UNIT 9 INTERNATIONAL PRODUCT POLICY AND PLANNING

Objectives

After studying this unit you should be able to:

- understand the basic concepts of the product and the importance of this concept in international marketing
- explain the importance of international product life cycle
- explain the different product strategies used by international marketers and the factors which shape the `standardisation' versus `adaptation' decisions
- explain the factors that influence branding, labeling and packaging planning

Structure

9.1 INTRODUCTION

One of the fundamental decisions for successful international marketing relates to product policy and planning. It can be argued that product. decisions are probably the most crucial as the product is the very epitome of marketing planning. Errors in product decisions can include the imposition of a global standardised product where it is inapplicable and the attempt to sell products into a country without cognisance of cultural adaptation needs. An international marketer has the option of exporting ',he home market product to foreign markets, adapting the home market product to meet the needs of the foreign customers more closely, or developing new products to meet the specific needs of the customers in foreign markets. The selection process needs a careful analysis of the foreign market needs, appraisal of the market opportunity and detailed product planning. Decisions regarding the product, price, promotion and distribution channels are decisions on the elements of the "marketing mix". Many product decisions lie between the two extremes i.e. whether to sell globally standardised or adapted products.

What is a product?

Put simply, a product is a bundle of utilities. To be more concise, a product can be defined as a collection of physical, service and symbolic attributes which yield satisfaction or benefits to a user or buyer. A product is a combination of physical attributes say, size and shape, and subjective attributes say image or quality. A customer purchases on both dimensions. It is increasingly important that the product fulfills the image which the producer is wishing to project. This may involve organisations producing symbolic offerings represented by meaning laden products that chase stimulation-loving consumers who seek experience producing situations. So, for example, selling mineral water may not be enough. It may have to be "Gangetic" in source, and fortified. This opens up a wealth of new marketing opportunities for producers.

A product's physical properties are characterised the same the world over. They can be convenience or shopping goods or durables and non-durables; however; one can classify products according to their degree of potential for global marketing:

a. Local products - seen as only suitable in one single market.

b. International products - seen as having extension potential into other markets.

c. Multinational products - products adapted to the perceived unique characteristics of national markets.

d. Global products - products designed to meet global segments.

As a prerequisite to export marketing, it is becoming increasingly important to maintain quality products based on the ISO 9000 standard.

Consumer beliefs or perceptions also affect the "world brand" concept. World brands are based on the same strategic principles, same positioning and same marketing mix but there may be changes in message or other image. The world brand names are to be built up over the years with great investments in marketing and production. Few world brands, however, have originated from developing countries like India. This is hardly surprising given the lack of resources.

9.2 INTERNATIONAL PRODUCT LIFE CYCLE

International product life cycle discusses the consumption pattern of the product in many countries. This concept explains that the products pass through several stages of the product life cycle. The, product is innovated in country, usually a developed country, to satisfy the needs of the consumers. The innovator country wants to exploit the technological breakthrough and start marketing the products in foreign country. Gradually foreign country also starts production and becomes efficient in producing those commodities. As a result, the innovator country starts losing its export market and finds the import of that product advantageous. In this way, the innovator country becomes the importer of the products. Terpstra and Sarathy have identified four phases in. the international product life cycle.

