

CHAPTER -FOUR

PRODUCT POLICY DECISIONS

4.1. INTRODUCTION

After an international marketer has decided to enter a particular foreign market, further marketing decisions must be made. In particular, international marketing managers must address four things: How to develop the firm's product(s), How to price those products, How to sell those products and How to distribute those products to the firm's customers internationally. These elements are commonly known as the marketing mix and popularly known as 4 Ps. **A product** is anything that can be offered to a market for attention, acquisition, use or consumption that might satisfy a need. It includes physical objects, services, persons, places, organizations and ideas. In many situations, both tangible and intangible products must be combined to create a single, total product. Perhaps the best way to define a product is to describe it as a bundle of utilities or satisfaction. Warranty terms, for example, are a part of this bundle, and they may be adjusted as appropriate (i.e., superior versus inferior warranty terms).

4.2. Product Standardization Vs. Product Adaptation

1. Product Standardization

Standardization means that a company will sell in a foreign market, exactly the same product or service it sells in its own market. Product standardization means that a product originally designed for a local market is exported to other countries with virtually no change, except perhaps for the translation of words and other cosmetic changes. Product standardization involves making one global product in the belief the same product can be sold across markets without significant modification. Revlon, for example, used to ship successful products abroad without changes in product formulation, packaging (without any translation, in some cases), and advertising.

Arguments for Standardization

The topic of standardization and adaptation of international marketing strategy is heavily/ extensively debated in the past. Researchers are divided into two schools of thoughts in the view of first school of thought; standardization is the best solution to serve the global marketplace, as the world increasingly becoming more homogenous due to the globalization. According to Levitt (1983), standardization of international marketing strategy means that performing the same marketing activities across the globe. In their view these are the bases for the standardization.

- A. Changing world structure (as due to globalization world becoming more homogenous)
- B. Standardization helps in work specialization
- C. Helps in ride down the experience curve
- D. Standardization leads to the economies of scale
- E. Economies in research and development
- F. Standardization gives the image of global brand.

According to Bennet (2008), firm which employ standardization strategy will develop a single product for all the markets in all the regions and this kind of universal product will be suitable in a situation:

- ◆ When consumers from different countries share similar need characteristics. Therefore, want essentially identical products. e.g. diamond
- ◆ There are large markets which exist across the world so cultural adaptation is not required
- ◆ A consistent company or product image is needed, product uniformity is required.
- ◆ Some products by their very nature are not or cannot be easily modified. Musical recordings and works of art are examples of products that are difficult to differentiate
- ◆ To reduce confusion and promote compatibility

2. Product Adaptation

Product adaptation is the process of modifying an existing product so it is suitable for different customers or markets. Adaptation approach, emphasize the importance of customization. An adaptation strategy is particularly important for companies that export their products because it ensures that the product meets local cultural and regulatory requirements. The fundamental basis of the adaptation school of thought is that when entering a foreign market one must consider all environmental factors and constraints such as language, climate, race, occupations, education, taste, different laws, cultures, and societies (Czinkota and Ronkainen, 1998).

Arguments for Adaptation

On the contrary another school of thought who supports the view of adaptation strategy in the international marketing strategy is adaptation. They argues that although globalization made its impact on the world, but still there is a significant differences in the cultural, political and socio economic condition of the countries, these differences are not only found across the countries but within the country. In a country there are different sub cultures and different economic conditions so the whole world can't be effectively and efficiently served with a single marketing strategy. According to Kotler (1986), most of the international products fail in the international market due to the lack of product adaptation. Due to this reason Kotler and Armstrong (2008), gives the concept of adapted marketing mix "An international marketing strategy for adjusting the marketing mix elements to each international target market, bearing more cost but hoping for large market share and return". These are the some of the reasons for the adaptation of marketing strategy

- A. Better satisfy customers' needs and wants
- B. Leads to product differentiation
- C. Helps in achieving competitive advantage
- D. Legal and political conditions of the different counties
- E. Adherence to the marketing concept

According to Kotler and Armstrong (2008) "An international marketing strategy for adjusting the marketing mix elements to each international target market, bearing more cost but hoping for large market share and return". Kotler and Armstrong (2008) write in their book most marketer suggests that companies should adapt the following policy, "Think globally but act locally". According to Bennet

(2008), firms which operate internationally have to make a basic/key decision whether to go in the foreign markets with the firm's current product or made necessary changes in the products according to the requirements of the foreign market. *Product adaptation will be suitable in the case where:*

- 1) There is a significant differences in consumer needs and wants
- 2) Competition is intense, which force them to differentiate their products
- 3) To fulfill some necessary host country requirements such as packaging, technical and legal issues
- 4) Climate, living conditions, customer lifestyle, literacy and income level of the consumer.

