



## Using Marketing Approach to Respond to Internationalization Challenges and Changes in Marketing Channels

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### ABSTRACT

Notable business operations internationalization and changes in marketing channels have affected the position of domestic suppliers and domestic brands. This is especially characteristic for the developing countries' markets, primarily with respect to consumer's goods markets, where, as a rule, marketing channels are more developed and brand is more prominent as a means of competitive advantage. Under competitive pressure, many companies have started to implement modern marketing approach in their business operations in order to adequately respond to the perceived tendencies. A research on suppliers' (producers and distributors) marketing practice was conducted using a sample of 93 companies focused on consumer goods market from Serbia and Montenegro. Marketing approach was observed from the aspect of the following dimensions: company's innovativeness, company's differentiation, brand positioning and protection, developing good relations in marketing channels, perceiving the price as the reflection of brand value, and balanced application of promotion instruments. The results showed that implementation of modern marketing practice leads to more successful business operations and better financial results. It was also determined that, depending on the origin of (the majority) company ownership, there is a statistically significant difference in implementation of modern marketing approach. Foreign companies more consistently implement modern marketing practice in business operations. With respect to differences in companies' market approach depending on the origin of the key brands no statistically significant differences were noted.

## 1. INTRODUCTION

Globalization of economic environment has a strong impact on companies in Serbia and Montenegro. This process has especially affected particular product and service categories and also companies that do business in those particular categories. Domestic producers reacted differently to the pressures from abroad. Some offered resistance on the domestic market, others strived for internalization themselves, and yet others compacted into a narrow market niche or abandoned building of a strong brand and undertook intensive short-term sales promotion activities striving to keep their market share and survive on the market at all costs. A large num-

ber of companies and brands changed ownership. Some ceased to exist under their former names, while others kept their recognizability and brands both in a local framework and also in a wider context. Together with notable globalization and internationalization which bring global retailers to the developing countries, the concentration of retailers' capital also takes place, and ever larger regionally important retail chains also arise. This dramatically changes the position of suppliers at consumer goods market, especially of the local suppliers. On the one hand, local suppliers bear the pressure coming from modern retailers, who have a strong negotiating position and numerous options at the regional and world market. On the other hand, the suppliers in Serbia and Montenegro also have important partners in traditional retailers who, even though they play defensively, still control a large part of the market.

In the conditions of market stagnation, the suppliers in Serbia and Montenegro face existential challenges: they must adequately respond to more and more prominent competitors, primarily from abroad; they must adapt to retailers and final customers; and they also must adapt to market conditions and regulations. Marketing approach to business has been the focus of attention of theoreticians and practitioners for many years now. Although the concept has significantly evolved with time, it appears as if many companies in Serbia and Montenegro have not mastered even the early phases of marketing philosophy of running a business, and they also seem to be far from grasping its modern concept and practical implementation. For this reason, the objectives of this paper are to explore and investigate the extent to which implementation of modern marketing approach to running a business leads to more successful business results, as well as whether there are differences with respect to its implementation, and in what degree, between domestic and foreign companies and domestic and foreign brands. After reviewing the relevant literature and different researches, primarily the ones concerning Serbia and Montenegro, a suitable methodological framework has been established and displayed. The main objectives and hypotheses of the paper have been defined, which have subsequently been proved by applying statistical methods of analysis and logic conclusions derived from it. Finally, the main implications for company managers, primarily managers of domestic companies, have been emphasized, and some final notes and limitations as well as possible directions for further research in this field have been given.

## **2. CREATING MARKETING STRATEGY IN THE ENVIRONMENT OF DYNAMIC CHANGES IN MARKETING CHANNELS AND INTERNATIONALIZATION CHALLENGES IN SERBIA AND MONTENEGRO**

The classic theories explaining the purpose and development of internationalization of business mainly start from Western multinational enterprises (MNEs). Pursuant to this, what is stated as the main reason for expanding outside the borders of the native country is that firms enter foreign markets to exploit their existing competitive advantages. Contrary to this, companies in the developing countries are mainly oriented to domestic and neighbouring markets. The most value-added and most profitable components of value chain are research and development and marketing (Tsai and Eisingerich, 2010, pp. 114-135).

According to product (or brand) origin, all products can be divided into domestic and foreign ones. Having in mind that capital and investments increasingly move into foreign economies, either by means of buying local companies and their brands or through building one's own production facilities, it is possible to define four basic modalities in the 'origin and property' matrix. The category of originally domestic brands is the clearest one, since it is the situation in which both brand origin and company ownership are domestic. Quasi-local brands are originally domestic brands bought by a foreign. It is also possible to have the situation where domestic brands have originally been produced for and presented at one particular domestic market by a foreign company. An acquired local brand is the situation in which a brand has originally been developed abroad, but it is owned by the domestic people/company. Finally, there is also a

situation when both a brand's country of origin and company ownership are foreign. Global (world) brands, although they belong to the fourth described category, have a whole array of specific features and they are the products of market globalization, hence they must be observed separately (Tjiptono and Craig-Lees, 2004).

Global brands are created internationally, starting with the whole world as a single market. Still, the strategy of standardized market positioning and unique elements of the brand can rarely be implemented, and it is mostly related to specific luxury brands (goods). It is more likely that the need for a specific positioning strategy will exist and, in some cases, the need will also exist for significant adjusting of the product itself to the specific market. Sometimes it even happens that the product, besides the obvious similarities in the product itself, is placed with different brand names, which is often the consequence of legal or cultural (language) barriers. A higher level of adaptation is also an option, so other marketing strategy elements, apart from some basic elements of the product itself, differ at individual markets (the manner of positioning, brand name, price strategy, marketing channels, means of communication, etc.). The highest level of adaptation comes at the end of this spectrum, where usually only the advantages in some product elements and global sources are used, while everything else is adapted to local market and consumer. The twenty-first century has brought about the need to carefully position global brands, taking maximum care about the specifics of local markets (Kapferer, 2005, pp. 319–324).

This is why some authors advocate adopting a semi-global marketing strategy, which involves following different directions in different parts of the world. All of this has resulted in a greater autonomy at the local level (Douglas and Craig, 2011, pp. 82–101).

In certain situations, any kind of adjustment of global brands cannot lead to adequate effects, so a company is forced to consider the option of adding some of the local brands to its portfolio. This is especially true in Europe due to both a long history and connectedness between consumers and local brands, and also due to cultural differences between individual nations and countries. This is primarily true for particular industries which are in their very nature not global in character. Namely, while global brands usually dominate areas such as car industry, luxury products, or high-tech products (computers, smart phones), it is most often the case that local brands dominate goods and services that do not require large-scope research and development at the global level, and which are a large part of everyday or periodic shopping and consumption routine. Such local brands (characteristic for the market of a specific country) have been invested in for years. They have created strong position at the market, so it is not easy even for global brands and companies to defeat them at the said market. This is a reason for considering the option of acquiring local brands. After buying a brand, one of the possible strategies is to slowly terminate and withdraw the brand from the market, but most often such brands continue to live with additional advantages brought about by having a multinational company as their owner (Veljkovic, 2010, pp. 404-409).

