How Far Should Global Products Go?

Sushil Vachani and Louis T Wells, Jr.

Some authorities in international business have suggested that international markets are becoming increasingly homogeneous, causing more firms to offer global products. Vachani and Wells based on a study of the product decisions of Indian subsidiaries of five multinationals argue that there remain important consumer segments that have special needs which are not met by global products.

According to Vachani and Wells, decisions of multinationals and local firms to cater to the special needs of various consumer segments in developing countries depend on four variables: the structure and competitive conditions of their industry segments, the ability to use their traditional competitive advantage in different segments, the ease with which their usual product lines can be extended into new segments, and the availability of more special products elsewhere within the multinational enterprise.

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Global strategies are in; national responsiveness, at least in the view of some, is out. For many proponents of global strategies, this means that multinationals should sell the same product the world over (Levitt, 1983).* (See Box titled "Global Products and Competition" for a discussion of some of the terms used in this article.) But in spite of the slogans about converging tastes and incomes, markets are not yet really alike around the globe. In the Third World, for example, income levels are low and consumption patterns, at least for the common people, are not the same as in the rich countries. Although the wealthy and new middle classes may buy international soft drinks and even go for the same rock music, the needs and purchasing ability of most of the population differ dramatically. The majority of consumers may prefer detergent cake to detergent powder, tooth powder to toothpaste; farmers, when they can mechanize, may need small tractors instead of large ones, small diesels instead of giant engines. Even the rich markets of Japan and Europe have not been completely homogenized, in spite of the popular emphasis on similarities.

Are these special preferences ones to which the multinational can and should respond? (Buzzel, 1968; Keegan, 1969) In order to explore the limits of global strategies, we decided to see what products some of the world's leading multinationals chose to manufacture and to sell in one developing country, India.

We found that different firms make quite different decisions. Their strategies hinged on four variables:

- the structure and competitive conditions of their industry segments
- the ability to use their traditional competi-

*The tension between responsiveness to national markets and the advantages of centralization and standardization provides the basis for much modern literature on issues of management in multinationals. See, for example, Doz (1979); and Bartlett, (1986).
tive advantages in different market segments
- the ease with which their usual product lines could be extended into new segments
- the availability of special products elsewhere within the multinational enterprise.

Their experiences in India offer important lessons for other managers of multinational firms. Let us take a look at some of their decisions:

- The three multinationals that dominate the global detergent market (Procter and Gamble, Unilever, and Colgate-Palmolive) have, over the years, introduced detergent cake in the developing countries in addition to selling their more familiar forms of powder and liquids. After having successfully marketed detergent cake in Southeast Asia for a number of years, Colgate-Palmolive entered the Indian detergent market in 1980 with only detergent cake. It had no plans to sell detergent powder in India.

- In spite of the rapid growth of the small tractor segment in India, Massey-Ferguson chose not to enter that segment but to concentrate on large machines. In its choice, it ignored a rapidly growing market; in India, production of 25 hp tractors rose from two per cent of total industry production in 1965 to around 25 per cent in the late 70s.

- Cummins chose to manufacture only diesels of 90 hp and above for the Indian market. This market was limited to some 5,000 engines a year. However, the largest market segment is for engines in the five hp to 20 hp range; about 400,000 small diesels were produced annually in the late 70s.

- In response to the preference of many South Asian customers for tooth powder, Colgate-Palmolive sells both tooth powder and toothpaste in India. Unilever and Ciba-Geigy, in contrast, sell only toothpaste in that market.

We gathered data about the product decisions of multinationals through interviews with senior managers of the subsidiaries in India. We visited five multinationals, two of which sold products in each of two industries studied; we were thus able to focus on product decisions of seven multinational business units in four industries in India. In order to strengthen our understanding of the structure and competitive conditions of the industries, we also interviewed executives in advertising agencies, market research firms, and local firms that competed with the subsidiaries we studied.