Product adaptation or modification strategy will leads to increase in the sales volume of the firm in foreign marketplace, by better satisfying the needs and wants of the customers, by retaining the existing customers by making the products up-to-date and also by taking in to consideration the offerings of the competing firms. *There are also some negative impacts of product modification or adaptations of marketing strategy which are as follows:*

- A. Additional cost required for the promotional activities
- B. Duplication of the activities within the firm
- C. Inexperience and limited knowledge about the technical aspects of the different products and know how regarding the marketing of the product
- D. Extra resources will be required for the research and development (Bennet, 2008).

In the following table the factors are highlighted which encourage firms to use standardization strategy or adaptation strategy at the international level.

Standardization versus Adaptation

Factors encouraging Standardization	Factors encouraging Adaptation
◆ Economies in product R& D	◆ Differing use conditions of product
◆ Economies of scale in production	◆ Government and regulatory influences
◆ Economies in marketing	◆ Differing buyer behavior patterns
◆ Control of marketing program	◆ Adherence to the marketing concept

Product adaptation is necessary under several conditions. Some are mandatory, whereas others are optional.

Mandatory Product Modification

Mandatory in the sense that without adaptation a product either cannot enter a market or is unable to perform its function there. Such mandatory standards make the adaptation decision easy: a marketer must either comply or remain out of the market. The mandatory factors affecting product modification are the following: Government's mandatory standards (i.e. country's regulations), Electrical current standards, Measurement standards, Product standards and systems etc. The most important factor that makes modification mandatory is government regulation. To gain entry into a foreign market, certain requirements must be satisfied. Regulations are usually specified and explained when a potential customer requests a price quotation on a product to be imported. Italy's Piaggio withdrew its Vespa scooters from the US market in 1983, choosing not to meet US pollution control standards for its few exports.

Frequently, products must be modified to compensate for differences in electrical current standards. In many countries, there may even be variations in electrical standards within the country. The different electrical standards (phase, frequency and voltage) abroad can easily harm products designed for use in the one country, and such improper use can be a serious safety hazard for users as well. Some products must be modified because of different operating systems adopted by various countries. Television systems provide a good example. Alarm clocks, tape-recorders, and turntables designed for the US 60-Hz (60 cycles per minute) system will run more slowly in countries where the frequency is 50 Hz.

As with electrical standards, **measurement systems** can also vary from country to country. Although the USA has adopted the English (imperial) system of measurement (feet, pounds), most countries employ the metric system, and product quantity should or must be expressed in metric units. Starting in 2010, the EU countries will no longer accept non-metric products for sale. Many countries even go so far as to prohibit the sale of measuring devices with both metric and English markings. One New England Company was ordered to stop selling its laboratory glassware in France because the markings were not exclusively metric

Optional Product Modification

The conditions dictating product modification mentioned so far is mandatory in the sense that without adaptation a product either cannot enter a market or is unable to perform its function there. Such mandatory standards make the adaptation decision easy: a marketer must either comply or remain out of the market.

A more complex and difficult decision is optional modification, which is based on the international marketer's discretion in taking action. Nescafé in Switzerland, for instance, tastes quite different from the same brand sold just a short distance across the French border. One condition that may make optional modification attractive is related to physical distribution, and this involves the facilitation of product transportation at the lowest cost. Since freight charges are assessed on either a weight or a volume basis, the carrier may charge on the basis of whichever is more profitable. The marketer may be able to reduce delivery costs if the products are assembled and then shipped. *Another* determinant for optional adaptation involves *local use conditions*, including climatic conditions. The hot/cold, humid/dry conditions may affect product durability or performance. Avon modified its Candid moist lipstick line for a hot, humid climate. Another local use condition that can necessitate product change is space constraint. Sears's refrigerators were redesigned to be smaller in dimensions without sacrificing the original capacity, so that they could fit the compact Japanese home. Consumer demographics as related to physical appearance can also affect how products are used and how suitable those products are.