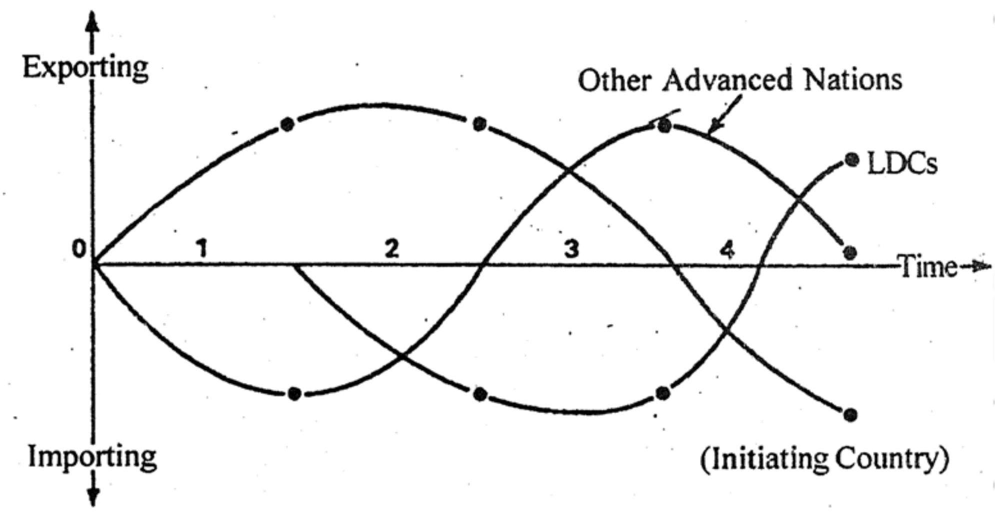
1. **Export strength is evident by innovator country:** Products are normally innovated in the developed countries because they possess the resources to do so. The firms have the technological know how and sufficient capital to invest on the research and development activities. The need of adaptation and modification also forces the production activities to be located near the market to respond quickly to the changes. The customers are affluent in the developed countries who may prefer to buy the new products. Thus, the manufactures are attracted to produce the goods in the developed country. The goods are marketed in the home country. After meeting the demand of the home country, the manufacturers start exploring foreign markets and exporting goods to them. This phase exhibits the introduction and growth stage of the product life cycle.

2. **Foreign production starts:** The importing firms in the middle income country realise the demand potential of the product in the home market. The manufacturers also become familiar in producing the goods. The growing demand of the products attracts the attention of many firms. They are tempted to start production in their country and gradually start exporting to the low income countries. The large production in the middle income country reduces the export from the innovating country. This shows the maturity stage of product life cycle where the production activities' start shifting from innovating country to other countries.

3. **Foreign production becomes competitive in export market:** The firms in low income country also realise the demand potential in the domestic market. They start producing the products in their home country by exploiting cheap labour. They gain expertise in manufacturing the commodity. They become more efficient in producing the goods due to low cost of production. Gradually they start exporting the goods to other countries. The export from this country replaces the export base of innovating country, whose export has been already declining. This exhibits the declining stage of product life cycle for the innovator country. In this stage, the product gets widely disseminated and other countries start imitating the product. This is the third phase of product life cycle where the products start becoming standardized.

4. **Import Competition begins:** The producers in the low income importing country gain sufficient experience in producing and marketing the products. They attain the economies of scale and gradually become more efficient than the innovator country. At this stage, the innovator country finds the import from this country advantageous. Hence, the innovator country finally becomes the importer of that product. In this fourth stage of product life cycle the product becomes completely standardized. Exhibit 9.1 shows the international product life cycle.

Exhibit 9.1 : International Product Life Cycle



Source : Onk visit and Shaw, International Marketing, P1-it, New Delhi

In simple words, the theory of IPLC brings out that advanced (initiating) countries play the innovative role in new product development. Later for reasons of comparative advantage or factor endowments and costs, such a product moves over to other developed countries or middle. income countries and ultimately gets produced and exported by less developed countries. Not surprisingly, therefore, that countries such as Taiwan, Hong Kong, Korea, Singapore and India have emerged as major exporters of growing range. of products to USA and Western Europe during the last decade and a half. The general pattern of a typical IPLC has been shown in Exhibit 9.2.

