

13.4: Standardized or Customized Products

Learning Objectives

1. Understand the trade-offs between standardized versus customized products.
2. Know the influence of the country-of-origin effect.
3. Comprehend the benefits of reverse innovation.

Straight Product Extension

Companies deciding to market their products in different countries typically have a choice of three common strategies to pursue. The first is the **straight product extension**. This means taking the company's current products and selling them in other countries without making changes to the product. The advantages of this strategy are that the company doesn't need to invest in new research, development, or manufacturing. Changes may be made in packaging and labeling, but these are driven by local regulatory requirements. The disadvantages, however, are that its products may not be well suited to local needs and that the products may be more costly due to higher manufacturing and labor costs in the United States.

Product Adaptation

The second strategy is **product adaptation** and refers to modifying the company's existing product in a way that makes it fit better with local needs. For example, when Procter & Gamble (P&G) introduced Tide laundry detergent in emerging markets like India, it changed the formulation to remove softeners. The reformulated Tide cost less than the original Tide. This change was important because price was an important factor in India where income levels were lower. Indian consumers were more able to afford the reformulated Tide.

Another way to localize a product is through packaging. Locally appropriate packaging doesn't just mean using the country's language. It also means creating packaging sizes that suit the country. For example, a company wanting to make its products more economical to less-wealthy countries may be tempted to sell larger, economy-sized packaging. But emerging-market consumers often prefer smaller package sizes, even if that increases the cost-per-use. They tend to buy sachets of shampoo rather than economy-size bottles. These smaller sizes are also easier to transport to local villages or to store in smaller-sized homes.

Mobile-phone maker Nokia went a step further in localizing its phones to different markets. The company uses local designers to create mobile-phone handset models that are specifically appropriate for each country. For example, the handsets designed in India are dust resistant and have a built-in flashlight. The models designed in China have a touchscreen, stylus, and Chinese character recognition.

Local designers are more likely to understand the needs of the local population than headquarters-located designers do.

The examples of Tide and Nokia show how companies can create a version of their existing product tailored to specific countries.

Product Invention: P&G Diapers

The third strategy, **product invention**, is creating an entirely new product for the target market. In this strategy, companies go back to the drawing board and rethink how best to design a product for that country. You were introduced to this idea in Chapter 13.

The first step in inventing a product for a new country market is to understand the key product characteristics needed to succeed in that market. For example, when P&G wanted to sell diapers in BRIC countries (i.e., Brazil, Russia, India, and China), it started from square one. Rather than merely modifying the existing design, P&G engaged local knowledge and reconsidered all the key features of the design in the context of the needs of the emerging markets.

A major issue was price. To make the diaper affordable, P&G settled on an aggressive price target—each diaper should cost as much as one egg. But the company also wanted a diaper that could uphold the P&G brand name. At first, the designers thought that the lower-cost product needed to do everything that the current developed-world product did. But further discussions refined and narrowed the definition so that P&G could meet the cost target without damaging the brand.

P&G designers debated features such as absorbency, color, fit, and packaging to find a design that was acceptable on cost targets, acceptable to emerging-market consumers, and acceptable as a P&G-branded product. The designers considered materials and how they could avoid using high-paid, specialized suppliers. Some characteristics, such as packaging, could be adjusted to meet local cost standards. In other cases, a characteristic was nonnegotiable—such as corporate social-responsibility issues. For example,

P&G wanted to ensure that none of the suppliers to its diaper business used child labor. In the end, P&G succeeded by understanding both the critical elements of the brand and the emerging-market customers' expectations.

Nuances of Product Extension, Adaptation, and Invention

The product-adaptation strategy is easier for firms to execute than product invention. Nonetheless, even product adaptation requires understanding the local market well. Consider Ford Motor Company's missteps in adapting its midpriced car model to the Indian market. Ford realized that it needed to lower the cost of its car to make it more affordable to Indian consumers. Ford brought a team of designers together in Detroit and tasked them with figuring out how to reduce the cost of the car. The designers looked at removing nonessential elements. The first feature to go was air conditioning. Next, the team decided to remove power windows in the back, keeping them only in the front. These and other such tweaks brought the total cost of the car down from \$20,000 to \$15,000. Reducing the cost by 25 percent is notable, but unfortunately the design team lacked vital local knowledge about India. First, even though the price of the car was lower, the \$15,000 price point in India is still way above what the middle class can afford. The Indians who can afford a \$15,000 car are the very rich. Second, the very rich in India who can afford to pay \$15,000 for a car can also afford (and will have) a chauffeur. Remember the clever idea of removing the air conditioning and the power windows in the back? The consequence is that the chauffeur is the only one who gets a breeze. Given the sweltering summer temperatures and traffic congestion in Indian cities, you can guess that the Ford car didn't sell well. Vijay Govindarajan, "Ten Rules for Strategic Innovators" (presentation, World Innovation Forum, New York, NY, May 5–6, 2009).

