Global manufacturing: creating the balance between local and global markets

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Abstract

Purpose – For several years, the domestic markets of manufacturing organizations have started to reach maturity and companies have sought to expand their international operations in order to grow. This has meant that there has been an increasing emphasis on the debate on whether companies should remain global or localize their marketing mix, and to what extent each element should be adapted or standardized. The paper aims to explore the degree to which manufacturing organizations need to standardize or adapt elements of their marketing mix. It demonstrates how a balance can be created between global and local approaches.

Design/methodology/approach – The paper defines the key concepts of adaptation and standardization and outlines contrasting viewpoints in the literature. It uses existing frameworks as a basis for analysis. The use of case study examples that demonstrate both international brand failures and brand successes shed light on balancing local and global markets.

Findings – The paper provides insight into the different approaches that manufacturing organizations can follow when expanding into international markets. The paper argues against the statement "manufacturing organizations are either mindlessly global or hopelessly local" and demonstrate that manufacturing organizations can successfully combine a global and local approach if they carefully choose the elements that they adapt or standardize.

Originality/value – This paper is based on previous research between manufacturing companies operating in Europe and the Middle East. It is therefore vocationally original. It is of value to manufacturing companies, which need to understand how they can balance global and local markets.

Keywords Globalization, Localization, Manufacturing industries, Europe, Middle East

Paper type Case study

1. Definitions of adaptation and standardization

The process of "globalization," refers to the big-picture process that draws products, services, and markets around the world closer together. It is a process that involves a complex array of actors and institutions, including firms, governments, non-governmental organizations, and consumers. This process is typically analyzed at the macroeconomic level, where the country is the unit of analysis.

While academic and social debates about "globalization," "global village,", etc. continues, corporations are expected to create profitable businesses and generate returns for investors by entering trans-border markets, compete against international rivals, risk investments, find and develop opportunities in a turbulent world which is in continuous competitive transformation. Their power of leadership and foresight needs to manage extended international enterprises, enter diverse international markets, and manage risks and uncertainties that range from global supply chains to financial risks to geopolitical risks.

Production is increasingly a global activity. In this ongoing internationalization of production, multinational corporations (MNCs) have played a critical role. While most multinationals still originate from advanced, developed nations, there is a growing number of MNCs from countries that do not belong to this select group.

There is a range of international activities that takes place within the framework of the MNC and these activities can be analyzed from a number of different points of view.

Globalizing therefore refers to the process by which a given firm begins a journey of becoming global in its vision and corporate objectives in order to achieve competitiveness. Few, if any, firms have completed this journey "truly global"; many, however, are globalizing. Globalizing is a process that unfolds not at the level of the country but at the level of the firm, and consists of the actions firms have to take as they become more engaged in that process.

An approach that is prevalent in a large part of the MNC literature takes the internalization decision as given and focuses primarily, and in more detail, on the division of labor between parent and affiliate within the MNC. MNCs that relocate activities internationally organize production both in scope (the set of products) and in depth (stages of production) between the parent and the affiliate in such a way as to take advantage of international differences in factor abundance and factor prices (Helpman, 1984; Helpman, 1985; Helpman and Krugman, 1985). Interestingly enough,

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Assembly Automation
30/2 (2010) 103–108

[DOI 10.1108/01445151011029727]

This paper is an updated and revised version of an award-winning paper previously presented at Flexible Automation and Intelligent Manufacturing (FAIM) Conference, University of Teesside, Middlesbrough, UK, July 6-8, 2009.

the theory of the MNC as initially developed is primarily conceived from the perspective of advanced, developed countries (Deardorff, 1998; Jones and Kierzkowski, 1997). These theories primarily view the MNCs as a vehicle to relocate labor-intensive activities to affiliates in low-wage countries. They rationalize one-way MNC activity in which MNCs from the capital-abundant north set up affiliates in the labor-abundant South (Arndt, 1997; Feenstra and Hanson, 1997).

