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CROSS NATIONAL COMPARISON OF
VALUE PERCEPTION

by

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CROSS NATIONAL COMPARISON OF

VALUE PERCEPTION

BY

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P.G.C.

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CHAPTER I

Introduction

When entering a foreign market, a company has to make a series of decisions on what types of marketing strategies to use. It can decide to handle a new country like all other countries, or it can differentiate its strategy based on market characteristics. Each approach may have benefits. Differentiation offers the advantage of being able to tailor a marketing strategy to the exact needs and wants of a respective market. Treating all countries alike, in other words a standardized approach, enables the company to work with strategies already developed and proved. Also, with standardization, economies of scale in production and marketing will be reached since there will be no change in product, package, promotional effort, price, or other marketing variables. Unfortunately, neither complete standardization of marketing strategies across national borders nor an entirely tailor-made strategy for each country is likely to be the best for a number of reasons.

A company practicing entirely differentiated marketing strategies will realize more problems as its involvement in new foreign markets increases. Every additional market will require a development of a new marketing strategy. Strategic elements of the marketing mix such as product, package, promotion, and price, will have to be newly designed again and again. Marketing functions will be duplicated, albeit slightly different, leading to a high cost of selling overseas. Ultimately, the company, with many differentiated national markets, creates a marketing

monster which is impossible to manage, unnecessarily expensive to keep, and difficult to justify.

A standardized approach would eliminate all of the drawbacks of high cost and inefficiency associated with the differentiated marketing strategy approach. At the same time, however, it produces probably disadvantages of its own. Common knowledge establishes that markets are not the same. National markets differ in culture, infrastructure, the level of economic development and social structure. Suggesting that all markets are the same also overlooks the proven benefits of market segmentation.

Most companies realize that some degree of differentiation is necessary since people and markets are different. At the same time, cost considerations suggest that some degree of standardization is also necessary. Thus, companies take a middle ground.[1] They practice what could be called limited or controlled marketing standardization. Arguments in favor of this approach suggest that national markets have a certain degree of similarity. In fact, "cluster analysis" has been used to show that countries can be grouped on readily observable economic and demographic variables. For instance, income levels are reasonably close in a number of countries. Religion tends to cross national boundaries. The standard of living is comparable between some countries. These and other variables can be used to form country clusters with similar market environments.

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[1]Prakash S. Sethi, "Comparative Cluster Analysis for World Markets," Journal of Marketing Research VIII(August 1971): 348-354; Prakash S. Sethi and Richard H. Holton, "Country Typologies for the Multinational Corporation: A New Basic Approach," California Management Review XV (Spring 1973): 105-118.

While only few authors will try to dispute the benefits of the formal or informal clustering of several countries on the basis of demographic and economic data, the behavioral assumption implicit in this concept is subject to debate. That is, clustering countries purely on the basis of demographic and economic variables suggests that consumers, regardless of nationality, in a cluster, will behave similarly because of demographic and economic influences. Therefore, similar marketing strategies can be used. Clustering by demographics implies that purchasing behavior is a function of age, sex, income, and so forth. And as long as demographic variables are similar, identical marketing strategies will produce the same result. These implications are tenuous at best.

Kotler explained that a product's value is perceived by consumers through a "black box".[2] This box processes all inputs and produces outputs that results in the purchasing behavior of a consumer. Behavioral variables are most important to this black box theory.

One of the informational black box inputs that will influence the purchasing outcome is the price of the product. Others are product characteristics, environmental characteristics, consumer characteristics, and situational variables, such as knowledge of or past experience with the product.

Unfortunately, the persuasive powers of a price on purchase behavior are often ignored in international trade. Sometimes companies tend

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[2]Philip Kotler, Marketing Management, 2nd ed. (New Jersey: Prentice-Hall, Inc., 1972).

to implicitly assume that either people in all countries or at least in significant conceptual clusters of countries process price information in their collective "black boxes" similarly. Such an assumption tolerates undifferentiated relative prices across national boundaries. At other times, companies apparently assume that price is not a significant "black box" input, thus justifying the use of cost-plus pricing methods.

Under cost-plus pricing, the majority of exporters follow a rather mechanical approach when establishing selling price. First, the cost of manufacturing a product is determined. Then, all additional costs, such as administrative, distribution, custom charges, allowance for middlemen's margin, etc. are added on a per unit basis without any consideration of the sales volume potential or local market conditions. Since entering a foreign market will generally add additional costs to those associated with domestic marketing, the final price of the product is generally higher than that of an identical product sold in a domestic market. This mechanical approach may result in a price completely out of line with a particular market's characteristics and the intended market segment's perception of the right price.