The main advantages of local brands, due to which they could be taken into consideration as a strategic option for a multinational company, are above all the following: local brands are better suited to specific local needs; flexibility of price strategy; possibility to use local, or even private, brands to match the competitors; local brands are more easily repositioned than global brands; local brands provide a balanced brand portfolio to multinational companies; local brands provide the possibility of a quick entry at a particular market – when entering the market of a particular country a global brand, regardless of the world-wide recognition and image, has difficulties to win over both the space on shelves and in retail stores as well as the very consumers (Schuiling and Kapferer, 2004, pp. 97–112).

In marketing literature, the attitude of consumers towards products coming from other countries, comparing to domestic products, is studied through the concept of ethnocentrism. By purchasing domestic products, ethnocentric consumers wish to contribute the economic development, and thereby also to the general political, social and economic well-being of a particular

country. At the same time, as opposed to them, a large number of consumers prefer foreign products, especially global brands. (Siamagka and Balabanis, 2015, pp. 66-86)

Some authors suggest a sociocultural approach to purchasing local (relative to global) brands. They emphasise the importance of consumer ethnocentrism, with the remark that purchasing local brands will also depend on the effect of quality - and identity-signalling brand functions. These functions are under the influence of product category symbolism and the level of economic development of a particular country. In addition, these authors conclude that positive effects of consumer ethnocentrism on purchase of local, relative to global, brands are stronger in countries with a lower (vs. higher) level of economic development. (Strizhakova and Coulter, 2015, pp. 1-2).

A significant level of consumer ethnocentrism has been determined in a large number of countries, including Serbia as well. Business subjects, organizations, associations and the government, each in their own way and with certain limitations, are all striving to use the effects of consumer ethnocentrism on strengthening of domestic products' position in Serbia. Alongside the above stated tendencies with respect to domestic and foreign brands and companies, modern marketing channels are characterised by significant changes regarding the size of players and power (Berman and Evans, 2010, pp. 7-8, 39-41). Suppliers' position in marketing channels has significantly changed in the developed countries in the past several decades. Their position has weakened, and the requirements for ever closer cooperation with business partners have increased (McDonald et al., 2000, p. 92). This is the source of an array of current business initiatives which represent partnership efforts undertaken together with the consumers in the function of consumer satisfaction (Kotler and Keller, 2012, pp. 519-525). The main reason for this is that retailers have become much stronger participants in marketing channels and have taken over the leading role in marketing channels in many industries.

However, these changes have been much slower in the developing countries (Lovreta and Stojkovic, 2012, pp. 233-258). Retail concentration and integration have been less intensive and the retailers in these countries have not used all the benefits that modern technology brought to them. However, market saturation in the developed countries has led to retail internationalization in the developing countries (Assaf, 2012, pp. 191-205). Retail internationalization and expansion of retailers from the developed to the developing countries have forced many changes in the marketing channels of the latter. International retailers have different foreign operations modes in order to maximize time and resources allocation (Picot-Coupey, 2014, p. 976). It should be pointed out that retail internationalization is a very complex process and the retail companies have started to extensively use this strategy in the past two decades. Carrefour, Tesco, Wal-Mart, Aldi, Lidl and many other leading world retailers have opted for this strategy. Leading regional retailers are expanding as well. With internalization of business operations, the competition and also knowledge and skill transfer are intensified as well (Gereffi and Lee, 2012, pp. 24-32). International retailers lay new demands before the suppliers. Large retail companies have much stronger bargaining power and they are using it to get better conditions from the suppliers. This decreases suppliers' margins and makes competition fiercer.

This is the time of capital and information domination of retailers in marketing channels and new business conditions for suppliers. A new approach to marketing is being developed and contemporary brand management is achieving recognition (Mullins et al., 2014, pp. 38-58). The focus is on suppliers' flexibility. Partnership is developed based on the following: strategy and tactics of key accounts management (Gosselin and Bauwen, 2006, pp. 376-385); business framework of trade marketing activities (Achabal et al., 2000, pp. 430-454); co-creation of values (Payne et al., 2008, pp. 83-96); development of customers' enthusiasm (Coltman, 2007, pp. 301-320); shopper marketing (Shankar, 2011, pp. 29-42); modern brand management (Krake, 2005, pp. 228-238); and category management as the umbrella partnership concept (Bogetic, 2007, pp. 78-88). The common denominator to the above stated and other partnership initiatives is customer relationship management.

Markets of Serbia and Montenegro have been affected by the above mentioned changes up to a certain level. The purchasing power of population and market tendencies are the starting point for forming marketing channels (Levy et al., 2012, pp. 542-544). Therefore, general economic tendencies affect marketing channels. Low market attractiveness was one of the reasons for delayed internationalization of the retail market in both Serbia and Montenegro. However, low purchasing power has not stopped the changes in marketing channels of Serbia and Montenegro (Lovreta et al., 2013, pp. 542-544). The following processes have occurred in Serbia and Montenegro: concentration process; changing of the roles in marketing channels; internationalization; regionalization; multi-channel competition; and development of market competition present in the developed economies (Kumar, 2012, pp. 431-516).

Retail market structure is still fragmented in both countries compared to the EU average, although there are significant signs of market concentration. On the one hand, despite the decrease in market share in 2013, small grocery stores and small tobacco and liquor stores take up 33% of the market in Serbia, which is significantly more than in the Eastern and Western Europe (19% and 11% respectively). Retail concentration is higher in food retailing where the top five retailers controlled 40% of the market in 2013. In this respect Serbia lags behind Slovenia (80%) and Croatia (55%), while it is ahead of Bosnia (37%), Romania (36%), Bulgaria (32%) and Former Yugoslav Republic of Macedonia (22%) (Cakic, 2014). International retailers are the leaders in Serbia. Belgian company Delhaize is one of the largest European retailers and Agrokor (Idea) is the leader in the Western Balkans. We should point out that strengthening of relatively strong domestic food retailers.

Discounters are the symbol of revolutionary changes in marketing channels, including significant problems that the suppliers face. Discount retailers' competition is also present in Montenegro, primarily at the level of competition between large retail chains. Discount retail format in Serbia noted a significant growth, with the market share of 8% in 2013. However, this is still far below the market share of 17% of discounters in Slovenia (Cakic, 2014). This represents an opportunity for the suppliers of branded goods which have more difficulties doing business in the conditions of private brand (PB) competition (Nenycz-Thie and Romaniuk, 2014, pp. 262-269).

Expansion of private brands (PBs) characterizes modern marketing channels. PB retail market share is a good indicator of the force of retailers and their brands, as well as of the position of national brands. The share of private brands in Serbian pre-packaged food market, which amounted to only 3% in 2013 (although with a tendency to increase), speaks enough of the opportunities that suppliers have in this respect (Cakic, 2014). In Montenegro, the development of competition at the level of PBs is yet to be expected. So, for example, Voli (Naš diskont) places a private brand Dobro, owned by Serbian DIS, thus underestimating the possible wider effects of PB.

