Chapter 13

Products and Services for Consumers

CHAPTER LEARNING OBJECTIVES

What you should learn from Chapter 13:

LO1 The importance of offering a product suitable for the intended market

LO2 The importance of quality and how quality is defined

LO3 Physical, mandatory, and cultural requirements for product adaptation

LO4 The need to view all attributes of a product to overcome resistance to acceptance

LO5 Country-of-origin effects on product image

Global Perspective

CHINA—DISNEY ROLLS THE DICE AGAIN

With the opening of Disneyland in Anaheim in 1955, the notion of the modern theme park was born. The combination of the rides, various other attractions, and the Disney characters has remained irresistible. Tokyo Disneyland has also proved to be a success, making modest money for Disney through licensing and major money for its Japanese partners. Three-fourths of the visitors at the Tokyo park are repeat visitors, the best kind.

Then came EuroDisney. Dissatisfied with the ownership arrangements at the Tokyo park, the EuroDisney deal was structured very differently. Disney negotiated a much greater ownership stake in the park and adjacent hotel and restaurant facilities. Along with the greater control and potential profits came a higher level of risk.

Even before the park's grand opening ceremony in 1992, protestors decried Disney's "assault" on the French culture. The location was also a mistake—the Mediterranean climate of the alternative Barcelona site seemed much more attractive on chilly winter days in France. Managing both a multicultural workforce and clientele proved daunting. For example, what language was most appropriate for the Pirates of the Caribbean attraction—French or English? Neither attendance nor consumer purchases targets were achieved during the early years: Both were off by about 10 percent. By the summer of 1994, EuroDisney had lost some $900 million. Real consideration was given to closing the park.

A Saudi prince provided a crucial cash injection that allowed for a temporary financial restructuring and a general reorganization, including a new French CEO and a new name, Paris Disneyland. The Paris park returned to profitability, and attendance increased. However, the temporary holiday on royalties, management fees, and leases is now expired, and profits are dipping again. Disney's response was to expand with a second "Disney Studios" theme park and an adjacent retail and office complex at the Paris location. Again in 2005, the Saudi prince injected another $33 million into the park.

In 2006 Hong Kong Disneyland opened for business. The Hong Kong government provided the bulk of the investment for the project (almost 80 percent of the $3 billion needed). As in Europe, the clientele is culturally diverse, though primarily Chinese. Performances are done in Cantonese (the local dialect), Mandarin (the national language), and English. The park drew 5.2 million visitors in 2006, but attendance fell sharply to about 4 million in 2007. Disney has had to renegotiate its financial structure and schedule as a consequence. On the positive side of the ledger, the firm and the Hong Kong government are still talking about expanding the park, and Disney inked a new joint venture agreement for the online delivery of entertainment services to customers in China. In 2009 the Chinese government approved a new park in Shanghai to be managed by the Hong Kong groups with a price tag of some $4 billion. Indeed, it continues to be quite interesting to follow Mickey's international adventures; you might say it's been a rollercoaster ride.

Sources: http://www.disney.go.com; "Disney to Build Hong Kong Theme Park; Euro Disney's Profit Slumped," *Dow Jones News Service*, November 2, 1999; Richard Verrier, "Saudi Prince Helps Out EuroDisney," *Los Angeles Times*, January 12, 2005, p. C2; "Hong Kong Disney Crowds Disappoint for Second Year," *Reuters News*, December 12, 2007; Ethan Smith and James T. Areddy, "China Backs Disney Shanghai," *The Wall Street Journal*, November 11, 2009, online.

The opportunities and challenges for international marketers of consumer goods and services today have never been greater or more diverse. New consumers are springing up in emerging markets in eastern Europe, the Commonwealth of Independent States, China and other Asian countries, India, Latin America—in short, globally. Although some of these emerging markets have little purchasing power today, they promise to be huge markets in the future. In the more mature markets of the industrialized world, opportunity and challenge also abound as consumers' tastes become more sophisticated and complex, and as increases in purchasing power provide them with the means of satisfying new demands.

As described in the Global Perspective, Disney is the archetypal American exporter for global consumer markets. The distinction between products and services for such companies means little. Their DVDs are *products*, whereas cinema performances of the same movies are *services*. Consumers at the theme parks (including foreign tourists at domestic sites) pay around $100 to get in the gate, but they also spend about the same amount on hats, T-shirts, and meals while there. And the movies, of course, help sell the park tickets and the associated toys and clothing. Indeed, this lack of distinction between products and services has led to the invention of new terms encompassing both products and services, such as *market offerings*[1] and *business-to-consumer (B2C) marketing*. However, the governmental agencies that keep track of international trade still maintain the questionable product–service distinction, and thus so do we in this chapter and the next.[2] The reader should also note that when it comes to U.S. exports targeting consumers, the totals are about evenly split among the three major categories of durable goods (such as cars and computers), nondurable goods (mainly food, drugs, toys), and services (for example, tourism and telecommunications).

The trend for larger firms is toward becoming global in orientation and strategy. However, product adaptation is as important a task in a smaller firm's marketing effort as it is for global companies. As competition for world markets intensifies and as market preferences become more global, selling what is produced for the domestic market in the same manner as it is sold at home proves to be increasingly less effective. Some products cannot be sold at all in foreign markets without modification; others may be sold as is, but their acceptance is greatly enhanced when tailored specifically to market needs. In a competitive struggle, quality products and services that meet the needs and wants of consumers at an affordable price should be the goal of any marketing firm.

Quality

LO1

The importance of offering a product suitable for the intended market

Global competition is placing new emphasis on some basic tenets of business. It is shortening product life cycles and focusing on the importance of quality, competitive prices, and innovative products. The power in the marketplace is shifting from a sellers' to a customers' market, and the latter have more choices because more companies are competing for their attention. More competition and more choices put more power in the hands of the customer, and that of course drives the need for quality. Gone are the days when the customer's knowledge was limited to one or at best just a few different products. Today the customer knows what is best, cheapest, and highest quality, largely due to the Internet. It is the customer who defines quality in terms of his or her needs and resources. For example, cell phones that don't roam don't sell in Japan at any price, but in China they do very well indeed. Just ask the folks at UTStarcom, a California firm that has sold low-cost, nonroaming mobile phones in India and Vietnam, as well as China.

American products have always been among the world's best, but competition is challenging us to make even better products. In most global markets, the cost and quality of a product are among the most important criteria by which purchases are made. For consumer

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[1]For example, see Philip Kotler and Kevin Lane Keller, *Marketing Management*, 13th ed. (Upper Saddle River, NJ: Prentice Hall, 2008).

[2]We hope that it is obvious that many of the points we make regarding the development of consumer products are pertinent to consumer services as well, and vice versa. Of course, some distinctions are still substantive. These are focused on in the section entitled "Marketing Consumer Services Globally" later in this chapter.

and industrial products alike, the reason often given for preferring one brand over another is better quality at a competitive price. Quality, as a competitive tool, is not new to the business world, but many believe that it is the deciding factor in world markets. However, we must be clear about what we mean by quality.

Quality Defined

LO2

The importance of quality and how quality is defined

Quality can be defined on two dimensions: market-perceived quality and performance quality. Both are important concepts, but consumer perceptions of a quality product often have more to do with market-perceived quality than performance quality. The relationship of quality (of course, relative to price) conformance to customer satisfaction is analogous to an airline's delivery of quality. If viewed internally from the firm's perspective (performance quality), an airline has achieved quality conformance with a safe flight and landing. But because the consumer expects performance quality to be a given, quality to the consumer is more than compliance (a safe flight and landing). Rather, cost, timely service, frequency of flights, comfortable seating, and performance of airline personnel from check-in to baggage claim are all part of the customer's experience that is perceived as being of good or poor quality. Considering the number of air miles flown daily, the airline industry is approaching zero defects in quality conformance, yet who will say that customer satisfaction is anywhere near perfection? These market-perceived quality attributes are embedded in the total product, that is, the physical or core product and all the additional features the consumer expects.

In a competitive marketplace in which the market provides choices, most consumers expect performance quality to be a given. Naturally, if the product does not perform up to their standards, it will be rejected. Compare hybrid gas-electric systems for example—Toyota's is designed to save fuel in city driving; General Motors's performs best on the highway during long trips. Which drive system offers higher quality depends on the consumer's needs. Japanese consumers find themselves stuck in traffic more frequently, whereas Americans tend toward road trip types of activities.[3] When there are alternative products, all of which meet performance quality standards, the product chosen is the one that meets market-perceived quality attributes. Interestingly, China's leading refrigerator maker recognized the importance of these market-perceived quality attributes when it adopted a technology that enabled consumers to choose from 20 different colors and textures for door handles and moldings. For example, a consumer can design an off-white refrigerator with green marble handles and moldings. Why is this important? Because it lets consumers "update their living rooms," where most Chinese refrigerators are parked. The company's motive was simple: It positioned its product for competition with multinational brands by giving the consumer another expression of quality.

Quality is also measured in many industries by objective third parties. In the United States, J.D. Power and Associates has expanded its auto quality ratings, which are based on consumer surveys, to other areas, such as computers. Customer satisfaction indexes developed first in Sweden are now being used to measure customer satisfaction across a wide variety of consumer products and services.[4] Finally, the U.S.

Products are not used in the same ways in all markets. Here, a boy in an eastern Mexican village is prepared for a "Jaguar dance" to bring rain. Clay, ashes, and the globally ubiquitous Coke bottle make for the best cat costumes. Perhaps our favorite example comes from India; in the Punjab region, *lassi* bars, a popular yoghurt drink, are often prepared in top-load washing machines!

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[3]Joseph B. White, "One System, Two Visions," *The Wall Street Journal* (online), May 7, 2007.

[4]Claes Fornell, Michael D. Johnson, Eugene W. Anderson, Jaesung Cha, and Barbara Everitt Bryant, "The American Consumer Satisfaction Index: Nature, Purpose, and Findings," *Journal of Marketing* 60, no. 4 (October 1996), pp. 35–46; http://www.cfigroup.com, 2008.

CROSSING BORDERS 13.1   The Quality of Food Is a Matter of Taste

Food preferences vary not only across countries but within them as well. For example, many Vietnamese still have to eat whatever they can lay their hands on. Pet birds and dogs are kept indoors to save them from the cooking pot. In 1998, the government tried to reduce the consumption of snakes and cats by banning their sale because the exploding rat population was damaging crops. Instead, peasants simply took to eating rats as well. The dwindling number of rats, in turn, has caused an explosion in the numbers of another tasty treat: snails.

Meanwhile, in nearby Ho Chi Minh City, the country's commercial capital, a recent survey found that 13.5 percent of children were obese—and the figure is rising. Local restaurants vie with one another in expense and luxury. Hoang Khai, a local businessman, recalls how his family always celebrated at home when he was young, because there was nowhere to go out. He decided to change all that by plowing the returns from his textile business into a restaurant lavish enough to suit the city's business elite. The result is *Au Manoir de Khai*, a colonial villa smothered in gilt and silk where a meal with imported wine can set you back more than most Vietnamese earn in a year.

One has to wonder how ice cream from Fugetsudo, a small confectionary shop in northern Japan, would sell in either neighborhood in Vietnam. You can get fish, sea slug, whale meat, turtle, or cedar chip–flavored ice cream there. Fugetsudo's competition sells pickled-orchid, chicken-wing, shrimp, eel, and short-necked clam flavors. Mmmm! Baskin Robbins competes with its 31 flavors in Japan, but among its 32 countries served around the world, Vietnam is not among them. The average American consumes over 12 liters of ice cream per year and the Japanese less than half that. Vietnamese? Only half a liter.

Sources: "Eating Out in Vietnam," *The Economist*, December 21, 2002, pp. 49–50; Phred Dvorak, "Something Fishy Is Going On in Japan in the Ice-Cream Biz," *The Wall Street Journal*, September 4, 2002, p. 1; Eric Johnston, "Savour the Whale," *The Guardian*, July 4, 2005, p. 6; Euromonitor International, 2010; http://www.baskinrobbins.com, 2010.

Department of Commerce annually recognizes American firms for the quality of their international offerings—the Ritz Carlton Hotel chain has won the prestigious award twice.

Maintaining Quality

Maintaining performance quality is critical,[5] but frequently a product that leaves the factory with performance quality is damaged as it passes through the distribution chain. This damage is a special problem for many global brands for which production is distant from the market and/or control of the product is lost because of the distribution system within the market. When Mars Company's Snickers and other Western confectioneries were introduced to Russia, they were a big hit. Foreign brands such as Mars, Toblerone, Waldbaur, and Cadbury were the top brands—indeed, only one Russian brand placed in the top ten. But within five years, the Russian brands had retaken eight of the top spots, and only one U.S. brand, Mars's Dove bars, was in the top ten.

Red October brand chocolate (on the left) still competes well against foreign rivals Nestlé and Mars on Moscow store shelves. One advertising executive in Moscow reports that Russians are experiencing a renewed nationalism in product preferences as their economy continues to surge along with world oil prices. We have no idea what the "for Men" appeal is all about, but it apparently works in Moscow.

What happened? A combination of factors caused the decline. Russia's Red October Chocolate Factory got its act together; modernized its packaging, product mix, and equipment; and set out to capture the market. Performance quality was also an issue. When the Russian market opened to outside trade, foreign companies eager to get into the market dumped surplus out-of-date and poor-quality products. In other cases, chocolates were smuggled in and sold on street corners and were often mishandled in the process. By the time they made it to consumers, the chocolates were likely to be misshapen or discolored—poor quality compared with Russia's Red October chocolate.

[5]Duncan I. Simester, John R. Hauser, Birger Wernerfelt, and Roland T. Rust, "Implementing Quality Improvement Programs Designed to Enhance Customer Satisfaction: Quasi-Experiments in the United States and Spain," *Journal of Marketing Research* 37 (February 2000), pp. 102–12; Mark Landler, "Missteps Haunt Smart Car," *International Herald Tribune*, April 2–3, 2005, pp. 1, 4.

Market-perceived quality was also an issue. Russian chocolate has a different taste because of its formulation—more cocoa and chocolate liqueur are used than in Western brands, which makes it grittier. Thus, the Red October brand appeals more to Russian tastes, even though it is generally priced above Western brands. As evinced by this example, quality is not just desirable, it is essential for success in today's competitive global market, and the decision to standardize or adapt a product is crucial in delivering quality.

