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A Model of Factors that Influence Global Product Standardization

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The need to maximize long-term profits is causing companies to globalize markets for their products, and evaluate the role that global product standardization plays in the achievement of strategic cost advantage. The literature proposes a number of factors to be associated with global product standardization. In this paper, the background of global product standardization is reviewed, and the factors associated with global product standardization are identified. This paper also presents a model showing the relationships between these factors and the dimensions of global product standardization, and provides suggestions for future research on the topic.

The global economy is a major development whose existence has had a substantial influence on strategic leadership and practices (Ireland & Hitt, 1998). Companies attempt to become world-class organizations by providing the highest quality goods and services at the lowest cost, in a timely and responsible manner (Petrick, Sherer, Brodizinski, Quinn, & Ainina, 1998). In the global economy, products are shipped anywhere in the world in a matter of days; communications are instant, and new product introductions and their lifecycles have never been shorter (Ireland & Hitt, 1999). A new breed of global entrepreneurs has proceeded to create companies that have capitalized on these opportunities (Zahra, 1999). While standardization of product design, packaging and promotional material offers important economies to multinational marketers (Buzzell, 1968), little hard evidence is available on the potential benefits arising from a more coherent international image, more rapid international diffusion of products and ideas, and greater coordination and control (Walters, 1986). The gains from standardization range from cost savings and more consistent dealings with customers, to better planning and exploitation of ideas with universal appeal (Buzzell, 1968). Empirical studies in the area of international marketing, however, are limited (Ayal & Ziff, 1978; Jain, 1989; Samiee & Roth, 1989; Yavas, Verhage, & Green, 1992). On one hand, observers argue that for any given product, consumer interest everywhere is basically the same, and on the other hand, obvious dissimilarities between markets in various countries, especially those for consumer goods, warrant the use of differentiated marketing programs (Sorenson & Wiechmann, 1975). That divergent experiences and convictions of international marketers persist without theoretical resolution is evidence that the concept of international marketing needs further clarification (Bartels, 1968).

Traditional approaches to product development no longer work, due to reductions in time-to-market, increased product technology content, and the greater impact of competitive intelligence on development efforts (Aaby & Discenza, 1993). The decision to standardize needs to be examined for its impact on competition, measured in terms of the competitive advantage it may provide (Jain, 1989). With world markets becoming increasingly similar, a standardized approach to sourcing, production, marketing and other functions is both feasible and desirable (Samiee & Roth, 1989). Only after analysis of the product/market fit and of company capabilities can the best strategy be chosen (Keegan, 1969).

This paper reviews the history and background of global product standardization, and provides a framework for future research on the topic. An overview of the globalization of markets and the standardization issue is also presented, as well as a review of the focus of earlier papers on the standardization issue and the influence of globalization on global product standardization. The paper also provides background on the factors associated with global product standardization, as well as a detailed review of market, industry and company factors, and a model showing their relationship with the product, pricing, advertising/promotion and distribution dimensions of the global product standardization construct. Finally, suggestions for future research are made.

Background

International markets have become increasingly attractive to companies hoping to secure new customers and add revenues (Kennedy, 1996). As barriers to trade have diminished, more and more companies have found attractive opportunities for expansion in countries outside their traditional home markets (Buzzell, 1968). Organizations have extended their activities around the world, as indicated by the number of multinational organizations (Boudreau, Loch, Robey, & Straud, 1998). However, worldwide economic developments such as the elimination of industrial boundaries, fewer distinctions between industrial and service businesses, and major advances in logistics, computer-aided design, communications, and the opening of global markets, present major challenges to the ability of firms to maintain their competitiveness (Hitt, Keats, & DeMarie, 1998).

Electronic commerce has provided the capability of buying and selling products and information via telephone lines, computer networks and other electronic means, and is considered a primary means by which organizations can expand rapidly into high-growth emerging markets of the world (Boudreu, Loch, Robey, & Straub, 1999). Information technology such as electronic data interchange (EDI), interorganizational systems (IOS), and electronic commerce can create economies of scale in both manufacturing and services through the seamless flow of information among suppliers, customers, clients, vendors, intermediaries and customers. Enhanced information flow, made possible through e-commerce, permits a rapid response to local market conditions and local cultural characteristics, as well as the transfer of knowledge and spread of expertise throughout a firm (Boudreu et al., 1999).