To understand the process of globalizing, we certainly cannot ignore the broader process of globalization. Our global political and economic systems create the context for our business enterprises. As corporations with affiliates abroad, MNCs almost by definition have a vertical component. An MNC's affiliates abroad need firm-specific (intangible) assets such as headquarter services, research and development (R&D), patents, etc. to operate and these will be traded within the firm. Since this latter vertical component is part of any MNC, Markusen and Maskus (Markusen and Maskus, 2001) do not make it the distinguishing characteristic between, what have been called, vertical and horizontal integration models of the MNCs. Essential for the vertical models in their view are differences in factor intensities of the components of the production process and relocating these to take advantage of factor price differences.

The MNCs from these countries have affiliates in both more and less-advanced countries. On the one hand, the liberalizations in China, Malaysia, Thailand, or Vietnam account for the boom of affiliates from MNCs with parents in these middle-income countries.

There is no all-encompassing theory of the MNC. There are a variety of models that focus on different aspects of multinational activity that all have some empirical relevance. MNCs take advantage of factor prices and have them break up production accordingly. On the other hand, other researchers argue that breaking up production to take advantage of factor cost differences need not be an essential motivation for MNCs (Brainard, 1993, 1997; Markusen, 1984). Access to rich markets is key and to save transportation costs, MNCs may set up shop in other developed countries instead of having to supply these markets through exports, even without factor price differences. Finally, there is the view that MNCs emerge in an effort to jump tariffs or other existing costs associated with trading goods (Dunning *et al.*, 1996).

The degree to which manufacturing organizations are and should be either globally or locally orientated and therefore the adaptation and standardization debate is by no means a new subject of discussion, with increased attention from the late-1960s. Buzzell (1968) was one of the first academics to address the concerns facing companies wishing to operate on an international scale. He argued that standardization has the potential to be a useful approach, but there are barriers to this. In this way, multinational standardization implies the same product, the same price, the same distribution systems with the same promotional techniques and message in every country that the firm wishes to operate in Buzzell (1968). This would relate to the idea of "global" above. In contrast, a "local" marketing strategy would be one in which no elements of the marketing mix are the same in any one national context. The interesting and relevant point to make about this piece of research is that it discusses both the benefits and disadvantages to standardization and therefore adopting a global approach. However, it fails to examine exactly which elements of a marketing mix should be adopted. We can now examine in further detail the standardization side of the debate.

2. The standardization argument

Levitt (1989) argued that there is no need to adapt any elements of the marketing mix to suit local tastes due to the "globalization of markets." Therefore, he would argue that manufacturing organizations can be global in their marketing approach without being "hopeless" in fact that a global approach is indeed a successful one. Levitt (1989) can be identified as the principal advocate of the standardization viewpoint. He argued that the world is becoming more homogeneous with technology being the driving force behind it. A firm that was in accordance to this viewpoint would standardize all elements of its marketing mix.

There are numerous advantages for a firm choosing to adopt a standardized approach. One such advantage is that standardization allows a brand to build up a strong global presence that is easily identifiable (Ericson, 1996), and thus consistency with customers. A second advantage is the ability to take advantage of economies of scale (Chee and Harris, 1998), which in turn leads to significant cost savings, particularly through product design. One early example of this is Henry Ford's model T where he stated that you could have "any colour so long as it's black" (Williams *et al.*, 1993). Third, a standardized approach can improve planning and control and finally standardization allows a company to exploit good ideas that are formed in one context and extend these to other contexts (Chee and Harris, 1998). However, evidence within the business context heavily suggests that there are very few manufacturing organizations if any that can be identified as taking a completely standardized approach.

There are also disadvantages to adopting a largely standardized strategy. First, a standardized strategy is primarily product driven and fails to take into account the needs of consumers (Douglas and Wind, 1987). This could lead to disastrous results if the needs are very different from the benefits that a product supplies. For example, Chee and Harris (1998) state that consumer tastes and preferences are very specific and vary considerably. Furthermore, if the products are not adapted and therefore remain at the same cost to produce, the price of the products could be so that they do not match what is affordable in a given country or more expensive than local competitors.

Furthermore, there have many cases in the business context of companies who have tried to introduce their brand to international markets, without adapting. One such example is Hallmark. Hallmark are known in the UK for their greeting cards with sentimental messages within, so that the British customer does not have to write their own message. However, when Hallmark tried to introduce their brand to the French market, they did not adapt their product apart from translating the messages into French. The French prefer to write their own messages in greeting cards and therefore the Hallmark brand failed in France (Haig, 2003).

