

GLOBAL PRODUCT POLICY DECISIONS: DEVELOPING NEW PRODUCTS FOR GLOBAL MARKETS

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Abstract

For most companies, new products are the bread-and-butter of their growth strategy. Unfortunately, developing new products is a time-consuming and costly endeavor, with tremendous challenges. The new product development process becomes especially a major headache for multinational organizations that try to coordinate the process on a regional or sometimes even worldwide basis. The steps to be followed in the global new product development (NPD) process are by-and-large very similar to domestic marketing situations. A cornerstone of a global marketing mix program is the set of product policy decisions that multinational companies (MNCs) constantly need to formulate. The product policy questions that need to be tackled are various: What new products should be developed for what markets? What products should be added to, removed from, or modified for the product line in each of the countries in which the company operates? What brand names should be used? How should the product be packaged? serviced? and so forth.

Key words: *Adaptation; Core-product approach; Customization; Extension; Invention; Standardization; Product Characteristics; Communication Strategy*

JEL Classification: L20, M31, O20

The challenge of entering foreign markets with new products

In general, three types of factors drive the adoption of new products: individual differences, personal influences, and product characteristics. Individuals differ in terms of their willingness to try out new products. Early adopters are eager to experiment with new ideas or products. Late adopters take a wait-and-see attitude. Early adopters differ from laggards in terms of socioeconomic traits (income, education, social status), personality, and communication behavior. A prominent role is also played by the influence of prior adopters. Word-of-mouth spread by previous adopters often has a much more significant impact on the adoption decision than non-personal factors such as media advertising. For many product categories, peer pressure will often determine whether (and when) a person will adopt the innovation. The third set of factors relates to the nature of the product itself. Five product characteristics are key:

1. Relative Advantage. To what extent does the new product offer more perceived value to potential adopters than existing alternatives?
2. Compatibility. Is the product consistent with existing values and attitudes of the individuals in the social system? Are there any switching costs that people might incur if they decide to adopt the innovation?
3. Complexity. Is the product easy to understand? Easy to use?
4. Triability. Are prospects able to try out the product on a limited basis?
5. Observability. How easy is it for possible adopters to observe the results or benefits of the innovation? Can these benefits easily be communicated?

Companies can pursue three global strategies to penetrate foreign markets. Some firms simply adopt the same product or communication policy used in their home market as an **extension** of their homegrown product/communication strategies to their foreign markets. Other companies prefer to adapt their strategy to the local marketplace. This strategy of **adaptation** enables the firm to cater to the needs and wants of its foreign customers. A third alternative is to adopt an **invention strategy** by which products are designed from scratch for the global market place. At one extreme, a company might choose to market a standardized product using a uniform communications strategy. Early entrants in the global arena often opt for this approach. Also, small companies with few resources typically prefer this option. For them, the potential payoffs of customized products and/or advertising campaigns usually do not justify the incremental costs of adaptation. Dual extension might also work when the company targets a “global” segment with similar needs. Blistex’s marketing efforts for its namesake product in Europe is a typical example. The product, a lip balm, offers identical needs in each of the various European markets. Except for some minor modifications (e.g., labeling), the same product is sold in each country.

In 1995, Blistex ran a uniform European advertising campaign, using identical positioning (“Care-to-Cure”) and advertising themes across countries. Due to differences in the cultural or competitive environment, the same product often is used to offer benefits or functions that dramatically differ from those in the home market. Such gaps between the foreign and home market drive companies to market the same product using customized advertising campaigns. Although it retains the scale economies on the manufacturing side, the firm sacrifices potential savings on the advertising front. Wrigley, the Chicago-based chewing gum company, is a typical practitioner of this approach. Most of the brands marketed in the United States are also sold in Wrigley’s overseas

markets. Wrigley strives for a uniformly superior quality product. To build up the chewing gum category, Wrigley sells its products at a stable and low price. Given that chewing gum is an impulse item, Wrigley aims for mass distribution. The company sees an opportunity to sell its product at any place where money changes hands. Despite these similarities in Wrigley's product and distribution strategies, there are wide differences in its communication strategy. The benefits that are promoted in Wrigley's advertising campaigns vary from country to country. In the United States, Wrigley has capitalized on smoking regulations by promoting chewing gum as a substitute for smoking. In several European countries, Wrigley's advertising pitches the dental benefits of chewing gum. In the Far East, Wrigley promotes the benefit of facial fitness in its advertising campaigns. Alternatively, firms might adapt their product but market it using a standardized communications strategy. Local market circumstances often favor the case of product adaptation.

Another reason for product adaptation could be the company's expansion strategy. Many companies add brands to their product portfolio via acquisitions of local companies. To leverage the existing brand equity enjoyed by the acquired brand, the local brand is often retained. Although these factors lead to product adaptation, similar core values and buying behaviors among consumers using the product might present an opening for a harmonized communications strategy. Within such a context, clever marketing ideas can be transferred from one country to another country, despite the product-related differences.