As the powerful forces of technology drive the world toward converging commonality, the commercial reality of global markets for standardized products has emerged. Corporations geared to this new reality benefit from enormous economies of scale in production, distribution, marketing, and management (Levitt, 1983). The new technological landscape is largely based on the technological revolution and increasing globalization (Hitt et al., 1998). Worldwide communications ensure instant diffusion of new lifestyles, and pave the way for a wholesale transfer of goods and services (Simon & Miller, 1986).

Approaches to expanding businesses beyond home-market boundaries have historically included treating marketing strategy as a local issue (Buzzell, 1968). Conventional wisdom suggests that a multinational approach is not realistic, because of the differences that exist among nations (Buzzell, 1968). Global marketing of standardized products can, however, lower operating costs, and with effective coordination exploit a company's best product and marketing ideas (Quelch & Hoff, 1986). By translating these benefits into reduced world prices, companies can decimate competitors that still live in the disabling grip of old assumptions of how the world works (Levitt, 1983).

The feasibility of identifying homogeneous segments that transcend national boundaries is intuitively appealing (Yavas, Verhage, & Green, 1992) [16]. When the same product is sold in different international markets, market expansion is not only a vehicle for diversification and new profit opportunities, but it also can increase profits by reducing costs in currently served markets (Ayal & Ziff, 1979). Standardized and tailored strategies are not always mutually exclusive. While it is to the manufacturing division's advantage if all products and components are standardized, marketing divisions are more interested in satisfying the diverse needs of customers with broad product lines and frequent product modifications (Kotabe, 1998). Mass customization technology allows businesses to modify products and services to suit local needs, while retaining the advantages of large-scale production. It is also possible to tailor standardized strategies for different worldwide segments that exist cross-nationally (within nations) (Yavas et al., 1992). The key to mass customization is the ability of information technologies to control the introduction of customized features into the production process (Boudreu et al., 1999).

Origins of the Debate

The globalization of markets is the principal driving force behind the need for global product standardization theory. Factors associated with global product standardization are captured in the evolving stream of literature and thought. The debate on standardization can be traced back to the 1960's. Elinder (1961), Roostal (1963), and Fatt (1964) published some of the first articles on the subject. These papers focused on international advertising and promotion policy (Walters, 1986). Elinder (1961) argued that international firms can derive significant advantage from having the same products, names and advertising in all or most countries. According to Fatt (1964), people are basically all the same, in that most are looking for a better way of life for themselves and their families; also, appeals such as mother and child, freedom from pain and glow of health know no boundaries. Fatt (1964) argued that if a product met the needs of enough people to make a market, the product can be considered in any country, as long as it is communicated in the idiom of the people to whom it is addressed.

Roostal (1963) noted the impact of insufficient marketing planning, the diversity of languages and media, and government regulation on international standardizing of advertising. He sounded a cautionary tone when commenting on barriers to standardization, and emphasized the need for greater experimentation when evaluating opportunities for greater uniformity. Important articles by Buzzell (1968) and Keegan (1969) widened the standardization discussion to embrace other elements of the marketing mix (Walters, 1986). Buzzell (1968) addresses benefits and barriers to standardization policy. Keegan (1969) considers product and communications policies and strategic alternatives. Buzzell (1968) and Keegan (1969) are both cautious regarding the viability of standardization policies, but argue that opportunities to standardize should not be ignored, but instead evaluated in terms of their financial cost/benefit. In these papers, the major benefit to be derived from uniformity is cost savings (Walters, 1986).

