency of usage (Berekoven, 1978).

Conclusions and discussion

The findings of this study provide a strong evidence for the market globalization thesis – at least with respect to fast moving consumer goods markets in CEE. International brands mainly offered by Western consumer goods marketers occupy leading positions in the majority of product categories and countries studied. In particular, in the less culture bound categories such as detergents and toothpastes international brands capture more than 50 percent in all country markets. However, the supremacy of international brands is not a general pattern. In soft drinks and confectionary local brands dominate the market as a group. Preferences in taste, emotional ties to traditional manufacturers and brands as well as lower prices than for international brands appear to be the main reasons for the higher appeal of local food brands among CEE consumers. Western marketers have shown flexibility in this situation and turned to local brands as the major vehicle to improve their market

Table III. Market shares of international brands (2001) by cultural grounding category

Cultural grounding category	Product category	Mean value by product category (all four countries)	Mean value by cultural grounding category
Less culture bound products	Detergents	63.53	66.49
	Toothpastes	69.45	
More culture bound products	Confectionary	16.05	28.44
	Soft drinks	40.83	

Note: Mann-Whitney-U test: the difference between the dichotomous categories of cultural grounding is significant at a 5 percent level (p=0.003) position. The findings also tell us that a higher level of national wealth does not automatically result in a higher international brand share. Other factors than affordability alone influence the adoption process of Western brands among CEE consumers. Extant literature on cross-national diffusion indicates that besides economic and institutional factors such as the openness of an economy and the distribution of income, national culture, stage of market development, local competition, consumer preferences and the distribution infrastructure affect adoption behavior of local consumers (Yeniyurt and Townsend, 2003; Stremersch and Tellis, 2004).

But where will the convergence of West European and CEE markets end? Will a dominance of global brands and an oligopoly of the two to four global heavyweights in each product market signal the full integration of CEE markets into the global economy? The changes so far observed are well in line with the general industry and market development thesis (Grant, 2002; De Mooij, 2004). In the early penetration phase of a formerly underdeveloped market the leading players of the industry enter the market, invest heavily to establish new standards of product performance and appearance – often they even create the product category itself. This platform is then used to build the market for their brands. When markets become saturated, competitors increasingly turn to differentiation. In mature industries also the likelihood rises that new players introduce innovative product and business concepts that can lead to a restructuring and rejuvenating of the industry (Kim and Mauborgne, 1999). In Hungary, the most advanced country market in the sample, the advent of private labels – those are products offered by retail chains under their own label – marks such a turning point. This time it is not the manufacturers who have driven the change but international retail chains. While still at a negligible level in 1999 (with the exception of a 7.7 percent market share in confectionary), the private label value share became a major factor in 2001, especially in the carbonated soft drink market with a share of 11.5 percent and in confectionary with a share of 7.3 percent. This happened across all analyzed product categories at the expense of the brands of the foreign MNCs.

While retail brands have existed in Western Europe since the 1970s (including the private label products offered by discounters), they are a new phenomenon to CEE markets. The ACNielsen study "The Power of Private Label" (ACNielsen, 2003) shows that the strong growth of private labels is a worldwide phenomenon. The highest shares of private labels can be found in Europe (15 percent of total retail sales) with the highest growth rates in some countries of Central Europe: Poland +115 percent, Czech Republic and Hungary +44 percent. This is the result of the massive internationalization of retail groups in the recent past and of the shift of channel leadership from the manufacturers to the retail groups (Herstein and Gamliel, 2004). After a continuous expansion of their network of stores in the 1990s, local and Western retail chains now use their enhanced bargaining power *vis-à-vis* the manufacturers to force (weaker) suppliers to produce retail brands for them. A distinction by international or local origin is not possible anymore for this type of brand. Interestingly, the rise of private label products in CEE is another indicator of the parallelism in the development of CEE and Western consumer goods markets albeit with a time lag.

How can this success of Western MNCs in penetrating the CEE market be interpreted? First of all, the findings mirror the high importance Western marketers of consumer goods attach to the CEE region as well as the firms' drive to build their brands in these new markets. The emerging markets of CEE play a central role in corporate growth plans and in the long-term viability of Western MNCs (Schuh, 2000). Firms which claim to be global players have no alternative to a strong presence in this region. For West European MNCs the region is even more important given the geographic proximity and the ongoing economic integration in Europe. Moreover, the predominance of competitive considerations in their strategic moves is striking (Kozminski and Yip, 2000). The threat of losing ground against global or regional rivals and thus missing out the opportunity to participate in market growth rates that can hardly be found anymore in West European markets are further facts that contributed to the quick and broad market entries in the region and aggressive presence building. Even the less favorable market conditions and the higher country risks of the economies in South Eastern Europe did not deter them from entering these markets as documented in record high FDI inflows in the recent past (UNCTAD, 2005).

