

CHAPTER 10

BRAND AND PRODUCT DECISIONS IN GLOBAL MARKETING

SUMMARY

- A. The product is the most important element of a company's marketing program. Global marketers face the challenge of formulating coherent product and brand strategies on a worldwide basis. A **product** can be viewed as a collection of tangible and intangible attributes that collectively provide benefits to a buyer or user. A **brand** is a complex bundle of images and experiences in the mind of the customer. In most countries, **local brands** compete with **international brands** and **global brands**. A **local product** is **available in a single country**; an **international product** is available in several countries; a **global product** meets the wants and needs of a global market.
- B. A **global brand** has the same name and a similar image and positioning in most parts of the world. Many global companies leverage favorable **brand images** and high **brand equity** by employing **combination (tiered) branding**, **co-branding**, and **brand extension** strategies. Companies can create strong brands in all markets through **global brand leadership**. **Maslow's needs hierarchy** is a needs-based framework that offers a way of understanding opportunities to develop local and global products in different parts of the world. Some products and brands benefit from the **country-of-origin effect**. Product decisions must also address packaging issues such as **labeling** and **aesthetics**. Also, **express warranty** policies must be appropriate for each country market.
- C. Product and communications strategies can be viewed within a framework that allows for combinations of three strategies: **extension strategy**, **adaptation strategy**, and **creation strategy**. Five strategic alternatives are open to companies pursuing geographic expansion: **product-communication extension**; **product extension-communication adaptation**; **product adaptation-communication extension**; **product-communication adaptation (dual adaptation)**; and **product invention (innovation)**. The strategic alternative(s) that a particular company chooses will depend on the product and the need it serves, customer preferences and purchasing power, and the costs of adaptation versus standardization. **Product transformation** occurs when a product that has been introduced into new country markets serves a different function or is used differently than originally intended. When choosing a strategy, management should consciously strive to avoid the "**not invented here**" syndrome.
- D. Global competition has put pressure on companies to excel at developing standardized product **platforms** that can serve as a foundation for cost-efficient adaptation. New products can be classified as **discontinuous**, **dynamically continuous**, or **continuous innovations** such as line extensions. A successful product launch requires an understanding of how markets develop: sequentially over time or simultaneously. Today,

many new products are launched in multiple national markets as product development cycles shorten and product development costs soar.

LEARNING OBJECTIVES

10-1 Review the basic product concepts that underlie a successful global marketing product strategy.

10-2 Compare and contrast local products and brands, international products and brands, and global products and brands.

10-3 Explain how Maslow's needs hierarchy helps global marketers understand the benefits sought by buyers in different parts of the world.

10-4 Outline the importance of "country of origin" as a brand element.

10-5 List the five strategic alternatives that marketers can utilize during the global product planning process.

10-6 Explain the new-product continuum and compare and contrast the different types of innovation.

DISCUSSION QUESTIONS

10-1. What is the difference between a product and a brand?

A *product* can be defined as a collection of tangible and intangible attributes. The former includes physical features, design attributes, and packaging. The chrome on a Harley-Davidson motorcycle is a physical attribute, as are cup holders in a minivan. Intangible product attributes include such things as reputation, mystique, or a distinguished heritage.

A *brand* is defined in the text as a symbol about which consumers have beliefs or perceptions. A more complete definition would describe a brand as a complex bundle of images, promises, and experiences in the customer's mind that represent a promise by a particular company about a particular product. In other words, brand represents the relationship that marketing has established with a customer.

10-2. How do local, international, and global products differ? Cite examples.

A *local product* or *brand* is perceived to have potential in a single national or regional market. Coca-Cola's Georgia-brand canned coffee is an example cited in the text. Vegemite is a vegetable food spread popular only in Australia. *International products* or *brands* are those originally intended for a single home-country market or a specific geographic region; however, marketers are aware of extension possibilities. For example,

GE recently experienced success in exporting full-sized refrigerators to Japan where consumers have responded favorably to the simple designs. A typical Japanese refrigerator from Matsushita has three doors and a special chilling compartment for fish. The Smart car is an example of an international product; it was specifically designed for the needs of the European market. If the European launch is successful, Smart may be exported to the U.S. and other markets. Global products are designed to meet the needs of a global market rather than the needs of an individual country market or a well-defined regional market. The Sony Walkman, Colgate's Total toothpaste, and Cisco Systems' network routers are all examples of products developed for the global market.

10-3. What are some of the elements that make up a brand? Are these elements tangible or intangible?