Toyota has long been known for its high-quality automobiles. But in 2009, at the height of its dominance of the global automobile industry (GM relinquished the global market-share title that year, during its bankruptcy), it suffered a quality maintenance *tsunami*. Sticky gas pedals appeared to contribute to unintended, sudden acceleration in Toyotas sold in the United States. The quality problem was linked to 34 deaths in the United States since 2000 by interrogators at Congressional hearings, which included testimony by Akio Toyoda, the Japanese CEO of Toyota Motor Corporation. This linking of deaths to quality problems will be a matter for the U.S. courts to decide however, and facts in such cases—such as driver error versus mechanical problems—are hard to pin down. Indeed, Ford actually received more complaints about the sudden unintended acceleration problem than Toyota between 2004 and 2009, according to National Highway Traffic Safety Administration figures. But one of the main topics discussed during the Congressional hearings was Toyota's consumer complaint handling and internal communications between the U.S. sales subsidiary and decision makers in Japan. The length of time between consumer complaints and the 6 million-car recall was a central issue. In his Japanese-style apology (see Chapter 5) to the American people during the hearings, Toyoda stated, "I myself, as well as Toyota, am not perfect. We never run away from our problems or pretend we don't notice them." But, not "noticing them" was a chief complaint voiced by the firm's critics. As the lawsuits around this issue play out in the years to come, it will be interesting to see the impact of his apology on juries. And of course, the impact of this quality problem and the "late" recall will be determined by the jury of public opinion and the previously loyal customers of the brand.[6]

Physical or Mandatory Requirements and Adaptation

LO3

Physical, mandatory, and cultural requirements to product adaptation

A product may have to change in a number of ways to meet the physical or mandatory requirements of a new market, ranging from simple package changes to total redesign of the physical core product. In many countries, the term **product homologation** is used to describe the changes mandated by local product and service standards. A recent study reaffirmed the often-reported finding that mandatory adaptations were more frequently the reason for product adaptation than adapting for cultural reasons.

Some needed changes are obvious with relatively little analysis; a cursory examination of a country will uncover the need to rewire electrical goods for a different voltage system, simplify a product when the local level of technology is not high, or print multilingual labels where required by law. Electrolux, for example, offers a cold-wash-only washing machine in Asian countries where electric power is expensive or scarce. Other necessary changes may surface only after careful study of an intended market.

Legal, economic, political, technological, and climatic requirements of the local marketplace often dictate product adaptation. During a period in India when the government strongly opposed foreign investment, PepsiCo. changed its product name to Lehar-Pepsi (in Hindi, *lehar* means "wave") to gain as much local support as possible. The name returned to Pepsi-Cola when the political climate turned favorable. Laws that vary among countries usually set specific package sizes and safety and quality standards. The World Health Organization is only beginning to regulate the marketing of high-carcinogen American cigarettes. But videogame content is regulated around the world according to violence levels and sexual content.

The less economically developed a market is, the greater degree of change a product may need for acceptance. One study found that only one in ten products could be marketed in developing countries without modification of some sort. To make a purchase more affordable in low-income countries, the number of units per package may have to be reduced from the typical quantities offered in high-income countries. Razor blades, cigarettes,

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[6]Several articles on the topic including Joseph B. White and Peter Landers, "Toyoda is Wary Star of Kabuki at Capitol," *The Wall Street Journal*, February 25, 2010, pp. A1, A7.

chewing gum, and other multiple-pack items are often sold singly or two to a pack instead of the more customary 10 or 20. Cheetos, a product of PepsiCo.'s Frito-Lay, is packaged in 15-gram boxes in China so it can be priced at 1 yuan, or about 12 cents. At this price, even children with little spending money can afford Cheetos.

Changes may also have to be made to accommodate climatic differences.[7] General Motors of Canada, for example, experienced major problems with several thousand Chevrolet automobiles shipped to a Middle Eastern country; GM quickly discovered they were unfit for the hot, dusty climate. Supplementary air filters and different clutches had to be added to adjust for the problem. Similarly, crackers have to be packaged in tins rather than cardboard boxes for humid areas.

Perhaps our favorite example of product homologation comes from China. Oreos were first introduced there in 1996, but the company didn't adapt them to Chinese tastes until 9 years later. Now they're the top-selling biscuit in the country, after consumer research suggested reducing the sugar content and reducing package sizes and prices. Of course, the integrated marketing communications campaign also helped[8]—we detail that in Chapter 16. Because most products sold abroad by international companies originate in home markets and require some form of modification, companies need a systematic process to identify products that need adaptation.[9]

Green Marketing and Product Development

A quality issue of growing importance the world over, especially in Europe and the United States, is green marketing. Europe has been at the forefront of the "green movement," with strong public opinion and specific legislation favoring environmentally friendly marketing and products. **Green marketing** is a term used to identify concern with the environmental consequences of a variety of marketing activities. The European Commission has passed legislation to control all kinds of packaging waste throughout the European Union. Two critical issues that affect product development are the control of the packaging component of solid waste and consumer demand for environmentally friendly products.

In the United States, Japanese car manufacturers took advantage of their gas-guzzling American cousins as consumers became more concerned about the environmental effects of SUVs like General Motors's Hummer. Indeed, even in the United States the Hummer has largely died a timely death. Four-dollar gasoline and the bankruptcy of General Motors in 2009 killed the beast, and not even a Chinese bailout could save the behemoth.[10]

The European Commission issued guidelines for ecolabeling that became operational in 1992. Under the directive, a product is evaluated on all significant environmental effects throughout its life cycle, from manufacturing to disposal—a cradle-to-grave approach. A detergent formulated to be biodegradable and nonpolluting would be judged friendlier than a detergent whose formulation would be harmful when discharged into the environment. Aerosol propellants that do not deplete the ozone layer are another example of environmentally friendly products. No country's laws yet require products to carry an ecolabel to be sold, however. The designation that a product is "environmentally friendly" is voluntary, and environmental success depends on the consumer selecting the ecology-friendly product.

Since the introduction of the ecolabel idea, Hoover washing machines have been the only products that have gained approval for the ecolabel. Interestingly enough, the benefits of winning the symbol have resulted in Hoover tripling its market share in Germany and doubling its share of the premium sector of the U.K. washing-machine market. The approval process seems to be deterring many European manufacturers, many of which are using their own, unofficial symbols. The National Consumer Council, a consumer watchdog group,

[7]Philip M. Parker and Nader T. Tavossoli, "Homeostasis and Consumer Behavior across Cultures," *International Journal of Research in Marketing* 17, no. 1 (March 2000), pp. 33–53.

[8]Julie Jargon, "Kraft Reformulates Oreo, Scores in China," *The Wall Street Journal*, May 1, 2008, pp. B1, B7.

[9]Magnus Hultman, Matthew J. Robson, and Constantine S. Katsikeas, "Export Product Strategy Fit and Performance: An Empirical Investigation," *Journal of International Marketing* 17, no. 4 (2009), pp. 1–23.

[10]Nick Bunkley, "G.M. Deal for Hummer Falls Apart," *The New York Times*, February 25, 2010, pp. B1, B4.

CROSSING BORDERS 13.2 — In Germany, Video Games Showing Frontal Nudity Are OK, but Blood Is *Verboten*

Video game heroine Lara Croft is an adrenaline junkie unafraid of getting bloody. But in Germany, the buxom starlet of the "Tomb Raider" series doesn't bleed—even if she's being mauled by a tiger.

Although the $25 billion video game industry is global, the games themselves aren't. They reflect the distinct cultures and traditions of different markets, and game publishers carefully tweak their titles and other details to tone down offensive materials. And "offensive" varies from country to country.

Red blood in a game sold in the United States turns green in Australia. A topless character in a European title acquires a bikini top in the United States. Human enemies in an American game morph into robots in Germany. Violent sex scenes in a Japanese game disappear in the American versions.

Of all countries, Germany is one of the trickiest to tackle, publishers say. The country has spent five decades developing one of the world's strictest decency standards for virtually all media, from books and comics to music and games.

If a game features blood splatterings, decapitations, or death cries, it runs the risk of being placed on a government list known as "the index." Being indexed means it can't be sold to anyone under 18, displayed in stores, or advertised on television, in newspapers, or in magazines. Games containing pornography or glorifications of war, Nazism, and racial hatred face the same fate. Most recently the government has announced plans to forbid the sales of such graphic video games to minors.

Finally we note that the Germans are taking another tack against the games—a study there has shown that assigning more homework reduces time spent on games!

Sources: A. Phan and S. Sandell, "In Germany, Video Games Showing Frontal Nudity Are OK, but Blood Is *Verboten*," *Los Angeles Times*, June 9, 2003, p. C1; "Germany Plans Crackdown on Violent Video Games, Films," *Deutsche Welle*, October 12, 2007; Karen Moltenbrey, "Video Game Violence: How Much Is Too Much?" *Computer Graphics World*, November 2009, p. 4; Jiri Zuzanek, "Students' Study Time and Their 'Homework Problem,'" *Social Indicators Research* 93, no. 1 (2009), pp. 111–15.

reports that many consumers are so confused and cynical about the myriad symbols that they are giving up altogether on trying to compare the green credentials of similar products.

Laws that mandate systems to control solid waste, while voluntary in one sense, do carry penalties. The EU law requires that packaging material through all levels of distribution, from the manufacturer to the consumer, be recycled or reused. Currently, between 50 percent and 65 percent of the weight of the packaging must be recovered, and between 25 percent and 45 percent of the weight of the totality of packaging materials contained in packaging waste will be recycled.

Each level of the distribution chain is responsible for returning all packaging, packing, and other waste materials up the chain. The biggest problem is with the packaging the customer takes home; by law the retailer must take back all packaging from the customer if no central recycling locations are available. For the manufacturer's product to participate in direct collection and not have to be returned to the retailer for recycling, the manufacturer must guarantee financial support for curbside or central collection of all materials. The growing public and political pressure to control solid waste is a strong incentive for compliance.

Although the packaging and solid waste rules are burdensome, there have been successful cases of not only meeting local standards but also being able to transfer this approach to other markets. Procter & Gamble's international operations integrated global environmental concerns as a response to increasing demands in Germany. It introduced Lenor, a fabric softener in a superconcentrated form, and sold it in a plastic refill pouch that reduced packaging by 85 percent. This move increased brand sales by 12 percent and helped set a positive tone with government regulators and activists. The success of Lenor was transferred to the United States, where P&G faced similar environmental pressures. A superconcentrated Downy, the U.S. brand of fabric softener, was repackaged in refill pouches that reduced package sizes by 75 percent, thereby costing consumers less and actually increasing Downy market share. The global marketer should not view green marketing as a European problem; concern for the environment is worldwide and similar legislation is sure to surface elsewhere. This discussion is yet another example of the need to adapt products for global marketing.

Products and Culture

To appreciate the complexity of standardized versus adapted products, one needs to understand how cultural influences are interwoven with the perceived value and importance a market places on a product.[11] A product is more than a physical item: It is a bundle of satisfactions (or *utilities*) that the buyer receives. These utilities include its form, taste, color, odor, and texture; how it functions in use; the package; the label; the warranty; the manufacturer's and retailer's servicing; the confidence or prestige enjoyed by the brand; the manufacturer's reputation; the country of origin; and any other symbolic utility received from the possession or use of the goods. In short, the market relates to more than a product's physical form and primary function.[12] The values and customs within a culture confer much of the importance of these other benefits. In other words, a product is the sum of the physical and psychological satisfactions it provides the user.

A product's physical attributes generally are required to create its primary function. The primary function of an automobile, for example, is to move passengers from point A to point B. This ability requires a motor, transmission, and other physical features to achieve its primary purpose. The physical features or primary function of an automobile generally are in demand in all cultures where there is a desire to move from one point to another by ways other than by foot or animal power. Few changes to the physical attributes of a product are required when moving from one culture to another. However, an automobile has a bundle of psychological features that are as important in providing consumer satisfaction as its physical features. Within a specific culture, other automobile features (color, size, design, brand name, price) have little to do with its primary function—the movement from point A to B—but do add value to the satisfaction received.

The meaning and value imputed to the psychological attributes of a product can vary among cultures and are perceived as negative or positive. To maximize the bundle of satisfactions received and to create positive product attributes rather than negative ones, adaptation of the nonphysical features of a product may be necessary. Coca-Cola, frequently touted as a global product, found it had to change Diet Coke to Coke Light when it was introduced in Japan. Japanese women do not like to admit to dieting, because the idea of a diet implies sickness or medicine. So instead of emphasizing weight loss, "figure maintenance" is stressed. Anti-American sentiment is also causing Coke problems with Muslim consumers. At least four new competitors have popped up recently—Mecca Cola, Muslim Up, Arab Cola, and Cola Turka. McDonald's is also responding to such problems with its new McArabia sandwich.

Cola Turka holds a surprisingly large percentage of shelf space vis-à-vis Coke and Pepsi in this supermarket in Istanbul. The 2-liter bottle is priced at 2.00 lira, just under Coke's 2.05 lira. Cola Turka's TV ads, initially featuring American actor Chevy Chase speaking Turkish, seem to have worked well.

Adaptation may require changes of any one or all of the psychological aspects of a product. A close study of the meaning of a product shows the extent to which the culture determines an individual's perception of what a product is and what satisfaction that product provides.

The adoption of some products by consumers can be affected as much by how the product concept conforms with their norms, values, and behavior patterns as by its physical or mechanical attributes. For example, only recently have Japanese consumers taken an interest in dishwashers—they simply didn't have room in the kitchen. However, very compact designs by Mitsubishi, Toto (a Japanese toilet company), and others are making new inroads into Japanese kitchens. A novelty always comes up against a closely integrated cultural pattern, and this conflict is primarily what determines whether, when, how, and in what form it gets adopted. Some financial services have been difficult to introduce into Muslim countries because the pious have claimed they promoted usury and gambling, both explicitly forbidden in the Koran. The Japanese have always found all body jewelry repugnant. The Scots have a decided resistance to pork and all its associated products, apparently from days long ago when such taboos were founded on fundamentalist interpretations of the Bible. Filter cigarettes have failed in at least one Asian country because a very low life expectancy hardly places people in the age bracket most prone to fears of lung cancer—even supposing that they shared Western attitudes about death. All these sorts of problems require product offering adaptation by international marketers.

[11]Julien Dayla and Giana M. Eckhardt, "Asian Brands and the Shaping of a Transnational Imagined Community," *Journal of Consumer Research* 35 (2008), pp. 216–30.

[12]C. K. Prahalad, *The Fortune at the Bottom of the Pyramid* (Philadelphia: Wharton School Publishing, 2005).

CROSSING BORDERS 13.3

Seeds of Fashion: Eastern vs. Western Counter-Culture Movements and A Look at the Gothic Lolitas of Harajuku, Japan

Where do new ideas come from? Since its origin, the Gothic Lolita subculture of Harajuku has continued to fascinate people around the world. This group is just one example of the counterculture fashion movements that have emerged from the Harajuku district of Japan, each group identified by a specific look that conveys a visual message. Gothic Lolita fashion infuses Victorian-era clothing with elements of Goth and Japanese *anime* to create a unique form of dress. Adherents take notes from the *Gothic & Lolita Bible* (a quarterly magazine with an estimated circulation of 100,000) and rely on their distinctive appearance to proclaim their subcultural identity. As in other counterculture movements, youths' fantasies of liberation, rebellion, and revolution have become embedded in the cultural mode of a changing nation.