What Influences the Decisions

Structure and Competitive Conditions

Colgate-Palmolive and Cummins came to opposite conclusions about the desirability of introducing in India products that were different from those they concentrated on in the industrialized countries.

**Detergent Market.** Many Indian consumers prefer detergent cake to detergent powder. The preference comes from the difficulty inherent in using powder to wash clothes in a running stream. Competition in the powder segment and in the cake segment was strikingly different. Firms that sold branded powders faced a serious competitive threat from those selling low-price detergent powders. The industry leader, Hindustan Lever, had lost its market share largely to small firms manufacturing cheap powder. In contrast, in the detergent cake segment, the promotion of branded products did not run up against a threat from low-price substitutes because cottage industry firms were unable to overcome the technical problems of manufacturing acceptable cakes. It was primarily this lower level of competition from low-price products that led Colgate-Palmolive to enter the detergent cake segment instead of the powder segment. The firm's choice is shown in Figure 1.

**Diesel Market.** Like detergent producers, diesel manufacturers faced different levels of competitive pressure in different segments of the market. But, in this case, competition was most severe in the product that was more common in developing countries: small diesels. The small diesel segment contained over a hundred small firms most of which manufactured low-price products. Intense competition had driven two large manufacturers out of the market. The large diesel market was, in contrast, well protected from intense competition. This was one of the reasons why Cummins Engine's Indian subsidiary, Kirloskar Cummins, stayed out of the major market for small diesel engines.

**Tractor Market.** The degree of competition also affected entry decisions by firms in the tractor market. The tractor industry could be divided roughly into three segments: 25 hp, 35 hp, and 45 hp. In 1970,
about 90 per cent of Indian production was of 35 hp tractors. However, demand for 25 hp and 45 tractors was expected to grow much more rapidly than for 35 hp tractors and by 1973-74, they were to account for about 40 per cent of the market (Bhatt, 1978). Further, each of these two segments had only one manufacturer, and both of those firms had performed poorly in the late 60s. The 35 hp segment, on the other hand, was fought over by strong competitors. Hence, the 25 hp and 45 hp segments looked particularly attractive to potential investors. As a result, all five of the new entrants into the industry between 1971 and 1975 chose the 25 hp or the 45 hp segment.

Our interviews suggest that barriers to entry and decrees of competition in the various segments of a market play major roles in the decisions of multinationals. If barriers to entry were high enough to keep out tough price competition, a segment was attractive to a multinational even if it was not one in which it concentrated at home. Thus, multinationals produced detergent cake in India even though they did not offer that product in the industrialized countries. On the other hand, if price competition was tough, the multinationals occasionally chose to stay out of a market segment on which they focused elsewhere. For example, Colgate-Palmolive decided not to fight for the powder detergent market in India. Often, however, price competition was least intense in exactly those products that the multinational made elsewhere. In such circumstances, the firm could "standardize" its products. Cummins, for example, concentrated on models similar to those that it made in the advanced countries and stayed away from products that were special to the developing countries. This choice kept the company away from segments with severe price competition.

**Use of Traditional Competitive Advantage**

To succeed abroad, a multinational needs a competitive advantage over local firms which are more familiar with the market, are generally favoured by the local government, and often have lower overheads. A marketing-oriented multinational must be in a position to exercise its competitive advantage by differentiating its product from those of local firms in a particular segment; otherwise, it is likely to ignore that segment.

The dentifrice market clearly illustrates this. The competitive advantage of multinationals lay in product differentiation, not in manufacturing technology. Brand name recognition and special product features enabled multinationals in this industry to charge a premium for their products. Drawing on this ability provided their strength. This fact dramatically influenced 'the choice of products by multinationals in India. Although not all firms made the same choices, their decisions were driven by similar influences.