The components of a brand image are shown in Figure 10-1. At the heart of the brand is a person's expertise with it. In addition, the brand name and logo, company name, packaging, after-sales service, and attitudes of family and friends help define the brand. These elements are intangible; however, many brands include tangible aspects. Examples include the contoured Coke bottle, the three-pronged Mercedes hood ornament.

10-4. Which criteria should global marketers consider when making product design decisions?

A standardized global product platform can offer potential cost savings. Customer preferences, costs, country laws and regulations, and environmental compatibility are all noted in the text as factors affecting design decisions. For example, Europe's Single Market means a common harmonized standard for many products. This creates an opportunity for many companies to design pan-European products, subject to remaining cultural differences between European countries. However, product safety provisions in Europe are still established on a country-by-country basis.

10-5. How can buyer attitudes about a product's country of origin affect marketing strategy?

If buyers feel positive about a country, a company should consider playing up the country-of-origin in its marketing communications. For example, Volkswagen's "Fahrvehrnugen" campaign from the early 1990s proclaimed the company's German roots, even though many of the cars it sells are assembled in low-wage countries like Mexico. "Made in U.S.A. is part of the appeal of Harley-Davidson; similarly, Switzerland is synonymous with high-quality watches in various price ranges.

Russia and the South Africa are two countries in which policy makers and business leaders have an uphill battle in combating negative country-of-origin perceptions. While Russia is synonymous with high-quality vodka (a fact played up in ads for Stolichnaya), few other consumer products benefit from an association with the former Communist country. Similarly, South Africa produces very fine wines at attractive prices, but American consumers have been unresponsive even though apartheid has ended. Vietnam is another country that may encounter negative bias, at least in the United States. Over time, lingering biases may evaporate and attitudes can be changed. Meanwhile, in

countries for which negative biases exist, country of origin should be downplayed in packaging and marketing communications.

10-6. Identify several global brands. What are some of the reasons for the global success of the brands you chose?

Depending on what a particular student's home country is, he or she may mention Coca-Cola, Kodak, Sony, Mercedes-Benz, or Nike. As discussed in the text, Nike has tremendous brand vitality, due in part to the use of celebrity athletes in its ads. An interesting discussion topic would be potential long-term damage to the Coke brand stemming from the product recalls in Europe during summer 1999.

10-7. Each year, the Interbrand consultancy compiles a ranking of global brands. The top-ranked brands for 2017 are shown in Table 10-2. Browse through the list and choose any brand that interests you. Compare its 2017 ranking with the most recent ranking, which you can find online at www.interbrand.com. How has the brand's ranking changed? Consult additional sources (e.g., articles from print media, annual reports, the company's Web site) to enhance your understanding of the factors and forces that contributed to the brand's move up or down in the rankings.

Each student answers will vary according to his/her choice.

10-8. Hofstede's social values framework can be used to help explain the Asian version of Maslow's hierarchy. Which dimension from Table 4-2 is most relevant? In Chapter 4, we also noted the differences between innovation diffusion processes in Asia and the West. Review the discussion in the chapter. Can you relate it to Figure 10-1?

From Table 4-2 we find that masculinity, long-term orientation, and uncertainty avoidance are the most relevant to understanding the Asian market. And from Figure 10-1 we noted the changes to Maslow's hierarchy, in which self-actualization (personal) and social needs are important to Asians. Additionally, culture and communication patterns that affect the diffusion process and the high-context cultures with a relatively homogeneous population and a high degree of environmental sensitivity are key drivers to the Asian markets.

10-9. Compare and contrast the three categories of innovation discussed in the chapter. Which type of innovation do flat-panel widescreen HDTVs represent? The iPad?

Products that create new markets and consumption patterns are called discontinuous innovations (e.g., the VCR's impact is explained by time shifting: it freed viewers from programming schedules).

Dynamically continuous innovations refer to products that share certain features with earlier generations while incorporating new features (e.g., Sony's Walkman). Such products cause relatively smaller disruptions of previously existing consumption patterns.

Continuous innovation refers to products that are “new and improved” versions of existing ones and require less R&D expenditure to develop than dynamically continuous innovations. Continuous innovations cause minimal disruption of existing consumption patterns and require the least amount of learning.

The Flat-screen TV is a continuous innovation although it represents a departure from the cathode-ray tube (CRT) technology. Thanks to innovative liquid-crystal display (LCD) and plasma-gas technologies used to manufacture screens for personal computers, TV sets are sleek, sexy, and cool. With their sharper, brighter pictures, they enhance the enjoyment of viewing wide-screen DVD movies at home.