Exhibit 9.2. Pattern of IPLC

Innovating Country Stage	Other Developed Countries Or Middle Income Countries	Less Developed Countries
Production	Early Imports	Late Imports
Exports	Production	Production
Imports	Exports (Large volume declining to small volume)	Exports (Small volume rising to large volume)

The IPLC theory 'presents the following implications for international product planner:

- Innovative products improve the staying power of the international firm.
- The marketers whose products face declining sale in one foreign market may find another foreign market with encouraging demand for his product; and
- Innovative products carry significant export potential;

9.3 INTERNATIONAL PRODUCT POLICY

A firm's product policy reflects its marketing orientation. Following the framework of IPLC, a firm may begin exporting the products it sells in the domestic market. Alternatively, it may recognise the significant differences in customer needs, conditions of product use, etc., and may plan for exporting different products or product versions to meet the specific needs of each of its different global market segments. In the latter case, the exporting firm would thus offer a large product mix.

The other option available to exporting firms is to develop a new product for the export markets. This new product may be the result of the firm's own R&D acquisition or joint venture with a business partner in the host country. Interesting examples, here, include Coca-Cola Corporation which having entered Japan in 1958 had added Fanta and Sprite by 1970 and still later introduced fruit drink products, carbonated orange fruit drinks and also potato chips which were not even sold by the company in its US market. Similarly, IBM developed EPABX within the U.K. An International marketer may use one of the following five strategies:

i) Product communications extension

This strategy is very low cost and merely takes the same product and communication strategy into other markets. However it can be risky if misjudgments are made. For example CPC International believed the US consumer would take to dry soups, which dominate the European market. It did not work.

ii) Extended product- communications adaptation

If the product basically fits the different needs or segments of a market it may need an adjustment in marketing communication only. Again this is a low cost strategy, but different product functions have to be identified and a suitable communications mix developed.

iii) Product adaptation - communications extension

The product is adapted to fit usage conditions but the communication may stays the same. The assumption. is that the product will serve the same function in foreign markets under different usage conditions.

iv) Product adaptation - communications adaptation

Both product and communication strategies need attention to fit the peculiar need of the market.

v) Product invention

This need a totally new idea to fit the exclusive conditions of the market. This is very much a strategy which could be ideal an a Third World situation. This development costs may be high, but the advantages are also very high.

This choice of strategy depends on the most appropriate product/market analysis and is a function of the product itself defined in terms of the function or need it serves, the market defined in terms of the conditions under which the product is used, the preferences of the potential customers and the ability to buy the product in question, and the costs of adaptation and manufacture to the company considering these product- communications approaches.

Exhibit 9.3 and Exhibit 9.4 will give you an understanding of the challenges and complexities involved in international product decisions.

Exhibit 9.3 : A Case of Colgate Palmolive

Colgate Palmolive-A creative team isn't enough. It takes the direct involvement of a senior management.

When Colgate-Palmolive launched its then revolutionary Colgate Gum Protection toothpaste in 1990, company executives were confident they had a hit on their hands. The toothpaste incorporated a groundbreaking antibacterial technology they thought was the biggest innovation since fluoride. But in the months after the toothpaste's six-country rollout, the product's market share reached a meager 1%-one-fifth of the company's projections.

What went wrong? A new round of market research found that the original launch strategy muted the "breakthrough" message; the ads positioned the new toothpaste as a line extension instead of a revolutionary advance, and the public just didn't buy the product's broad claims. Up to this point, Colgate's president, Bill Shanahan, had attended only quarterly *review* meetings; now he rolled up his sleeves to rescue the product, establishing a worldwide marketing team and meeting regularly with global business vice president Kathleen Thornhill and CEO Reuben Mark to follow the team's progress.

Shanahan and others at the very top sifted through the research and took part in the advertising development meetings, working elbow to elbow with the marketing team. Renamed Colgate Total, and promoted with a retooled ad campaign that stressed the toothpaste's 12-hour protection, the product was a hit in most of the 103 countries outside the United States where it was sold.