A good illustration of regional retail concentration is the pioneering regional expansion of Mercator which took over Rodić M&B company in 2006 and 8% of the market along with it. In 2007, Mercator took over the local company Mex in Montenegro, and in January 2008 Mercator-Mex d.o.o. company was founded with ten retail stores. Additional 77 retail stores in Montenegro were taken over by the same company from Pantomarket and Plus Commerc. In the same year, Mercator takes over Coka Group in Serbia (Mercator, 2015), and in 2011 it takes defensive measures by taking over Familija retail stores. Holding 19%-20% share of the food market in Montenegro in 2012 (Dmitrovic and Bodlaj, 2013, pp. 93-124), Mercator continues to expand in 2015, specifically by means of generic growth and taking over two smaller retailers chains.

From the aspect of suppliers, the most important retailers' expansions in the former Yugoslavia occurred in 2011 and also in 2013. First, the Belgian Delhaize Group bought shares from Serbian company Delta in March 2011 whereby they set their stronghold in the Balkans and secured the leading position in the Serbian fast-moving consumer goods (FMCG) retailing. By means of acquisition of Slovenian company Mercator in 2013, the company Agrokor secured its

penetration to new regional markets (Slovenia and Montenegro) and became the largest retail chain at the territory of the former Yugoslavia. Now, Agrokor is the retail leader in Slovenia, Croatia and Bosnia, it is second largest retailer in Serbia and it also holds important strategic position in Montenegro. The leading positions in the Balkans are held by Schwarz Group, Agrokor and Delhaize, respectively (Ryba, 2013). We can conclude that acquisitions were the main strategy to reach horizontal growth in the Serbian and Montenegrin retail market.

Thompson and Crocker (2015, p. 343) argue that most new products are withdrawn from the market because their performances are not satisfactory. High product mortality combined with rising importance of private brands makes the market environment very unfriendly for new products. Chihundu et al. (2015, pp. 49-60) discuss that manufacturer brands have a greater capacity for product innovation than private brands of retailers. Manufacturers have to use this advantage and launch more innovative products under their brands.

It should be pointed out that internationalization of the supplier's side of the marketing channels has started earlier in Serbia and Montenegro. In most (FMCG) industries, foreign companies have entered Serbian markets and have become leaders in most of them with their international brands or with local origin brands they acquired. A supplier is 'irresistible' when it sells the wanted brands with stable and increasing demand. This could significantly impact the markets where national brands are respected, such as Serbian and Montenegrin market. The regional and international aspects of distributing business and competition are especially emphasized in this respect.

The practice of promoting regionally important brands is also part and parcel of localization of globally defined and confirmed market strategies (Carpenter et al., 2013, pp. 271-291). Key account management is, thus, realized at different levels, including the extremes of both global and local. A more widely defined strategy requires a 'descent', that is, a local market for concrete business results. When market is brand-oriented, it should be provided with brands as recognizable landmarks in the process of shopping and social affirmation (McDonald et al., 2000, p. 199).

The stated structure of ownership of regionally important brands points to the conclusion that in Serbia and Montenegro there are still some companies that insufficiently understand the general importance of brand at both strategic and operative levels. On the other hand, in the sense of covering marketing channels with good quality brands, an agile relationship between multinational and regional companies is observed. Besides this agility, an active practice of portfolio innovativeness is also observed (Diehl and Poynor, 2010, pp. 312-322) in both ownership and distribution sense.

Besides innovativeness in the products assortment, the importance of business innovativeness also implies innovativeness in services assortment (Vaccaro, 2009, pp. 315-330). In this sense, customer service represents a creative and developing field of prospective suppliers (Gebauer et al., 2008, pp. 58-70). A team work of suppliers and retailers on activating and satisfying a picky customer is the newest field of brand management innovativeness at the point of sale (Kiran, 2012, pp. 1059-1066).

Innovativeness in suppliers and retailers' cooperation is also necessary with regard to suppliers' promotional sales. This implies targeting retailers with occasional sales promotion activities in the retailers' facilities with discounts for final customers. In any case, it is important that price discounts respect the maintainability of the brands and bring benefits to all parties involved in marketing channels (Hellman, 2005, pp. 4-11). Without partner-like cooperation, planning and realizing of price discounts, the stated business aspect becomes the area of generating losses and ineffectiveness in the entire supply chain (Bogetic and Acimovic, 2009, pp. 53-63).

In order to be successful in a more competitive market, suppliers have been forced to apply modern marketing principles and strategies in Serbia and Montenegro. There are a lot of misconceptions about what is a marketing oriented company. Marketing myopia is highly present in these two countries. Marketing orientation of a company has several dimensions according to

the researched model. A marketing oriented company values its brand(s), and brand management is its priority. In order to keep products' attractiveness, companies have to be innovative and flexible, i.e., they must be ready to meet the needs of more particular and more informed customers. The price should be compatible with the product quality, as well as with overall positioning strategy. Integrated marketing communication strategy should be implemented in order to successfully reach target market. Partnership perspective in marketing channels is dominant.

The specifics of general economic conditions must also be taken into account. They could impact the effectiveness of both brand advertising and brand pricing. The short-term price and advertising elasticity do not change with the business cycle, which is not the case with elasticity in the long-run. The effects that price and promotion have on each other, and also on the effectiveness of business operations and brand position, depend on both economic conditions as well as on major product classes and brand type (premium mass brands, value mass brands, premium niche brands, and value niche brands). Pursuant to this, but also depending on the set marketing goals, the companies' marketing strategies will also differ (Van Heerde et al., 2013, pp. 177-193).

Brand management process within the framework of a company's entire business and marketing strategy implies an adequate response to contemporary conditions of doing business. In the past several years, economic downturns, brand proliferation, and media transformation have been extremely emphasized. Alongside the stated factors, an increased competition is also present due to more prominent globalization, presence of a large number of low-priced competitors (generics, private labels, and low-priced clones imitating product leaders), competitors brand extensions, and widely noticeable deregulation. The answer to the challenges implies the following: maintaining the level of investments and innovation; getting closer to customers and focus on their loyalty; budget reallocations on more efficient and effective programs, taking into account the long-term brand equity and price integrity which may be jeopardized if the focus of the company in times of recession is on price reductions and discounts; adequate management and communication of financial, logistical, and psychological brand benefits compared to the competition (Keller, 2013, pp. 54-57).

Implementation of effective marketing strategy should bring a strong market position and positioning in consumers minds to a company. High brand awareness and loyalty should result from this approach. In addition, higher market share is the result of these marketing activities.

However, market share cannot be the only measure of success. Wong and Merrilees (2008, pp. 372-383) have established the link between brand performance and financial performance of a company. Also, Gromark and Melin (2011, pp. 394-410) have showed that 15% of the operating margin (EBITA) can be explained by the level of brand orientation of the company. EBITDA Margin and Operative Profit Margin are often used as measures of business success although they have certain disadvantages. EBITDA shows the results of business operations without expenses that can distort quality of business performances and implemented marketing strategy, but it is affected by significant number of other factors that limit its informativeness such as inventory assessments, short-term orientation, etc. (Alcalde et al., 2013, pp. 197-220). Helfert (2001, p. 104) argues that EBIT gives better view of operating effectiveness because it is not distorted by financing and tax effects.