Concerns with standardization include the potential for traditional national prejudices to act as barriers to implementation (Bartels, 1968; Buzzell, 1968). Buzzell (1968) posited that it is a mistake to assume that product standardization is possible without careful consideration of the idiosyncrasies of each market, such as physical environment, the stage of economic development, cultural characteristics, the stage of product lifecycle, competition, distribution systems, advertising media, legal restrictions, and finding the right balance between local autonomy and central coordination. Hill (1980) posited that circumstances under which products are marketed affect the extent to which they are adapted. While studies that characterize much of the early published work include evidence of interest in all elements of the international marketing mix, the relative inattention paid to international product policy is surprising (Walters, 1986).

Evolving Focus

New cost concepts force managers — both inside and outside plants — to combine manufacturing decisions with business decisions, and combine the benefits of standardization with greater process flexibility; they also allow for changes in design and in products, rapid response to market demands, and low-cost production (Drucker, 1990). Product adaptations tend to be reactive, making it difficult for multinational companies to reap economies of scale in production and marketing, and coordinate their networks of activities on a global scale (Kotabe, 1998). Among the myths regarding global strategy is the assumption that it means integration across international operations, which causes a disassociation of product lines from their local context (Kanter & Dretler, 1998).

A company's sensitivity to local or national differences does not require that it ignore the possibility of doing things differently or better (Levitt, 1983). Porter (1990) argued that competitive advantage is achieved in industries where home demand gives companies a clearer or earlier picture of emerging buyer needs, and where demanding buyers pressure companies to innovate faster and achieve more sophisticated competitive advantage than foreign rivals. Levitt (1983) posited that well managed companies respond to expanding global markets with standardized products that are higher in quality, more reliable, and lower priced, and that the global corporation accepts and adapts to differing markets reluctantly, only after relentlessly testing their immutability, and trying in various ways to circumvent and reshape them.

The tremendous opportunities provided by expansion into international markets, and the accelerated trend toward globalization of markets, have brought about heightened interest in the debate over to what extent, and under what conditions, marketing strategies can be standardized across national boundaries (Yavas et al., 1992). Jain (1989) posited that differences in environment are important concerns that affect the feasibility of standardization. Bartels (1968) argued that even theories that are presumed to be universally valid may vary with environments, thus requiring concepts that relate marketing to the environment in which it is performed. Bartels (1968) also posited that environmental conceptualization is an essential step in the groundwork leading to the construction of theory in international or comparative marketing, and that marketing factors vary from country to country as the physical and economic circumstances differ. According to Bartels (1968), physical and economic factors are primary determinants of the technical aspects of business, while cultural environmental factors are principal determinants of social aspects of business. Organizational aspects can create conditions for successful (or unsuccessful) implementation of standardization strategy (Jain, 1989).

Global Product Standardization Factors

Instead of implying that multinational companies should aim at standardization, a framework that helps identify specific problem areas can aid in resolving controversy on the subject, and provide a much-needed base for empirical research. The likelihood of product standardization can depend on a variety of variables, including market factors, industry factors, and company factors. Effective implementation of product standardization can be influenced by these factors.

Market Factors

Factors relating marketing to the environment, and that are associated with marketing strategy and global product standardization include legal requirements, cultural/social customs and taboos, consumer preferences, consumer purchasing habits, product use conditions, economic development, marketing infrastructure, and competition. Legal requirements manifest themselves in the form of permitted practices in the areas of product design standards, competitive practices, pricing, employment, advertising, taxes, and tariffs (Buzzell, 1969). Culture influences every aspect of marketing (Jain, 1989). Friedman (1986) posited that a culturally anchored variable is useful in explaining and accounting for the degree of standardization required for international marketing problems. Cultural/social customs and taboos involve strong traditional or established ways of doing things that include attitudes toward foreign products (Buzzell, 1968). Consumer preferences that cross national boundaries are likely idiosyncratic to local cultures, value structures, tastes, economies, and other factors (Samiee & Roth, 1989). Consumer preferences include strong patterns of decision outcomes that are characteristic of consumers in specific regions or markets. The propensity of companies to adapt products can vary with the type of product and the strength of the consumer purchasing habits associated with the product (Hill, 1980). Consumer purchasing habits pertain to strong patterns of consumer decision outcomes that are characteristic of consumers in specific regions or markets.