Shanahan continued to lavish personal attention on the product, putting Colgate Total under the direct supervision of Jack Haber, then worldwide director of consumer oral care products, and committing $35 million and a team of 200 employees to the project. With that kind of senior-level backing, Haber pulled out the stops, spending $20 million to promote Colgate Total to U.S. dentists alone. Within two months of its domestic launch in 1997, the product captured 10.5% of the U.S. toothpaste market and within six months muscled perennial champ, Procter & Gamble's Crest, out of first place. Colgate Total has remained number one ever since

Source: Harvard Business Review, Jan2001

Exhibit 9.4

COMPLEXITIES OF INTERNATIONAL PRODUCT POLICY : ELECTROLUX IN EUROPE

Electrolux has had much difficulty in achieving a pan-European (standardized) product policy due to differences in consumer preferences for refrigerators

- Northern Europeans want large refrigerators because they shop only once a week in supermarkets. Southern Europeans prefer small ones because they shop almost daily.

- Northerners like their freezers on the bottom; Southerners on the top.

- Britons eat a lot of frozen foods and need units with 60% freezer space.

- 100 appliance makers compete in the European market

To be competitive, Electrolux makes 120 basic designs with 1,500 variations

(Compare to the U.S. where most refrigerators are standardized, have freezers' on top, and come in only a few sizes, and where 80% are sold by just four firms)

9.4 STANDARDISATION Vs. ADAPTATION

Most product decisions fall in between the spectrum of "standardisation" to "adaptation" extremes. Changes in design are subject to cultural pressures. The more culture-bound the product is, for example food, the more adaptation is necessary. In India for example the multinationals like PizzaHut and Mcdonalds catering to Indian tastebuds have launched Masala Tikka Burgers and Paneer Pizzas. Similarly when Indian companies cater to the foreign markets, they launch foods which are bland. However, the advantages of economies of scale in production and marketing ; savings on common costs of R&D, product and package design; consumer mobility; and universal image make a strong case for product standardisation across different export markets. The reality of the export markets is, however, not so easy to harness. Factors such as the following (refer Exhibit 9.5) and their implications influence the exporting firm's decision in favour of product adaptations and in extreme cases even for new product development.

Exhibit 9.5 Product Adaptation Factors and their Implications on Product Design

Factor	Implications for Product Design
Customer Orientation (Purchasing power, habit preferences, socio-cultural characteristics, literary and educational levels)	Product range, size, brand name/mark, labels, package colour and use instructions
Stage of Market Development (availability of infrastructure support facilities, level of technical skills and maintenance)	Product form, packing, product simplification, change in tolerances, service after-sales
Legal Consideration (patent, safety standards commercial instructions, terms, control requirements)	Brand name/mark, label, language, measurement units and sizes, and packaging
Climatic Conditions and Physical Environment (hot, cold climate, plains, hilly areas, living environment in home etc.)	Packaging protections, package size, product storage

While the listed factors explain the scene of global product adaptation, the extent of product adaptation is governed by cost-benefit accruing to the exporting firm, the state of competitors in the host country market, and also the nature of the product- more adaptation is needed in consumer non-durable goods for reason of varying tastes and preferences of consumers, than in durables and industrial goods. Some illustrations of product adaptations are also follows :

- McDonald's sell cheese burgers in Australia to one segment of the market as a low-calorie diet food.
- For want of refrigeration facilities Lever Brothers introduced dehydrated vegetables in India, Pakistan, Thailand and South Korea in place of frozen vegetables marketed by it in developed countries.
- Campbell Soup company modified its soup ingredients in Britain to cater to local tastes.
- Agarbathi exporters from South India modified the intensity and type of perfume in incense sticks to suit the liking of Middle East and North American customers.
- Electrical system of 220-volt for European market and 110-volt for North America.
- In Oman, the law requires tobacco manufacturers to print the legend "smoking is a major cause of cancer, lung disease and diseases of the heart and arteries," on both, the package as well as on all tobacco products.
- Coca-Cola Corporation did not use its brand name in China as Chinese translation of "Coca-Cola" means phonetically "bite the wax tadpole." Instead, it chose an ideomatic brand name meaning "pleasure in the mount."