The iPad is so new that no one's definition is accurate but if one was to guess, one might say that the iPad is a discontinuous innovation—its potential is still unknown and evolving!

OVERVIEW

Products – and the companies and brands associated with them - are perhaps the most crucial element of a company's marketing program; they are integral to the company's value proposition. Every aspect of a firm's marketing program, including pricing, distribution, and communication policies, must fit the product.

This chapter examines the major dimensions of global product and brand decisions. First is a review of basic product and brand concepts, followed by a discussion of local, international, and global products and brands. Product design criteria are identified, and attitudes toward foreign products are explored. The next section outlines strategic alternatives available to global marketers.

ANNOTATED LECTURE/OUTLINE

BASIC PRODUCT CONCEPTS

✓ (Learning Objective #1)

The product *P* of the marketing mix is at the heart of the challenges and opportunities facing global companies today: Management must develop product and brand policies and strategies that are sensitive to market needs, competition, and company ambitions and resources on a global scale. Effective global marketing often entails finding a balance between the payoff from extensively adapting products and brands to local market preferences and the benefits that come from concentrating company resources on relatively standardized global products and brands.

A **product** is a good, service, or idea with both tangible and intangible attributes that collectively create value for a buyer or user.

A product's *tangible* attributes can be assessed in physical terms such as weight, dimensions, or materials used.

Intangible product attributes, including status associated with product ownership, a manufacturer's service commitment, and a brand's overall reputation or mystique, are also important.

Product Types

A frequently used framework for classifying products distinguishes between consumer and industrial goods.

Consumer and industrial goods can be further classified on the basis of **buyer orientation**. Buyer orientation is a composite measure of the amount of effort a customer expends, the level of risk associated with a purchase, and buyer involvement in the purchase.

The buyer orientation framework includes such categories as convenience, preference, shopping, and specialty goods.

Product Warranties

A warranty can be an important element of a product's value proposition.

An express warranty is a written guarantee that assures the buyer that he or she is getting what he or she has paid for or that provides recourse in case a product's performance falls short of expectations.

In global marketing, warranties can be used as a competitive tool to position a company in a positive way.

Packaging

Oftentimes, packaging is an integral element of product-related decisions. Packaging is an important consideration for products that are shipped to markets in far-flung corners of the world.

The term *consumer packaged goods* applies to a wide variety of products whose packaging is designed to protect or contain the product during shipping, at retail locations, and at the point of use or consumption.

"Eco-packaging" is a key issue today, and package designers must address environmental issues such as recycling, biodegradability, and sustainable forestry.

Packaging also serves important communication functions: Packages (and labels attached to them) offer communication cues that can influence consumers when making a purchase decision.

Today, many industry experts agree that packaging must engage the senses, make an emotional connection, and enhance a consumer's brand experience.

Labeling

One hallmark of the modern global marketplace is the abundance of multilanguage labeling that appears on many products.

In today's self-service retail environments, product labels may be designed to attract attention, to support a product's positioning, and to help persuade consumers to buy.

Labels can also provide consumers with various types of information. Obviously, care must be taken that all ingredient information and use and care instructions are properly translated.

The content of product labels may also be dictated by country - or region - specific regulations. Regulations regarding mandatory label content vary in different parts of the world.

Aesthetics

In Chapter 4, the discussion of aesthetics included perceptions of color in different parts of the world.

Global marketers must understand the importance of *visual aesthetics* embodied in the color or shape of a product, label, or package. Likewise, *aesthetic styles*, such as the degree of complexity found on a label, are perceived differently in different parts of the world.

Aesthetic elements that are deemed appropriate, attractive, and appealing in a company's home country may be perceived differently – and to the product's detriment - elsewhere. In some cases, a standardized color can be used in all countries.

BASIC BRANDING CONCEPTS

✓ (Learning Objective #2)

A **brand** is a complex bundle of images and experiences in the customer's mind.

Brands perform two important functions:

1. A brand represents a promise by a particular company regarding a particular product; it is a type of quality certification.
2. Brands enable customers to better organize their shopping experience by helping them seek out and find a particular product.

The sum of a consumer's impressions is a **brand image**, defined as perceptions about a brand as reflected by brand associations that consumers hold in their memories.

Brand image is one way that competitors in the same industry sector differentiate themselves.

Brand equity represents the total value that accrues to a product as a result of a company's cumulative investments in the marketing of the brand.

Brand equity can also be thought of as an asset representing the value created by the relationship between the brand and its customers over time—the stronger the relationship, the greater the equity.