Differences in both the cultural and physical environment across countries call for a dual adaptation strategy. Under such circumstances, adaptation of the company's product and communication strategy is the most viable option for international expansion.

Standardization versus Product Customization

A recurrent theme in global marketing is whether companies should aim for a standardized or country-tailored product strategy. Standardization means offering a uniform product on a regional or worldwide basis. Minor alternations are usually made to meet local regulations or market conditions (for instance, voltage adjustments for electrical appliances). However, by and large, these changes only lead to minor cost increases. A uniform product policy capitalizes on the commonalities in customers' needs across countries. The goal is to minimize costs. These cost savings can then be passed through to the company's customers via low prices. With customization, on the other hand, management focuses on cross-border differences in the needs and wants of the firm's target customers. Under this regime, appropriate changes are made to match local market conditions. While standardization has a product-driven orientation - lower your costs via mass-production - customization is inspired by a market-driven mindset - increase customer satisfaction by adapting your products to local needs. Forces that favor a globalized product strategy include:

1. Common customer needs. For many product categories, consumer needs are very similar in different countries. The functions for which the product is used might be identical. Likewise, the usage conditions or the benefits sought might be similar. One example of a product that targets a global segment is Apple's iPhone. Since Apple launched iPhone in early 2007, Apple has sold about 13 million by October 2008.¹⁷ Apart from offering the features and benefits that competing smart phones offer, the iPhone's emotional benefit of "coolness" is also a major reason for its popularity worldwide, especially among young audiences. Many product categories also show a gradual but steady convergence in consumer preferences. Growing similarities in consumer

preferences have also been observed in the car industry. The 2008 DuPont Automotive Color Popularity Report, for example, revealed that color preferences are converging around the world, but with subtle differentiation between markets. White is a popular choice globally gaining top spot in North America, India and Japan. Other popular choices include black (China, Mexico and Europe) and silver (Brazil, China, Europe, India, Russia and South Korea). One trend that the report observes is the growing popularity of blue worldwide, especially among consumers looking for more environmental themes.

2. Global Customers. In business-to-business marketing, the shift toward globalization means that a significant part of the business of many companies comes from MNCs that are essentially global customers. Buying and sourcing decisions are commonly centralized or at the least regionalized. As a result, such customers typically demand services or products that are harmonized worldwide.

3. Scale Economies. Cost savings from scale economies in the manufacturing and distribution of globalized products is in many cases the key driver behind standardization moves. Savings are also often realized because of sourcing efficiencies or lowered R&D expenditures. These savings can be passed through to the company's end customers via lower prices. Scale economies offer global competitors a tremendous competitive advantage over local or regional competitors. In many industries though, the "economies of scale" rationale has lost some of its allure. Production procedures such as flexible manufacturing and just-in-time (JIT) production have shifted the focus from size to timeliness. CAD/CAM techniques allow companies to manufacture customized products in small batch sizes at reduced cost. Although size often leads to lower unit costs, the diseconomies of scale should not be overlooked. Bureaucratic bloat and employee dissatisfaction in large-scale operations often create hidden costs.

4. Time-to-Market. In scores of industries, being innovative is not enough to be competitive. Companies must also seek ways to shorten the time to bring new product projects to the market. This is especially true for categories with shortening product life cycles. By centralizing research and consolidating new product development efforts on fewer projects, companies are often able to reduce the time-to market cycle. For example, Procter & Gamble notes that a pan-European launch of liquid laundry detergents could be done in 10 percent of the time it took in the early 1980s, when marketing efforts were still very decentralized. Likewise, the Swedish engineering group Alfa Laval has been able to speed its time-to-market by streamlining its global new product development process.

5. Regional market agreements. The formation of regional market agreements such as the Single European Market encourages companies to launch regional (e.g., pan-European) products or redesign existing products as pan-regional brands. The legislation leading to the creation of the Single European Market in January 1993 sought to remove most barriers to trade within the European Union. It also provided for the harmonization of technical standards in many industries. These moves favor pan-European product strategies. Mars, for instance, now regards Europe as one giant market. It modified the brand names for several of its products, turning them into pan-European brands. Marathon in the United Kingdom became Snickers, the name used in Continental Europe. The Raider bar in Continental Europe was renamed Twix, the name used in the United Kingdom.

Conclusion

Global product policy decisions are tremendously important for the success of an MNC's global marketing strategies. A multinational company has three options: extension of the domestic strategy, adaptation of home-grown strategies, and invention by designing products that cater to the common needs of global customers. One of the major issues firms wrestle with is the standardization-versus-customization issue. At the same time, there will always be forces that push the product strategy in the direction of customization. Ideally, companies strike a neat balance between product standardization and adaptation. There are two product design approaches that enable a firm to capture the benefits of either option: the modular and the core-product approach. By adopting these approaches or their variants, firms minimize the risk of over-standardizing their product offerings while still grabbing the scale economies benefits that flow from a uniform product policy.

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