By examining the fashion of the Harajuku, we can gain a more in-depth understanding of group affiliation and construction of self in counterculture movements. Definitive of a counterculture, the Gothic Lolita's in-group behavior and fashion evokes opposition and displays a symbolic rebellion against mainstream Japanese culture. These attitudes are reflected in norm-breaking and attention-grabbing styles.

In the past, youth subcultures generally have emerged from Western society and diffused globally. But the Harajuku subculture began in the East and is moving West, marking a shift in the cultural current. The Harajuku subculture is also an example of the difference between Eastern and Western counterculture movements. Whereas maturity in Western cultures is associated with authority and individuality, in Confucian Japan, maturity is the ability to cooperate with a group, accept compromises, and fulfill obligations to society. Therefore, rebellion in Japanese youth culture means rebellion against adulthood as well. Rather than engaging in sexually provocative or aggressive behaviors to emphasize their maturity and independence, as occurs among Western rebels, Japanese Gothic Lolitas display

themselves in a childlike and vulnerable manner to emphasize their immaturity and inability to meet the social responsibilities and obligations of adulthood.

Likely because of this refusal to cooperate with social expectations, mainstream Japan views the subculture as selfish, especially considering its indulgent consumption behaviors. Unlike contemporary Western youth cultures, such as punk and grunge, the Gothic

Japanese women in an ad for Angelic Pretty fashions appearing in the *Gothic & Lolita Bible*.

Lolita subculture does not condemn materialism or other aspects of modern consumer culture. Instead, one outfit (as seen in the accompanying photo) can cost as much as $300–$1,000! Because personal consumption is regarded as both antisocial and immoral in Japanese society, the subculture opposes normative social values by indulging in the conspicuous consumption.

Most participants (aged 13–30 years) are students or have jobs that require them to wear a uniform every day. On Sundays, they feel they have reached the time they can truly be themselves. Their lifestyle is frowned upon, making it is very common to see teenagers carrying bags with their "harajuku outfit" on the train and changing at the park so their parents never see their outfits. Others wear the clothing as their normal daily dress, but the vast majority save it for Sundays, when they congregate at Jingu Bridge and Yoyogi Park to show off their fashions, hang out, and meet others like them. Some go just to have their pictures taken by the subculture's magazine photographers, who search for shots of new trends, or by tourists.

Source: Kristen San Jose, working paper, Paul Merage School of Business, University of California, Irvine, 2010.

When analyzing a product for a second market, the extent of adaptation required depends on cultural differences in product use and perception between the market the product was originally developed for and the new market. The greater these cultural differences between the two markets, the greater the extent of adaptation that may be necessary.

When instant cake mixes were introduced in Japan, the consumers' response was less than enthusiastic. Not only do Japanese reserve cakes for special occasions, but they prefer the cakes to be beautifully wrapped and purchased in pastry shops. The acceptance of instant cakes was further complicated by another cultural difference: Many Japanese homes do not have ovens. An interesting sidebar to this example is the company's attempt to correct for that problem by developing a cake mix that could be cooked in a rice cooker, which all Japanese homes have. The problem with that idea was that in a Japanese kitchen, rice and

the manner in which it is cooked have strong cultural overtones, and to use the rice cooker to cook something other than rice is a real taboo. Of course, cake mixes were not readily accepted in the United States when they were introduced in 1949. For housewives, it didn't seem like they were baking if all they did was add water. Changing the formula to require adding eggs made the process feel more substantial, and the housewives were won over.

Examples are typically given about cultures other than American, but the need for cultural adaptation is often necessary when a foreign company markets a product in the United States, too. A major Japanese cosmetics company, Shiseido, attempted to break into the U.S. cosmetic market with the same products sold in Japan. After introducing them in more than 800 U.S. stores, the company realized that American taste in cosmetics is very different from Japanese tastes. The problem was that Shiseido's makeup required a time-consuming series of steps, a point that does not bother Japanese women. Success was attained after designing a new line of cosmetics as easy to use as American products.

The problems of adapting a product to sell abroad are similar to those associated with the introduction of a new product at home. Products are not measured solely by their physical specifications. The nature of the new product is what it does to and for the customer—habits, tastes, and patterns of life. The problems illustrated in the cake mix example have little to do with the physical product or the user's ability to make effective use of it and more with the fact that acceptance and use of the cake mixes would have required upsetting behavior patterns considered correct or ideal.

Finally, there are some interesting surprises in the area of adaptation. An interesting example is Harry Potter. About 20 percent of the sales of his last adventure book in Japan were in English. Japanese consumers were looking for ways to augment English lessons, and the books and associated audiotapes filled that particular need very well. For them Potter is not just entertainment; it's education.

Innovative Products and Adaptation

An important first step in adapting a product to a foreign market is to determine the degree of newness as perceived by the intended market.[13] How people react to newness and how new a product is to a market must be understood. In evaluating the newness of a product, the international marketer must be aware that many products successful in the United States, having reached the maturity or even decline stage in their life cycles, may be perceived as new in another country or culture and thus must be treated as innovations. From a sociological viewpoint, any idea perceived as new by a group of people is an **innovation**.

Whether or not a group accepts an innovation, and the time it takes to do so, depends on the product's characteristics.[14] Products new to a social system are innovations, and knowledge about the **diffusion** (i.e., the process by which innovation spreads) of innovation is helpful in developing a successful product strategy. Sony's marketing strategies for the U.S. introduction of its PlayStation 2 were well informed by its wild successes achieved six months earlier during the product's introduction in Japan. Marketing strategies can guide and control, to a considerable degree, the rate and extent of new product diffusion because successful new product diffusion is dependent on the ability to communicate relevant product information and new product attributes.

A U.S. cake mix company entered the British market but carefully eliminated most of the newness of the product. Instead of introducing the most popular American cake mixes, the company asked 500 British housewives to bake their favorite cake. Since the majority baked a simple, very popular dry sponge cake, the company brought to the market a similar easy mix. The sponge cake mix represented familiar tastes and habits that could be translated into a convenience item and did not infringe on the emotional aspects of preparing a fancy product for special occasions. Consequently, after a short period of time, the second

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[13]Junfeng Zhang, C. Anthony Di Benedetto, and Scott Hoenig, "Product Development Strategy, Product Innovation Performance, and the Mediating Role of Knowledge Utilization: Evidence from Subsidiaries in China," *Journal of International Marketing* 17, no. 2 (2009), pp. 42–58.

[14]Changhui Zhou and Jing Li, "Product Innovation in Emerging Market-Based International Joint Ventures: An Organizational Ecology Perspective," *Journal of International Business Studies* 39, no. 7 (2008), pp. 1114–32.

company's product gained 30 to 35 percent of the British cake mix market. Once the idea of a mix for sponge cake seemed acceptable, the introduction of other flavors became easier.

The goal of a foreign marketer is to gain product acceptance by the largest number of consumers in the market in the shortest span of time. However, as discussed in Chapter 4 and as many of the examples cited have illustrated, new products are not always readily accepted by a culture; indeed, they often meet resistance. Although they may ultimately be accepted, the time needed for a culture to learn new ways, to learn to accept a new product, is of critical importance to the marketer because planning reflects a time frame for investment and profitability. If a marketer invests with the expectation that a venture will break even in three years and seven are needed to gain profitable volume, the effort may have to be prematurely abandoned. The question comes to mind of whether the probable rate of acceptance can be predicted before committing resources and, more critically, if the probable rate of acceptance is too slow, whether it can be accelerated. In both cases, the answer is a qualified yes. Answers to these questions come from examining the work done in diffusion research—research on the process by which innovations spread to the members of a social system.

Diffusion of Innovations

Everett Rogers noted that "crucial elements in the diffusion of new ideas are (1) an innovation, (2) which is communicated through certain channels, (3) over time, (4) among the members of a social system."[15] Rogers continued with the statement that it is the element of time that differentiates diffusion from other types of communications research. The goals of the diffusion researcher and the marketer are to shorten the time lag between introduction of an idea or product and its widespread adoption.

Rogers and others[16] give ample evidence of the fact that product innovations have varying rates of acceptance. Some diffuse from introduction to widespread use in a few years; others take decades. Patterns of diffusion also vary substantially, and steady growth is the exception—high-tech products often demonstrate periods of slow growth interspersed with performance jumps[17] or early declines followed by broader takeoffs. As mentioned in Chapter 8, cultural and other national differences affect the takeoff of new products.[18] Also, spillover effects from adopters in neighboring countries can influence diffusion rates. Analyses of both factors can suggest ideal countries for new product introduction. One study suggests Hong Kong and the United States as candidates for such classification.[19]

Patterns of alcoholic beverage consumption converge across Europe only when a 50-year time frame is considered. Microwave ovens, introduced in the United States initially in the 1950s, took nearly 20 years to become widespread; the contraceptive pill was introduced during that same period and gained acceptance in a few years. In the field of education, modern math took only five years to diffuse through U.S. schools, whereas the idea of kindergartens took nearly 50 years to gain total acceptance. A growing body of evidence suggests that an understanding of diffusion theory may suggest ways to accelerate the process of diffusion. Knowledge of this process also may provide the foreign marketer with the ability to assess the time it takes for a product to diffuse—before a financial commitment is necessary. It also focuses the marketer's attention on features of a product that provoke resistance, thereby providing an opportunity to minimize resistance and hasten product acceptance.

[15]Everett M. Rogers, *Diffusion of Innovations*, 5th ed. (New York: The Free Press, 2003). This book should be read by anyone responsible for product development and brand management, domestic or international.

[16]Marnik G. Dekimpe, Philip M. Parker, and Miklos Sarvary, "Global Diffusion and Technological Innovations: A Couple-Hazard Approach," *Journal of Marketing Research* 38 (February 2000), pp. 47–59; Gerard J. Tellis, Stefan Stremersch, and Eden Yin, "The International Takeoff of New Products: The Role of Economics, Culture, and Country Innovativeness," *Marketing Science* 22, no. 2 (2003), pp. 188–208; Sean Dwyer, Hani Mesak, and Maxwell Hsu, "An Exploratory Examination of the Influence of National Culture on Cross-National Product Diffusion," *Journal of International Marketing* 13, no. 2 (2005), pp. 1–27.

[17]Ashish Sood and Gerard J. Tellis, "Technological Evolution and Radical Innovation," *Journal of Marketing* 69 (2005), pp. 152–68.

[18]Deepa Chandrasekaran and Gerard J. Tellis, "Global Takeoff of New Products: Culture, Wealth, or Vanishing Differences," *Marketing Science* 27, no. 5 (2008), pp. 844–60.

[19]Yvonne van Everdingen, Dennis Fok, and Stefan Stremersch, "Modeling Global Spillover of New Product Takeoff," *Journal of Marketing Research* 46 (2009), pp. 637–52.

The Japanese and the Dutch are the world's champions in toilet innovations. Japan's long history of crowding has prompted the culture to focus on cleanliness, frequent bathing, and high-tech bathrooms. Thus, Matsushita's toilet reads your body weight, temperature, and blood pressure. Soon you will also be able to get a readout on glucose and protein levels in your urine! The Dutch are also worried about plumbing—much of their country is below sea level. Sphinx in Maastricht produces a urinal for women and a fly imbedded in the porcelain for their men's urinal. The latter reduces maintenance costs, as the company's research has shown that most men will aim for the fly, which is strategically placed to minimize splash. Both Dutch innovations can be seen in the Schiphol Airport outside of Amsterdam.

At least three extraneous variables affect the rate of diffusion of an object: the degree of perceived newness, the perceived attributes of the innovation, and the method used to communicate the idea.[20] The more innovative a product is perceived to be, the more difficult it is to gain market acceptance. That is, at a fundamental level, innovations are often disruptive.[21] Consider alternative-fuel cars in the United States. Although they are popular with consumers, dealers did not appreciate their low maintenance requirements, which reduced after-sale service revenues. Furthermore, the infrastructure to support hydrogen fuel cell cars has been expensive to build. Thus, some suggest that the technology is inappropriate for the United States, whereas China, without an established infrastructure, could leapfrog

[20]Anita Elberse and Jehoshua Eliashberg, "Demand and Supply Dynamics for Sequentially Released Products in International Markets: The Case of Motion Pictures," *Marketing Science* 22, no. 3 (2003), pp. 329–54.

[21]Jared Diamond, *Collapse* (New York: Viking, 2005).

CROSSING BORDERS 13.4   Selling Coffee in Tea-Drinking Japan

My first meeting with Nestlé executives and their Japanese advertising agency was very instructive. Their strategy, which today seems absurdly wrong, but wasn't as obviously so in the 1970s, was to try to convince Japanese consumers to switch from tea to coffee. Having spent some time in Japan, I knew that tea meant a great deal to this culture, but I had no sense of what emotions they attached to coffee. I decided to gather several groups of people together to discover how they imprinted the beverage. I believed there was a message there that could open a door for Nestlé.

I structured a three-hour session with each of the groups. In the first hour, I took on the persona of a visitor from another planet, someone who had never seen coffee before and had no idea how one "used" it. I asked for help understanding the product, believing their descriptions would give me insight into what they thought of it.

In the next hour, I had them sit on the floor like elementary school children and use scissors and a pile of magazines to make a collage of words about coffee. The goal here was to get them to tell me stories with these words that would offer further clues.

In the third hour, I had participants lie on the floor with pillows. There was some hesitation among members of every group, but I convinced them I wasn't entirely out of my mind. I put on soothing music and asked the participants to relax. What I was doing was calming their active brainwaves, getting them to that tranquil point just before sleep. When they reached this state, I took them on a journey back from their adulthood, past their teenage years, to a time when they were very young. Once they arrived, I asked them to think again about coffee and to recall their earliest memory of it, the first time they consciously experienced it, and their most significant memory of it (if that memory was a different one).

I designed this process to bring participants back to their first imprint of coffee and the emotion attached to it. In most cases, though, the journey led nowhere. What this signified for Nestlé was very clear. While the Japanese had an extremely strong emotional connection to tea (something I learned without asking in the first hour of the sessions), they had, at most, a very superficial imprint of coffee. Most, in fact, had no imprint of coffee at all.

Under these circumstances, Nestlé's strategy of getting these consumers to switch from tea to coffee could only fail. Coffee could not compete with tea in the Japanese culture if it had such weak emotional resonance. Instead, if Nestlé was going to have any success in the market at all, they needed to start at the beginning. They needed to give the product meaning in this culture. They needed to create an imprint for coffee for the Japanese.

Armed with this information, Nestlé devised a new strategy. Rather than selling instant coffee to a country dedicated to tea, they created desserts for children infused with the flavor of coffee but without the caffeine. The younger generation embraced these desserts. Their first imprint of coffee was a very positive one, one they would carry throughout their lives. Through this, Nestlé gained a meaningful foothold in the Japanese market.

Coffee consumption initially burgeoned, and Starbucks might have thanked Nestlé for the help! But since 2005 per capita coffee consumption has leveled off in both Japan and the U.S. while tea drinking has inched upward. Indeed, you might say the demand for hot drinks is "fluid."