The demographic method of cluster analysis will show whether or not the means to satisfy needs and wants are present. However, no study has looked into the second part of this assumption: do foreign consumers in different countries value, in monetary terms, their needs and wants similarly? Do "black boxes" work the same? In other words, once these consumers express a need for a product, and have the means to satisfy it, will they pay the same price in relation to other products as an indication of value regardless of nationality? If the answer is yes,

then standardized pricing is justified. On the other hand, if products are not valued the same, standardized pricing is not justified. Perhaps cost-plus pricing is then a more acceptable approach, due to its simplicity and ease of application.

Statement of the Problem

This study will attempt to determine if there is any evidence suggesting that the value of a product improvement, in terms of the monetary cost of acquiring it, is perceived equally by consumers in countries having similar demographic characteristics. Stated in the form of a question, if consumers in different demographically clustered countries are asked to value a list of products, will there be observable differences by country? Conventional business practice suggests that there will not be any differences.

The widespread use of demographic market segmentation to locate potential markets and the almost universal use of the cost-plus method in determining the final price suggests, as stated, that firms assume that consumers have similar perceptions of value across national boundaries. But this premise needs to be tested. Do differences between national markets require special pricing differentiation or is the value perception process and result so cross-culturally close that the right price in one country will likely also be the effective right price in another? Price is an important variable in determining whether or not a product will be purchased. Unless someone can show the presence or the absence of common value perception, no effective marketing strategy can be developed.

Organization of the Study

This dissertation is divided into five chapters. Chapter one introduced the general topic of the main area and affirmed the Statement of the Problem. The second chapter will discuss previous research as it relates to the main topic of this study. Chapter three will state the main hypotheses and the methodology used to test these. The four countries, the sample groups and the instrument employed to gather the data will also be discussed. Chapter four indicates the results that were obtained from the data gathering and gives the results of testing hypotheses. In the final chapter the limitations of the study will be discussed as well as its relation to past and implications for future research. Some concluding comments will be also made regarding the potential usefulness of this research to the marketing manager.

CHAPTER II

RELATED RESEARCH

Introduction

The review of literature chapter is divided into two major sections. The first part discusses the general outlook on international marketing. Some researchers suggest international marketing is no different from domestic marketing since consumers in all countries have the same needs and wants, and proper marketing strategy should satisfy these needs and wants.[1] Others advocate exactly the opposite. They believe countries are too diverse. The cultural, economic, demographic and geographic forces are too distinct. Hence, there is no international marketing, rather there is marketing in local foreign countries.[2] A third group of researchers believes in the possibility of clustering countries into

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[1] Malcolm M. Barnum, "Multinational Marketing: Eight Selling Principles that Work Anywhere," Management Review 60(July 1971): 23-28; Eric Elinder, "International Advertisers Must Devise Universal Ads," Advertising Age XXXII(November 27, 1971): 91-96; and A. C. Fatt, "A Multi-National Approach to International Advertising," International Executive VII(Winter 1965): 5-6.

[2] Millard H. Pryor, "Planning In a Worldwide Business," Harvard Business Review 43(January-February 1965): 130-139; and G. Weissman, "International Expansion," In Plotting Marketing Strategy, A New Orientation, edited by Lee J. Adler, (New York: Simon and Schuster, 1967).

segments reachable with similar marketing strategies.[3] While on the surface no two countries are alike, not all variables influence a given product or service. A company should identify external variables influencing a specific marketing strategy for a particular product and determine if these are present and reasonably similar in other foreign markets. It is the similarity rather than dissimilarity that marketing managers should be looking for. This approach to international marketing could be called controlled or limited standardization of international marketing strategies.

The second part of the literature review looks at price strategy as an integral part of a marketing plan. It will first discuss price as a part of a marketing strategy developed by American firms aiming at the domestic market. Very few business executives still believe that a lower price will automatically generate an increase in sales, as the economic theory suggests. Price is used as an indicator of quality, uniqueness, demand, and other features considered by consumers before purchasing a given product. Is price an important and integral part of an international marketing strategy? The second part will also discuss studies showing how this marketing mix variable is treated by American companies selling in foreign markets, as well as how much is known about

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[3]Robert D. Buzzell, "Can You Standardize Multinational Marketing?" Harvard Business Review 46(November-December 1968): 102-113; Prakash S. Sethi, "Comparative Cluster Analysis for World Markets," Journal of Marketing Research VIII(August 1971): 348-354; Prakash S. Sethi and Richard H. Holton, "Country Typologies for the Multinational Corporation: A New Basic Approach," California Management Review XV(Spring 1973): 105-118; and Ralph Z. Sorenson and Ulrich E. Wiechmann, "How Multinationals View Marketing Standardization," Harvard Business Review 53(May-June 1975): 38-44.

the foreign consumer's perception of value in relation to the price of a specific product.