Second, the resource superiority stemming from the unequal distribution of resources and competencies between the foreign MNCs and their local counterparts provides another explanation for the dominance of foreign firms and their brands in CEE markets. Local firms, especially former state-owned ones, have due to their tradition and heritage of operating in a centrally-planned economy a disadvantage in terms of their capabilities when competing against Western firms in a now market-driven environment. They lack well-developed skills and accumulated knowledge in core areas of marketing management such as the management of customer relationships, the development and management of products and brands as well as the management of the supply chain (Day, 1994; Srivastava *et al.*, 1999). In contrast, foreign firms originating from Western Europe or the United States have a history of operating in a market economy, which helped to develop and hone these critical skills and, consequently, gives them a potential source of competitive advantage in the host markets in CEE (Fahy *et al.*, 2000). Furthermore, the Western MNCs outperform their local rivals in terms of business assets. They are also financially stronger which allows them to run massively funded advertising and promotion campaigns for their brands and to outspend their local rivals. The Western firms can possibly draw from an existing high-brand awareness and strong brand preferences among CEE consumers (e.g. for global brands such as Coca Cola, Nivea, or Persil). Their integration into a multinational group allows them to make better use of economies of scale and scope by tapping the know-how base of the whole corporate group and by sharing products, product development, production and logistics facilities. The exploitation of these multiple sources of competitive advantage obviously enables them to overcome disadvantages such as less familiarity with local conditions as well as higher market and additional political risks that MNCs typically face when entering a new market.

Third, the findings support extant literature on the predominantly employed marketing strategies of MNCs in CEE, namely globally or regionally integrated strategies and multi-tier brand strategies (Dahm, 1996; Schuh and Holzmüller, 2003). Although the available data set unfortunately does not allow sorting out the proportion of regional brands, the high international brand share provides empirical evidence for the importance of the globalization and regionalization logic in brand strategies of MNCs. When global brands cannot be modified in such a way to reach consumer segments at the lower end of the market, local or regional brands are introduced within a multi-tier concept to accomplish this task. The confectionary market is an outstanding example for this "hidden globalization" in our study where local brands owned by foreign MNCs account for 50 percent of total retail sales. Interestingly, in the economically most advanced Hungarian market you find high proportions of foreign-owned local brands in all other product categories too. Large global marketers like Nestlé, Kraft Foods, Unilever, and Procter & Gamble seem to follow the principle "if you cannot beat local competitors, then buy them". In past years, the multi-tier brand strategy has become a kind of standard strategy for large MNCs in emerging economies where foreign firms are faced with polarized markets or "tiered pyramid structures" (Prahalad and Lieberthal, 1998; Quelch, 2003). It enables them to cover the more price-oriented customer segments that typically account for the majority of the market (in volume terms) and to participate in various market developments what helps to spread the market risk. Neglecting this hidden form of ownership in the analysis of market globalization would result in an understatement of the extent of the globalization effect.

In summary, this paper highlights the prominent role of Western MNCs as drivers of the market globalization process. It seems that these firms are not only interested in just a presence in these emerging markets, but they also intend to achieve similar dominant market positions in CEE as in their home markets. Their collective (oligopolistic) parallel behavior leads to the reproduction of their Western home market structures in the emerging markets of the world – a phenomenon already well explained by Knickerbocker (1973). The closer these emerging markets are in their economic development to the industrialized Western countries – like Hungary and Poland in our sample – the more they mirror the oligopolistic market structures you can already find in Western Europe. The intense competition among Western manufacturers for leading market positions in the region has led on the one hand to aggressive market penetration activities in the advanced Central European markets and, on the other hand, has accelerated their market entries into the lagging economies of Eastern and South-Eastern Europe. A breakdown of the market data by competitors show that the detergent, carbonated soft drinks and toothpaste markets of Hungary and Poland in 2001 resembled an oligopolistic structure and are dominated by a few Western firms. In the carbonated soft drink market the top-2 global marketers, Coca Cola and Pepsi Cola, accounted for 65 percent of carbonated soft drink sales in Hungary and 42 percent in Poland in 2001. In the detergent market the top-3 (Western) marketeers held 75 percent in Hungary and 70 percent in Poland. A similar constellation can be found in the toothpaste market in which the top-4 (Western) competitors captured about 80 percent of the market in Hungary and Poland.

Indeed, this global strategy approach of Western MNCs can also be interpreted as "corporate imperialism" (Prahalad and Lieberthal, 1998; Prahalad, 2005). Business models developed in and for Western markets are imposed on emerging markets under the expectation that these markets will be westernized in the near future too. The authors call for a new mindset and for the adoption of new business models that move away from the traditional Western thinking. The latter is characterized by the conception of selling Western products to small segments of relatively affluent buyers in these emerging markets and by the hope that a large Western-type middle class will soon emerge. Prahalad (2005) warns of overestimating the extent of Westernization in the emerging markets and suggest using new business models with reconfigured resource bases, redesigned product development processes, lower cost structures and different leadership models to tap the large mass markets successfully. Although they had primarily the big emerging markets in Asia in their minds, the concept is also applicable to CEE. The regional and multi-tier strategies employed by Western firms in CEE are examples for this new way of thinking. Western MNCs have also begun to move larger parts of production and research facilities to the region and to establish regional management centers in cities like Warsaw, Prague and Budapest from which they run regional operations and brand strategies (Ferencikova and Schuh, 2003). All that indicates that global strategies are more complex today and that MNCs are constantly being challenged to find new organizational models and strategies in order to be successful in the global marketplace. A final assessment of the effectiveness of the different strategies has yet to come. At least for the moment, the findings of this study support the approximation of CEE market structures to West European ones and the prevalence of the globalization logic in the "going east" strategies of the Western MNCs. This is in sharp contrast to the dominant multi-domestic strategy pattern in Western Europe in the 1950-1980s and the then prevailing localization perspective (Bartlett and Ghoshal, 1989). In order to understand the behavior of MNCs in the emerging markets of CEE and the fundamental changes in market structures there today, the global marketing conception seems to be the more appropriate explanatory framework.

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