Companies develop logos, distinctive packaging, and other communication devices to provide visual representations of their brands.

A logo can take a variety of forms, starting with the brand name itself, a *word mark* consisting of words like “Coke” or a *non-word mark* such as the Nike swoosh.

Local Products and Brands

A **local product** or **local brand** is one that has achieved success in a single national market.

Sometimes a global company creates local products and brands in an effort to cater to the needs and preferences of particular country markets.

Local products and brands also represent the lifeblood of domestic companies.

Entrenched local products and brands can represent significant competitive hurdles to global companies entering new country markets (In China, a sporting goods company started by Olympic gold medalist Li Ning competes head to head with global powerhouse Nike).

In developing countries, global brands are sometimes perceived as overpowering scrappy local ones. Growing national pride can result in a social backlash that favors local products and brands.

International Products and Brands

International products and **international brands** are offered in several markets in a particular region. For example, for many years the two-seat Smart car developed by DaimlerChrysler was offered for sale in Europe only, it recently launched in the U.S. as well.

Global Products and Brands

Globalization is putting pressure on companies to develop global products and to leverage brand equity on a worldwide basis. A **global product** meets the wants and needs of a global market. A true global product is offered in all world regions, including the Triad and in countries at every stage of development.

A **global brand** has the same name and, in some instances, a similar image and positioning throughout the world.

Some companies are well established as global brands. For example, Gillette (“The best a man can get”), BMW (“The ultimate driving machine”), GE (“Imagination at work”), and Harley-Davidson (“An American legend”).

In the twenty-first century, global brands are becoming increasingly important.

Across the planet, consumers, corporate buyers, governments, activists, and other groups associate global brands with three characteristics which consumers then use as a guide when making purchase decisions:

1. *Quality signal*. Global brands compete fiercely with each other to provide world-class quality. A global brand name differentiates product offerings and allows marketers to charge premium prices.
2. *Global myth*. Global brands are symbols of cultural ideals.
3. *Social responsibility*. Customers evaluate companies and brands in terms of how they address social problems and how they conduct business.

A global brand, however, is not the same thing as a global product.

The Sony Walkman is an example of **combination** or **tiered branding**, whereby a corporate name (Sony) is combined with a product brand name (Walkman).

By using combination branding, marketers can leverage a company’s reputation while developing a distinctive brand identity for a line of products.

Co-branding is a variation on combination branding in which two or more *different* company or product brands are featured prominently on product packaging or in advertising. When properly implemented, co-branding can engender customer loyalty and allow companies to achieve synergy.

Global companies can also leverage strong brands by creating **brand extensions**. This strategy which entails using an established brand name as an umbrella when entering new businesses or developing new product lines that represent new categories to the company. (The Virgin brand is one example.)

Table 10-1 shows the four combinations of local and global products and brands in matrix form. Each represents a different strategy a global company can use one or more strategies as appropriate.

Global Brand Development

Table 10-2 shows global brands ranked in terms of their economic value as determined by analysts at the Interbrand consultancy and Citigroup.

Developing a global brand is not always an appropriate goal.

Managers contemplating the development of a global brand must be aware of three points:

1. Managers must realistically assess whether anticipated scale economies will materialize.
2. Managers must recognize the difficulty of building a successful global brand team.
3. Managers must be alert to instances in which a single brand cannot be imposed on all markets successfully.

Aaker and Joachimsthaler recommend that companies place a priority on creating strong brands in *all* markets through **global brand leadership**.

The following six guidelines can assist marketing managers in their efforts to establish global brand leadership

1. Create a compelling value proposition for customers in every market entered, beginning with the home country market.
2. Think about all elements of brand identity and select names, marks, and symbols that have the potential for globalization. Give special attention to the Triad and BRICS nations.
3. Develop a company-wide communication system to share and leverage knowledge and information about marketing programs and customers in different countries.
4. Develop a consistent planning process across markets and products.
5. Assign specific responsibility for managing branding issues to ensure that local brand managers accept global best practices.
6. Execute brand-building strategies that leverage global strengths and respond to relevant local differences.

Coke is perhaps the quintessential global product and global brand. Coke relies on similar positioning and marketing in all countries. The basic underlying strategic principle that guide the management of the brand are the same worldwide: are we offering *essentially* the same product and brand promise?

EMERGING MARKETS BRIEFING BOOK

China Gives Buick a New Lease on Life

General Motors' experience at home and abroad provides a good example of how a company's brand strategy must be adapted to cultural realities as well as the changing needs of the market.