Part I

Marketing Strategy for Foreign Markets

Common Marketing Strategy for All Markets. Advocates of treating all countries alike generally use very broad terms. Barnum suggested that "both consumers and industrial buyers are much the same everywhere. Traditional selling points--price, quality, service, reputation--are buying motives almost everywhere."[4]

Fatt said, "The desire to be beautiful is universal. Such appeals as 'mother and child', 'freedom from pain', 'glow of health', know no boundaries."[5] Elinder narrowed his argument in favor of standardization to the European countries. Using one product, Reader's Digest, he arrived at a very general conclusion. He ended his article by saying, "...consumers in Oslo, London, Paris, Rome, Madrid, and Berlin wear the same shoes, often made by the same manufacturer...doesn't it seem only logical to suggest why not universal marketing technique?"[6]

Advocates of a common marketing strategy dealt in very broad terms.

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[4]Malcolm M. Barnum, "Multinational Marketing: Eight Selling Principles that Work Anywhere," Management Review 60(July 1971): 23.

[5]A. C. Fatt, "A Multi-National Approach to International Advertising," International Executive VII(Winter 1965): 3.

[6]Eric Elinder, "International Advertisers Must Devise Universal Ads," Advertising Age XXXII(November 27, 1961): 92.

While they might be correct theoretically, their school of thought was of little help to a company trying to market a product in XYZ country. These authors talk about a marketing strategy as a whole rather than as a combination of several marketing variables. It is the right combination of the four P's (product, price, place and promotion) that makes marketing strategy a success. None of the proponents of a standardized marketing strategy look at the marketing mix variables individually.

Custom-Tailored Marketing Strategies for Every Country. The advocates of tailoring international marketing strategies to individual countries considered all possible characteristics of a foreign country. It is true that no two countries are alike. However, not all cultural, economic, or demographic variables will influence a purchase decision. This approach to foreign markets is advocated primarily by practitioners. Weissman, president of Philip Morris, Inc., stated, "...until we achieve One World, there is no such thing as international marketing, only local marketing around the world."[7] Pryor, president of Singer Corporation, suggested basically the same idea. He wrote, "Marketing is conspicuous by its absence from the functions which can be planned at the corporate headquarters level...The operating experience of many international firms appears to confirm the desirability of assigning long range planning of marketing activities to local managers."[8]

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[7] G. Weissman, "International Expansion," In Plotting Marketing Strategy, A New Orientation, edited by Lee J. Adler, (New York: Simon and Schuster, 1967).

[8] Millard H. Pryor, "Planning In a Worldwide Business," Harvard Business Review XXXXIII(January-February 1965): 137.

If one looks at all of the characteristics of a foreign market, then it is true that no two countries are alike. The culture is different; so are the economic level of development, standard of living, market structure, etc. But, it is not the difference that a marketing manager should look for. Rather it is the similarity between individual consumers or between different markets.

Marketing Strategies Tailored to a Cluster of Foreign Countries. Most companies will try to find an equilibrium between the benefits of custom-tailored marketing strategies and the savings realized when standardization is implemented. The result is a marketing strategy aiming at a specific number of foreign markets with some of the marketing mix variables being the same, while others are adjusted to local conditions. This approach to international marketing can be called a limited or a controlled standardization of marketing strategies.

Buzzell was one of the first authors that raised the question of how much standardization can be used in international marketing.[9] He suggested several areas that should be investigated before a decision on the degree of similarity of marketing strategies for different countries is made. Some of the variables that can suggest the degree of optimum standardization are market characteristics, conditions of local industry, existing marketing systems, and legal restrictions. Buzzell concluded with, "...Standardization of products, packages, and promo-

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[9]Robert D. Buzzell, "Can You Standardize Multinational Marketing?" Harvard Business Review XXXXVI(November-December 1968): 113.

tional approaches may permit substantial cost savings, as well as greater consistency in dealings with customers."[10]

Buzzell makes at least two contributions to the question of how to develop a better marketing strategy for international trade. First, he looks for similarities between different foreign markets instead of looking at the differences. He recognizes that different products will be influenced by different demographic and economic forces. Secondly, he acknowledges that marketing strategy is not monolithic--rather it is made up of several elements, such as product, price, promotion and place. When looking at these elements individually, one may be able to standardize some of them while adjusting others to local conditions.