Source: Clotaire Rapaille, *The Culture Code* (New York: Broadway Books, 2006); Euromonitor International, 2010.

the older, gasoline-fueled options.[22] Additionally, the perception of innovation can often be changed if the marketer understands the perceptual framework of the consumer, as has certainly proved to be the case with the fast global diffusion of Internet use, e-tailing, and health- and beauty-related products and services.

Analyzing the five characteristics of an innovation can assist in determining the rate of acceptance or resistance of the market to a product. A product's (1) *relative advantage* (the perceived marginal value of the new product relative to the old), (2) *compatibility* (its compatibility with acceptable behavior, norms, values, and so forth), (3) *complexity* (the degree of complexity associated with product use), (4) *trialability* (the degree of economic and/or social risk associated with product use), and (5) *observability* (the ease with which the product benefits can be communicated) affect the degree of its acceptance or resistance. In general, the rate of diffusion can be postulated as positively related to relative advantage, compatibility, trialability, and observability but negatively related to complexity.

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[22]Jane Lanhee Lee, "The Leapfrog Strategy: Fuel-Cell Advocates Say China Is Uniquely Positioned to Jump Past Petroleum," *The Wall Street Journal*, July 25, 2005, p. R6.

The evaluator must remember that it is the perception of product characteristics by the potential adopter, not the marketer, that is crucial to the evaluation. A market analyst's self-reference criterion (SRC) may cause a perceptual bias when interpreting the characteristics of a product. Thus, instead of evaluating product characteristics from the foreign user's frame of reference, the marketer might analyze them from his or her frame of reference, leading to a misinterpretation of the product's cultural importance.

Once the analysis has been made, some of the perceived newness or causes for resistance can be minimized through adroit marketing. The more congruent product perceptions are with current cultural values, the less resistance there will be and the more rapid product diffusion or acceptance will be. Finally, we should point out that the newness of the product or brand introduced can be an important competitive advantage; the pioneer brand advantage often delivers long-term competitive advantages in both domestic and foreign markets.[23]

Production of Innovations

Some consideration must be given to the inventiveness of companies[24] and countries.[25] For example, it is no surprise that most of the new ideas associated with the Internet are being produced in the United States.[26] The 227 million American users of the Internet far outnumber the 92 million Japanese users.[27] Similarly, America wins the overall R&D expenditure contest. Expenditures are about the same across member countries of the Organization for Economic Cooperation and Development, at about 2 to 3 percent of GDP, so America's large economy supports twice the R&D spending as does Japan, for example. This spending yields about three times the number of U.S. patents granted to American firms versus Japanese firms. One study suggests that national culture influences innovativeness (individualism enhances creativity[28]), but another argues that corporate culture, not national culture, is key.[29] The Japanese government diagnosed the problem as a lack of business training. Japanese engineers are not versed in marketing and entrepreneurship, and American-style educational programs are being created at a record pace to fill the gap. However, we do note a disturbing trend: The growth of American R&D spending is slower than most other competitive countries. Russia, India, and China are experiencing double-digit growth compared with America's four percent annual growth rate over the last five years.[30] Moreover, in 2009, for the first time in history, more patents were registered by foreign residents in the United States than by U.S. residents.[31]

Many Japanese firms also take advantage of American innovativeness by establishing design centers in the United States—most notable are the plethora of foreign auto design centers in Southern California. At the same time, American automobile firms have established design centers in Europe. Recent studies have shown that innovativeness varies across cultures, and companies are placing design centers worldwide. Indeed, the Ford Taurus, the car that saved Ford in the 1980s, was a European design.

Research is also now focusing on the related issue of "conversion-ability" or the success firms have when they take inventions to market. Three main factors seem to favor

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[23]Gerald Young Gao, Yigang Pan, David K. Tse, and Chi Kin (Bennett) Yim, "Market Share Performance of Foreign and Domestic Brands in China," *Journal of International Marketing* 14 (2006), pp. 32–51.

[24]Rohit Deshpandé and John U. Farley, "Organizational Culture, Innovativeness, and Market Orientation in Hong Kong Five Years after Handover: What Has Changed?" *Journal of Global Marketing* 17, no. 4 (2004), pp. 53–75.

[25]Anyone interested in a wonderful book on this topic should read the Pulitzer Prize–winning *Guns, Germs, and Steel: The Fates of Human Societies* by Jared Diamond (New York: Norton, 1999); also see Subin Im, Cheryl Nakata, Heungsooa Park, and Young-Won Ha, "Determinants of Korean and Japanese New Product Performance: An Interrelational and Process View," *Journal of International Marketing* 11, no. 4 (2003), pp. 81–113. Also, one approach to innovation is copying—see Dexter Roberts, "Did Spark Spark a Copycat?" *BusinessWeek*, February 7, 2005, p. 64.

[26]Thomas L. Friedman, *The World Is Flat* (New York: Farrar, Straus, and Giroux, 2005).

[27]Euromonitor International, 2010.

[28]Jack A. Goncalo and Barry M. Staw, "Individualism—Collectivism and Group Creativity," *Organizational Behavior and Human Decision Processes* 100 (2006), pp. 96–109.

[29]Gerard J. Tellis, Jaideep C. Prabhu, and Rajesh K. Chandy, "Radical Innovation across Nations: The Preeminence of Corporate Culture," *Journal of Marketing* 73, no. 1 (2009), pp. 3–23.

[30]Euromonitor International, 2010.

[31]Michael Arndt, "Ben Franklin, Where Are You?" Bloomberg *BusinessWeek*, January 4, 2010, p. 29.

conversion, at least in the global pharmaceutical industry: patience (nine years seems optimal for taking a newly patented drug to approval), focus on a few important innovations, and experience.[32] Another study demonstrates that strengthening patent protections tends to favor firms in developed countries differentially more than firms in developing countries.[33] If evidence continues to accumulate in this vein, policy makers will have to reconsider the current global application of a "one-size-fits-all" intellectual property system.
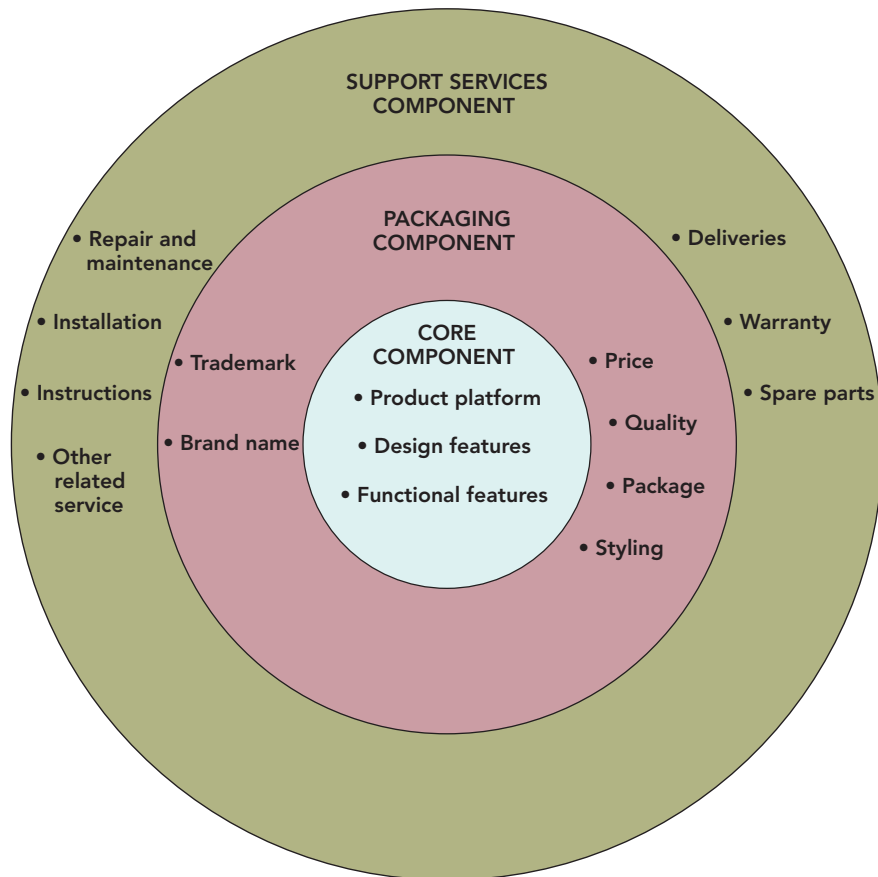
Analyzing Product Components for Adaptation

LO4

The need to view all attributes of a product to overcome resistance to acceptance

A product is multidimensional, and the sum of all its features determines the bundle of satisfactions (utilities) received by the consumer. To identify all the possible ways a product may be adapted to a new market, it helps to separate its many dimensions into three distinct components, as illustrated by the **Product Component Model** in Exhibit 13.1. By using this model, the impact of the cultural, physical, and mandatory factors (discussed previously) that affect a market's acceptance of a product can be focused on the core component, packaging component, and support services component. These components include all a product's tangible and intangible elements and provide the bundle of utilities the market receives from use of the product.

Core Component

The *core component* consists of the physical product—the platform that contains the essential technology—and all its design and functional features. It is on the product platform that product variations can be added or deleted to satisfy local differences. Major adjustments in the platform aspect of the core component may be costly, because a change

Exhibit 13.1
Product Component
Model

SUPPORT SERVICES COMPONENT
PACKAGING COMPONENT
CORE COMPONENT
• Product platform
• Design features
• Functional features
• Trademark
• Brand name
• Price
• Quality
• Package
• Styling
• Repair and maintenance
• Installation
• Instructions
• Other related service
• Deliveries
• Warranty
• Spare parts

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[32]Rajesh Chandy, Brigitee Hpostaken, Om Narasimhan, and Jaideep Prabhu, "From Invention to Innovation: Conversion Ability in Product Development," *Journal of Marketing Research* 43 (2006), pp. 494–508.

[33]Brent B. Allred and Walter G. Park, "Patent Rights and Innovative Activity: Evidence from National and Firm-Level Data," *Journal of International Business Studies* 38 (2007), pp. 878–900.

in the platform can affect product processes and thus require additional capital investment. However, alterations in design, functional features, flavors, color, and other aspects can be made to adapt the product to cultural variations. In Japan, Nestlé originally sold the same kind of corn flakes it sells in the United States, but Japanese children ate them mostly as snacks instead of for breakfast. To move the product into the larger breakfast market, Nestlé reformulated its cereals to more closely fit Japanese taste. The Japanese traditionally eat fish and rice for breakfast, so Nestlé developed cereals with familiar tastes—seaweed, carrots and zucchini, and coconut and papaya. The result was a 12 percent share of the growing breakfast cereal market.

For the Brazilian market, where fresh orange juice is plentiful, General Foods changed the flavor of its presweetened powdered juice substitute, Tang, from the traditional orange to passion fruit and other flavors. Changing flavor or fragrance is often necessary to bring a product in line with what is expected in a culture. Household cleansers with the traditional pine odor and hints of ammonia or chlorine popular in U.S. markets were not successful when introduced in Japan. Many Japanese sleep on the floor on futons with their heads close to the surface they have cleaned, so a citrus fragrance is more pleasing. Rubbermaid could have avoided missteps in introducing its line of baby furniture in Europe with modest changes in the core component. Its colors were not tailored to European tastes, but worst of all, its child's bed didn't fit European-made mattresses!

Functional features can be added or eliminated depending on the market. In markets where hot water is not commonly available, washing machines have heaters as a functional feature. In other markets, automatic soap and bleach dispensers may be eliminated to cut costs or to minimize repair problems. Additional changes may be necessary to meet safety and electrical standards or other mandatory (homologation) requirements. The physical product and all its functional features should be examined as potential candidates for adaptation.

Packaging Component

The *packaging component* includes style features, packaging, labeling, trademarks, brand name, quality, price, and all other aspects of a product's package. Apple Computer found out the hard way how important this component can be when it first entered the Japanese market. Some of its Macintosh computers were returned unused after customers found the wrapping on the instruction manual damaged! As with the core component, the importance of each of the elements in the eyes of the consumer depends on the need that the product is designed to serve.

Packaging components frequently require both discretionary and mandatory changes. For example, some countries require labels to be printed in more than one language, while others forbid the use of any foreign language. Meanwhile, one study has found that consumers in the United States respond negatively to bilingual packaging.[34] At Hong Kong Disneyland, the jungle cruise ride commentary is delivered in Cantonese, Mandarin, and English. Several countries are now requiring country-of-origin labeling for food products. Elements in the packaging component may incorporate symbols that convey an unintended meaning and thus must be changed. One company's red-circle trademark was popular in some countries but was rejected in parts of Asia, where it conjured up images of the Japanese flag. Yellow flowers used in another company trademark were rejected in Mexico, where a yellow flower symbolizes death or disrespect.

A well-known baby-food producer that introduced small jars of baby food in Africa, complete with labels featuring a picture of a baby, experienced the classic example of misinterpreted symbols: The company was absolutely horrified to find that consumers thought the jars contained ground-up babies. In China, though not a problem of literacy per se, Brugel, a German children's cereal brand that features cartoon drawings of dogs, cats, birds, monkeys, and other animals on the package, was located in the pet foods section of a supermarket. The label had no Chinese, and store personnel were unfamiliar with the

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[34]Mahesh Gopinath and Myron Glassman, "The Effect of Multiple Language Product Descriptions on Product Evaluations," *Psychology & Marketing* 25, no. 3 (2008), pp. 233–61.

CROSSING BORDERS 13.5   D'oh! Or Just Dough in Dubai?

When the Dubai-based Arab satellite TV network MBC decided to introduce Fox's *The Simpsons* to the Middle East, it knew the Simpson family would have to make some fundamental lifestyle changes.

"Omar Shamshoon," as he is called on the show, looks like the same Homer Simpson, but he has given up beer and bacon, which are both against Islam, and he no longer hangs out at "seedy bars with bums and lowlifes." In Arabia, Homer's beer is soda, and his hot dogs are barbequed Egyptian beef sausages. And the donut-shaped snacks he gobbles are the traditional Arab cookies called *kahk*.

An Arabized Simpsons—called *Al Shamshoon*—made its debut in the Arab world just in time for Ramadan, a time of high TV viewership. It uses the original Simpsons animation, but the voices are dubbed into Arabic, and the scripts have been adapted to make the show more accessible, and acceptable, to Arab audiences.

The family remains, as the producers describe them, "dysfunctional." They still live in Springfield, and "Omar" is still lazy and works at the local nuclear power plant. Bart (now called "Badr") is constantly cheeky to his parents and teachers and is always in trouble. Providing the characters' voices are several popular Egyptian actors, including Mohamed Heneidy, considered the Robert DeNiro of the Middle East.

Al Shamshoon is currently broadcast daily during an early-evening prime-time slot, starting with the show's first season. If it is a hit, MBC envisions Arabizing the other 16 seasons. But there's no guarantee of success. Many Arab blogs and Internet chat sessions have become consumed with how unfunny Al Shamshoon is: "They've ruined it! Oh yes they have, *sob*.... Why?