GM ultimately won government approval of its proposal and was given the opportunity to produce Buick sedans for government and business (see Exhibit 10-5). Why was the Buick nameplate chosen from among GM's various vehicle brands? In an interview with *Fortune*, former GM CEO Rick Wagoner related the following story: There is a straightforwardness to the way the Chinese negotiate things. What they are interested in becomes clear quickly. When we were ready to go into the China market, they said, "Okay, we will choose GM, and we want you to use Buick." We said, "It is not really one of our global brands. We'd probably rather use something else." They said, "We'd like you to use Buick." We said, "We'll use Buick." And it has worked great. Back at home, Buick's image has been in decline for decades.

Today, Buick's sales in China exceed those in the United States, and by a good margin. This fact helps explain why the Buick nameplate is still in production. When the U.S. government took control of General Motors, it pressured GM chief Fritz Henderson to terminate Buick. Thanks to the brand's popularity in China, it was given a reprieve.

A NEEDS-BASED APPROACH TO PRODUCT PLANNING

✓ (Learning Objective #3)

Maslow's hierarchy of needs (see Figure 10-1), a staple of sociology and psychology, provides a useful framework for understanding how and why local products and brands can be extended beyond home-country borders.

Maslow proposed that people's desires can be arranged into a hierarchy of five needs. An individual fulfills needs at each level and progresses to higher levels (Figure 10-1).

At the most basic level of human existence, physiological and safety needs must be met.

People need food, clothing, and shelter, and a product that meets basic needs has the potential for globalization.

Of course, the basic need to eat is not the same as wanting a Big Mac or a Coke.

Because Coca-Cola and McDonald's fulfill basic human needs and market their products well, they built global brand franchises.

Both know that some food and drink preferences are embedded in culture, both companies created local products and brands for particular country markets.

Mid-level needs in the hierarchy include self-respect, self-esteem, and the esteem of others.

These social needs, which can create a powerful internal motivation driving demand for status-oriented products, cut across the various stages of country development (e.g., consumers in Malaysia buy the same upscale Parker pen as Americans shopping at Neiman Marcus).

Luxury goods marketers are especially skilled at catering to esteem needs on a global basis (e.g. Rolex).

Some consumers flaunt their wealth: this behavior is called *conspicuous consumption* or *luxury badging*.

Products fulfill different needs in different countries. The *primary function* of the refrigerator in high-income countries relates to basic needs.

In some developing countries, refrigerators have an important *secondary purpose* related to higher-order needs: they fulfill a need for prestige.

Hellmut Schütte proposed a modified hierarchy to explain the needs and wants of Asian consumers.

The three highest levels emphasize the intricacy and importance of social needs.

Affiliation needs in Asia are satisfied when an individual feels accepted by a group; conformity with group norms is a key force driving consumer behavior.

The next level is *admiration*, a higher-level need that can be satisfied through acts that command respect within a group.

At the top of the Asian hierarchy is *status*, the esteem of society as a whole.

The quest for status leads to luxury badging (e.g., nearly half of Gucci's sales revenues are generated in Asia).

“COUNTRY OF ORIGIN” AS BRAND ELEMENT

✓ (Learning Objective #4)

One of the facts of life in global marketing is that perceptions of attitudes towards particular countries often extend to products and brands known to originate in those countries. Such perceptions contribute to the **country-of-origin effect**; they become part of a brand's image and contribute to brand equity.

Perceptions and attitudes can be positive or negative—“German” is synonymous with quality engineering, “Italian” with style, and “French” with chic.

The manufacturing reputation of a particular country can change over time (e.g. “Made in the USA” image had lost ground to the “Made in Japan” image).

In some product categories, foreign products have a substantial advantage over their domestic counterparts simply because of their “foreign-ness”. Global marketers, in turn, recognize that they can capitalize on that situation by charging premium prices. (e.g., foreign beers).

EXTEND, ADAPT, CREATE: STRATEGIC ALTERNATIVES IN GLOBAL MARKETING

✓ (Learning Objective #5)

To capitalize on opportunities outside the home country, company managers must devise and implement appropriate marketing programs. Depending on organizational objectives and market needs, a particular program may consist of extension strategies, adaptation strategies, or a combination of the two.

The following strategies are possibilities:

- An **extension strategy** that calls for offering a product virtually unchanged (i.e., “extending” it) in markets outside the home country.
- An **adaptation strategy** involves changing elements of design, function, or packaging in response to needs or conditions in particular country markets.
- **Product invention** entails developing new products “from the ground up” with the world market in mind.