### 3. OVERVIEW OF RESEARCH METHODOLOGY AND SAMPLE CHARACTERISTICS

Although the level of internationalization is relatively high in 'business to customer' oriented industries there are no significant empirical research about the effects of the internationalization on implementing marketing orientation in the suppliers business in Serbia and Montenegro and related modern marketing practices such as: brand management, integrated marketing communication, innovative product management, CRM, etc. For this reason, the authors have created a methodology and a concrete research on the importance of marketing for successful

business operations and its practical applications, depending on the company ownership origin and key brands origin.

We have defined our main research questions as follows:

- RQ1: Does consistent application of marketing lead to better financial results of a company?
- RQ2: In the light of prominent internationalization and globalization of business, is there interdependence between company ownership origin and modern marketing concept implementation?
- RQ3: To what extent can barriers to implementation of a modern understanding of brand be identified in domestic companies in comparison to foreign companies?
- RQ4: Is there interdependence between brand origin and the level of implementation of marketing concept of doing business by the companies that produce/represent the brand?
- RQ5: To what extent can barriers to implementation of a modern understanding of brand in business operations be identified depending on the brand's origin (domestic vs. foreign)?

From the above stated, the following hypotheses emerge:

- H1: A higher level of application of modern marketing approach by the companies in Serbia and Montenegro leads to better financial results.
- H2: The companies in Serbia and Montenegro with majority domestic ownership lag behind in the implementation of contemporary marketing practice when compared to foreign companies:
  - H2a: The companies with majority domestic ownership apply modern marketing approach in business to a smaller extent when compared to companies with majority foreign ownership.
  - H2b: More prominent barriers to implementation of modern brand management in business are observed in companies with majority domestic ownership.
- H3: The companies which produce/represent domestic brands in Serbia and Montenegro lag behind in the implementation of contemporary marketing practice when compared to companies which produce/represent foreign brands in this region:
  - H3a: The companies which produce/represent domestic brands apply modern marketing approach in business to a smaller extent when compared to the companies which produce/represent foreign brands.
  - H3b: More prominent barriers to implementation of modern brand management in business are observed in the companies which produce/represent domestic brands in comparison to the companies which produce/represent foreign brands.

In the theoretical part of the paper, the key characteristics of modern marketing approach in the conditions of intensifying of competition and strengthening of retailers' position in marketing channels were emphasized. Pursuant to this, while constructing the scale for measuring the successfulness of marketing application in practice, the focus was set on product and brand, as the carriers of value for consumers, but also on treating marketing channels from the aspect of long-term relationships development, price as the reflection of brand value, and promotion as integrated means of communication with the target segments.

Acknowledging the justifiableness of the critiques of classic approach to 4Ps of marketing mix (Constantinides, 2006, pp. 407-438), which it self favours transactional approach, the modern form of this concept was used. Attitudes favouring transactional approach heavily imbedded in a company, inability to recognize strategic aspects of branding, ignorance and misconceptions about the real effects and costs of branding, lack of information for decision-making and other reasons are a manifestation of brand myopia in its own right. Brand myopia can pose a barrier to company's development and successful implementation of marketing in business practice (Gyrd-Jones et al., 2013, pp. 1056-1078; Ramaseshana et al., 2013, pp. 465-483; Burmann et al., 2009, pp. 264-284).



Having in mind the impact that particular factors have on company's financial performance, 10 individual statements (variables) were singled out from a wider group of statements (variables) by means of t-test and correlation coefficient. These 10 statements constitute the latent variable Marketing Practice. Another 7 statements were also singled out, and they are a part of the latent variable Brand Myopia. The statements are set out in Table 1, and both scales have Cronbach's alpha coefficient of over 0.7. While constructing the scales, the statements used in related researches were also partly taken as the starting point (Wong and Merrilees 2008, pp. 372-383; Kalicanin et al., 2015, pp. 155-173).

A latent variable Customer-based Brand Equity (CBBE) was used as the manifestation of market brand position in the minds of final consumers. This variable was created based on the following aspects: consumers' brand awareness, brand reputation and consumers' brand loyalty. The shown mini-scale was inspired by the fact that de Chernatony in the research with his associates used precisely these three dimensions of CBBE (Christodoulides and de Chernatony, 2010, pp.43-66).

Primarily the data on EBITDA Margin, as well as the data on Operating Profit Margin, were used as a measure of financial successfulness. As the source of financial measures of successfulness of business operations we used the following: 1) for Serbia, the data from the business portal of CUBE Risk Management Solutions, a specialized consulting company; 2) for Montenegro, the data from the official financial reports from the Central Bank of Montenegro.

**Table 1.** Latent variables and description of constructs

<i>Marketing Practice (Cronbach's Alpha 0.756)</i>
1. Branding flows through all of our marketing activities.
2. All key brands owned by the company have legal protection (they are registered at Intellectual Property Office)
3. Compared with competitors, we have a high rate of (product/service) innovation.
4. The perceived quality (assigned to the brand) increases customer loyalty which in turn increases sales revenues.
5. In comparison with the competitors, we have a high rate of technological advance.
6. Our brand has built a good reputation among retailers/distributors.
7. There is a great flow of information from our company to the retailers/distributors about the brand and the category in which we operate.
8. Brand value depends on the premium price that a product under the said brand can provide.
9. Our advertising/promotions create the desired brand image in the market.
10. We have graphic standards books for all the brands owned by the company.
<i>Brand Myopia (Cronbach's Alpha 0.710)</i>
1. Branding activities are too costly for us.
2. Branding is not needed until we grow a lot bigger.
3. In our company, there is no clear separation between the costs of product branding in comparison to other marketing costs.
4. In our company, brand building is dominantly seen as a cost, rather than an investment.
5. In our company, we do not invest enough in brand.
6. We monitor company performance on a regular basis. (inversly)
7. Brand management is a powerful instrument for improving the competitive position on the market. (inversly)
<i>Customer-based Brand Equity - CBBE (Cronbach's Alpha 0.899)</i>
1. Our firm has built a strong brand awareness in the target market.
2. Our company has built a good brand reputation among consumers.
3. Our firm has built a strong customer brand loyalty.

The research included managers and specialists in charge of planning and implementing brand and marketing strategies in companies, primarily CEOs, marketing managers, sales managers, and brand managers. The research was conducted during June and early July 2014. The respondents came from the companies that were doing business in Serbia and Montenegro at the time of the survey. Around 850 survey requests were sent by e-mail and addressed to companies' representatives or managers in charge. A total of 145 responses was received. Each company could appear only once in the survey, regardless of the number of responses that came from it. Also, the research was specifically focused on manufacturers and representatives of B-to-C products. Upon eliminating the responses that were incomplete, invalid, doubled, and that came from the companies which primarily operated in the field of B-to-B products, our further analysis was based on 93 responses.

The research of marketing practice, in the light of companies' and brands' origin, was a part of a wider research. Aside from the issues related to the topic presented in the paper, the goal was to collect managers' opinions on different issues of modern brand and marketing management and business in general. A seven-point Likert scale was used in this particular research, and the respondents were requested to indicate the extent to which they agreed or disagreed with the presented statements.