Why, why oh why?!!!!" wrote a blogger, "Noors," from Oman.

Few shows have more obsessed fans than *The Simpsons*, and the vast online community is worried about whether classic Simpsons' dialogue can even be translated. One blogger wrote, "'Hi-diddly-ho, neighbors!' How the h— are they going to translate that? Or this great quote: Mr. Burns: 'Oooh, so Mother Nature needs a favor?! Well maybe she should have thought of that when she was besetting us with droughts and floods and poison monkeys! Nature started the fight for survival, and now she wants to quit because she's losing. Well I say, hard cheese'."

A blogger, who uses the name "Nibaq," wrote, "I am sure the effort [of] the people who made this show to translate it to Arabic could have made a good original show about an Egyptian family living in Egypt, dealing with religion, life and work and trying to keep a family together. That way they can proudly say Made in Egypt, instead of Made in USA Assembled in Egypt."

The Simpson's movie broke records worldwide in 2007. And Spanish retailer Bershka is now offering upscale Simpsons T-shirts across Latin America, Europe, and the Middle East. Indeed, it will be interesting to keep watching "D'oh!" being converted into dough in Dubai.

Sources: Yasmine El-Rashidi, "D'oh! Arabized Simpsons Aren't Getting Many Laughs," *The Wall Street Journal,* October 14, 2005, pp. B1, B2; "Microsoft Launches New Arabized Solutions and Localized Windows XP Theme Packs at Gitex 2005," *AME Info/Middle East Company News,* September 27, 2005; Frank Segers, "'Simpsons Movie' Reigns at Overseas Boxoffice," *Hollywood Reporter*, August 6, 2007; "Twentieth Century Fox L&M Launches The Simpsons with Bershka," *License Magazine*, March 2009, p. 15.

product. It is easy to forget that in low-literacy countries, pictures and symbols are taken literally as instructions and information.

Care must be taken to ensure that corporate trademarks and other parts of the packaging component do not have unacceptable symbolic meanings. Particular attention should be given to translations of brand names and colors used in packaging. When Ford tried to sell its Pinto automobile in Brazil, it quickly found out that the car model's name translated to "tiny male genitals." White, the color symbolizing purity in Western countries, is the color for mourning in others. In China, P&G packaged diapers in a pink wrapper. Consumers shunned the pink package—pink symbolized a girl, and in a country with a one-child-per-family rule where boys are preferred, you do not want anyone to think you have a girl, even if you do.

Reasons a company might have to adapt a product's package are countless. In some countries, laws stipulate specific bottle, can, and package sizes and measurement units. If a country uses the metric system, it will probably require that weights and measurements conform to the metric system. Such descriptive words as "giant" or "jumbo" on a package or label may be illegal. High humidity or the need for long shelf life because of extended distribution systems may dictate extra-heavy packaging for some products. As is frequently

mentioned, Japanese attitudes about quality include the packaging of a product. A poorly packaged product conveys an impression of poor quality to the Japanese. It is also important to determine if the packaging has other uses in the market. Lever Brothers sells Lux soap in stylish boxes in Japan because more than half of all soap cakes there are purchased during the two gift-giving seasons. Size of the package is also a factor that may make a difference to success in Japan. Soft drinks are sold in smaller-size cans than in the United States to accommodate the smaller Japanese hand. In Japan, most food is sold fresh or in clear packaging, while cans are considered dirty. So when Campbell introduced soups to the Japanese market, it decided to go with a cleaner, more expensive pop-top opener.

Labeling laws vary from country to country and do not seem to follow any predictable pattern. In Saudi Arabia, for example, product names must be specific. "Hot Chili" will not do; it must be "Spiced Hot Chili." Prices are required to be printed on the labels in Venezuela, but in Chile putting prices on labels or in any way suggesting retail prices is illegal. Coca-Cola ran into a legal problem in Brazil with its Diet Coke. Brazilian law interprets *diet* to have medicinal qualities. Under the law, producers must give the daily recommended consumption on the labels of all medicines. Coca-Cola had to get special approval to get around this restriction. Until recently in China, Western products could be labeled in a foreign language with only a small temporary Chinese label affixed somewhere on the package. Under the new Chinese labeling law, however, food products must have their name, contents, and other specifics listed clearly in Chinese printed directly on the package—no temporary labels are allowed.

Labeling laws create a special problem for companies selling products in various markets with different labeling laws and small initial demand in each. In China, for example, there is demand for American- and European-style snack foods even though that demand is not well developed at this time. The expense of labeling specially to meet Chinese law often makes market entry costs prohibitive. Forward-thinking manufacturers with wide distribution in Asia are adopting packaging standards comparable to those required in the European Union by providing standard information in several different languages on the same package. A template is designed with space on the label reserved for locally required content, which can be inserted depending on the destination of a given production batch.

Support Services Component

The *support services* component includes repair and maintenance, instructions, installation, warranties, deliveries, and the availability of spare parts. Many otherwise successful marketing programs have ultimately failed because little attention was given to this product component. Repair and maintenance are especially difficult problems in developing countries. In the United States, a consumer has the option of obtaining service from the company or from scores of competitive service retailers ready to repair and maintain anything from automobiles to lawn mowers. Equally available are repair parts from company-owned or licensed outlets or the local hardware store. Consumers in a developing country and in many developed countries may not have even one of the possibilities for repair and maintenance available in the United States, and independent service providers can be used to enhance brand and product quality.[35]

In some countries, the concept of routine maintenance or preventive maintenance is not a part of the culture. As a result, products may have to be adjusted to require less frequent maintenance, and special attention must be given to features that may be taken for granted in the United States.

The literacy rates and educational levels of a country may require a firm to change a product's instructions. A simple term in one country may be incomprehensible in another. In rural Africa, for example, consumers had trouble understanding that Vaseline Intensive Care lotion is absorbed into the skin. *Absorbed* was changed to *soaks into*, and the confusion was eliminated. The Brazilians have successfully overcome the low literacy and technical skills of users of the sophisticated military tanks it sells to Third World countries. The manufacturers include videocassette players and videotapes with detailed repair

[35]Ikechi Ekeledo and Nadeem M. Firoz, "Independent Service Providers as a Competitive Advantage in Developing Economies," *Journal of Global Marketing* 20 (2007), pp. 39–54.

CROSSING BORDERS 13.6   So, Your Computer Isn't Working?

Most people have two options when the desk beast starts acting up: Call the service center or read the manual. Both are becoming cross-cultural activities. With increasing frequency, service call centers are being staffed by folks in the Philippines, India, the Caribbean, and other developing countries where English is commonly spoken. The savings for the companies can be in the 90 percent range. But for consumers, it was tough enough bridging the technician–layperson gap. Now a cross-cultural layer is being added to the interaction.

At least many manufacturers are getting more adept at adapting user manuals. In some countries, the manuals are treasured for their entertainment value. Mike Adams of the translation and marketing firm Arial Global Reach explains, "Japanese people really enjoy reading documentation, but that's because Japanese documentation is actually fun to look at." Japanese manuals are often jazzed up with creative cartoons. Even program interfaces are animated. Microsoft's much-maligned Clippy the Paperclip was replaced in Japan with an animated dolphin, "And even highly technical Japanese engineers don't feel at all childish when they view or interact with these animations."

Put those cute characters in manuals in other countries and the customer will doubt the seriousness of the firm. Mark Katib, general manager of Middle East Translation Services, says most customers in that part of the world, as do Americans, prefer uncluttered, nontechnical explanations. He spends most of his time making sure that information is presented in an acceptable manner, not impinging on people's beliefs.

Apparently you cannot give an Italian a command such as "never do this." The consequences for that kind of language are calls from Italians who have broken their machines by doing exactly "this." Instead, Italian manuals must use less demanding language, like "you might consider . . . ."

The Germans will reject manuals with embedded humor. Hungarians like to fix things themselves, so their manuals are more like machine shop guides. Finally, one software maker that developed a WAN (wide-area network) used a flowing stream of text, "WAN WAN WAN WAN" on the package. To a Japanese that's the sound a dog makes, and in Japan no one would buy a product advertising itself by a barking dog.

The main point here is that "technobabble" is hard to translate in any language.

Sources: Michelle Delio, "Read the F***ing Story, then RTFM," *Wired News* , http://www.wired.com, June 4, 2002; Pete Engardio, Aaron Bernstein, and Manjeet Kripalani, "Is Your Job Next?" *BusinessWeek*, February 3, 2003, pp. 50–60; Alli McConnon, "India's Competition in the Caribbean," *BusinessWeek*, December 24, 2007, p. 75; Rudy Hirschheim, "Offshoring and the New World Order," *Communications of the ACM* 12, no. 11 (2009), pp. 132–35.

instructions as part of the standard instruction package. They also minimize spare parts problems by using standardized, off-the-shelf parts available throughout the world. And, of course, other kinds of cultural preferences come into play even in service manuals.

Complementary products must be considered increasingly in the marketing of a variety of high-tech products. Perhaps the best example is Microsoft's Xbox and its competitors. Sales of the Xbox had lagged those of Sony's and Nintendo's game consoles in Japan. Microsoft diagnosed the problem as a lack of games that particularly attract Japanese gamers and therefore developed a series of games to fill that gap. An early offering, a role-playing game called *Lost Odyssey*, was developed by an all-Japanese team.[36]

The Product Component Model can be a useful guide for examining the adaptation requirements of products destined for foreign markets. A product should be carefully evaluated on each of the three components to determine any mandatory and discretionary changes that may be needed.

Marketing Consumer Services Globally

As mentioned at the beginning of the chapter, much of the advice regarding adapting products for international consumer markets also applies to adapting services. Moreover, some services are closely associated with products. Good examples are the support services just described or the customer services associated with the delivery of a Big Mac to a consumer in Moscow. However, services are distinguished by

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[36]Yukari Iwatani Kane, "Microsoft Makes Big Push to Woo Japanese with New Xbox Games," *The Wall Street Journal* (online), September 12, 2007.

four unique characteristics—intangibility, inseparability, heterogeneity, and perishability—and thus require special consideration.

Products are often classified as tangible, whereas services are *intangible*. Automobiles, computers, and furniture are examples of products that have a physical presence; they are things or objects that can be stored and possessed, and their intrinsic value is embedded within their physical presence. Insurance, dry cleaning, hotel accommodations, and airline passenger or freight service, in contrast, are intangible and have intrinsic value resulting from a process, a performance, or an occurrence that exists only while it is being created.

The intangibility of services results in characteristics unique to a service: It is *inseparable* in that its creation cannot be separated from its consumption;[37] it is *heterogeneous* in that it is individually produced and is thus unique; and it is *perishable* in that once created it cannot be stored but must be consumed simultaneously with its creation. Contrast these characteristics with a tangible product that can be produced in one location and consumed elsewhere, that can be standardized, whose quality assurance can be determined and maintained over time, and that can be produced and stored in anticipation of fluctuations in demand.

As is true for many tangible products, a service can be marketed as both an industrial (business-to-business) and a consumer service, depending on the motive of, and use by, the purchaser. For example, travel agents and airlines sell industrial or business services to a business traveler and a consumer service to a tourist. Financial services, hotels, insurance, legal services, and others may each be classified as either a business or a consumer service. As one might expect, the unique characteristics of services result in differences in the marketing of services and the marketing of consumer products.

Services Opportunities in Global Markets

International tourism is by far the largest services export of the United States, ranking behind only capital goods and industrial supplies when all exports are counted. Spending by foreign tourists visiting American destinations such as Orlando or Anaheim is roughly double that spent by foreign airlines on Boeing's commercial jets. Worldwide, tourists spent some $3.5 trillion last year, and an agency of the United Nations projects that number will grow by four times by 2020. The industry employs some 200 million people all around the world. Furthermore, the same U.N. agency predicts that China will be followed by the United States, France, Spain, Hong Kong, Italy, Britain, Mexico, Russia, and the Czech Republic as the most popular destinations in the next century. Currently, France, Spain, the United States, Italy, and China are numbers one through five. Most tourists will be, as they are today, Germans, Japanese, and Americans; Chinese will be the fourth largest group. Australians, Belgians, Austrians, Japanese, and Hong Kong residents spend the most (in that order) per capita on package holidays.[38] Currently, Japanese tourists contribute the most to U.S. tourism income, at more than $15 billion annually. Overall, the tourism business declined more than 10% during the 2008–2009 recession, and like the economy in general, no quick recovery is expected. The good news is that you may soon be able to actually leave the planet and return on Richard Branson's commercial passenger spaceship—the price for a brief visit to space, a mere $280,000.[39] That's far less than the $20 million required for a longer ride and a short stay at the International Space Station on a Russian rocket.

The dramatic growth in tourism, especially before the recession, prompted U.S. firms and institutions to respond by developing new travel services to attract both domestic and foreign customers. For example, the Four Seasons Hotel in Philadelphia created a two-day package that included local concerts and museum visits. In addition to its attractions for kids, Orlando, Florida, has an opera company with performances by world-class singers. The cities of Phoenix, Las Vegas, and San Diego formed a consortium and put together a $500,000 marketing budget specifically appealing to foreign visitors to stop at all three destinations in one trip. Even the smallest hotels are finding a global clientele on the Internet.

[37]Bruce D. Keillor, G. Tomas M. Hult, and Destan Kandemir, "A Study of the Service Encounter in Eight Countries," *Journal of International Marketing* 12, no. 1 (2004), pp. 9–35.

[38]Euromonitor International, 2010.

[39]John Johnson Jr., "A Giant Step for Space Tourism," *Los Angeles* Times, December 8, 2009, p. A22.

Two of the best vistas in the world are Tahiti above the water (Bora Bora is silhouetted in the background) and the coral reefs off Belize under the water. Tourists flock to both from around the world. Services companies follow the tourists, including the Professional Association of Diving Instructors (PADI), which certifies scuba divers and instructors from its headquarters in Costa Mesa, California.

Other top consumer services exports include transportation, financial services, education, telecommunications, entertainment, information, and healthcare, in that order. Consider the following examples of each:

- American airlines are falling all over themselves to capture greater shares of the expanding Latin American travel market through investments in local carriers.

- Insurance sales are burgeoning in Latin America, with joint ventures between local and global firms making the most progress.

- Financial services in China are undergoing a revolution, with new services being offered at a fast pace—new sources of investor information and National Cash Register ATMs popping up everywhere. They are just getting acquainted with ATMs in Poland as well.

- Merrill Lynch is going after the investment-trust business that took off after Japan allowed brokers and banks to enter that business for the first time only in recent years.

- More than 670,000 foreign students (103,000 from India and 98,000 from China) spent some $18 billion in tuition to attend American universities and colleges in 2009–2010.[40] Executive training is also a viable export for U.S. companies.[41]

- Currently, phone rates in markets such as Germany, Italy, and Spain are so high that American companies cannot maintain toll-free information hotlines or solicit phone-order catalog sales. Other telecommunications markets are deregulating, creating opportunities for foreign firms. Wireless communications are ubiquitous in Japan and Europe.