Hindustan Lever chose not to enter the tooth powder market. The company's decision was largely explained by the fact that the special features that differentiated its toothpastes and enabled it to charge premium prices could not be used to compete in the tooth powder segment. Lever's managers pointed out that, while the consumers of the company's Signal Fluoride toothpaste were willing to pay for the added protection which fluoride promised, the more price-sensitive consumers of tooth powder were unlikely to pay for that protection. Since Signal Fluoride's product characteristics would carry no major competitive advantage in the tooth powder segment, they chose not to launch a fluoride tooth powder. Similarly, they felt that the features which differentiated Close Up, another of the company's toothpastes, could not be used to compete successfully in the tooth powder market.

The strength of Colgate-Palmolive's products, on the other hand, lay in the flavouring; this feature, the company managers felt, appealed equally to consumers of toothpaste and tooth powder and thus would enable the company to compete in both segments. The transferability of this advantage allowed Colgate-Palmolive to sell in a market that Hindustan Lever had chosen to avoid.

The low end of the tractor market was unattractive to multinationals for reasons similar to those that discouraged Hindustan Lever from entering the tooth powder market. Thus, Massey-Ferguson's subsidiary, TAPE, kept away from the 25 hp tractor market. Although the story is more complicated, the lesson is the same. In the late 70s, HMT, a locally owned firm, which had held 79 per cent of the 25 hp segment in 1974, lost its dominant position to Eicher, another locally owned firm, which had captured 60 per cent of the market by the early 80s. Eicher's tractor was simple in design, without an elaborate electrical system, and had a low-cost, easily-maintained, one-cylinder, air-cooled engine. HMT's tractor was relatively sophisticated, with auto draft control, more gear speeds, sophisticated electrical and hydraulic systems, and a water-cooled, two-cylinder engine. It was priced about

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seven per cent above Eicher's tractor.

TAFE's managers were of the view that HMT's decline in the 25 hp segment was due to the unwillingness or inability of the majority of Indian buyers of small tractors to pay even a small premium for advanced features. This history, TAFE's managers explained, was one of the reasons that TAFE had not been enthusiastic about entering the small tractor segment. Instead, the company selected the large tractor market, where its highly differentiated products could command a price premium of 14 to 18 per cent.

Ease of Extending Existing Product Line

In some cases, the decision by the multinationals to move into a new segment of the market is an easy one if competition is not too severe and the competitive advantage can be exploited. The decision is not difficult if existing products need to be modified only slightly to make them appropriate. In other cases, the move requires major re-engineering and the costs may be prohibitive. It is clear from our interviews that the ease of extending the existing product line had an impact on the product decisions of multinationals in India.

In 1982-83, TAPE was producing 35 hp and 47.5 hp tractors, but it was considering expansion of its line through the addition of a 25 hp or a 60 hp model. It was possible to stretch the design of its 47.5 hp to 60 hp tractor while retaining a number of common features; for example, some of the castings and forged parts would be common to both products. The 25 hp tractor would not, in contrast, share its major components with the company's existing products. Hence, for TAPE, the design effort and incremental investment in manufacturing facilities were much lower for the 60 hp tractor than for the 25 hp model. The nature of competition played a role in the decision, of course; but the ease of product extension was, according to the managers, also an important factor in TAFE's decision to introduce a 60 hp model and not a 25 hp model.

There are various factors that may make it easy or difficult to move to new segments. Use of common parts or manufacturing facilities is one that may make the move easy, as in the Massey-Ferguson case. But critical elements could equally well be on the marketing side. Manufacturers of 200 hp diesels, for example, can use their existing sales network to sell 300 hp diesels, since the buyers—industrial users—are common for both hp categories. But if they were to market five hp diesels, used primarily by farmers, they would need a completely different distribution system. The move to this segment would be more difficult. Similarly, shared operations can ease entry when they occur in other areas of the value added chain: R&D, purchasing, manufacturing, or advertising, for example.

Availability of Products in the Multinational System

Even though the special product for India was not the same as what the multinationals sold in the industrialized countries, a few of the firms we studied had relevant special expertise in some of their other subsidiaries. They used this expertise for market segments peculiar to developing countries.