3. The adaptation argument

The polar opposite of standardization is adaptation. Advocates of this viewpoint highlight that there are important differences between countries in terms of culture, stages of economic and marketing development, political and legal systems and customer values and lifestyles (Cateora and Graham, 2005). This would imply that adaptation is the appropriate approach. Kacker (1975) distinguishes between compulsory (legal) modifications and voluntary modification. He claims that marketers can increase the probability of success by being aware of and responding to different cultural realities. We can thus infer that adaptation has the benefits of responding to customer demand in each cultural setting. Douglas and Wind (1987) state matter of factly that arguing that a strategy of universal standardization should be applied "appears naïve and over-simplistic."

However, in recent times, there has been an increasing tendency to adapt some elements of the marketing mix and standardize others. Simon-Miller (1986) states that the only global brands are McDonalds, Kodak and Coca Cola. However, the authors would suggest that even Coca Cola adapts to local tastes and changes product names accordingly. For example, in France what is termed Diet Coke in the UK has been renamed Coke Light in France to meet legal requirements and country specific expectations. Diet Coke would imply to this culture that instead of having reduced sugar content the drink would aid weight loss. Additionally, McDonalds at one point was seen as a true global brand. However, it adapts to local market conditions and customer market needs. For example, in France, McDonalds expands its product offering to include beer and yoghurts. It is evident that different companies adapt or standardize to different extents. There are many authors who have attempted to identify to what extent elements of the marketing mix should be standardized. The EPRG paradigm examines this process through examining management orientations.

4. The EPRG paradigm

One such approach is examining management orientations through the EPRG paradigm. According to Keegan (2002), the way that a company responds to global market opportunities is dependent upon the way the management sees and understands the nature of the world. This "worldview" is explained through the EPRG paradigm. The first orientation that management can adopt is the ethnocentric orientation, which is also termed the market extension approach. This is defined as assuming that the home country or domestic market is "superior" compared to the rest of the world. In this way, companies who see the world in this manner assume that products and practices that are successful in the home country will succeed anywhere in the world without adaptation. This type of strategy may lead to economies of scale and lower costs, however, as a result sometimes opportunities outside of the home country are ignored and the company fails to understand the local culture.

By contrast, the polycentric orientation can be defined as the "belief or assumption that each country in which a company operates is unique" (Keegan, 2002). It can also be termed the multidomestic approach. Companies adopting this approach identify the differences in each national market and treat each one as unique. In this manner, large-scale adaptation occurs. This approach has the advantage of being able to understand the local culture and adapt accordingly. However, it is costly and if adaptation is carried out on a large-scale, the company can lose brand identity and a consistent brand image across each of its markets.

A Regiocentric approach is one in which product uniformity is sought within a cluster of markets (Keegan, 2002). The cluster can be organized in a variety of ways including geographic proximity, language or membership of a regional union. A company adopting this type of approach benefits from economies of production and marketing. However, if the chosen market cluster is too large it could slow down the "diffusion" of the product. One example is if the company decides that its market cluster is going to be the European Union. The European Union is expanding constantly and now encompasses a large variety of cultures within it.

Finally, a geocentric approach is one in which the company views the world as a single market (Chee and Harris, 1998). Within this approach, there is a high level of centralization and coordination of activities, which in turn leads to lower R&D costs, rationalized product lines, economies of scale, and world-wide distribution of the product. However, this strategy is largely dependent on careful and continuous market research. This, however, is not the same as an ethnocentric approach; it is instead a combination of an ethnocentric approach and a polycentric approach in that it is a global strategy that is highly responsive to local demands. Companies that adopt this type of approach are often termed transnational companies, with unilever being an example of success.