- Cable TV sales are exploding in Latin America.

- Sporting events are being sold all over the world—Mexican football in Los Angeles, American football in Scotland and Turkey, American baseball in Mexico, and professional soccer in China.

- Finally, not only are foreigners coming to the United States for healthcare services in fast growing numbers, but North American firms are building hospitals abroad as well. Recently two infants, one from Sweden and one from Japan, received heart transplants at Loma Linda Hospital in California—laws in both their countries

[40]Karin Fischer, "Number of Foreign Students is U.S. Hit New High Last Year," *Chronicle of Higher Education*, November 16, 2009, online.

[41]David M. Montgomery, "Asian Management Education: Some 21st Century Issues," *Journal of Public Policy & Marketing* 24, no. 1 (2005), pp. 150–54.

CROSSING BORDERS 13.7   Just to Go to School

Kofi Annan, the former secretary-general of the United Nations, did it; so did Vicente Fox of Mexico, Jacques Chirac of France, and King Abdullah of Jordan. All of them went to "college" in America (the French president enhanced his experience with a job scooping ice cream). Moreover, one-third of U.S. Nobel Prize winners were foreign born. But as the war for talent has given way to the war against terrorism, the welcome America extends to foreigners on its campuses is becoming much more guarded.

Last year, more than 670,000 foreign students enrolled at American universities and colleges. According to the Institute of International Education (IIE), about 60 percent came from Asia, mainly China and India. Fewer than 4 percent came from the Middle East. Students account for under 2 percent of all nonimmigrant visas (though they have the right to stay for much longer than tourists). They spend $18 billion a year on tuition and living expenses, helping make higher education America's fifth-largest service export. And, as any visit to a Silicon Valley start-up reveals, they bring huge talent to the American economy.

Until September 11, 2001, the chief complaint was that America did not fully exploit this human capital. Like other countries, it limits the amount of time foreign students can work in the country after they graduate.

The IIE frets that America's share of the foreign-student market has dropped from 40 percent to under 30 percent in the past decade. It blames not only higher university fees in the United States and greater competition from Europe and Australia but also America's cumbersome visa process.

For college students from mostly Muslim Malaysia, it used to take about two weeks to get a student visa, but recently 20 Malay freshmen had to wait six months. They missed the fall semester. Undergraduate foreign student applications are declining nationwide. White House science adviser John H. Marburber III argued the delays do not reflect policies to exclude. However, Representative Dana Rohrabacher (R-Calif.) said that the appropriate objective is "to reduce the need to attract such a high percentage of foreign students." Despite the Congressman's xenophobia, the realities of sharp declines in support for state universities around the country is making foreign students that pay out-of-state tuition particularly attractive.

Sources: "Student Visas: Chillier on Campus," *The Economist*, November 24, 2001, pp. 31–32; Catherine Arnst, "How the War on Terror Is Damaging the Brain Pool," *BusinessWeek*, May 19, 2003, pp. 72–73; James Boone, "Visa Crackdown Cost U.S. Cream of Foreign Students," *The Times* (London), November 29, 2004, p. 33; http://www.iie.org, 2010; "Bin Laden's Legacy," *Economist*, January 14, 2010, online.

prohibit such life-saving operations. Beijing Toronto International Hospital will soon open its doors for some 250 Chinese patients; the services include a 24-hour satellite link for consultations with Toronto. Asian and Mexican competitors are also competing for this global market. The cost of a heart valve replacement with bypass is about $75,000 in the United States, $22,000 in Singapore, and $9,500 in India.[42] Of course, the negative side of this trend is represented by the growing illegal global trade in organs for transplant.[43]

Barriers to Entering Global Markets for Consumer Services

Most other services—automobile rentals, airline services, entertainment, hotels, and tourism, to name a few—are inseparable and require production and consumption to occur almost simultaneously; thus exporting is not a viable entry method for them. The vast majority of services (some 85 percent) enter foreign markets by licensing, franchising, or direct investment. Four kinds of barriers face consumer services marketers in this growing sector of the global marketplace: protectionism, controls on transborder data flows, protection of intellectual property, and cultural requirements for adaptation.

Protectionism.   The European Union is making modest progress toward establishing a single market for services. However, exactly how foreign service providers will be treated as unification proceeds is not clear. Reciprocity and harmonization, key concepts

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[42]Waleca Konrad, "Going Abroad to Find Affordable Health Care," *The New York Times*, March 20, 2009, online.

[43]Nancy Scheper-Hughes, "Organs without Borders," *Foreign Policy*, January/February 2005, pp. 26–27.

in the Single European Act, possibly will be used to curtail the entrance of some service industries into Europe. The U.S. film and entertainment industry seems to be a particularly difficult sector, although Vivendi's (a French company) purchase of Universal Studios made things a bit more interesting. A directive regarding transfrontier television broadcasting created a quota for European programs, requiring EU member states to ensure that at least 50 percent of entertainment air time is devoted to "European works." The European Union argues that this set-aside for domestic programming is necessary to preserve Europe's cultural identity. The consequences for the U.S. film industry are significant, because more than 40 percent of U.S. film industry profits come from foreign revenues.

Restrictions on Transborder Data Flows.   There is intense concern about how to deal with the relatively new "problem" of transborder data transfers. The European Commission is concerned that data about individuals (e.g., income, spending preferences, debt repayment histories, medical conditions, employment) are being collected, manipulated, and transferred between companies with little regard for the privacy of the affected individuals. A proposed directive by the Commission would require the consent of the individual before data are collected or processed. A wide range of U.S. service companies would be affected by such a directive—insurance underwriters, banks, credit reporting firms, direct marketing companies, and tour operators are a few examples. The directive would have broad effects on data processing and data analysis firms, because it would prevent a firm from electronically transferring information about individual European consumers to the United States for computer processing. Hidden in all the laws and directives are the unstated motives of most countries: a desire to inhibit the activities of multinationals and to protect local industry. As the global data transmission business continues to explode into the new century, regulators will focus increased attention in that direction.

Protection of Intellectual Property.   An important form of competition that is difficult to combat arises from pirated trademarks, processes, copyrights, and patents. You will recall that this topic was covered in detail in Chapter 7, so we just mention it here for completeness.

Cultural Barriers and Adaptation.   Because trade in services frequently involves people-to-people contact, culture plays a much bigger role in services than in merchandise trade.[44] Examples are many: Eastern Europeans are perplexed by Western expectations that unhappy workers put on a "happy face" when dealing with customers. But McDonald's requires Polish employees to smile whenever they interact with customers. Such a requirement strikes many employees as artificial and insincere. The company has learned to encourage managers in Poland to probe employee problems and to assign troubled workers to the kitchen rather than to the food counter. Japanese Internet purchasers often prefer to pay in cash and in person rather than trust the Internet transaction or pay high credit card fees.

As another example, notice if the Japanese student sitting next to you in class ever verbally disagrees with your instructor. Classroom interactions vary substantially around the world. Students in Japan listen to lectures, take notes, and ask questions only after class, if then. In Japan the idea of grading class participation is nonsense. Conversely, because Spaniards are used to large undergraduate classes (hundreds rather than dozens), they tend to talk to their friends even when the instructor is talking. Likewise, healthcare delivery systems and doctor–patient interactions reflect cultural differences. Americans ask

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[44] Torsten Ringberg, Gaby Odekerken-Schroder, and Glenn L. Christensen, "A Cultural Models Approach to Service Recovery," *Journal of Marketing* 71 (2007), pp. 184–214; Samart Powpaka, "Empowering Chinese Service Employees: A Reexamination and Extension," *Journal of Global Marketing* 21, no. 4 (2008), pp. 271–93; Haksin Chan and Lisa C. Wan, "Consumer Responses to Service Failures: A Resource Preference Model of Cultural Influences," *Journal of International Marketing* 16, no. 1 (2008), pp. 72–97; Hean Tat Keh and Jin Sun, "The Complexities of Perceived Risk in Cross-Cultural Services Marketing," *Journal of International Marketing* 16, no. 1 (2008), pp. 120–46; Edwin J. Nijssen and Hester van Herk, "Conjoining International Marketing and Relationship Marketing: Exploring Consumers' Cross-Border Relationships," *Journal of International Marketing* 17, no. 1 (2009), pp. 91–115.

questions and get second opinions. Innovative healthcare services are developed on the basis of extensive marketing research. However, in Japan the social hierarchy is reflected heavily in the patients' deference to their doctors. While Japanese patient compliance is excellent and longevity is the best in the world, the healthcare system there is relatively unresponsive to the expressed concerns of consumers.

Japanese also tend to take a few long vacations—7 to 10 days is the norm. Thus, vacation packages designed for them are packed with activities. Phoenix, Las Vegas, and San Diego or Rome, Geneva, Paris, and London in 10 days makes sense to them. The Four Seasons Hotel chain provides special pillows, kimonos, slippers, and teas for Japanese guests. Virgin Atlantic Airways and other long-haul carriers have interactive screens available for each passenger, allowing viewing of Japanese (or American, French, etc.) movies and TV.

Managing a global services workforce is certainly no simple task. Just ask the folks at UPS. Some of the surprises UPS ran into included indignation in France when drivers were told they couldn't have wine with lunch, protests in Britain when drivers' dogs were banned from delivery trucks, dismay in Spain when it was found that the brown UPS trucks resembled the local hearses, and shock in Germany when brown shirts were required for the first time since 1945 (brown shirts are associated with Nazi rule during World War II).

And while tips of 10 to 20 percent are an important part of services workers' incentives in the United States, this is not the case in Germany, where tips are rounded to the nearest euro. Thus, closer management of service personnel is required in those countries to maintain high levels of customer satisfaction.

Clearly, opportunities for the marketing of consumer services will continue to grow in the 21st century. International marketers will have to be quite creative in responding to the legal and cultural challenges of delivering high-quality services in foreign markets and to foreign customers at domestic locales.

Brands in International Markets

Hand in hand with global products and services are global brands. A *global brand* is defined as the worldwide use of a name, term, sign, symbol (visual and/or auditory), design, or combination thereof intended to identify goods or services of one seller and to differentiate them from those of competitors. Much like the experience with global products, the question of whether or not to establish global brands has no single answer. However, the importance of a brand name, even in the nonprofit sector, is unquestionable.[45] Indeed, Exhibit 13.2 lists the estimated worth (equity) of the 20 top global brands. And as indicated in previous chapters, protecting brand names is also a big business.

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[45]John A. Quelch and Nathalie Laidler-Kylander, *The New Global Brands* (Mason, OH: Southwestern, 2006).

Exhibit 13.2
Top Twenty Brands

Rank 2009/2008	2009 Brand Value (millions)	2008 Brand Value (millions)	Percent Change	Country of Ownership	Description
1/1 Coca-Cola	$68,734	$66,667	3%	U.S.	In a hard year for fizzy drink makers, Coke gained luster. Credit the hugely successful Coke Zero, a no-cal beverage with a more macho image than Diet Coke.
2/3 IBM	60,211	59,031	2	U.S.	IBM has strived to make itself more broadly relevant by focusing on clean air and water, more efficient healthcare, and mass transportation.
3/2 Microsoft	56,647	59,007	−4	U.S.	For the first time Microsoft's sales slipped. Yet it also began forcefully taking on its rivals, launching Bing search engine and advertising hard against Apple.

Source: From Burt Helm, "100 Best Global Brands," BusinessWeek, September 28, 2009, pp. 44–61. Reprinted with permission.

Rank 2009/2008	2009 Brand Value (millions)	2008 Brand Value (millions)	Percent Change	Country of Ownership	Description
4/4 GE	47,777	53,086	−10	U.S.	GE painted itself green with its "Ecomagination" crusade. Now it aims to color itself healthy by pushing healthcare solutions in an underserved market.
5/5 Nokia	34,864	35,942	−3	Finland	Nokia continues to lag in smart phones, but its reputation for robust construction, ease of use, and low-key style has helped it dominate mass-market handsets.
6/8 McDonald's	32,275	31,049	4	U.S.	The downturn heightened the appeal of Mickey D's low-priced fare, particularly in Britain and France, while new McCafe coffee drinks perked up sales.
7/10 Google	31,980	25,590	25	U.S.	Its new free services are pushing it beyond search. But with trustbusters on the prowl, Google faces a challenge in maintaining a cuddly brand image.
8/6 Toyota	31,330	34,050	−8	Japan	It lost money in 2008 and will likely again in '09. But deep pockets and newly focused management meant this titan should revive when the economy does.
9/7 Intel	30,636	31,261	−2	U.S.	Intel paid a $1.45 billion anti-trust fine in Europe, but that hasn't slowed the chipmaker's push into new markets, including smartphones and home electronics.
10/9 Disney	28,447	29,251	−3	U.S.	Falling attendance at its parks and sliding DVD sales are hurting. But the Mouse House continues it invest in its future, including adding Marvel for $4 billion.
11/12 Hewlett-Packard	24,096	23,509	2	U.S.	HP extended its lead over Dell and weathered the economic downturn better than most tech companies, thanks to its acquisition of services provider EDS.
12/11 Mercedes-Benz	23,867	25,577	−7	Germany	Although sales have plunged, the engineering icon has maintained its premium image with new fuel-efficient models. It needs to add small cars to its lineup.
13/14 Gillette	22,841	22,069	4	U.S.	Brisk-selling high-end razors have boosted sales. But to extend its reach to more buyers, Gillette will have to innovate at the lower end of the market, too.
14/17 Cisco	22,030	21,306	3	U.S.	The battle to rebrand itself as more than a maker of Web plumbing continues. By acquiring the Flip video camera, Cisco aims to be more consumer-focused.
15/13 BMW	21,671	23,298	−7	Germany	It has demonstrated that buyers will pay a premium for a chic, sporty compact. BMW is also benefiting from an early investment in more efficient engines.
16/16 Louis Vuitton	21,120	21,602	−2	France	The world's preeminent luxury brand has enjoyed a sales rebound in Europe this year, while continuing to tap new wealth in Asia and the Middle East.
17/18 Marlboro	19,010	21,300	−11	U.S.	As marketing restrictions tighten at home, the cigarette giant continues to push hard in emerging markets from Asia to Russia and win over millions of smokers.
18/20 Honda	17,803	19,079	−7	Japan	Despite slumping global sales, Honda's lineup of gas sippers and a profitable motorbike business has helped the automaker navigate the recession.
19/21 Samsung	16,796	17,518	−1	S. Korea	It has taken over Sony as the top TV brand and emerged as the only credible challenger to Nokia in mobile phones. To expand its appeal, it is opening an app store.
20/24 Apple	15,443	13,724	12	U.S.	Mac sales have slowed, but Apple continues to prosper thanks to the iPhone, now in its third generation, and an app store that rivals are rushing to copy.

Source: Burt Helm, "100 Best Global Brands," *BusinessWeek,* September 28, 2009, pp. 44–61.