Laws and regulations in different countries frequently lead to obligatory product design adaptations. This mandate may be seen most clearly in Europe, where one impetus for the creation of the single market was the desire to dismantle regulatory and legal barriers that prevented pan-European sales of standardized products.

In the food industry, for example, there were 200 legal and regulatory barriers to cross-border trade within the EU in 10 food categories. Among these were prohibitions or taxes on products with certain ingredients and different packaging and labeling laws. As these barriers are dismantled there will be less need to adapt product designs and many companies will be able to create standardized “Euro-products.”

The extension/adaptation/creation decision is one of the most fundamental issues addressed by a company's global marketing strategy.

Although it pertains to all elements of the marketing mix, extension/adaptation is of particular importance in product and communications decisions.

Earlier in the chapter, Table 10-1 displayed product and brand strategic options in matrix form. Figure 10-3 expands on those options: All aspects of promotion and communication—not just branding—are considered.

Companies in the international, global, and transnational stages of development all employ extension strategies. The critical difference is one of execution and mind-set.

In an international company, the extension strategy reflects an ethnocentric orientation and the *assumption* that all markets are alike.

A multinational company utilizes the adaptation strategy because of its polycentric orientation and the assumption that all markets are different.

The geocentric orientation of managers and executives in a global company has sensitized them to actual, rather than assumed, differences between markets.

Strategy 1: Product-Communication Extension (dual extension)

Many companies employ **product-communication extension** as a strategy when pursuing global market opportunities.

Under the right conditions, this is a very straightforward marketing strategy; it can be the most profitable approach as well.

Companies pursuing this strategy sell the same product with essentially no adaptation, using the same advertising and promotional appeals used domestically, in two or more country markets or segments.

Strategy 2: Product Extension/Communication Adaptation

In some instances, a product or brand can be successfully extended to multiple country markets with some modifications of the communication strategy.

Research may have revealed that consumer perceptions about one or more aspects of the value proposition are different from country to country. It may also turn out that a product fills a different need, appeals to a different segment, or serves a different function in a particular country or region.

Whatever the reason, extending the product while adapting the marketing communication program may be the key to market success.

The appeal of the **product extension-communication adaptation** strategy is its relatively low cost of implementation.

Marketers of premium American bourbon brands such as Wild Turkey have found that images of Delta blues music, New Orleans, and Route 66 appeal to upscale drinkers outside the United States. However, images that stress bourbon's rustic, backwoods origins do not necessarily appeal to Americans.

Jägermeister is an example of **product transformation**: The same physical product ends up serving a different function or use than that for which it was originally designed or created.

Strategy 3: Product Adaptation-Communication Extension

A third approach to global product planning is to adapt the product to local use or preference conditions while extending, without minimal change, the basic home-market communication strategy or brand name.

This third strategy option is known as **product adaptation-communication extension**.

Kraft's experience with Oreos in China is an example of changing from a product extension to product adaption strategy.

Strategy 4: Product-Communication Adaptation (dual adaptation)

A company may also utilize the **product-communication adaptation (dual adaptation)** strategy. As the name implies, both the product and one or more promotional elements are adapted for a particular country or region.

The four strategy alternatives are not mutually exclusive. A company can simultaneously utilize different product/communication strategies in different parts of the world.

Nike's "bad boy" image is at odds with ingrained Chinese values, and the price of their shoes was out of line with average Chinese household incomes, so Nike adapted both their advertising and pricing programs.

Strategy 5: Innovation

Extension and adaptation strategies are effective approaches to many but not all global market opportunities.

For example, they do not respond to markets where there is a need but not the purchasing power to buy either the existing or an adapted product.

Global companies are likely to encounter this situation when targeting consumers in India, China, and other emerging markets.

When potential customers have limited purchasing power, a company may need to develop an entirely new product designed to address the market opportunity at a price point that is within the reach of the potential customer.

The converse is also true: Companies in low-income countries that have achieved local success may have to go beyond mere adaptation by "raising the bar" and bringing product designs up to world-class standards if they are to succeed in high-income countries.

Innovation is a demanding but potentially rewarding product strategy for reaching mass markets in less-developed countries as well as important market segments in industrialized countries.

The winners in global competition are the companies that can develop products offering the most benefits, which in turn create the greatest value for buyers anywhere in the world.

In some instances, value is not defined in terms of performance, but rather in terms of customer perception.

How to Choose a Strategy

Most companies seek product-communications strategies that optimize company profits over the long term.