Out of 93 companies, almost 60% were producers. Small, medium-sized and large companies were relatively equally represented in the sample. Due to the size of the market, a large majority of companies in the sample were from Serbia (94.6%). Most companies in the sample were companies with majority or complete domestic ownership, while companies with foreign ownership made up somewhat over 1/3 of the companies in the sample. With respect to brands origin, the ratio of domestic (54.8%) and foreign (45.2%) brands is somewhat more balanced. Almost 80% of the companies were once exporters, although only 7.5% of the companies had the export which made over 50% of their sales. With respect to the type of goods which the key brand that companies produced/distributed belonged to, most companies operated in FMCG segment. The producers and representatives operating in the field of fresh and frozen food and packaged food were especially prominent, and together they made up 48.4% of the sample.

The respondents' characteristics are given below. There is a rather well-balanced number of responses by the respondents on following positions: Commercial Director (12.9%), CEO (11.8%), Marketing Director (20.4%), Marketing Manager (15.1%), and Brand Manager (15.1%). All other job positions make up 24.7% of respondents. The described structure reveals that the answers were provided by the individuals who participated in decision-making and implementing marketing strategies and programs in the companies. It is only logical that the stated positions required adequate education and qualifications. Pursuant to this, the respondents with Bachelor's degree form 65.6% of the sample, while those with Master's degree make up 23.7% of the sample.

About two thirds of the respondents had education in the field of Economics and Business, and far less respondents (18.2%) had education in the field of Technical Sciences. As much as 83.9% of the respondents were in the interval of 30 to 49 years of age. The sex-structure of the sample was also relatively well-balanced, with somewhat larger number of male respondents.

## 4. RESEARCH RESULTS AND DISCUSSION

### 4.1 Exploratory analysis

The presence of different categories of brands and companies in the sample, allowed us to implement the appropriate statistical and logical analysis. Correlation analysis was conducted in order to examine interdependence between the indicators of application of marketing in business operations and business results. It showed a statistically significant correlation ( $p < 0.01$ ) between the business performance measures and the two presented latent variables (see Table 2).

The strongest positive correlation, measured by Pearson's coefficient, is between CBBE and Marketing Practice. In addition, the strongest negative correlation is between Brand Myopia and EBITDA Margin.

**Table 2.** Correlation between the indicators of application of marketing logic in business operations and business performance of the companies

<i>Correlations</i>			
		<i>Marketing Practice</i>	<i>Brand Myopia</i>
EBITDA MARGIN*	Pearson Correlation	.478**	-.396**
	Sig. (2-tailed)	.000	.000
	N	90	90
Operating Profit Margin*	Pearson Correlation	.401**	-.369**
	Sig. (2-tailed)	.000	.000
	N	90	90
CBBE	Pearson Correlation	.608**	-.327**
	Sig. (2-tailed)	.000	.001
	N	93	93
** . Correlation is significant at the 0.01 level (2-tailed).			

\* In three cases, the data about EBITDA Margin and Operating Profit Margin were not available.

Source: The authors' calculation

Taking into account the characteristics of brands, companies and respondents in the sample, we analysed whether there was a statistically significant difference regarding the achieved business results (EBITDA Margin and Operating Profit Margin). The limitation was the very size of the sample itself and so, due to this, in some cases the strata contained less than 30 subjects/responses.

Statistically significant differences were determined only with respect to companies categorized by origin of ownership and their financial results, while in other cases no such differences were found at this level of analysis.

#### 4.2 Impact of modern marketing approach to business on company's financial results

The starting hypothesis was set with the purpose to test if there was any kind of a link at all between adequate implementation of marketing in business and financial results. If there were no link, then the key reasons for successful business doing would have to be looked for elsewhere.

- H1: A higher level of application of modern marketing approach by the companies in Serbia and Montenegro leads to better financial results.

The variables Marketing Practice and Brand Myopia are used as indicators of modern marketing approach, whereby it is understood that the directions of their impact on financial indicators are different, and also that Marketing Practice has a positive impact while Brand Myopia has a negative impact.

A multiple regression analysis was performed to explore if the independent variables (Marketing Practice and Brand Myopia) affected the dependant variable (EBITDA Margin). Therefore,

the objective was to determine whether Marketing Practice and Brand Myopia could explain the significant part of the variability of the EBITDA Margin as a dependant variable. In addition, the purpose of the performed regression analysis was also to determine which part of the variability of the dependant variable could be explained with independent variables. In this way, the strength of their bond was determined.

In the structural element of the model, the regression parameters explaining EBITDA Margin indicated that both independent variables (Marketing Practice and Brand Myopia) had a significant influence on the dependent variable ( $p < 0.1$ ). Consistent with the starting assumption, the variable Marketing Practice had a positive, while the second independent variable (Brand Myopia) had a negative relationship with EBITDA Margin. The multiple regression accounted for 26.7% of the variability, as indexed by the R squared statistic (25.1% indexed by the adjusted R squared statistic). Model Summary is shown in Table 3.

**Table 3.** Relationship of Marketing Practice and Brand Myopia with EBITDA Margin – Model Summary

Model Summary <sup>c</sup>											
Model	R	R squared	Adjusted R squared	Std. Error of the Estimate	Change Statistics					Durbin-Watson	
					R squared Change	F Change	df1	df2	Sig. F Change		
1	.478 <sup>a</sup>	.228	.219	.08228	.228	26.011	1	88	.000		
2	.517 <sup>b</sup>	.267	.251	.08062	.039	4.660	1	87	.034	1.944	

- a. Predictors: (Constant) Marketing Practice
- b. Predictors: (Constant) Marketing Practice, Brand Myopia
- c. Dependent Variable: EBITDA Margin

Source: The authors' calculation

The regression equation for predicting the EBITDA Margin is:

$$\hat{y} = -0.054 + 0.039x_1 - 0.020x_2$$

$x_1$  – Marketing Practice

$x_2$  – Brand Myopia

The variable Marketing Practice showed the strongest relationship to EBITDA Margin. Brand Myopia was also an important factor of influence in determining of the chosen financial performance measure. The conducted multiple regression analysis confirmed that both independent variables affected EBITDA Margin as the dependent variable. Based on the findings that Marketing Practice as an independent variable had the most important influence on EBITDA Margin, it was used as the basis for segmentation of companies from the sample. The division to clusters was performed by means of Ward's method of cluster analysis. The results are given in Table 4 and, even at first glance, they are pretty indicative.

When observing the sample, we may say that the companies which had the highest level of marketing implementation in business operations (Cluster 2), and at the same time the lowest level of Brand Myopia, showed by far the best results. CBBE was significantly higher in comparison to Cluster 1 and Cluster 3, which means that the value of the brand in the consumers' minds was at a far higher level. Financial indicators of company's successfulness were also much better. Thus, Operating Profit Margin was almost twice bigger when compared to the companies from Cluster 1, while the companies from Cluster 3 (which had the weakest marketing implementation

in business operations) even had negative results when measured according to this parameter of company's successfulness. When observing EBITDA Margin, we got similar results. Logically, the companies from Cluster 3, which lagged far behind in marketing implementation and had the most prominent Brand Myopia, showed the poorest results. The reason for concern is that this type of companies made up almost one quarter of the sample. All the stated differences, according to all the observed variables of successfulness of business operations and marketing practice implementation, were statistically significant at the level of  $p < 0.01$ .

