

9.4: Product Adaptation Decisions

Learning Objectives

After reading this section, students should be able to ...

1. appreciate when product adaptation are warranted
2. list the dimensions of value proposition adaptation
3. list the major drivers behind value proposition adaptation

Value proposition adaptation deals with a whole range of issues, ranging from the quality and appearance of products to materials, processing, production equipment, packaging, and style. A product may have to be adapted to meet the physical, social, or mandatory requirements of a new market. It may have to be modified to conform to government regulations or to operate effectively in country-specific geographic and climatic conditions. Or it may be redesigned or repackaged to meet the diverse buyer preferences or standard-of-living conditions. A product's size and packaging may also have to be modified to facilitate shipment or to conform to possible differences in engineering or design standards in a country or in regional markets. Other dimensions of value proposition adaptation include changes in brand name, color, size, taste, design, style, features, materials, warranties, after-sale service, technological sophistication, and performance.

The need for some changes, such as accommodating different electricity requirements, will be obvious. Others may require in-depth analysis of societal customs and cultures, the local economy, technological sophistication of people living in the country, customers' purchasing power, and purchasing behavior. Legal, economic, political, technological, and climatic requirements of a country market may all dictate some level of localization or adaptation.

As tariff barriers (tariffs, duties, and quotas) are gradually reduced around the world in accordance with World Trade Organization (WTO) rules, other *nontariff barriers*, such as *product standards*, are proliferating. For example, consider regulations for food additives. Many of the United States' "generally recognized as safe" (GRAS) additives are banned today in foreign countries. In marketing abroad, documentation is important not only for the amount of additive but also for its source, and often additives must be listed on the label of ingredients. As a result, product labeling and packaging must often be adapted to comply with another country's legal and environmental requirements.

Many kinds of equipment must be engineered in the metric system for integration with other pieces of equipment or for compliance with the standards of a given country. The United States is virtually alone in its adherence to a nonmetric system, and U.S. firms that compete successfully in the global market have found metric measurement to be an important detail in selling to overseas customers. Even instruction or maintenance manuals, for example, should be made available in centimeters, weights in grams or kilos, and temperatures in degrees Celsius.

Many products must be adapted to local *geographic and climatic* conditions. Factors such as topography, humidity, and energy costs can affect the performance of a product or even define its use in a foreign market. The cost of petroleum products, along with a country's infrastructure, for example, may mandate the need to develop products with a greater level of energy efficiency. Hot, dusty climates of countries in the Middle East and other emerging markets may force automakers to adapt automobiles with different types of filters and clutch systems than those used in North America, Japan, and European countries. Even shampoo and cosmetic product makers have to chemically reformulate their products to make them more suited for people living in hot, humid climates.

The availability, performance, and level of sophistication of a *commercial infrastructure* will also warrant a need for adaptation or localization of products. For example, a company may decide not to market its line of frozen food items in countries where retailers do not have adequate freezer space. Instead, it may choose to develop dehydrated products for such markets. Size of packaging, material used in packaging, before- and after-sale service, and warranties may have to be adapted in view of the scope and level of service provided by the distribution structure in the country markets targeted. In the event that postsale servicing facilities are conspicuous by their absence, companies may need to offer simpler, more robust products in overseas markets to reduce the need for maintenance and repairs.

Differences in *buyer preferences* are also major drivers behind value proposition adaptation. Local customs, such as religion or the use of leisure time, may affect market acceptance. The sensory impact of a product, such as taste or its visual impression, may also be a critical factor. The Japanese consumer's desire for beautiful packaging, for example, has led many U.S. companies to redesign

cartons and packages specifically for this market. At the same time, to make purchasing mass-marketed consumer products more affordable in lesser developed countries, makers of products such as razor blades, cigarettes, chewing gum, ball-point pens, and candy bars repackage them in small, single units rather than multiple units prevalent in the developed and more advanced economies.

Expectations about *product guarantees* may also vary from country to country depending on the level of development, competitive practices, and degree of activism by consumer groups; local standards of production quality; and prevalent product usage patterns. Strong warranties may be required to break into a new market, especially if the company is an unknown supplier. In other cases, warranties similar to those in the home country market may not be expected.

As a general rule, *packaging design* should be based on customer needs. For industrial products, packaging is primarily functional and should reflect needs for storage, transportation, protection, preservation, reuse, and so on. For consumer products, packaging has additional functionality and should be protective, informative, appealing, conform to legal requirements, and reflect buying habits (e.g., Americans tend to shop less frequently than Europeans, so larger sizes are more popular in the United States).