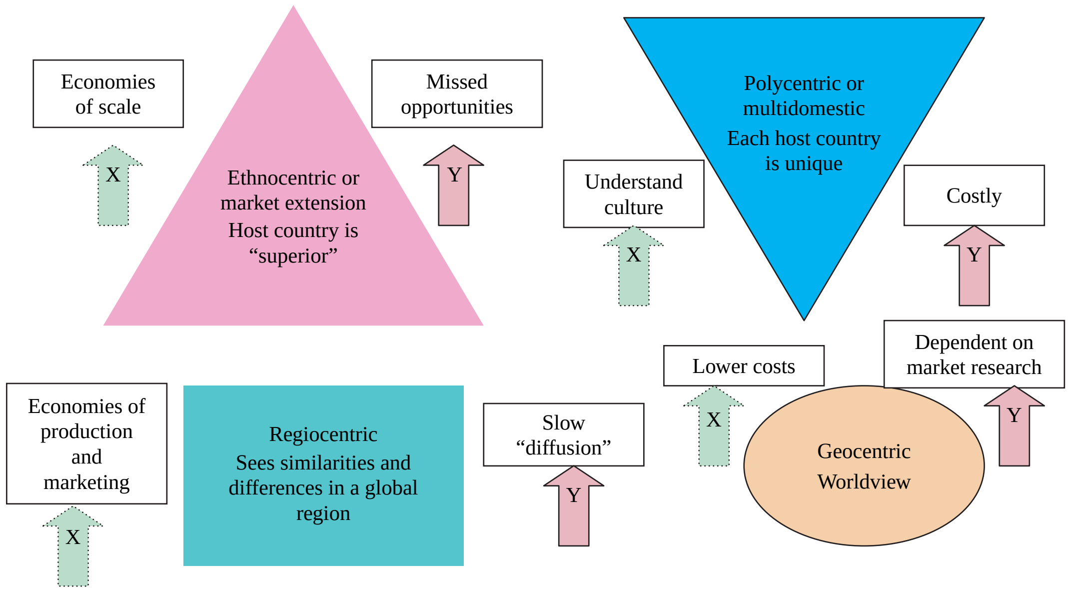
The different orientations are shown in Figure 1. Arrows numbered X represent advantages and arrows numbered Y represent disadvantages.

Following one of these paradigm approaches determines to a certain extent the level that a company chooses to adapt or standardize its marketing mix to each international market. It demonstrates to some level that manufacturing organizations are not necessarily "mindlessly global" or "hopelessly local" and in fact that some companies adopt a strategy that is somewhere in the middle of this spectrum. Nevertheless, an ethnocentric approach might be portrayed as "mindlessly global." The framework is a clear and useful tool for examining an enterprise's view of adaptation and standardization, but it is not prescriptive and once these orientations are evident within a particular company they may be hard to change. In fact, Perlmutter (1969) stated that even if a firm wishes to have a geocentric orientation there are both obstacles and drivers to developing this orientation such as the distrust of big international manufacturing organizations by political leaders in host countries. This would be a significant obstacle to a geocentric orientation. The framework looks at the organization and its management as a whole rather than looking at each element of the marketing strategy. However, the EPRG paradigm is not the only approach in existence. Many authors have sought to provide an integrated standardization framework.

5. Framework for standardization

What is perhaps interesting and advantageous compared to the previous approach is that Jain (1989) distinguishes between marketing program and marketing process. Program refers to the different elements of the marketing mix and process refers to "tools that aid in program development and implementation." According to Jain, the degree of program

Figure 1 Management orientations



Note: The addition of the arrows are authors own contribution
Source: Adapted from Perlmutter (1969)

standardization or adaptation depends on five individual factors. The first of these factors is the target market.

5.1 Target market

According to Jain, the decision on whether to standardize or not is situation-specific, which is evidently a different way of examining the issue than the EPRG paradigm. Target market encompasses both the geographic area and economic factors. For example, economic factors influence the level of development of a country and it can be argued that companies with their home base in a more developed country moving to a country with a similar level of development are more likely to standardize than those from a similar domestic market moving to a country with lower economic development. Indeed when Chandra *et al.* (2002) attempted to adapt Jain's framework to transferring advertising from the USA to India they found that similarity between the target markets of the USA and India would be associated with more program standardization. Chandra, Griffith, and Ryans state that as a partial result of the similarity between the American and Indian markets manufacturing organizations have been successful in standardizing their advertising programs.