Perhaps the most permanent differences among national markets are those arising from the physical environment (Buzzell, 1968). Product use conditions involve highly specific physical market conditions such as topography, climate, the size of homes, the configuration of rooms, etc. Jain (1989) posited that standardization is more practical in markets that are economically alike, and that poor economic means may prevent masses in lesser-developed countries from buying a variety of products that U.S. consumers consider essential. Economic development includes high levels of per capita gross national product (GNP), disposal income, quality of life, purchasing power, and/or education.

The multinational companies' opportunities in each market depend on the marketing institutions available in each country, including retail or wholesale outlets (Buzzell, 1968; Jain, 1989). Marketing infrastructure pertains to the availability of wholesale and retail network development to create and service demand, including wholesale and retail outlets, warehousing, transportation, credit, sales agents, advertising media, advertising agencies, etc. Jain (1989) posited that the greater the degree of similarity in a firm's competitive position in different markets, the higher the degree of standardization; also, competing against the same adversaries with similar market share positions in different countries leads to greater standardization than competing against purely local companies. Competition involves differences in products, costs, prices, and promotional levels that permit or may require differences in strategies used by a multinational company in various markets (Buzzell, 1968).

Industry Factors

Jain (1989) proposed that industrial and high technology products are more suitable for standardization than consumer products. Companies in industries characterized by rapid change have less time to plan adequately and implement global strategy in numerous affiliates (Samiee & Roth, 1992). Speed-to-market and standardization are not mutually exclusive. Firms in volatile environments are more likely to rely on one or a very few manufacturing facilities, and operate globally by exploiting standardized products (Samiee & Roth, 1989). Market turbulence involves high rates of change in customer composition, customer preferences, customer needs, customer base, and market demand growth. Technological turbulence involves high rates of change in the technology associated with the manufacture of products, as well as the technology inherent to the product itself.

Company Factors

Effective implementation of international diversification requires coordination of subsidiary/business activities across country locations. Multinational corporations must integrate their activities across geographic locations in order to share resources and gain economies of scope (Hitt, Keats, & DeMarie, 1998). In its efforts to cultivate products or brands on a global basis, the multinational firm will logically hold as an aim the achievement of cooperation and compliance on the part of individual subsidiaries (Uscategui, 1998). Important factors that have implications for the application of relationship marketing frameworks include relationships between the marketing function at the headquarters of multinational firms, and the marketing functions at their individual foreign subsidiaries, as well as the existence of interdependencies among subsidiaries throughout multinational firms (Uscategui, 1998). Effective standardization is accomplished through a tight linkage of subsidiaries with headquarters (Jain, 1989).

Company factors associated with global product standardization include sub-unit horizontal dependence, sub-unit vertical dependence, headquarters/sub-unit trust, sub-unit acquiescence, sub-unit cooperation, and the centralization of decision-making authority. Forms of organizations where one individual firm unit is able to develop capabilities that benefit the entire firm, allow for the development of scale economies and protection of the core competencies for centralized resources and flexibility (Uscategui, 1998). Sub-unit horizontal interdependence includes high levels of affiliate/sub-unit reliance upon information or resources from other affiliates/sub-units. Jain (1989) posited that corporate managers influence certain variables to create a climate in which a greater degree of standardization will be feasible. Sub-unit vertical dependence involves high levels of affiliate/sub-unit reliance upon information or resources from the parent company and/or headquarters. By virtue of headquarters' position in the structure of the organization, the marketing function at headquarters should engender some degree of trust (Uscategui, 1998). Headquarters/sub-unit trust includes strong feelings by affiliates/sub-units that headquarters keeps its promises and is honest with them. Fostering cooperation among exchange partners for the sake of achieving mutual objectives, as well as acquiescence to the headquarters' marketing function directives, is of direct relevance to the ongoing relationship between headquarters and foreign subsidiary marketing operations. The ability of headquarters and subsidiaries to work together to achieve mutual goals is particularly relevant in the implementation of global marketing programs (Uscategui, 1998). Sub-unit acquiescence involves high levels of affiliate/sub-unit consent or compliance, without protest to requests from headquarters or other affiliates/sub-units. Sub-unit cooperation includes affiliates/sub-units working together toward a common end or purpose. Multinationals that direct local managers' marketing programs usually do so to ensure that a new product is introduced rapidly around the world before the competition can respond, or to ensure that every manager fully and faithfully exploits a valuable marketing idea (Quelch & Hoff, 1986). The greater the strategic consensus among parent/subsidiary managers on key standardization issues, the more effective the implementation of standardization strategies (Jain, 1989). Centralization of decision-making authority pertains to high degrees of parent company or headquarters control over affiliates/sub-units and any plan implementation.