In analyzing adaptation requirements, careful attention to *cultural differences* between the target customers in the home country (country of origin) and those in the host country is extremely important. The greater the cultural differences between the two target markets, the greater the need for adaptation. Cultural considerations and customs may influence branding, labeling, and package considerations. Certain colors used on labels and packages may be found unattractive or offensive. Red, for example, stands for good luck and fortune in China and parts of Africa; aggression, danger, or warning in Europe, America, Australia, and New Zealand; masculinity in parts of Europe; mourning (dark red) in the Ivory Coast; and death in Turkey. Blue denotes immortality in Iran, while purple denotes mourning in Brazil and is a symbol of expense in some Asian cultures. Green is associated with high tech in Japan, luck in the Middle East, connotes death in South America and countries with dense jungle areas, and is a forbidden color in Indonesia. Yellow is associated with femininity in the United States and many other countries but denotes mourning in Mexico and strength and reliability in Saudi Arabia. Finally, black is used to signal mourning, as well as style and elegance, in most Western nations, but it stands for trust and quality in China, while white—the symbol for cleanliness and purity in the West—denotes mourning in Japan and some other Far Eastern nations.

A country's *standard of living* and the *target market's purchasing power* can also determine whether a company needs to modify its value proposition. The level of income, the level of education, and the availability of energy are all factors that help predict the acceptance of a product in a foreign market. In countries with a lower level of purchasing power, a manufacturer may find a market for less-sophisticated product models or products that are obsolete in developed nations. Certain high-technology products are inappropriate in some countries, not only because of their cost but also because of their function. For example, a computerized, industrial washing machine might replace workers in a country where employment is a high priority. In addition, these products may need a level of servicing that is unavailable in some countries.

When potential customers have limited purchasing power, companies may need to develop an entirely new product designed to address the market opportunity at a price point that is within the reach of a potential target market. Conversely, companies in lesser-developed countries that have achieved local success may find it necessary to adopt an “up-market strategy” whereby the product may have to be designed to meet world-class standards.

✓ Mini Case: Kraft Reformulates Oreo Cookies in China, Jargon (2008, May 1)

Kraft's Oreo has long been the top-selling cookie in the U.S. market, but the company had to reinvent it to make it sell in China. Unlike their American counterparts, Oreo cookies sold in China are long, thin, four-layered, and coated in chocolate.

Oreos were first introduced in 1912 in the United States, but it was not until 1996 that Kraft introduced Oreos to Chinese consumers. After more than 5 years of flat sales, the company embarked on a complete makeover. Research had shown, among other findings, that traditional Oreos were too sweet for Chinese tastes and that packages of 14 Oreos priced at 72 cents were too expensive. In response, Kraft developed and tested 20 prototypes of reduced-sugar Oreos with Chinese consumers before settling on a new formula; it also introduced packages containing fewer Oreos for just 29 cents.

But Kraft did not stop there. The research team had also picked up on China's growing thirst for milk, which Kraft had not considered before. It noted that increased milk demand in China and other developing markets was a contributing factor to higher milk prices around the world. This put pressure on food manufacturers like Kraft, whose biggest business is cheese, but it also spelled opportunity.

Kraft began a grassroots marketing campaign to educate Chinese consumers about the American tradition of pairing milk with cookies. The company created an Oreo apprentice program at 30 Chinese universities that drew 6,000 student applications. Three hundred were accepted and trained as Oreo-brand ambassadors. Some of them rode around Beijing on bicycles, outfitted with wheel covers resembling Oreos, and handed out cookies to more than 300,000 consumers. Others organized Oreo-themed basketball games to reinforce the idea of dunking cookies in milk. Television commercials showed kids twisting apart Oreo cookies, licking the cream center, and dipping the chocolate cookie halves into glasses of milk.

Still, Kraft realized it needed to do more than just tweak its recipe to capture a bigger share of the Chinese biscuit market. China's cookie-wafer segment was growing faster than the traditional biscuit-like cookie segment, and Kraft needed to catch up to rival Nestlé SA, the world's largest food company, which had introduced chocolate-covered wafers there in 1998.

So Kraft decided this market opportunity was big enough to justify a complete remake of the Oreo itself and, departing from longstanding corporate policy for the first time, created an Oreo that looked almost nothing like the original. The new Chinese Oreo consisted of four layers of crispy wafer filled with vanilla and chocolate cream, coated in chocolate. To ensure that the chocolate product could be shipped across the country, could withstand the cold climate in the north and the hot, humid weather in the south, and would still melt in the mouth, the company had to develop a new proprietary handling process.

Kraft's adaptation efforts paid off. In 2006, Oreo wafer sticks became the best-selling biscuit in China, outpacing HaoChiDian, a biscuit brand made by the Chinese company Dali. The new Oreos also outsell traditional (round) Oreos in China. They also have created opportunities for further aggregation and product innovation. Kraft now sells the wafers elsewhere in Asia, as well as in Australia and Canada, and the company has introduced another new product in China: wafer rolls, a tube-shaped wafer lined with cream. The hollow cookie can be used as a straw through which to drink milk.

This success encouraged Kraft to empower managers in other businesses around the globe. For example, to take advantage of the European preference for dark chocolate, Kraft introduced dark chocolate in Germany under its Milka brand. Research showed that Russian consumers like premium instant coffee, so Kraft positioned its Carte Noire freeze-dried coffee as an upscale brand. And in the Philippines, where iced tea is popular, Kraft launched iced-tea-flavored Tang.

As Kraft's experience shows, successful global marketing and branding is rooted in a careful blend of aggregation, adaptation, and arbitrage strategies that is tailored to the specific needs and preferences of a particular region or country.

Source

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