Areas that typically require the greatest adaptation are pricing, media selection, advertising, packaging, personal selling, distribution whereas areas that typically require the least adaptation include product positioning, brand name, service standards etc. An interesting term `Glocalisation' has been coined in order to emphasize that the globalisation of a product is more likely to succeed when it is adapted specifically to each locality or culture it is marketed in . The term combines the word globalisation with localization. The term first appeared in the late 1980s in articles by Japanese economists in the Harvard Business Review. At the 1997 conference on "Globalization and Indigenous Culture", sociologist Roland Robertson observed "glocalisation means the simultaneity - the co-presence - of both universalizing and particularizing tendencies".

A classical example of glocalization can be that of McDonalds, mentioned earlier also in this section. The increasing presence of McDonalds restaurants worldwide is an example of globalization, while the restaurant chain's menu changed in an attempt to appeal to local palates are an example of glocalization. For its promotion in France, the restaurant chain even chose to replace its familiar Ronald McDonald mascot with Asterix the Gaul, a popular French Cartoon character.

Activity-1

Identify a few international products being marketed in India and analyze the nature of adaptation being carried out in them.

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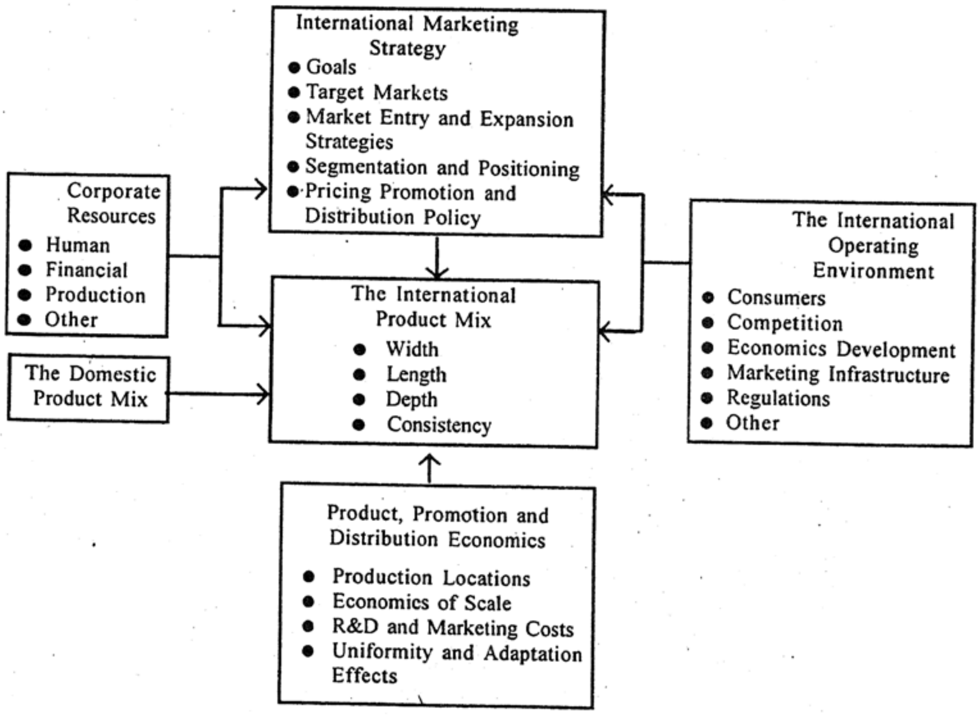
9.5 PLANNING THE INTERNATIONAL PRODUCT MIX

Emanating out of the international marketing objectives and strategy, the planning of the international product mix requires balancing of and integration with other key determinants which are given in Exhibit 9.6

Exhibit 9.6 International Product Mix Policy : Key Determinants



Source: Brain Toyne and Peter G.P. Walters, Global Marketing Management, Allyn and Bacon, 1989, p.450.11

Basic issues that need thorough analysis and evaluation in product mix planning are : the number of product lines to market; width, depth and consistency of each product line with the other: and also the product portfolio analysis. Much like in domestic marketing, the international product mix needs periodic and systematic review both for detecting any incompatibility between the products marketed and the customer needs as well as for locating the non-performing products and picking up the weak products for elimination.