A successful brand is the most valuable resource a company has. The brand name[46] encompasses the years of advertising, goodwill, quality evaluations, product experience, and other beneficial attributes the market associates with the product. Brand image is at the very core of business identity and strategy. Western researchers have personified brands, imbuing them with personalities and images. In a sense, the consumer–brand interaction becomes much like an interpersonal interaction, wherein cultural differences hold heavy sway. This comparison also implies that even global brands must be positioned locally, as a Japanese consumer will see and interact with the Coke brand differently than a French consumer, for example. Research shows that the importance and impact of brands vary with cultural values around the world. Thus, customers everywhere respond to images,[47] myths, and metaphors that help them define their personal and national identities within a global context of world culture and product benefits.[48]

Global brands play an important role in that process. The value of Sony, Coca-Cola, McDonald's, Toyota, and Marlboro is indisputable. One estimate of the value of Coca-Cola, the world's most valuable brand, places it at over $65 billion. In fact, one authority speculates that brands are so valuable that companies will soon include a "statement of value" addendum to their balance sheets to include intangibles such as the value of their brands. Please see Exhibit 13.2 for details. One researcher has noted that in the short run, brand

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[46]Yih Hwai Lee and Kim Soon Ang, "Brand Name Suggestiveness: A Chinese Language Perspective," *International Journal of Research in Marketing* 20, no. 4 (2003), pp. 323–35.

[47]Tulin Erdem, Joffre Swait, and Ana Valenzuela, "Brands as Signals: A Cross-Country Validation Study," *Marketing Science* 26 (2006), pp. 679–97; Aysegul Ozsomer and Selin Altaras, "Global Brand Purchase Likelihood: A Critical Synthesis and an Integrated Conceptual Framework," *Journal of International Marketing* 16, no. 4 (2008), pp. 1–28; Donald R. Lehman, Kevin A. Keller, and John U. Farley, "The Structure of Survey-Based Brand Metrics," *Journal of International Marketing* 16, no. 4 (2008), pp. 29–56; Julien Cayla and Eric J. Arnould, "A Cultural Approach to Branding in the Global Marketplace," *Journal of International Marketing* 16, no. 4 (2008), pp. 86–112; Xuehua Wang, Zhilin Yang, and Ning Rong Liu, "The Impacts of Brand Personality and Congruity on Purchase Intention: Evidence from the Chinese Mainland's Automobile Market," *Journal of Global Marketing* 22 (2009), pp. 199–215; Francisco Guzman and Audhesh K. Paswan, "Cultural Brands from Emerging Markets: Brand Image across Host and Home Countries," *Journal of International Marketing* 17, no. 3 (2009), pp. 71–86; Ralf van der Lans and 12 coauthors, "Cross-National Logo Evaluation Analysis: An Individual-Level Approach," *Marketing Science* 28, no. 5 (2009), pp. 968–85; Yinlong Zhang and Adwait Khare, "The Impact of Accessible Identities on the Evaluation of Global vs. Local Products," *Journal of Consumer Research* 36 (2009), pp. 525–37.

[48]Douglas B. Holt, "What Becomes an Icon Most?" *Harvard Business Review*, March 2003, pp. 43–49; Yuliya Strizhakova, Robin L. Coulter, and Linda A. Price, "Branded Products as a Passport to Global Citizenship: Perspectives from Developed and Developing Countries," *Journal of International Marketing* 16, no. 4 (2008), pp. 57–85; Lily Dong and Kelly Tian, "The Use of Western Brands in Asserting Chinese National Identity," *Journal of Consumer Research* 36 (2009), pp. 504–22.
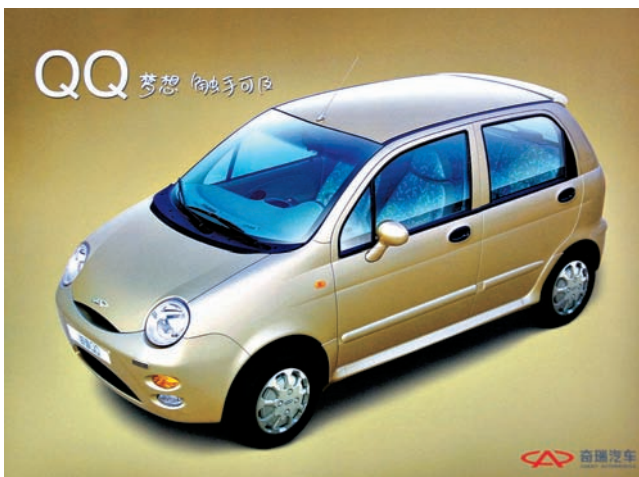
Copying is the highest form of flattery? Not so in the car business. The new QQ model from Chinese company Chery (left) resembles the Matiz or Spark from GM's Daewoo (right)—perhaps a bit too much.

equities remain relatively stable, but not so in the long run.[49] The latter is certainly the case when the long run includes the recession of 2008–2009. Google's brand equity increased 25 percent in the period, while GE's declined 10 percent. But the biggest change was the huge decline of Citi, which lost almost half (49 percent) of its brand equity in a single year, falling from #19 to #36. Ouch!

Global Brands   Naturally, companies with strong brands strive to use those brands globally.[50] In fact, even perceived "globalness" can lead to increases in sales.[51] The Internet and other technologies accelerate the pace of the globalization of brands. Even for products that must be adapted to local market conditions, a global brand can be successfully used with careful consideration.[52] Heinz produces a multitude of products that are sold under the Heinz brand all over the world. Many are also adapted to local tastes. In the United Kingdom, for example, Heinz Baked Beans Pizza (available with cheese or sausage) was a runaway hit, selling over 2.5 million pizzas in the first six months after its introduction. In the British market, Heinz's brand of baked beans is one of the more popular products. The British consumer eats an average of 16 cans annually, for a sales total of $1.5 billion a year. The company realizes that consumers in other countries are unlikely to rush to stores for bean pizzas, but the idea could lead to the creation of products more suited to other cultures and markets.

Ideally a **global brand** gives a company uniformly positive worldwide brand associations that enhance efficiency and cost savings when introducing other products with the brand name, but not all companies believe a single global approach is the best. Indeed, we know that the same brand does not necessarily hold the same meanings in different countries. In addition to companies such as Apple,[53] Kellogg, Coca-Cola, Caterpillar, and Levi's, which use the same brands worldwide, other multinationals such as Nestlé, Mars, Procter & Gamble,[54] and Gillette have some brands that are promoted worldwide and others that are country specific. Among companies that have faced the question of whether to make all their brands global, not all have followed the same path.[55]

Companies that already have successful country-specific brand names must balance the benefits of a global brand against the risk of losing the benefits of an established brand. And some brand names simply do not translate.[56] The cost of reestablishing the same level of brand preference and market share for the global brand that the local brand has must be offset against the long-term cost savings and benefits of having only one brand name worldwide. In those markets where the global brand is unknown, many companies are buying

[49]A. Coskun Samli and Merici Fevrier, "Achieving and Managing Global Brand Equity: A Critical Analysis," *Journal of Global Marketing* 21, no. 3 (2008), pp. 207–15.

[50]Isabelle Schuiling and Jean-Noel Kapferer, "Real Differences between Local and International Brands: Strategic Implications for International Marketers," *Journal of International Marketing* 12, no. 4 (2004), pp. 97–113.

[51]Jan-Benedict E. M. Steenkamp, Rajeev Batra, and Dana L. Alden, "How Perceived Brand Globalness Creates Brand Value," *Journal of International Business Studies* 34 (2003), pp. 53–65; Claudiu V. Dmofte, Johny K. Johansson, and Ilkka A. Ronkainen, "Cognitive and Affective Reactions of U.S. Consumers to Global Brands," *Journal of International Marketing* 16, no. 4 (2008), pp. 113–35; Vertica Bhardwaj, Archana Kumar, and Youn-Kyun Kim, "Brand Analyses of U.S. Global and Local Brands in India: The Case of Levi's," *Journal of Global Marketing* 23 (2010), pp. 80–94.

[52]Shi Zhang and Bernd H. Schmitt, "Creating Local Brands in Multilingual International Markets," *Journal of Marketing Research* 38 (August 2001), pp. 313–25.

[53]Deborah L. Vence, "Not Taking Care of Business," *Marketing News*, March 15, 2005, pp. 19–21.

[54]"The Rise of Superbrands," *The Economist*, February 5, 2005, pp. 63–65.

[55]Prominent among those arguing against global brands are David A. Aaker and Erich Joachimsthaler, "The Lure of Global Branding," *Harvard Business Review*, November–December 1999. For an interesting view of the arguments for and against globalization of brands, see Anand P. Raman, "The Global Face Off," *Harvard Business Review*, June 2003, pp. 35–46.

[56]June Francis, Janet P. Y. Lam, and Jan Walls, "The Impact of Linguistic Differences on International Brand Name Standardization: A Comparison of English and Chinese Brand Names of *Fortune* 500 Companies," *Journal of International Marketing* 10, no. 1 (2002), pp. 98–116; Clement S. F. Chow, Esther P. Y. Tang, and Isabel S. F. Fu, "Global Marketers' Dilemma: Whether to Translated the Brand Name into Local Language," *Journal of Global Marketing* 20 (2007), pp. 25–38.

local brands of products that consumers want and then revamping, repackaging, and finally relaunching them with a new image. Unilever purchased a local brand of washing powder, Biopan, which had a 9 percent share of the market in Hungary; after relaunching, market share rose to about 25 percent.

When Mars, a U.S. company that includes candy and pet food among its product lines, adopted a global strategy, it brought all its products under a global brand, even those with strong local brand names. In Britain, the largest candy market in Europe, M&Ms previously were sold as Treets, and Snickers candy was sold under the name Marathon to avoid association with *knickers*, the British word for women's underpants. To bring the two candy products under the global umbrella, Mars returned the candies to their original names. The pet food division adopted Whiskas and Sheba for cat foods and Pedigree for dog food as the global brand name, replacing KalKan. To support this global division that accounts for over $4 billion annually, Mars also developed a Web site for its pet food brands. The site functions as a "global infrastructure" that can be customized locally by any Pedigree Petfoods branch worldwide. For instance, Pedigree offices can localize languages and information on subjects such as veterinarians and cat-owner gatherings.

Finally, researchers are beginning to address the sometimes difficult problem of brand extensions in global markets. Consumers in "Eastern" cultures may be more likely to understand and appreciate brand extensions because of their more holistic thinking than consumers in "Western" cultures, with their more analytical thinking patterns. Obviously more work needs to be done in this area, but important differences across cultures are readily discernable in the acceptance of brand extensions.[57]

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[57]Brooks Barnes, "Bopping in 17 Languages as Disney Milks Its Hits," *International Herald Tribune*, January 29, 2008, p. 13.

[58]Alokparna Basu Monga and Deborah Roedder John, "Cultural Differences in Brand Extension Evaluation: The Influence of Analytic versus Holistic Thinking," *Journal of Consumer Research* 33 (2007), pp. 529–36; Guoqun Fu, John Saunders, and Riliang Qu, "Brand Extensions in Emerging Markets: Theory Development and Testing in China," *Journal of Global Marketing* 22 (2009), pp. 217–28; Sharon Ng, "Cultural Orientation and Brand Dilution: Impact Level and Extension Typicality," *Journal of Marketing Research* 47, no. 1 (2010), pp. 186–98.

How do you sing "bop to the top" in Hindi? Rich Ross, President of Disney Channels Worldwide, says, "Localization really matters. We're pushing deeper into various countries. For the first [*High School Musical*] movie, we didn't do something special for the Netherlands. This time [*High School Musical 2*] we did. For India, 'bop to the top' became 'Pa Pa Pa Paye Yeh Dil,' which roughly translates back into English as 'the heart is full of happiness.'" Also in India, one of Disney's most important markets, the title song "All for One" becomes "Aaja Nachle," which translates into "come dance along."[58]

National Brands   A different strategy is followed by the Nestlé Company, which has a stable of global and country-specific national brands in its product line. The Nestlé name itself is promoted globally, but its global brand expansion strategy is two-pronged. In some markets, it acquires well-established national brands when it can and builds on their strengths—there are 7,000 local brands in its family of brands. In other markets where there are no strong brands it can acquire, it uses global brand names. The company is described as preferring brands to be local, people to be regional, and technology to be global. It does, however, own some of the world's largest global brands; Nescafé is but one.

Unilever is another company that follows a strategy of a mix of national and global brands. In Poland, Unilever introduced its Omo brand detergent (sold in many other countries), but it also purchased a local brand, Pollena 2000. Despite a strong introduction of two competing brands, Omo by Unilever and Ariel by Procter & Gamble, a refurbished Pollena 2000 had the largest market share a year later. Unilever's explanation was that eastern European consumers are leery of new brands; they want brands that are affordable and in keeping with their own tastes and values. Pollena 2000 is successful not just because it is cheaper but because it is consistent with local values.

Multinationals must also consider increases in nationalistic pride that occur in some countries and their impact on brands.[59] In India, for example, Unilever considers it critical that its brands, such as Surf detergent and Lux and Lifebuoy soaps, are viewed as Indian brands. Just as is the case with products, the answer to the question of when to go global with a brand is, "It depends—the market dictates." Use global brands where possible and national brands where necessary. Finally, there is growing evidence that national brands' acceptance varies substantially across regions within countries, suggesting that even finer market segmentation of branding strategies may be efficient.[60]

Country-of-Origin Effect and Global Brands

LO5

Country-of-origin effects on product image

As discussed previously, brands are used as external cues to taste, design, performance, quality, value, prestige, and so forth. In other words, the consumer associates the value of the product with the brand. The brand can convey either a positive or a negative message about the product to the consumer and is affected by past advertising and promotion, product reputation, and product evaluation and experience.[61] In short, many factors affect brand image. One factor that is of great concern to multinational companies that manufacture worldwide is the country-of-origin effect on the market's perception of the product.

Country-of-origin effect (*COE*) can be defined as any influence that the country of manufacture, assembly, or design has on a consumer's positive or negative perception of a product. A company competing in global markets today manufactures products worldwide; when the customer becomes aware of the country of origin, there is the possibility that the place of manufacture will affect product or brand images.[62]

The country, the type of product, and the image of the company and its brands all influence whether the country of origin will engender a positive or negative reaction. A variety of generalizations can be made about country-of-origin effects on products and brands.[63] Consumers tend to have stereotypes about products and countries that have been formed

[59]Tsang-Sing Chan, Geng Cui, and Nan Zhou, "Competition between Foreign and Domestic Brands: A Study of Consumer Purchases in China," *Journal of Global Marketing* 22 (2009), pp. 181–97.

[60]Bart J. Bronnenberg, Sanjay K. Dhar, and Jean-Pierre Dube, "Consumer Package Goods in the United States: National Brands, Local Branding," *Journal of Marketing Research* 44 (2007), pp. 4–13; M. Berk Ataman, Carl F. Mela, and Harald J. van Heerde, "Consumer Package Goods in France: National Brands, Regions Chains and Local Branding," *Journal of Marketing Research* 44 (2007), pp. 14–20.