In some cases, the skills and experience come out of the past. The product that is suitable today for a developing country market may be one that was manufactured by the multinational for an industrialized country some years earlier. Colgate-Palmolive had, for example, manufactured tooth powder for its North American market years ago. The company no longer sold the item in the advanced countries at the time of our interviews. However, it continued to sell that product in India. Its earlier experience was surely helpful.

In other cases, the product is one that another subsidiary of the multinational has been producing for a different developing country. When Colgate-Palmolive introduced detergent cake in India in the late 70s, it simply borrowed a technology that it had been using in its subsidiaries in Southeast Asia. This, of course, reduced the costs of entering the new market.

Even though a complete product or process may not be available from other subsidiaries of the multinational, a company may benefit from preliminary R&D work done elsewhere. When Hindustan Lever developed detergent cake in India in the 60s, it drew on some completed research that had been done at Unilever subsidiaries in South Africa, Portugal, and Australia (Behrman and Fischer, 1980). This made the introduction easier than it would have been if work had to be begun from scratch.

The benefits from other parts of the multinational may not be merely in the form of product or process, but also in the marketing expertise. Execu-
Atives from Unilever's Indian subsidiary eventually assisted in the launch of detergent cake by Unilever's subsidiaries in other countries. Colgate-Palmolive's Indian subsidiary drew on marketing experience accumulated by its affiliates which had sold similar products elsewhere. Indian managers, for example, spent some time in Malaysia familiarizing themselves with the experience of managers there before they launched Fab detergent cake in India.

There are still other cases where a multinational undertook a coordinated effort to develop or acquire a product to meet similar needs of consumers in several developing countries. Massey-Ferguson, for example, entered into an agreement to buy tractors in the 15 hp to 28 hp range from Mitsubishi. Its goal was to resell these special tractors in a number of developing countries. TAPE, however, did not benefit from this arrangement, since the Indian government would not allow import of tractors, and the Mitsubishi design was difficult to manufacture with TAPE's existing facilities. Although this arrangement helped Massey-Ferguson enter special market segments in some other developing countries, it had not led the company into the small tractor segment in India.

**Strategies: Global or Market Specific?**

Some of the multinationals that we visited in India are following strategies that are much more complex than those suggested by proponents of "global products for global markets." For a wide range of products, world markets are still far from homogeneous. In fact, in countries such as India the fastest growing segments are, in many cases, quite different from those that are important in the industrialized countries. Nevertheless, some of the multinationals that we studied found major profit opportunities in those special markets.

We even found cases where the multinationals chose not to enter the market segment on which they concentrated in the industrialized countries (the case of detergent powder, which we described earlier, is an example). Local customers did buy the detergent powder that might have been a candidate for "globalization," but local producers had been able to turn the local market into an intensely price competitive one. Although advertising and product features are the principal effective weapons of competition for detergents in the developed countries, price competition has turned out to be an effective competitive factor in a number of developing countries. In such a market, the multinationals may do well to choose to do battle on other turf.

Still, in important ways, the strategies of the multinationals that we studied could be said to be "global." All the companies that we interviewed drew on some advantages that come from their multinationality. Some looked to their experiences in other countries for appropriate products and useful marketing techniques. They sought market niches where they could apply the competitive advantages that they brought from abroad, even though those, market niches might not be the same the world over. While the multinationals we studied differed in whether or not they manufactured products in India that were identical to those manufactured in developed countries, they all chose product strategies that were highly successful. They were able to maintain high profits by choosing segments:

- with structures that ensured high profit margins
- in which they enjoyed a sustainable competitive advantage
- into which their existing products could be profitably extended with little incremental cost
- which could be profitably served using products, technology, and marketing techniques developed elsewhere within the multinational system.