The four decision areas which play a crucial part in international product planning and are Branding, Labelling, Packaging and Product warranties and services.

9.6 BRANDING

The issues that need consideration in branding and trademark decision are:

- Whether to have one brand name world wide (e.g., Coke); or modify the brand name in each market (e.g., Nescafe Instant in India, Nescafe Gold in Germany, and Nescafe Gold Blend in Great Britain); or to have different brand names in different markets;
- Whether to use separate product names as brand names or make use of company name or a combination of the two (e.g., Levi's, Phillips, ICI, Bata, Scotch); and
- Whether to seek legal protection (trade mark) for the brand names and marks of the company?

The selection of a brand name that does neither lose its meaning nor image when translated into diverse languages poses a serious challenge. Although the establishment of international brand names facilitates the marketing of products globally, it also raises issues of brand piracy, imitation and fake brands. It may also be worth noting here that the world bodies are currently pushing hard for greater protection of intellectual property rights on a global basis.

Notwithstanding the above, brand and trademark decisions are affected by the company's product policy on standardisation vs. adaptation, and the legal requirement of the host country.

It is tough to build a brand internationally and requires a lot of marketing efforts. Exhibit 9.7 gives the top 10 global brands 2002, ranked by Interbrand Corp. and Business Week. To qualify as global brand, it should have derived 20% or more of sales from outside their home country.

Exhibit 9.7 Top Ten Global Brands

Rank	Brand	2002 Brand Value $ Billions	Country of Ownership
1.	Coca-Cola	69.64	U.S
2.	Microsoft	64.09	U.S:
3.	IBM	51.19	U.S.
4.	GE	41.31	U.S.
5.	INTEL	30.86	U.S.
6.	Nokia	29.97	Finland
7.	Disney	29.26	U.S.
8.	McDonald's	26.38	U.S.
9.	Marlboro	24.15	U.S.
10.	Mercedes	21.10	Germany

Source : Business Week: Aug. 5, 2002

Hons, Pecotich and Schultz observed that with regards to foreign brands in East and South East Asia markets there are five strategic options for Western companies:

1. Entering the market with the original Western brand name. This strategy may provide a strong image of an imported product, taking advantage of the Western "Halo" effect

2. Entering the market with a phonetically translated brand name i.e. resulting in the same sound but perhaps different meaning in the local language. The pronunciation of the original brand name is retained while local connotations are attained.
3. Entering the market with a directly translated brand name i.e. resulting in different sounding but same meaning in the local languages. Direct translation is the option of choice if the original brand name has a certain specific meaning attached.
4. Entering the market with a combination of the original brand name and phonetically translated name. This enables localization while retaining the image of the original
5. Entering the market with a combination of the original brand name and the directly translated name. A strong local identity is provided while the image of a Western or imported brand is maintained.

The researchers based on their study also concluded that the safest line of action is to provide both the original brand name and the translated brand name on the product and that the phonetic translation may be the best single option. In case of the well-known familiar brand name, the best alternative involves the retention of the original name.

9.7 LABELLING, PACKAGING AND PRODUCT WARRANTIES AND SERVICES

Labelling

Like in the branding decision, the informational and promotional contents of the product label are influenced as well by the legal requirements as by the exporting firm's product and promotion policy.

Labelling not only serves to express the contents of the product, but maybe promotional. For example the EU is now putting very stringent regulations in force on labelling, even to the degree that the pesticides and insecticides used in horticultural produce have to be listed. This could be very demanding for producers, especially small scale ones, where production techniques may not be standardised. Government labelling regulations vary from country to country. Labels may have to be multilingual, especially if the product is a world brand. Translation could be a problem with many words being translated with difficulty. Again labelling is expensive, and in promotion terms non-standard labels are more expensive than standard ones.