Which strategy for global markets best achieves this goal? There is no one right answer to this question.

Managers run the risk of committing two types of errors regarding product and communication decisions.

1. To fall victim to the "**not invented here**" (NIH) **syndrome**, and *ignore* decisions made by subsidiary or affiliate managers.
2. To *impose* policies upon all affiliate companies based on the assumption that what is right for customers in the home market must also be right for customers everywhere.

INNOVATION, ENTREPRENEURIAL LEADERSHIP, AND THE GLOBAL STARTUP

Elon Musk

Elon Musk is an entrepreneur. He has developed several innovative products and services, created new brands, and started companies to market his creations. By applying the basic tools and principles of modern marketing, Musk has achieved remarkable success.

Musk is moving ahead with plans to build heavy-duty trucks and busses, all powered by batteries. The new trucks promise to be cheaper to operate per mile than conventional diesel trucks.

In 2017, it became apparent that Tesla was falling behind in its production goals for the Model 3. Instead of producing 5,000 units per week, as Musk had projected, only a few hundred vehicles were completed. Those vehicles had to be partially assembled by hand due to problems with some elements of the highly sophisticated automated assembly process.

To sum up, the choice of product-communication strategy in global marketing is a function of three key factors:

1. The product itself, defined in terms of the function or need it serves;
2. The market, defined in terms of the conditions under which the product is used, the preferences of potential customers, and the consumer's ability and willingness to buy; and
3. The adaptation and manufacturing costs to the company considering these product-communication approaches.

NEW PRODUCTS IN GLOBAL MARKETING

✓ (Learning Objective #6)

The four strategic options described in the matrix (Figure 10-3) do not necessarily represent the best possible responses to global market opportunities.

In today's dynamic, competitive market environment, many companies realize that continuous development and introduction of new products are keys to survival and growth. That is the point of Strategy 5, product invention.

Identifying New-Product Ideas

The product may be radically new, in the form of an innovation that requires a significant amount of learning on the part of users. When such products are successful, they create new markets and new consumption patterns, and have a disruptive impact on industry structures. Sometimes referred to as **discontinuous innovations**, products that belong to this category of “new and different” represent a dramatic break with the past.

An intermediate category of newness is less disruptive and requires less learning on the part of consumers; such products are called **dynamically continuous innovations**. Products that embody this level of innovation share certain features with earlier generations while incorporating new features that offer added value such as a substantial improvement in performance or greater convenience.

Most new products fall into a third category, **continuous innovation**. Such products are typically “new and improved” versions of existing ones and require less R&D expenditure to develop than dynamically continuous innovations. Continuous innovations cause minimal disruption in existing consumption patterns and require the least amount of learning on the part of buyers.

Consumer packaged goods companies and food marketers rely heavily on continuous innovation when rolling out new products. These often take the form of **line extensions** such as new sizes, flavors, and low-fat versions.

New-Product Development

A major driver for the development of global products is the cost of product R&D. As competition intensifies, companies may discover they can reduce the cost of R&D for a product by developing a global product design. Often the goal of new product development is to create a single **platform**, or core product design element or component that can be quickly and cheaply adapted to various country markets.

Even automobiles are now being designed with global markets in mind. The Ford Focus and GM’s minivan are two recent examples.

Durability and **quality** are important product characteristics that must be appropriate for the proposed market.

The International New Product Department

As noted previously, a high volume of information flow is required to scan the horizon for new product opportunities, and considerable effort is subsequently required to screen these opportunities to identify viable candidates for product development. The best organizational design for addressing these requirements is a new-product department. Managers in such a department engage in several activities.

First, they ensure that all relevant information sources are continuously tapped for new-product ideas. Second, they screen these ideas to identify candidates for investigation. Third, they investigate and analyze selected new-product ideas. Finally, they ensure that the organization

commits resources to the most promising new-product candidates and is continuously involved in an orderly program of new-product introduction and development on a worldwide basis.

With the enormous number of possible new products, most companies establish screening grids to enable them to focus on those ideas that are most appropriate for investigation. The following questions are relevant to this task:

1. How big is the market for this product at various prices?
2. What are our competitor's likely moves in response to our activity with this product?
3. Can we market the product through our existing structure? If not, which changes will be required, and what costs will be incurred to make the changes?
4. Given estimates of potential demand for this product at the specified prices and estimated levels of competition, can we source the product at a cost that will yield an adequate profit?
5. Does this product fit our strategic development plan? (a) Is the product consistent with our overall goals and objectives? (b) Is the product consistent with our available resources? (c) Is the product consistent with our management structure? (d) Does the product have adequate global potential?