**Table 4.** The differences between the segments reported in the value of the latent variables, CBBE, Operating Profit Margin, and EBITDA Margin.

<i>Ward's Method</i>		<i>Marketing Practice</i>	<i>Brand Myopia</i>	<i>CBBE</i>	<i>Operating Profit Margin*</i>	<i>EBITDA MARGIN*</i>
<b>CLUSTER 1</b>	Mean	<b>5.14</b>	<b>3.22</b>	<b>5.49</b>	<b>4.53%</b>	<b>7.66%</b>
	N	30	30	30	30	30
	Std. Deviation	.59393	.73470	1.11041	.0431845	.0639566
<b>CLUSTER 2</b>	Mean	<b>5.92</b>	<b>2.04</b>	<b>6.21</b>	<b>9.58%</b>	<b>13.63%</b>
	N	41	41	41	39	39
	Std. Deviation	.49131	.53825	.74804	.0749917	.0971179
<b>CLUSTER 3</b>	Mean	<b>4.10</b>	<b>3.96</b>	<b>4.59</b>	<b>-2.65%</b>	<b>2.64%</b>
	N	22	22	22	21	21
	Std. Deviation	.54685	.79353	1.46486	.1590253	.0777918
<b>Total</b>	Mean	<b>5.24</b>	<b>2.88</b>	<b>5.60</b>	<b>5.04%</b>	<b>9.08%</b>
	N	93	93	93	90	90
	Std. Deviation	.89855	1.03655	1.23934	.1048706	.0931366

\* In three cases, the data about EBITDA Margin and Operating Profit Margin were not available.

Source: The authors' calculation

Based on the described statistical analysis we may conclude that H1 is proved, that is, that a higher level of implementation of modern marketing approach in business by the companies in Serbia and Montenegro leads to achieving better financial results. Proving H1 to be true is also the precondition for further analysis and proving other hypotheses regarding the connection between the companies' and the brands' origin and implementation of successful marketing practice in business operations.

#### 4.3 The impact of origin of company ownership and brand origin on implementation of modern marketing approach to business

As stated in the introductory parts of this paper, the markets of Serbia and Montenegro have experienced great changes in the past ten years. The key changes are related to the arrival of a large number of new competitors, both global and regional brands, but they are also related to the acquisitions of the leading domestic producers and their brands made by foreign companies. Many world researches have tackled precisely this phenomenon, and it has been especially interesting to determine what happens on the markets of the developing countries, as well as what are the results of the 'battle' between domestic and foreign business concepts. In this sense, the authors wanted to investigate, in the light of prominent internationalization

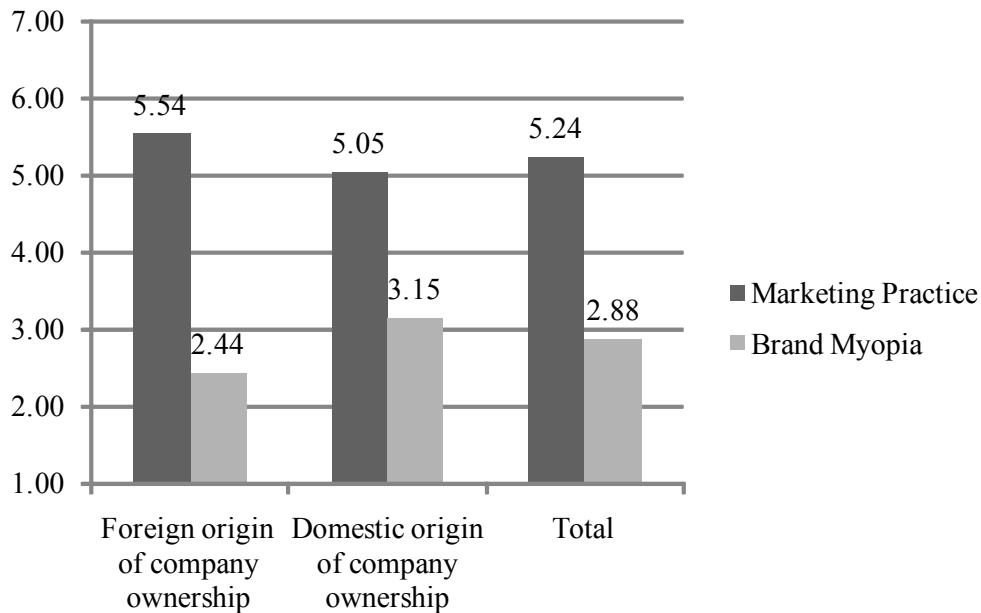
and globalization of business operations, whether interdependence existed between origin of company ownership and implementation of modern marketing concept in Serbia and Montenegro. In addition, it was necessary to also determine if there were differences in barriers to implementation of modern understanding of brand by domestic companies in comparison to foreign companies.

For the above stated reasons, the second hypothesis is formulated as follows:

- H2: The companies in Serbia and Montenegro with majority domestic ownership lag behind in the implementation of contemporary marketing practice when compared to foreign companies:
  - H2a: The companies with majority domestic ownership apply modern marketing approach in business to a smaller extent when compared to companies with majority foreign ownership.
  - H2b: More prominent barriers to implementation of modern brand management in business are observed in companies with majority domestic ownership.

Figure 1 clearly shows that there are differences with respect to the degree in which contemporary marketing practice is implemented in business, as well as what the barriers are, that is, how large Brand Myopia is in the companies with majority domestic ownership and in the companies with majority foreign ownership.

**Figure 1.** Differences in marketing approach depending on the origin of the company ownership



Source: The authors' calculation

Table 5 shows means of evaluations and of financial results for the chosen indicators. In order to determine whether the shown differences are statistically significant, a t-test was performed. The t-test confirmed that there were statistically significant differences in average values (arithmetic mean) of both variables, Marketing Practice and Brand Myopia, based on the origin of company ownership, with a statistical significance of  $p < 0.01$  level.

Statistically significant differences, at  $p < 0.05$  level, were determined for both EBITDA Margin and Operating Profit Margin. Only in the case of CBBE no statistically significant differences were shown, although this parameter showed better results for companies with foreign ownership.

In this way both sub-hypotheses, H2a and H2b, were proved, whereby the hypothesis H2 was also proved in full.

**Table 5.** The summary of average values of variables depending on the origin of company ownership

Report						
Origin of Company Ownership (Foreign 0, Domestic 1)		Marketing Practice**	Brand Myopia**	CBBE	Operating Profit Margin*	EBITDA Margin*
.00	Mean	<b>5.54</b>	<b>2.44</b>	<b>5.70</b>	<b>12.02%</b>	<b>8.03%</b>
	N	36	36	36	34	34
	Std. Deviation	.82194	1.10210	1.30433	.091802 0	.0746074
1.00	Mean	<b>5.05</b>	<b>3.15</b>	<b>5.53</b>	<b>7.29%</b>	<b>3.23%</b>
	N	57	57	57	56	56
	Std. Deviation	.89983	.89622	1.20323	.090120 0	.1165029
Total	Mean	<b>5.24</b>	<b>2.88</b>	<b>5.60</b>	<b>9.08%</b>	<b>5.04%</b>
	N	93	93	93	90	90
	Std. Deviation	.89855	1.03655	1.23934	.093136 6	.1048706
** Significance at $p < .01$						
* Significance at $p < .05$						

In three cases, the data about EBITDA Margin and Operating Profit Margin were not available.  
Source: The authors' calculation

Since we determined that there were differences in the level of implementation and understanding of modern marketing, the next step was to determine if the interdependence existed between brand origin and the level of implementation of marketing concept in business operations of companies that produced/represented the brand. Also, in addition to the previous, the objective was to also determine was there a difference with respect to the barriers to implementation of modern brand management in business depending on the brand's origin (domestic vs. foreign). The introductory parts of this paper explained the complexity of understanding of brand and its value depending on the brand being domestic or foreign, whereby foreign companies may own domestic brands and vice versa, domestic companies may own and/or manage foreign brands.