[61]Jean-Claude Usunier and Ghislaine Cestre, "Product Ethnicity: Revisiting the Match between Products and Countries," *Journal of International Marketing* 15 (2007), pp. 32–72; Ravi Pappu, Pascale G. Quester, and Ray W. Cooksey, "Country Image and Consumer-Based Brand Equity: Relationships and Implications for International Marketing," *Journal of International Business Studies* 38 (2007), pp. 726–45.

[62]Jill Gabrielle Klein, "Us Versus Them, or Us Versus Everyone? Delineating Consumer Aversion to Foreign Goods," *Journal of International Business Studies* 33, no. 2 (2002), pp. 345–63.

[63]Peeter W. J. Verleigh, Jan-Benedict E. M. Steenkamp, and Matthew T. G. Meulenberg, "Country-of-Origin Effects in Consumer Processing of Advertising Claims," *International Journal of Research in Marketing* 22, no. 2 (2005), pp. 127–39.

by experience, hearsay, myth, and limited information.[64] Following are some of the more frequently cited generalizations.

Consumers have broad but somewhat vague stereotypes about specific countries and specific product categories that they judge "best": English tea, French perfume, Chinese silk, Italian leather, Japanese electronics, Jamaican rum, and so on. Stereotyping of this nature is typically product specific and may not extend to other categories of products from these countries.

The importance of these types of stereotypes was emphasized recently as a result of a change in U.S. law that requires any cloth "substantially altered" (woven, for instance) in another country to identify that country on its label. Designer labels such as Ferragamo, Gucci, and Versace are affected in that they now must include on the label "Made in China," because the silk comes from China. The lure to pay $195 and up for scarves "Made in Italy" by Ferragamo loses some of its appeal when accompanied with a "Made in China" label. As one buyer commented, "I don't care if the scarves are made in China as long as it doesn't say so on the label." The irony is that 95 percent of all silk comes from China, which has the reputation for the finest silk but also a reputation of producing cheap scarves. The "best" scarves are made in France or Italy by one of the haute couture designers.

Ethnocentrism can also have country-of-origin effects; feelings of national pride—the "buy local" effect, for example—can influence attitudes toward foreign products.[65] Honda, which manufactures one of its models almost entirely in the United States, recognizes this phenomenon and points out how many component parts are made in America in some of its advertisements. In contrast, others have a stereotype of Japan as producing the "best" automobiles, at least up until 2010. A study completed before the Toyota quality disaster had found that U.S. automobile producers may suffer comparatively tarnished images, regardless of whether they actually produce superior products.

Countries are also stereotyped on the basis of whether they are industrialized, in the process of industrializing, or developing. These stereotypes are less product specific; they are more a perception of the quality of goods and services in general produced within the country.[66] Industrialized countries have the highest quality image, and products from developing countries generally encounter bias.

In Russia, for example, the world is divided into two kinds of products: "ours" and "imported." Russians prefer fresh, homegrown food products but imported clothing and manufactured items. Companies hoping to win loyalty by producing in Russia have been unhappily surprised. Consumers remain cool toward locally produced Polaroid cameras and Philips irons. Yet computers produced across the border in Finland are considered high quality. For Russians, country of origin is more important than brand name as an indicator of quality. South Korean electronics manufacturers have difficulty convincing Russians that their products are as good as Japanese ones. Goods produced in Malaysia, Hong Kong,

[64]Saeed Samiee, Terrance A. Shimp, and Subhash Sharma, "Brand Origin Recognition Accuracy: Its Antecedents and Consumers' Cognitive Limitations," *Journal of International Business Studies* 36 (2005), pp. 379–97; George Balabanis and Adamantios Diamantopoulos, "Brand Origin Identification by Consumers: A Classification Perspective," *Journal of International Marketing* 16, no. 1 (2008), pp. 39–71; Alfred Rosenbloom and James E. Haefner, "Country-of-Origin Effects and Global Brand Trust: A First Look," *Journal of Global Marketing* 22, no. 4 (2009), pp. 267–79.

[65]Aviv Shoham, Moshe Davidow, Jill G. Klein, and Ayalla Ruvio, "Animosity on the Home Front: The Intifada in Israel and Its Impact on Consumer Behavior," *Journal of International Marketing* 14 (2006), pp. 92–114; Peeter W. J. Verlegh, "Home Country Bias in Product Evaluation: The Complementary Roles of Economic and Socio-Psychological Motives," *Journal of International Business Studies* 38 (2007), pp. 361–73; Raymond A. Hopkins and Thomas L. Powers, "'Buy National' and Altruistic Market Segments," *Journal of Global Marketing* 20 (2007), pp. 73–90; Taewon Suh and Karen H. Smith, "Attitude toward Globalization and Country-of-Origin Evaluations: Toward a Dynamic Theory," *Journal of Global Marketing* 21, no. 2 (2008), pp. 127–40; Siew Meng Leong, Joseph A Cote, Swee Hoon Ang, Soo Jiuan Tan, Kwon Jung, Ah Keng Kau, and Chanthika Pornpitakpan, "Understanding Consumer Animosity in an International Crisis: Nature, Antecedents, and Consequences," *Journal of International Business Studies* 39, no. 6 (2008), pp. 996–1009; Rohit Varman and Russell W. Belk, "Nationalism and Ideology in an Anticonsumption Movement," *Journal of Consumer Research* 36 (2009), pp. 686–700.

[66]Jan-Benedict E. M. Steenkamp and Inge Geyskens, "How Country Characteristics Affect the Perceived Value of Web Sites," *Journal of Marketing* 70 (2006), pp. 136–50.

or Thailand are more suspect still. Eastern Europe is considered adequate for clothing but poor for food or durables. Turkey and China are at the bottom of the heap.

One might generalize that the more technical the product, the less positive is the perception of something manufactured in a less developed or newly industrializing country. There is also the tendency to favor foreign-made products over domestic-made in less-developed countries. Foreign products fare not as well in developing countries because consumers have stereotypes about the quality of foreign-made products, even from industrialized countries. A survey of consumers in the Czech Republic found that 72 percent of Japanese products were considered to be of the highest quality; German goods followed with 51 percent, Swiss goods with 48 percent, Czech goods with 32 percent, and, last, the United States with 29 percent.

One final generalization about COE involves fads that often surround products from particular countries or regions in the world. These fads are most often product specific and generally involve goods that are themselves faddish in nature. European consumers' affection for American products is quite fickle. The affinity for Jeep Cherokees, Budweiser beer, and Bose sound systems of the 1990s has faded to outright animosity toward American brands as a protest of American political policies. This reaction echoes the 1970s and 1980s backlash against anything American, but in the 1990s, American was in. In China, anything Western seems to be the fad. If it is Western, it is in demand, even at prices three and four times higher than those of domestic products. In most cases such fads wane after a few years as some new fad takes over.

There are exceptions to the generalizations presented here, but it is important to recognize that country of origin can affect a product or brand's image significantly. Furthermore, not every consumer is sensitive to a product's country of origin.[67] A finding in a recent study suggests that more knowledgeable consumers are more sensitive to a product's COE than are those less knowledgeable. Another study reports that COE varies across consumer groups; Japanese were found to be more sensitive than American consumers.[68] The multinational company needs to take these factors into consideration in its product development and marketing strategy, because a negative country stereotype can be detrimental to a product's success unless overcome with effective marketing.

Once the market gains experience with a product, negative stereotypes can be overcome. Nothing would seem less plausible than selling chopsticks made in Chile to Japan, but it happened. It took years for a Chilean company to overcome doubts about the quality of its product, but persistence, invitations to Japanese to visit the Chilean poplar forests that provided the wood for the chopsticks, and a high-quality product finally overcame doubt; now the company cannot meet the demand for its chopsticks.

Country stereotyping—some call it "nation equity"[69]—can also be overcome with good marketing.[70] The image of Korean electronics and autos improved substantially in the United States once the market gained positive experience with Korean brands. Most recently in the United States, the quality/safety of Chinese made products has been a source of problems for American branded toys, foods, and pharmaceuticals. It will be interesting to watch how the new Chinese brands themselves, such as Lenovo computers and Haier appliances, will work to avoid the current negative "nation equity" to which they are suffering association. All of this stresses the importance of building strong global brands like Sony, General Electric, and Levi's. Brands effectively advertised and products properly positioned can help ameliorate a less-than-positive country stereotype.

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[67]This appears to be less the case when professional buyers make decisions. See John G. Knight, David K. Holdsworth, and Damien W. Mather, "Country-of-Origin and Choice of Food Imports: An In-Depth Study of European Distribution Chanel Gatekeepers," *Journal of International Business Studies* 38 (2007), pp. 107–25.

[68]Zeynep Gurhan-Canli and Durairaj Maheswaran, "Cultural Variations in Country of Origin Effects," *Journal of Marketing Research* 37 (August 2000), pp. 309–17.

[69]Durairaj Maheswaran, "Nation Equity: Incidental Emotions in Country-of-Origin Effects," *Journal of Consumer Research* 33 (2006), pp. 370–76.

[70]Lys S. Amine, Mike C. H. Chao, and Mark J. Arnold, "Exploring the Practical Effects of Origin, Animosity, and Price-Quality Issues: Two Case Studies of Taiwan and Acer in China," *Journal of International Marketing* 13, no. 2 (2005), pp. 114–50.

Private Brands

Private brands owned by retailers are growing as challengers to manufacturers' brands, whether global or country specific. Store brands are particularly important in Europe compared with the United States.[71] In the food retailing sector in Britain and many European countries, private labels owned by national retailers increasingly confront manufacturers' brands. From blackberry jam and vacuum cleaner bags to smoked salmon and sun-dried tomatoes, private-label products dominate grocery stores in Britain and many of the hypermarkets of Europe. Private brands have captured nearly 30 percent of the British and Swiss markets and more than 20 percent of the French and German markets. In some European markets, private-label market share has doubled in just the past five years.

Sainsbury, one of Britain's largest grocery retailers with 420 stores, reserves the best shelf space for its own brands. A typical Sainsbury store has about 16,000 products, of which 8,000 are Sainsbury labels. These labels account for two-thirds of store sales. The company avidly develops new products, launching 1,400 to 1,500 new private-label items each year, and weeds out hundreds of others no longer popular. It launched its own Novon brand laundry detergent; in the first year, its sales climbed past Procter & Gamble's and Unilever's top brands to make it the top-selling detergent in Sainsbury stores and the second-best seller nationally, with a 30 percent market share. The 15 percent margin on private labels claimed by chains such as Sainsbury helps explain why their operating profit margins are as high as 8 percent, or eight times the profit margins of their U.S. counterparts.

Private labels are formidable competitors, particularly during economic difficulties in the target markets. Buyers prefer to buy less expensive, "more local" private brands during recessions.[72] This strategy also allows retailers to outsource production while still appreciating the advantages of a local brand.[73] Private brands provide the retailer with high margins; they receive preferential shelf space and strong in-store promotions; and perhaps most important for consumer appeal, they are quality products at low prices. Contrast this characterization with manufacturers' brands, which traditionally are premium priced and offer the retailer lower margins than they get from private labels.

To maintain market share, global brands will have to be priced competitively and provide real consumer value. Global marketers must examine the adequacy of their brand strategies in light of such competition. This effort may make the cost and efficiency benefits of global brands even more appealing.

As they say, "two brands are better than one!" How about four? The four flags you seeing flying on the radar mast of the *Endeavor* at sea among the Galapagos Islands represent Ecuador (bottom), the Bahamas registry of the 85-person cruise ship (right), the National Geographic Society, and Lindblad Expeditions. The latter two are a great example of co-branding. The multifaceted strategic alliance that Lindblad Expeditions has with the National Geographic Society, "enables travelers to participate in the world of natural and cultural history as engaged, active explorers who care about the planet." This is an alliance of two exploration pioneers in an innovative program to reach remote and pristine destinations around the globe. Sustainable and education-based tourism is featured by the alliance.

[71]Tulin Erdem, Ying Zhao, and An Valenzuela, "Performance of Store Brands: A Cross-Country Analysis of Consumer Store-Brand Preferences, Perceptions, and Risk," *Journal of Marketing Research* 41, no. 1 (2004), pp. 59–72.

[72]Lien Lamey, Barbara Deleersnyder, Marnik G. Dekimpe, and Jan-Benedict E. M. Steenkamp, "How Business Cycles Contribute to Private-Label Success: Evidence from the United States and Europe," *Journal of Marketing* 76 (2007), pp. 1–15.

[73]Shih-Fen Chen, "A Transaction Cost Rationale for Private Branding and Its Implications for the Choice of Domestic vs. Offshore Outsourcing," *Journal of International Business Studies* 40, no. 1 (2009), pp. 156–75.

Summary

The growing globalization of markets that gives rise to standardization must be balanced with the continuing need to assess all markets for those differences that might require adaptation for successful acceptance. The premise that global communications and other worldwide socializing forces have fostered a homogenization of tastes, needs, and values in a significant sector of the population across all cultures is difficult to deny. However, more than one authority has noted that in spite of the forces of homogenization, consumers also see the world of global symbols, company images, and product choice through the lens of their own local culture and its stage of development and market sophistication. Each product must be viewed in light of how it is perceived by each culture with which it comes in contact. What is acceptable and comfortable within one group may be radically new and resisted within others, depending on the experiences and perceptions of each group. Understanding that an established product in one culture may be considered an innovation in another is critical in planning and developing consumer products for foreign markets. Analyzing a product as an innovation and using the Product Component Model may provide the marketer with important leads for adaptation.

Key Terms

Quality	Green marketing	Diffusion	Global brand
Product homologation	Innovation	Product Component Model	

Questions

1. Define the key terms listed above.
2. Debate the issue of global versus adapted products for the international marketer.
3. Define the country-of-origin effect and give examples.
4. The text discusses stereotypes, ethnocentrism, degree of economic development, and fads as the basis for generalizations about country-of-origin effect on product perception. Explain each and give an example.
5. Discuss product alternatives and the three marketing strategies: domestic market extension, multidomestic markets, and global market strategies.
6. Discuss the different promotional/product strategies available to an international marketer.
7. Assume you are deciding to "go international." Outline the steps you would take to help you decide on a product line.
8. Products can be adapted physically and culturally for foreign markets. Discuss.
9. What are the three major components of a product? Discuss their importance to product adaptation.
10. How can knowledge of the diffusion of innovations help a product manager plan international investments?
11. Old products (that is, old in the U.S. market) may be innovations in a foreign market. Discuss fully.
12. "If the product sells in Dallas, it will sell in Tokyo or Berlin." Comment.
13. How can a country with a per capita GNP of $100 be a potential market for consumer goods? What kinds of goods would probably be in demand? Discuss.
14. Discuss the characteristics of an innovation that can account for differential diffusion rates.
15. Give an example of how a foreign marketer can use knowledge of the characteristics of innovations in product adaptation decisions.
16. Discuss "environmentally friendly" products and product development.