Country-of-Origin Effect

The **country-of-origin effect** refers to consumers using the country where the product was made as a barometer for evaluating the product. Their perceptions of the country influence whether they will perceive the product favorably or unfavorably. That perception influences consumers' purchasing decisions. For example, France is known for its wines and luxury goods. Wines from Chile may be just as good and more affordably priced, but consumers may perceive French wines to be better due to the country-of-origin effect. In the 1960s, "Made in Japan" was a signal of low quality, but over time Japan has changed that perception through a dedicated focus on high quality. Specifically, Japan adopted **Total Quality Management (TQM)** which is a set of management practices initially introduced to Japan by W. Edwards Deming. The focus of TQM is increasing quality and reducing errors in production or service delivery. TQM consists of systematic processes, planning, measurement, continuous improvement, and customer satisfaction. These days, "made in Japan" is viewed positively, but "made in China" faces more of a stigma. Likewise, consumers in Colombia don't want products that are made in Colombia. A similar problem happens with Mercedes-Benz—Mercedes-Benz cars assembled in Egypt have much lower resale value than those assembled in Germany. In these cases, local assembly in Egypt might be taken as a sign of inferior quality.

Reverse Innovation: How Designing for Emerging Economies Brings Benefits Back Home

Increasingly, marketing and innovation are directly linked. **Reverse innovation** means designing a product for a developing country and bringing that innovation back to the home country. Creating new products and services for developing countries requires radical innovation and opens new opportunities in developed-world markets as well. For example, GE Healthcare sells sophisticated medical-imaging devices around the world. Historically, GE has sold these high-end machines in emerging economies like India. But only 10 percent of Indian hospitals can afford a \$10,000 electrocardiogram (ECG) machine. Reaching the other 90 percent of the market takes more than simply cutting a few costs. It requires radical innovation and an in-depth understanding of local conditions.

One important local fact to know is that most Indians live in rural areas. That means they don't have a local hospital to visit. Therefore, medical equipment needs to go to them, and no rural health care clinic is going to lug a \$10,000 ECG machine into the field even if it *could* afford the device. Achieving the goal of a lightweight, reliable, simple-to-use ECG device took radical rethinking. GE built such a device that could fit in a shoulder bag or backpack. The device has a built-in replaceable printer and costs only \$500. In addition, because the device would be used in rural locations with scant access to electricity, GE designed a battery that could do 500 ECGs on one charge. To make it easy to use, GE designed the device to have only three buttons. Finally, just because the device is inexpensive doesn't mean it's dumb. GE installed professional-level analysis software to aid rural doctors.

With its new portable ECG device, GE has unlocked a whole new market in developing countries. Beyond that, GE has also opened up new opportunities back home—and that's the reverse innovation side of the story. How? The portable ECG machine with a \$500 price tag is ideal for use in ambulances, saving lives of accident victims in developed countries as well. Cheap,

portable, and easy-to-use devices are desirable in any country. Vijay Govindarajan, “Reverse Innovation: A New Strategy for Creating the Future” (webinar, HSM Global, March 18, 2010), accessed November 23, 2010, us.hsmglobal.com/contenidos/hsm-webinars-vijay.html. “An ECG for Less Than Rs 10? New, Made-in-India, GE Device, Does IT,” *India Tech Online*, November 25, 2009, accessed August 1, 2010, www.indiatechonline.com/ge-mac-i-ecg-168.php.

KEY TAKEAWAYS

- There are three strategies for introducing a company’s product to a new international market: (1) straight product extension, (2) product adaptation, and (3) product invention.
- A straight product extension involves taking the company’s current product and selling it in other countries without making changes to the product. The advantages of this strategy are that the company doesn’t need to invest in new research and development or manufacturing. The disadvantages, however, are that its products may not be well suited to local needs and that the products may be more costly due to higher US manufacturing and labor costs.
- Product adaptation refers to modifying the company’s existing product in a way that makes it fit better with local needs, as Nokia did by making its mobile phones for India dust-resistant.
- Product invention means creating an entirely new product for the target market, as P&G did by designing a diaper for emerging markets that cost the same as a single egg. Such a price would make the diaper affordable in emerging-market countries.
- When adapting or inventing a product for a new market, it’s important to have local knowledge, as the missteps of Ford’s car for India have shown. In addition, the country-of-origin effect influences consumers’ purchasing decisions. If consumers perceive one country more favorably than another, they’re more apt to buy products from that country.
- Inventing a new product for an international country can bring benefits back to the home market. GE Healthcare completely reinvented a \$10,000 medical-imaging device to create a \$500 portable, imaging device for the Indian market. In the process, GE realized it had created a new product for its home market as well.

EXERCISES

(AACSB: Reflective Thinking, Analytical Skills)

1. Describe three strategies for introducing a product to a new international market.
2. Why might a company want to adapt its product to a local country rather than doing a straight product extension?
3. What are the challenges of the product-invention strategy?
4. Could the country-of-origin effect be used to a company’s advantage?
5. Explain reverse innovation and the potential advantages it brings.

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