5.2 Market position

The second important factor to consider according to Jain (1989) is that of market position, which in turn encompasses market development, market conditions, and competitive factors. If a product's foreign market is at a different stage of development than that of its domestic market it is likely to need to adapt to match this gap. The three conditions that affect the degree of standardization or adaptation that is required are cultural differences, economic differences and differences in customer perceptions. There are many examples of companies who have failed to take account of cultural differences. One such example is Kellogg's whose cereal brands include Corn Flakes and Rice Krispies. In the 1990s, after increased pressure for competitors and stagnant UK and US markets, the company decided to expand its operations to India. The decision was based on the low-pressure competitive environment and the size of the population. In 1994, after international barriers to trade in India had been taken down Kellogg's decided to enter the market. However, due to cultural differences the concept of eating breakfast cereal in India was a new and novel one. Kellogg's not only had to market their own brand and product lines but also the concept of eating cereal. This proved to be unsuccessful as the Indian consumers treated Kellogg's products as a one off purchase. However, from another point of view adapting to too large an extent to meet cultural differences can damage the brand identity (Haig, 2003). According to Holt *et al.* (2004), one of the three factors that affect consumers purchasing decisions, with regards to global brands is "global myth." According to this piece of research, consumers see global brands as symbols of "cultural ideals" and see them as a way of creating "an imagined global identity that they share with like-minded people."

5.3 Nature of the product

The third element, which is considered to be important in determining the level of standardization, is the nature of the product, which encompasses the type of product and product positioning. Indeed, Boddewyn *et al.* (1986) found that the degree of standardization that is feasible depends on whether the goods are consumer non-durables, consumer durables, or industrial goods. Standardization for consumer non-durable goods such as foods standardization would be most difficult as a result of differences in national tastes. This is perhaps interesting as there are a variety of examples of food brands that have attempted to use standardization across national borders such as Mars for example. In the case of consumer durables such as washing machines or cameras standardization can be at an advanced level, with only slight adaptations made to meet legal requirements. However, it is predicated that the most advanced standardization will occur with industrial products. Additionally, it is thought that if a brand or product is positioned in the same way in all overseas markets standardization is feasible to a large extent.

5.4 Environment

The fourth important element is the environment. This is significant as it considers factors from an external perspective. This element includes physical, legal, political and marketing infrastructure factors. This piece of research supports the seminal article by Buzzell (1968). According to Buzzell, different countries have different legal requirements with product design, advertising, competitive positioning, pricing, and employment. We can see evidence for example of the different restraints on advertising throughout the world. In Kuwait, only 32 min of advertising are allowed per day, advertising to children is banned in Sweden; alcohol advertising is banned in certain countries as is tobacco advertising (Cateora and Graham, 2005). Some of the most significant political constraints are tariff and other trade barriers, local content, or export requirements and the existence of cartels. According to Jain (1989), the marketing infrastructure "consists of the institutions and functions necessary to create, develop and service demand." Buzzell (1968) states that the differences and availability of certain types of media and or distribution channels can affect the degree of standardization. Perhaps, the most relevant concern with media today is that of the internet, which has become a powerful source of advertising within the USA and the UK. In the USA, there are 501 internet users per 1,000 people where as in China for example there are only 11 internet users per 1,000 people (Cateora and Graham, 2005). So, we can see here that at the legal level compulsory adaptations are needed, but the core marketing can be kept the same and voluntary adaptation might be necessary with relation to media reach limitations.

5.5 Organization factors

Organization factors encompass corporate orientation, headquarters-subsidiary relationships, and delegation of authority. Corporate orientation addresses the issues of the EPRG paradigm that were analyzed earlier. As we can see this, corporate or management orientation forms only a small part of Jain's standardization framework and in that way this framework is more comprehensive. The importance of the headquarters-subsidiary relationship and the delegation of authority coincide.

6. Summary

Product standardization was very popular in the 1980s, but since then, the focus has shifted to adapting at least some elements of the marketing mix. It appears that standardization arguments are built on a series of assumptions about consumers that are not necessarily always accurate. There are various frameworks that exist to determine the level of adaptation that is necessary by a company wishing to market its products in international markets. From this research and examples of companies that have been both successful and failed dramatically when entering into new markets, it appears that the most appropriate response is to maintain a core product and add peripheral modifications. The advantage of this is that the company can keep a consistent global brand image for example like Coca Cola or McDonalds that has a good reputation and a certain personality and connotations attached to it, however it can adapt according to legal requirements and customer preferences like tastes in every culture that it operates in. The strategy that is adopted should depend on the product and the target market. Evidently, no such strategy is guaranteed success.

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