From the above stated, the third hypothesis emerges.

- H3: The companies which produce/represent domestic brands in Serbia and Montenegro lag behind in the implementation of contemporary marketing practice when compared to the companies which produce/represent foreign brands in this region:
  - H3a: The companies which produce/represent domestic brands apply modern marketing approach in business to a smaller extent when compared the companies which produce/represent foreign brands.

- H3b: More prominent barriers to implementation of modern brand management in business are observed in the companies which produce/represent domestic brands in comparison to the companies which produce/represent foreign brands.

Table 6 shows average values of latent variables and financial results depending on whether the key brands of the companies from the sample were of domestic or foreign origin. By performing of t-test it was determined that a statistically significant difference existed at  $p < 0.1$  level and only for the Marketing Practice variable. Therefore, at this level of analysis, we cannot accept hypotheses H3a and H3b, and thereby also the hypothesis H3 cannot be accepted.

**Table 6.** The summary of average values of variables depending on the brand origin

<b>Report</b>						
<i>Origin of Brand (Foreign 0, Domestic 1)</i>		<i>Marketing Practice</i>	<i>Brand Myopia</i>	<i>Brand Performance</i>	<i>Operating Profit Margin</i>	<i>EBITDA Margin</i>
.00	Mean	<b>5.43</b>	<b>2.79</b>	<b>5.75</b>	<b>8.86%</b>	<b>5.67%</b>
	N	42	42	42	40	40
	Std. Deviation	.80154	1.06986	1.04113	.0879519	.0615286
1.00	Mean	<b>5.08</b>	<b>2.94</b>	<b>5.47</b>	<b>9.26%</b>	<b>4.54%</b>
	N	51	51	51	50	50
	Std. Deviation	.95129	1.01373	1.37924	.0979360	.1300179
Total	Mean	<b>5.24</b>	<b>2.88</b>	<b>5.60</b>	<b>9.08%</b>	<b>5.04%</b>
	N	93	93	93	90	90
	Std. Deviation	.89855	1.03655	1.23934	.0931366	.1048706

In three cases, the data about EBITDA Margin and Operating Profit Margin were not available.  
Source: The authors' calculation

It is obvious that there are factors which impact the fact that brand origin cannot be taken with certainty as the basis for making conclusions about the differences in implementation of modern marketing strategy, and even less that there is a noticeable difference in the shown results, both financial and market ones. The reasons for this are manifold, and in further text we will examine two possible ones: a) is the result shown for modern marketing practice implementation depending of brand origin impacted by brand ownership (whether the brand is owned by a company with majority domestic or foreign ownership); b) is the result shown for modern marketing practice implementation depending of brand origin impacted by whether the company is a producer or representative/distributor?

In further text, the analysis of connection between brand ownership and company ownership will be presented. In the matrix of foreign and domestic company ownership and foreign and domestic brand, four possible alternatives have been determined. These alternatives are given in Figure 2, along with the number of companies belonging to the given stratum and financial indicators of successfulness of the companies' business operations.

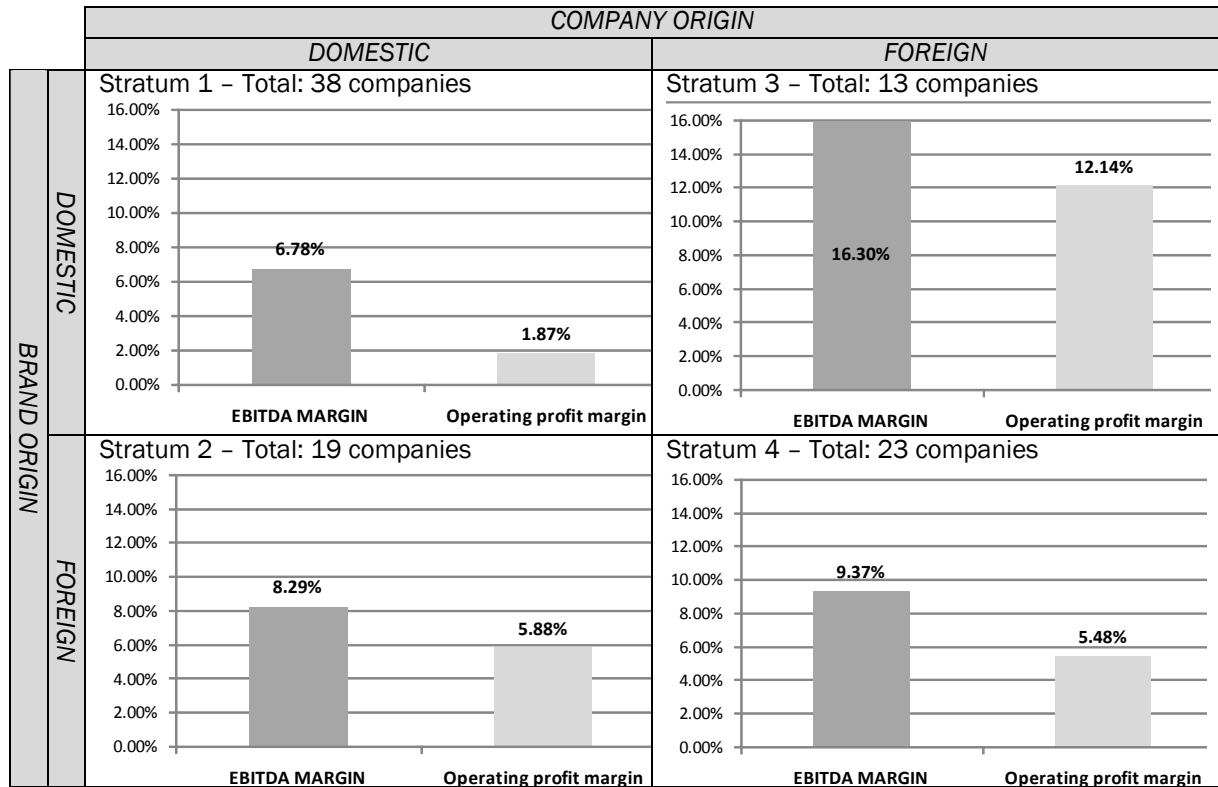
The Stratum 3, constituted of companies with foreign ownership which own/manage a domestic brand, showed the best financial results that were highly evident. If we now focus the attention on how the companies in each stratum implement marketing and to what extent they point to the barriers to treating a brand, it can be observed that domestic companies which manage domestic brands lag behind the companies from the other strata in marketing implementation, but also that the order of companies with respect to successfulness of marketing



implementation is the same as the order of companies with respect to successfulness of company's performance (Figure 3).