4.3. International Product Strategies:

Companies can pursue different strategies to penetrate foreign markets. Some firms will simply adopt the same product or communication strategy used in their home market. **This is extension.** Other companies prefer to **adapt their strategy** to the local marketplace. These strategies are listed below;

Strategy 1 Product/Communication Extension (Dual Extension): Companies pursuing this strategy sell exactly the same product, with the same advertising and promotional appeals as used in the home country, in some or all world-market countries or segments. The product/ communication extension strategy has an enormous appeal to global companies because of the cost savings associated with this approach. The two most obvious sources of savings are manufacturing economies of scale and elimination of duplicate product R&D costs.

Strategy 2: Product Extension/Communication Adaptation: When a product fills a different need, appeals to a different segment, or serves a different function under conditions of use that are the same or similar to those in the domestic market, the only adjustment that may be required is in marketing communications. Because the product in this strategy is unchanged" R&D, tooling, manufacturing setup, and inventory costs associated with additions to the product line are avoided. The only costs of this approach are identifying different product functions and revising marketing communications (including advertising, sales promotion, and point of-sale).

Strategy 3: Product Adaptation/Communication Extension: this strategy involves extending the home-market communications strategy while adapting the product to local use or preference conditions. Soap and detergent manufacturers have adjusted their product formulations to meet local water and washing equipment conditions with no change in their basic communications approach. Household appliances have been scaled to sizes appropriate to different use environments, and clothing has been adapted to meet fashion criteria. Also, food products, by virtue of their potentially high degree of environmental sensitivity, are often adapted.

Strategy 4: Dual Adaptation: Sometimes, when comparing a new geographic market to the home market, marketers discover that environmental conditions or consumer preferences differ; the same may be true of the function a product serves or consumer receptivity to advertising appeals.

Strategy 5: Product Invention: Adaptation strategies are effective approaches to international and multinational marketing, but they may not respond to global market opportunities. They do not respond to the situation in markets in which customers do not have the purchasing power to buy either the existing or adapted product. This latter situation applies to the LDCs of the world, which are home to roughly three quarters of the world's population. When potential customers have limited purchasing power, a company may need to develop an entirely new product, designed to satisfy the need or want at a price that is within the reach of the potential customer.

4.4. Branding And Its Types, Brand Piracy

Brand is any word, name, symbol, or design or any combination thereof used by a manufacturer or merchant to identify this goods and distinguish them from those manufactured or sold by others. The basic purposes of branding are the same everywhere in the world. In general, the functions of a brand are:

- ◆ To create identification and brand awareness.
- ◆ To guarantee a certain level of quality and satisfaction.
- ◆ Help with promotion.

All of these purposes have the same ultimate goal: to induce repeat sales. When a company is for sale, the remainder of the purchase price after deducting the fair value of the physical assets is called goodwill, "going concern value," or an intangible asset. In the case of service businesses, nearly the entire purchase price that companies generate tends to be goodwill. The brand has brand equity when there is value that is attached to that brand. Perhaps, Coca-Cola's most valuable asset is its brand equity. Taking into consideration the importance of branding as a marketing tool, one would expect that corporate headquarters would normally have a major role in brand planning for overseas markets.

Branding Levels and Alternatives: There are four levels of branding decisions:

1) Branding vs. No Brand: Most exported products are branded, but that does not mean that all products should be. Branding is not a cost-free proposition because of the added costs associated with marking, labeling, packaging, and legal procedures. These costs are especially relevant in the case of commodities (e.g. salt, cement, diamonds, produce beef, and other agricultural and chemical products). Commodities are "unbranded or undifferentiated products which are sold by grade, not by brands." As such, there is no uniqueness, other than grade differential, that can be used to distinguish the offerings of one supplier from those of another. Branding is then probably undesirable because brand promotion is ineffective in a practical sense and adds unnecessary expenses to operations costs. The value of a diamond, for example, is determined by the so-called four Cs--cut, color, clarity, and carat weight--and not by brand. On the positive scale, a brand less product allows flexibility in quality and quantity control, resulting in lower production costs along with lower marketing and legal costs.