While the aspects concerning name of manufacturer, date of manufacture, shelf-life,. weight, contents, ingredients, price and handling instructions vary with the legal requirements and the international marketing policy of the firm, the languages) of the host country, and the level of literacy of its people determine the graphics and visuals to be used on the product label.

Packaging

A package as simple as it may look, is influenced in its design, material, shape and weight by a large number of factors. Packaging serves many purposes. It protects the product from damage, which could be incurred in handling and transportation and also has a promotional aspect. It can be very expensive. 'Size, unit type, weight and volume are very important in packaging. For aircraft cargo the ;package needs to be light but strong, for sea cargo containers are often the best form. The customer may also decide the best form of packaging. Costs of packaging have always to be weighed against the advantage gained by it.

Increasingly, environmental aspects are coming into play. Packaging which is non-degradable - plastic, for example - is less in demand. Bio-degradable, recyclable, reusable packaging is now the order of the day. This can be both expensive and demanding for many developing countries.

The important factors of packaging are:

- safety and security of the product within the package in terms of temperature limits, barometric pressure, corrodibility, colour retention, vibrations, and even the ecological effect of the package in itself;
- transportation hazards, weight and package construction in case of air shipment, and the handling and warehousing needs of the package;
- customer perceptions in terms of shape, size, colour, storage life, reusability and aesthetics;
- product promotion in terms of display value of the package, shelf-life, package attractiveness as a silent salesperson, brand and label information and sales promotion aids like coupons, stickers, etc; and
- compliance with legal requirements, and how much does the package cost in the light of the role it performs.

These factors force the exporting firm to keep in touch with innovative packaging materials and be on the look out to make their packaging cost effective.

Product Warranty and Services

A warranty is a guarantee on the product performance as stipulated by the manufacturer. In other words, it defines the manufacturer's liability in the case of non-performance, or under-performance of the product.

Other than compliance with the legal requirements of the host country, product warranties and service constitute an integral part of the added value of the product offered in international markets. As such, it must be one-up on the competitors.

A warranty without the backup of service facilities is counter productive. Consumer durables and industrial goods require servicing that is both convenient and reliable. Since customer service means enhancing efficiency of the product as well as that of the customer, the formulation of the service policy requires an assessment of customer expectations and needs, competitive practices, and the quality of servicing infrastructure and network in existence in the host country. Generally speaking, where the host country's service infrastructure has been found to be of satisfactory level, international marketers (such as General Motors and TELCO) have preferred to have tie-ups with local services for provision of services and have supported them with regular supply of spares, manuals, drawings and the training of their personnel. This is one area in which Indian exporters have to improve a lot.

9.8 SUMMARY

International product policy and planning plays a crucial role in the successful management of international marketing operations. Aimed at seizing the market opportunity, it focuses on the basic decision of whether to export the domestic standardised product or to adapt or even develop a new product for the global markets. Although global marketing of the standardised product is more convenient and profitable, yet customer needs, competitive pressures and legal considerations require the product to be adapted-to even the newly developed needs.

Implementation of the product policy requires planning of the width and depth of the product-mix. Branding, labeling, packaging and organisation of product warranties and service are the other integral parts of international product policy and planning.

9.9 SELF-ASSESSMENT QUESTIONS

1. Why do you think a company should or should not market the same product in the same way around the world? Explain with the help of suitable examples.
2. Give two examples of product that should be adapted for foreign markets and two that should be standardized. Explain your reasoning.

3. Briefly explain various combinations of product /communication strategies available to global marketers?

4. What considerations are involved in the branding and packaging of food products or garments, for the developed country market, and for less-developed country market Name the countries selected

9.10 FURTHER READINGS

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