Model Development

In the empirically oriented studies that characterize much of the published work during the 1970's, there is evidence of interest in all elements of the international marketing mix (Walters, 1986). Sorenson and Wiechmann (1975) found that high degrees of standardization exist in brand names, physical characteristics, and packaging. Commonality of product includes the global standardization of marketable items that are comprised of potentially unique characteristics, such as design, brand name, units of measure, packaging protection, constituents, features, styling, usage instructions, labeling, and/or sizes.

In contrast to product decisions, Sorenson and Wiechmann (1975) [65b] found pricing decisions to be much more dissimilar from country to country. Commonality of product pricing is the global standardization of the cost that customers are asked to incur for products. Among decisions concerning advertising and promotion, Sorenson and Wiechmann (1975) [65c] discovered both very high and extremely low standardization. The commonality of product advertising/promotion is the global standardization of product positioning, brand names, packaging messages, other advertising messages, and sales promotions. Most channels of distribution fall into the high standardization category (Sorenson and Wiechmann, 1975). The commonality of product distribution is the global standardization of wholesale and retail methods of physically bringing products to customers.

Figure 1 provides a model of the relationships between factors associated with global product standardization and the dimensions of global product standardization. The model shows the relationships between market, industry and company factors, and the dimensions of global product standardization. The model's rationale is that global product standardization is a multidimensional construct that is dependent upon variables that can be grouped into market, industry, and company factor categories.

The model presents three categories of factors associated with global product standardization, including market, industry, and company factors. Market factors are comprised of legal requirements, cultural/social customs and taboos, consumer preferences, consumer purchasing habits, product use conditions, economic development, marketing infrastructure and competition. Industry factors include market turbulence and technological turbulence. Company factors include sub-unit horizontal interdependence, sub-unit vertical dependence, headquarters/sub-unit trust, sub-unit acquiescence, sub-unit cooperation and centralization of decision-making authority.