The basic problem with a commodity or unbranded product is that its demand is strictly a function of price. The brand less product is thus vulnerable to any price swing or price cutting. Farmers can well attest to this vulnerability because prices of farm products have been greatly affected by competition from overseas producers. Yet, there are ways to remove a company from this kind of cut throat competition. Branding, when feasible, transforms a commodity into a product. A product is a "value-added commodity," and this bundle of added values includes the brand itself as well as other product attributes, regardless of whether such attributes are physical or psychological and whether they are real or imaginary. Branding makes premium pricing possible because of better identification, awareness, promotion, differentiation, consumer confidence, brand loyalty, and repeats sales.

- 2) Private Brand vs. Manufacturer's Brand:** Branding to promote sales and move product: necessitates a further branding decision: whether the manufacturer should use its own brand or a distributor's brand on its product. Distributors in the world of international business include trading companies, importers, and retailers, among others; their brands are called private brands. Even though it may seem logical for a distributor to carry the manufacturer's well-known brand, many distributors often insist on their own private brands for several reasons.
- 3) Single Brand vs. Multiple Brands:** When a single brand is marketed by the manufacturer, the brand is assured of receiving full attention for maximum impact. But a company may choose to market several brands within a single market based on the assumption that the market is heterogeneous and thus-must be segmented. Consequently, a specific brand is designed for a specific market segment.

The watch industry provides a good illustration for the practice-of-using-multiple brands in a single market for different market segments. Multiple brands are suitable when a company wants to trade either up or down because both moves have a tendency to hurt the firm's main business. If a company has the reputation for quality, trading down without creating a new brand will hurt the prestige of the existing brand. By the same rationale, if a company is known for its low-priced mass-produced products, trading up without creating a new brand is hampered by the image of the existing products. Casio is perceived as a manufacturer of low-priced watches and calculators and the name adversely affects its attempt to trade up to personal computers and electronic musical instruments. To overcome this kind of problem, Honda uses the Acura name for its sporty cars so that Acura's image is not affected by the more pedestrian Honda image.

- 4) Local Brands vs. Worldwide Brand:** The international marketer must consider whether to use just one brand name worldwide or different brands for different markets. To market brands worldwide and to market worldwide brands are not the same thing. A single, worldwide brand is also known as: an international, universal, or global brand.

A Euro-brand is a slight modification of this approach, as it is a single product for a single market (i.e. the European Union and the other Western European countries), with an emphasis on the search for inter-market similarities rather than differences. For a brand to be global or worldwide it must by definition have a commonly understood set of characteristics and benefits in all of the markets where it is marketed. Coca cola is a global brand in the sense that it has been successful in maintaining similar perceptions across countries and cultures. However, most other brand does not enjoy this kind of consistency thus making it debatable whether a gullible brand is a practical solution. ***A worldwide brand has several advantages.***

1. *First*, it tends to be associated with status and prestige.
2. *Second*, it achieves maximum market impact overall while reducing advertising costs because only one brand is pushed.
3. *Third*, a worldwide brand provides a convenient identification, and international travelers can easily recognize the product.
4. *Finally*, a worldwide brand is an appropriate approach when a product has a good reputation or is known for quality.

Characteristics Good Brand: A good brand name should possess certain characteristics,

- | | |
|-----------------------------|------------------------------------|
| ◆ Short & Easy to pronounce | ◆ Able to suggest product benefits |
| ◆ Distinctive | ◆ without negative connotations |

In the international arena these qualities are also relevant. In selecting a brand name, a marketer should first find out whether a brand name has any negative connotation in the target market. An international brand name should reflect the desired product image. Toward this end, consumer perception should be taken into account.

Brand Protection: The job of branding cannot be considered done just because a name has been chosen. The brand must also be protected. The first protective step is to obtain trademark registration.

Because of the cost involved, it may be neither practical nor desirable to register the name in all countries especially in places where demand seems weak, it is inexcusable, however, not to do so in major markets.