Testing New Products

The major lesson of new-product introduction outside the home market has been that whenever a product interacts with human, mechanical, or chemical elements, there is the potential for a surprising and unexpected incompatibility.

Because almost *every* product matches this description, it is important to test a product under actual market conditions before proceeding with full-scale introduction. A test does not necessarily require a full scale test-marketing effort but may simply involve observing the actual use of the product in the target market.

Failure to assess actual use conditions can lead to big surprises.

CASES

Case 10-1: Google

Overview: Alphabet, the company formerly known as Google, has developed some of the world's premiere technology companies. Founded in 1998 by Larry Page and Sergei Brin with a focus on Internet searches. Alphabet has developed an impressive product and brand portfolio that includes consumer offerings such as Google+, Google Play, Google Wallet, and Google Chrome.

Alphabet's myriad product development initiatives illustrate the point that products and brands are arguably the most crucial element of a company's marketing program; they are integral to the company's value proposition.

10-10. Why was Google rebranded as Alphabet?

Today the company has grown far beyond its roots in search. This is one of the reasons for the corporate restructuring and name change.

10-11. Apply the new-product continuum, Figure 10-4, to Google's Moonshot Factory. Which category of products and services is most evident in that organization's work?

More than one-third of the world's population does not have Internet access. Project Loon is Alphabet's solution. The company has an ambitious plan to launch thousands of solar-powered, high-pressure aerial balloons that will circle the globe and connect to the Internet by means of a network of ground stations.

Regarding the new-product continuum, students' answers may vary. I believe Moonshot's Project Loon will create new markets and new consumption patterns, therefore belongs to the category of discontinuous innovations.

10-12. Assess the prospect for driverless cars. Once the technology is perfected, which obstacles will Waymo have to overcome before autonomous mobility becomes widely adopted?

Students' answers will vary greatly on this. I think the obstacles Alphabet will face are numerous, including consumer confidence and regulatory approval.

10-13. One goal for Alphabet's X division is to create a new money-making business that rivals Google in size and profitability but does not involve search functions. What do you think that will be?

Student answers will vary on this. I really have no idea, but I believe it will be incredible.

TEACHING TOOLS AND EXERCISES

Additional Case:

"Nanosolar, Inc." Thomas Steenburgh; Alison Berkley Wagonfeld. *HBS 510037*.

Video:

This video discusses how McDonalds blends a global and local strategy. It discusses why a local strategy is needed in different markets, for example they would not offer burgers in countries that do not eat beef, and there are kosher entrees in Israel, etc.

Link: <http://www.youtube.com/watch?v=v6coDUDCJ10&feature=related>

Activity: Students should be preparing or presenting their Cultural-Economic Analysis and Marketing Plan for their country and product as outlined in Chapter 1.

Movie: Assign your students the movie *Cool Runnings*. *Cool Runnings* concerns the Jamaican bobsled team that competed in the 1988 Winter Olympics. The film is both entertaining and provides a nice unique look at branding.

Internet Exercise: Go to Business Week (www.businessweek.com) and compare and contrast the Top 100 Global Brands for 2009 and 2008.

What brands have shifted positions? Speculate on why brands shift global positioning in 1 year's time frame. Which brands are you familiar with, which ones are you not?

Go to the Johnson & Johnson website to see the value of the consumer goods giant's brand equity. How many different brands does Johnson & Johnson have? What are the company's global markets? www.jnj.com

Small Group Activity: In small groups, take a new product idea and carry the new product through a new product development process for the global marketplace. You may have to use your imagination in certain phases. When you have finished, analyze your effort. Do you think your product has a chance of success? What factors would be critical to the success of the product? What additional information do you need to be able to make the idea work? Where would you get the information?

Written Exercise: List 10 of your favorite brand names. Which are global brands? What do you like about the product and/brand name? What do you dislike? What image does the brand have in your mind? How loyal are you toward the brand? Students can write a short paper and share their answers with the class.

SUGGESTED READING

Books

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Roth, Martin S., and Jean B. Romeo. "Matching Product Category and Country Image Perceptions: A Framework for Managing Country-of-Origin Effects." *Journal of International Business Studies* 23, no. 3 (Third Quarter 1992), pp. 477-498.

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This whole 67 page PDF is about branding and provides examples and cases of branding strategies worldwide.

Link: http://www.ibscdc.org/case-catalogues/Marketing_Case_Studies_Catalogues.pdf

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