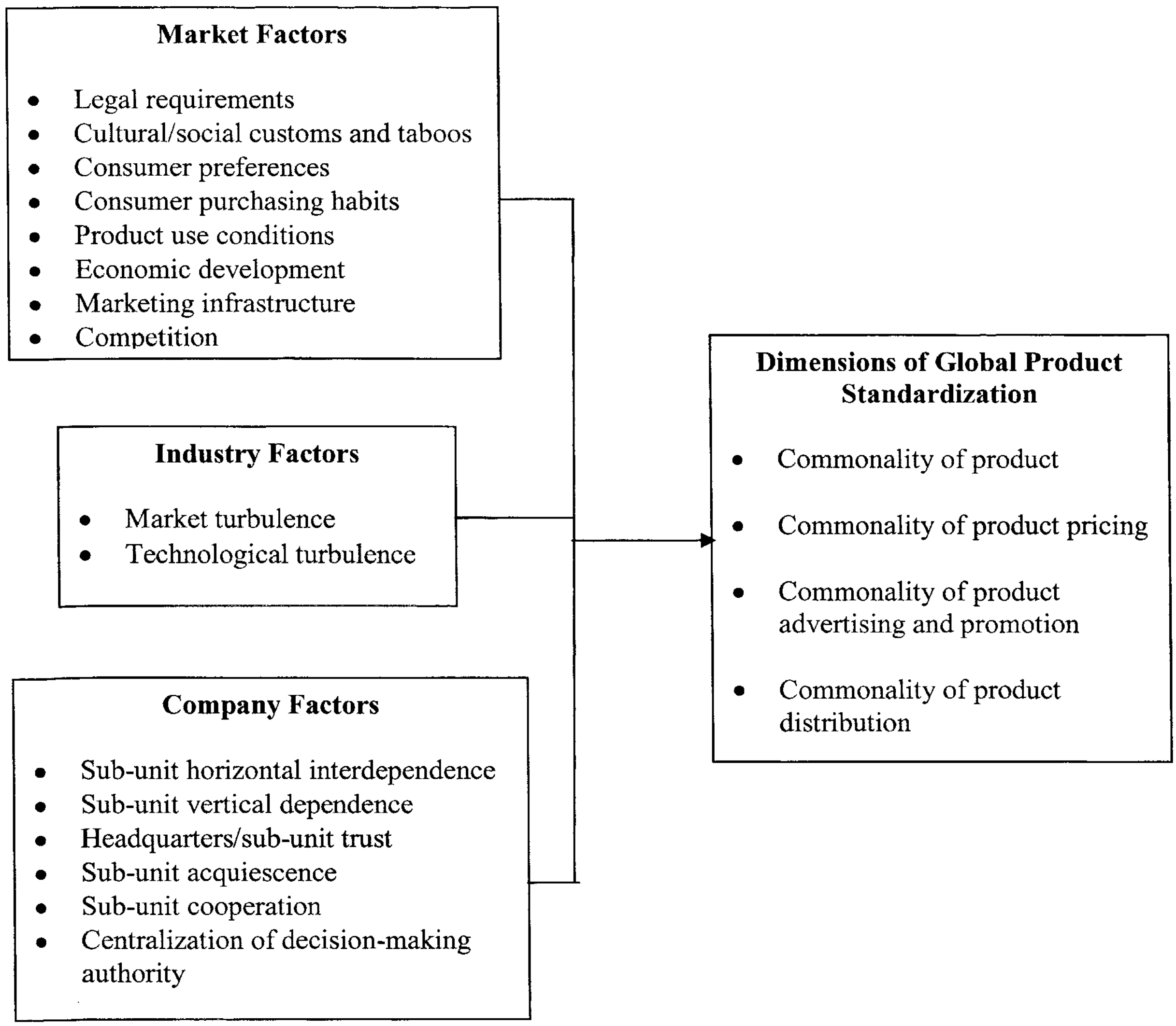
Conceptually, standardization is a function of factors that affect it differently in different decision areas (Buzzell 1968; Jain 1989). Empirical studies in the area of international marketing are limited, and the subject of standardization has not been researched conclusively (Ayal & Ziff, 1979; Jain, 1989; Samiee & Roth, 1992; Walters, 1986). Hill (1980) reported that the reasons why product adaptations take place have been recorded in the literature, but the frequency of use and the relative importance of factors are neglected areas of study.

The majority of studies on international marketing standardization are conceptual, with most empirical studies addressing relatively narrow aspects of international marketing, such as product adaptation to local tastes in lesser-developed countries (Samee & Roth, 1989). In most of the literature, little attention is given to explicitly delineating the scope of international standardization policies in terms of the policy levels and geographical area being addressed, with attention typically given to advertising with respect to a limited number of markets (Walters, 1986). While various research papers contribute important points to the analysis of market expansion and resource allocation, none present a comprehensive framework for the identification and analysis of alternative market expansion strategies over time (Ayal & Ziff, 1979). The relative inattention paid to international product policy is somewhat surprising (Walters, 1986). Additional study is needed to evaluate the significance and relative importance of factors associated with global product standardization. The framework included in Figure 1 provides a good starting point for such research.

Summary And Conclusions

This paper has reviewed the history and background of global product standardization, and summarized the factors associated with it. By conceptualizing global product standardization in terms of market, industry and company factors, a better understanding of their association with the multidimensional aspects of global product standardization is possible. Additional study is needed to evaluate the significance and relative importance of these factors, with respect to the multidimensional aspects of global product standardization.

Figure 1: A Model of Global Product Standardization



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