Perhaps the essence of "global strategies" remains that which has always been one of the multinational's major strengths—its ability to transfer its knowhow across borders, even if the resulting products and marketing programmes are not identical in all the countries in which it operates. In spite of the differences in the multinationals that we visited in India, all had drawn heavily on technology and marketing skills elsewhere in the multinational enterprise.

**Lessons for Managers**

The experiences of multinationals in India suggest that some firms may miss real profit opportunities if they sell a standard product around the world and ignore special market segments. The cases that we studied also suggest, however, that multinationals should not enter every market segment that is large or growing. The lessons for managers can be sum-
marized as follows.

Check for a Competitive Advantage in the Segment
The multinational that operates abroad without a competitive advantage is likely to be in trouble. The reasons were well known, at least intuitively, to the managers we interviewed. The multinational's overhead costs are likely to be higher than those of local competitors. Usually, it must pay higher wages. Its chances of making small mistakes in judging the market or the distribution system are high. Many host governments make life more difficult for the foreign firm than for the local competitor. To survive with these disadvantages, the multinational needs some kind of offsetting competitive advantage.

Before entering a seemingly attractive market segment, the multinational manager must check whether his or her firm has a clear strength to carry into that segment. Unilever looked at its product line and decided that the firm's advantages were all of a kind that would not help it to succeed in the tooth powder segment. Colgate-Palmolive, on the other hand, considered its advantage to be of a different kind — one that would apply to tooth powder as well as to toothpaste, and chose to sell both products.

Even in a market segment that is different from that served by a multinational in other countries, there may well be a niche for the company. A multinational tractor manufacturer, for example, may do well to stay away from the highly competitive small tractor market if price is the critical weapon of competition. Nevertheless, there may be some types of customers for small tractors who are willing to pay a premium for machines with special features or reputation. The multinational might find it appropriate to adopt a special strategy to serve this particular segment.

Reposition Products to Combat Price Competition
The constant battle of the firms that we interviewed was to beat local competitors that tended to use price as their principal weapon. In some cases, winning that battle required the firm to reposition products. The options seemed to be as follows:

Raise the Performance of the Company's Products. One approach was to focus on the multinational's product features that were difficult for local competitors to copy. At the same time, the firm had to promote those features. For example, the multinational which manufactures quality detergent cake would do well to highlight the lack of harmful effects of the detergent on the skin in its advertising. The aim here is to shift the focus of buyers away from the price of the product to the advantages the multinational's product has over those of its competitors.

Reduce Prices. Another approach was to meet the local firms head-on in price competition. For some multinationals, this meant reducing manufacturing costs by dropping those features that do not command a premium from local consumers, while retaining others that were valued locally. At the time of our study, Unilever was considering such an action to battle low-price detergents. Cuts in marketing costs would, in some cases, lower costs considerably. For other multinationals, price reduction required cost reductions that could be achieved only by increasing the scale of manufacturing. In India, with its strict restrictions on imports, it was difficult for multinationals to lower manufacturing costs through cross-national integration of plants.

Of course, one option was to lower the margin to meet price competition. Most of the firms that we interviewed, however, thought of part of their market as loyal without price cutting. Thus, cutting the margin to save part of the market seemed to mean unnecessary loss of profits from another part of the market. The introduction of a second brand for price competition — a strategy that Unilever adopted — is one approach that firms could follow.

Protect the Competitive Advantage of Existing Products
Managers in the multinationals typically hesitated to cut prices, whether cost cutting or margin cutting was the method. They feared that the brand images they had established through great expense would be tarnished.

Hindustan Lever's approach to combat price competition was not simple price cutting. It decided to launch a new, lower-price detergent—Sunlight. This strategy enabled it to maintain the high price of its existing detergent—Surf—which was the brand leader. There is, however, a possible disadvantage in using a new brand name for the lower-price product: consumers may be unfamiliar with the new brand and, hence, the company may have to incur the expense of building a new brand image. Hindustan Lever, however, was able to circumvent this problem because Indian consumers had already used a soap with the Sunlight brand for many years.
The risk of tarnishing brand image arises not only from price cutting but also from sacrificing quality standards. While the multinational may apply the same standards for toxicity of ingredients to detergent powders and cakes, there are usually new concerns for new products. Poor development work could result in launching a cake that rapidly crumbles to powder. The outcome is likely to be disastrous for the brand image of all of the firm's products. Hence, introduction of special products requires great care.