Brand Piracy: A situation where certain products that have names or logos that are similar to those of recognized businesses. **Brand piracy** is the act of naming a product in a manner which can result in confusion with other better known brands. According to author Robert Tönnis The term brand piracy is Annika Kristin states "brand Piracy is considered to be the premeditated use of registered trademark, its name, its trade name or the packaging and presentation of its products". Brand piracy results in expensive lawsuits and is more common in India and China

4.5. Packaging Decision

Packaging is a marketing process concerned with the design and production of the container or **wrapper** for a product. The container or wrapper is called the package. In recent times packaging has become a potential marketing tool because it can create convenience value for the consumer and promotional value for the producer or seller.

4.5.1. PACKAGING FUNCTIONS

- a. **Product Identification:** Packaging serves as an identification of the product. A product is packed in special sized, colored and shaped container for keeping its difference from the products of competitors. For example, the yellow and black colored pack of KODAK ROLL tells itself of its producer.
- b. **Product Protection:** The main function of packaging is to provide protection to the product from dirt, insects, dampness and breakage. For example, the products like biscuit, jam, chips, etc., need to be protected from environmental contact. That is why they are tightly packed.
- c. **Convenience:** Packaging provides convenience in the carriage of the product from one place to another, in stocking and in consuming. For example, the new pet bottle of COKE makes the carriage and stocking easier. Similarly, the pack of FROOTI provides convenience in its consumption.
- d. **Product Promotion:** Packaging simplifies the work of sales promotion. Packing material in the house reminds the consumers constantly about the product. In this way, the packaging performs the role of a passive salesman. Consequently, it increases the sales.

MANDATORY PACKAGE MODIFICATION

A package change may be either mandatory or at the discretion of the marketer. A mandatory change is usually necessitated by government regulations. Sometimes, it is for safety and other reasons. Sometimes, packaging regulations are designed more for protection against imports than for consumer protection. Several countries require bilingualism. This requirement may force the manufacturer to increase package size or shorten messages and product name, as a bilingual package must have twice the space for copy communications. Or at least may require the product information be written in internationally accredited

language like English. For example, the labeling (information on the package a product) of products imported into Ethiopia are required to be written at least in English if not in Amharic.

Optional Package Modification

Optional modification of package, although not absolutely necessary, may have to be undertaken for marketing impact or for facilitating marketing activities. In selecting or modifying a package, a marketer should consider local conditions related to *purchasing habits*. For instance, products conventionally sold in packs in Ethiopia are not necessarily sold that way elsewhere and may require further bulk breaking. *Cultural factors* should be taken into consideration because such factors often determine and influence consumer preference. Although the UHT (ultra-high temperature) process for packaging milk and juices in unrefrigerated cartons has long been popular in Europe, it took quite a while for Ethiopian consumers who were accustomed to fresh products to start accepting aseptic packaging as the case that Mama Milk encountered initially. Symbols and colors of packages may have to be changed to be consistent with cultural norms. If packages are offensive, they must be made more acceptable if the product is to be marketed successfully.

Packaging Criteria

1. The first thing to see is the product that would be manufactured. It can be solid or liquid; heavy or light, durable or non-durable; or even dry or greasy. The packaging criteria are set only after addressing the nature of the product to be packaged.
2. The next requirement that the client must state is the need for clear packaging. Some products are best when sold in a clear pack or having a window that allows consumers to see the product before buying.
3. The kind of features that a package is installed with may add to the popularity it gains amongst their consumers. The packaging criteria may comprise installing the bag with zip locks, nozzles, tear tags, or hang holes.
4. After the above, the packaging conditions need to be established depending on the kind of treatment the packaging would be subjected to. It could be a simple packet for a non-durable product, which simply holds the product until final use,
5. The last factor that affects packaging condition is the cost. Depending on the thickness and volume of the desired package, the price and its ability to keep products durable may change.

4.6. LABELING

Label is part of a package that carries verbal information about the product of the seller. The essence of label is expository by nature because it expresses some features of the product such as ingredients, weight measure, use, warning, performance, etc. Sometimes it also includes advertising message. A label may be part of a package, or it may be a tag attached directly to the product. Typically, there are three kinds of labels.

4.7. After Sales And Support Services

The support service component includes repair and maintenance, instructions, installation, warranties, deliveries, and the availability of spare parts.

Many other wise 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.

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 low literacy and technical skills of users of the sophisticated military tanks they sell to Third World countries. They include videocassette players and videotapes with detailed repair 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.