In recent years a number of other researchers looked into the feasibility of grouping countries into clusters for marketing purposes. Probably the most extensive work was done by Sethi and Holton.

Sethi and Holton clustered 93 countries according to 56 demographic and economic variables.[11] They found that clusters will change substantially if more variables are taken into consideration. If only a limited number of variables are used, as is common today, highly inaccurate grouping may occur.

Their study was an extension of Sethi's first study on this topic

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[10] Ibid., p. 113.

[11] Prakash S. Sethi and Richard H. Holton, "Country Typologies for the Multinational Corporation: A New Basic Approach," California Management Review XV(Spring 1973): 105-118.

in 1971.[12] There the author concluded that "there is no smooth or well-defined continuum of economic development as defined in other studies.."[13]

Sorenson and Wiechmann interviewed 27 leading firms in the consumer package industry to determine the degree of standardization being used.[14] Their research was limited to the European and the United States markets. Products studied were only consumer goods, such as coffee, soap, cheese, soft drinks, pet food, salad dressing, evaporated milk, toilet soap, dishwasher detergent, lipstick and men's cologne, sold in at least three different countries.

This research showed that a large number of firms try to standardize some of the marketing mix variables. Products and packages are the most standardized parts of the overall marketing strategy. The economics of scale are listed as the most important consideration. Promotion is treated differently by different firms. Some prefer to use a standardized approach with only minor adjustments according to local conditions, while other firms prefer to use a locally developed promotional campaign.

Summary of Part I

The extremes of treating all countries alike or of developing a custom-tailored marketing strategy for each and every foreign market are by and large ignored because of the impracticality of either approach.

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[12] Prakash S. Sethi, "Comparative Cluster Analysis for World Markets," Journal of Marketing Research VIII(August 1971): 348-354.

[13] Ibid., p. 354.

[14] Ralph Z. Sorenson and Ulrich E. Wiechmann, "How Multinationals View Marketing Standardization," Harvard Business Review 53(May-June 1975): 38-44.

Advocates of these two schools of thought can offer little help to a company planning to market a product in a specific country. It is true that all consumers have the same basic needs as defined by Maslow. However, that does not mean they will be satisfied the same. Proper marketing strategy should consider not only the presence of these needs and wants, but also how they are going to be satisfied. This is where differences between foreign markets become evident. Treating foreign markets on a country-by-country basis may lead to the best marketing strategy, but the implementation costs may exceed the profit potential. Also, as already mentioned, a multinational company practicing this approach will create a marketing monster.

Applying a limited degree of standardization to some of the marketing mix elements when designing a marketing strategy for different countries seems to be the most popular approach. Companies find it beneficial because of the savings and also because it enables them to better manage a world-wide marketing involvement. Some will try to standardize the product; others will standardize the general promotional appeal. Still, another company may use a common package or opt for standardizing several of the marketing mix variables. Anyone of these approaches may be defended by pointing out marketing success. Coca-Cola is marketing a highly standardized product, using almost universal promotional appeal. Cigarette manufacturers often use a highly standardized package and, in some instances, an identical product. One can go on pointing out the successes of different marketing strategies using different degrees and forms of standardization. It is the acceptable degree of similarity within a group of consumers or between several foreign markets that is

important to a proper market segmentation. Tailoring a marketing strategy to each and every country would, in many instances, violate some of the conditions a good market segment should possess.

There are three characteristics, according to Kotler that a market segment should have: first, measurability, the degree of available information on a specific group of buyers; secondly, accessibility, the degree to which a firm can focus its attention on a selected market; and thirdly, substantiality, the degree to which selected segments are large and profitable to justify servicing them.[15] Some foreign countries, if treated separately, would probably violate at least the third condition--substantiality. Finland, for example, has a total population of 4.5 million.[16] Due to the cost consideration, Finland may not be large enough to justify a separate marketing strategy. Does that mean that companies should stay out of markets too small to justify a development of an individual marketing strategy?

Most academicians agree with the limited standardization approach. While realizing that different foreign markets are not the same, the obstacles created by a custom-tailored marketing strategy to individual markets are too great to ignore. For a better overview of the research discussed in this section, see Table 1.

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[15]Philip Kotler, Marketing Management, 2nd ed. (New Jersey: Prentice-Hall, Inc., 1972), p. 167.

[16]U.S. Department of Commerce, Bureau of the Census, The American Almanac (Washington, D.C., 1974), p. 14.