In order to determine statistical significance of the stated differences, ANOVA analysis was performed. Statistically significant differences exist at the  $p < 0.01$  level for Brand Myopia variable, while they exist at the  $p < 0.05$  level for Marketing Practice, EBITDA Margin and Operating Profit Margin variables. These results must be taken with caution because some strata contain less than 30 companies. Nevertheless, one fact cannot be ignored and that is that domestic brands whose owners are foreign companies achieve the best results. The reason for this probably lies in the fact that foreign companies bought those companies and brands which were market leaders and they have given them new strength through their own standards and marketing principles of doing business.

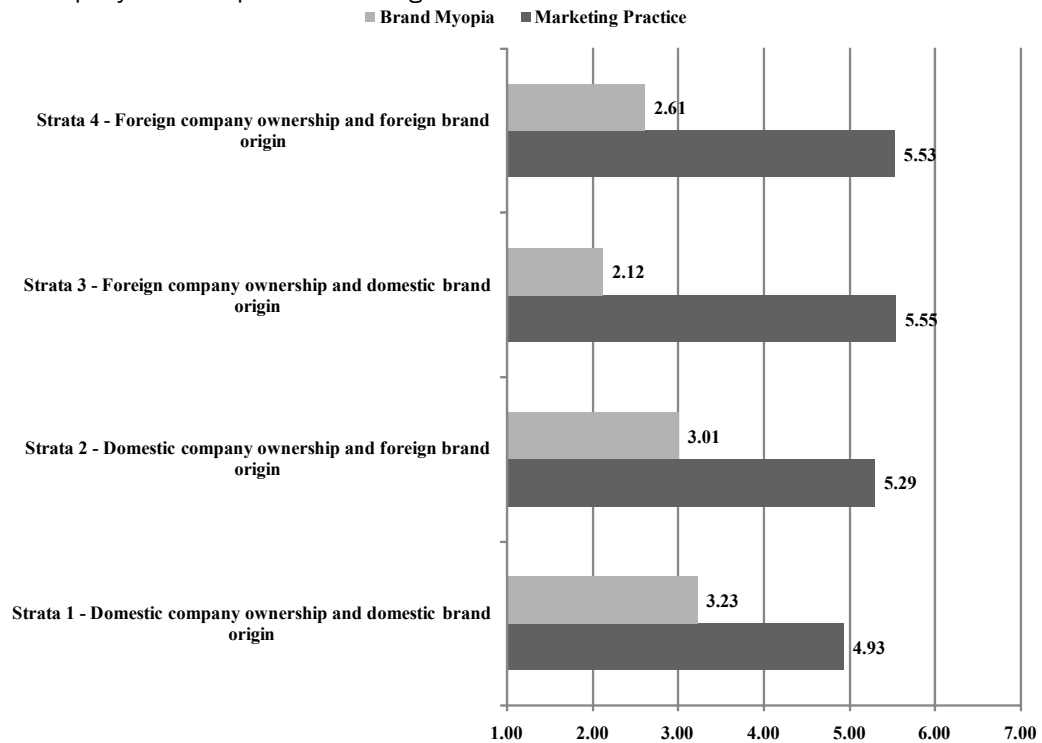
**Figure 2:** The matrix of origin of company ownership and brand origin along with the financial business results



Source: The authors' calculation

With respect to marketing implementation depending on the role that the companies in the sample had in marketing channels, it was possible to define three strata, regardless of the origin of ownership. These were the following: independent distributors, producers which produce in Serbia/Montenegro, and representatives and agents of foreign companies (dependent companies). Although the companies which were representatives (dependent companies) of renowned foreign producers showed the highest level of marketing implementation, this does not have a statistically significance when measured by ANOVA test.

**Figure 3:** Implementation of marketing philosophy depending on the type of company categorized by the origin of company ownership and brand origin



Source: The authors' calculation

It would be interesting to explore the results of applying marketing logic in doing business and the financial results of the observed companies that were classified based on three stated dimensions: company ownership, brand origin and role in marketing channels.

At this level of analysis and with this number of companies in each stratum, it is not possible to endeavour a more detailed analysis, but the first results are also indicative and they point to indifference of domestic comparing to foreign concepts. It is certain that this is an interesting topic and a possible direction of some future research that would be conducted on a larger sample.

## 5. MANAGERIAL IMPLICATIONS

Although marketing practice is in its mature stage in the developed countries (it requires significant modifications and improvements), this research confirmed that implementation of marketing practice brings benefits to companies in the developing countries (Serbia and Montenegro). Companies that implemented modern marketing practice had better market and financial performance. It is important to have a coherent marketing approach and to address the product, pricing, communication, and distribution elements in order to develop and position strong brands. International companies are better in marketing concept implementation compared to the domestic ones due to valid know-how and much more marketing experience.

International companies bring valid know-how and enable local brands to have better performance. Likewise, foreign companies should also consider local brands as part of their marketing strategy because they enable companies to have better results. Our research indicates that glocal approach is applicable and desirable in developing countries, i.e. foreign ownership

of local brands. However, the sample size has not enabled the authors to statistically confirm this intriguing hypothesis.

Elimination of local brands and introducing their global counterparts is not always the best solution. Local consumers are sometimes ethnocentrists. In addition, local brands may have a long tradition and be well positioned in consumers' minds. This is their strength. However, local brands owned by local companies often lack adequate marketing support and this is the space for mutual cooperation and partnership. Marketing myopia is widely spread in both Serbia and Montenegro. This requires a continuous marketing education of managers of different levels. The classic and the modern marketing approaches should be presented to them. Managers must know that marketing approach evolves.

## 6. CONCLUSIONS, LIMITATIONS, AND FUTURE RESEARCH

This research showed that implementation of modern marketing practice leads to more successful business operations and better financial results. It was also determined that, depending on the origin of (the majority) company ownership, there is a statistically significant difference in implementation of modern marketing approach. Foreign companies more consistently implemented modern marketing practice in business operations. With respect to differences in companies' market approach depending on the origin of the key brands, no statistically significant differences were noted. There are some limitations of the conducted research, since the sample size did not enable us to get into several interesting aspects of the analysis:

- It limited the findings concerning glocal approach, and this is a valid future research direction.
- It did not allow us to perform analyses by different industries. It would be interesting and recommended for future research to focus on certain industries, such as pharmacy, food processing, etc.
- Research by different positions in marketing channels (producer, distributor) was not possible, and this is also interesting subject for future research.
- It limited the comparison of marketing practice implementation in Serbia and Montenegro.
- It limited the analysis of marketing orientation at different managerial levels which would also be interesting to investigate.

In addition, this research lacks the retail perspective, so future research would need to include retailers in order to get the complete marketing channels structure.

In order to get valid results for the developing countries, research should be expanded to other countries as well. It would also be interesting to investigate and locate the bottlenecks for marketing implementation in companies at the strategic and tactical level.

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