Plan Ahead to Create Assets to Facilitate Mobility

The multinational whose existing products have design features that appeal to special segments of the developing country market is well positioned to introduce modified products suited for those segments. Similarly, the multinational that has a manufacturing plant flexible enough to produce the modified products or a brand image that has an appeal across segments will find it easier to introduce special products than multinationals that lack such an advantage. Some multinationals can facilitate future mobility to special segments of the developing country market by consciously creating assets (technology, brands, and plants) that give them the flexibility to introduce special products. This is a strategy successfully adopted by a local entrant to the toothpaste industry.

Transfer Products and Skills from Subsidiary to Subsidiary

The multinational can considerably enhance its ability to enter special market segments of various countries if it has mastered techniques of effectively transferring technical and marketing expertise across countries. Massey-Ferguson accumulated information about products manufactured by its subsidiaries and affiliates all over the world, consolidated that information in product manuals, and periodically circulated it to all subsidiaries. Unilever facilitated the transfer of R&D by organizing conferences and temporarily transferring R&D personnel between countries. Both Colgate-Palmolive and Unilever were able to use the experience gained in the launch of modified products in one developing country to facilitate their launch in other countries by moving marketing managers between countries. Colgate-Palmolive also facilitated the transfer of marketing campaigns' by using the same advertising agency in several developing countries.

These companies were able to take advantage of their "global" position in much more sophisticated ways than simply doing the same thing all over the world. Drawing on strengths developed elsewhere is, after all, what "global "strategy" is all about.

Global Products and Competition

Meanings of global product and other relevant terms used in this article are elaborated below.

Global Product

A product that is sold across the globe without significant modification in design. The implicit assumption is that tastes of consumers in different countries are not dissimilar enough to warrant substantial modification of product design for different countries. Coca-Cola is held up by Levitt (1983) as the perfect example of a global product. Commercial aircraft may also fit the definition.

Global Business

Hamel and Prahalad (1988) define global business as one hi which "the minimum volume necessary to exploit scale economies and experience effects is unavailable within a single national market." Hence, the firm is forced to operate in more than one country to avoid suffering a cost disadvantage.

Global Industry

Porter (1986) draws a distinction between multidomestic and global industries, which he sees as being the two ends of a spectrum. He suggests that "in multidomestic industries competition in each country (or small group of countries) is essentially independent of competition in other countries." In such industries competition in one country is insulated from competition in other countries. A multinational's international strategy in such an industry is essentially a set of national strategies. At the other extreme are global industries in which "a firm's competitive position in one country is significantly affected by its position in other countries or vice versa."

Global Strategy

A global strategy is defined by Porter (1986) as one that allows a firm operating in a global industry to achieve competitive advantage by integrating the firm's activities on a world-wide basis to capture the linkages among countries. Hamel and Prahalad (1988) stress the firm's ability and strategic Intent to cross-subsidize market share battles across countries as a critical ingredient of global competition (and hence, global strategy).
Figure 1: Colgate-Palmolive (India)’s Entry into the Detergent Industry

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<tr>
<th>Sub-segment</th>
<th>Firms manufacturing differentiated products</th>
<th>Firms manufacturing quality detergent cake faced low competitive pressure from low-priced detergent cakes</th>
<th>Firms manufacturing quality detergent powder faced high competitive pressure from low-priced detergent powders</th>
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<tr>
<td>Cottage industry</td>
<td>Detergent cakes manufactured in this segment were ineffective substitutes for quality detergent cakes</td>
<td>Detergent powders manufactured in this segment were effective substitutes for quality detergent powders</td>
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