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Localisation As A Product Strategy For Transition Economies In Asia: Cases From China And India

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Abstract

The International Finance Corporation (IFC) coined the phrases “emerging markets” and “transition economies” in the early 1980’s. IFC used economic indicators like per capita income and the ratio of market capitalization to the GNP and based on these, it developed certain benchmarks to classify the transition economies. This paper specifies the common attributes of the transition economies and details the emerging opportunities and challenges in the transition economies. This paper also examines how products are localised as a competitive strategy, keeping in mind the unique characteristics and trends that are common to transition economies. Two short cases from China and India are presented to develop an argument for the product strategy that needs to be employed to succeed in the transition economies.

Keywords: Marketing In Asia, Transition Economies, Product Strategy, Localisation

Introduction

Transition economies can be specified as those areas of the world where abundant opportunity exists due to the underdeveloped nature of the financial and industrial infrastructure. These untapped opportunities promise both larger and more rapid growth potential (Levich, 2001). To help put in perspective the variables having an impact on the strategic decisions while entering such markets, some common attributes of the transition economies need to be listed. There are 6 common attributes, which are: (1) A substantial growth in GDP and trade that is usually uneven in its distribution, hence resulting in a large number of market segments and product offerings. (2) The gradual beginning of new forms of consumerism which tend to follow the norms of more developed countries (Liberty, 2004). (3) Low per capita income, which has an impact on consumer behaviour. (4) Relative cheapness of labour and in many cases its interchangeability with capital (Dawar and Chattopadhyay, 2004). (5) Poor infrastructure and low infrastructural investment. (6) The “western” tag still evokes aspirational feelings.

An increasing number of businesses are finding transition economies attractive in spite of certain inherent risk factors associated with such economies. These economies offer a window of opportunity to entrepreneurial companies that are willing to take the risk in an effort to grow. They promise an opportunity to companies in mature markets to have a second lease of life by moving to markets that have the possibility of growing faster. The transition economies are able to provide access to many under-exploited resources either at a lower cost, or in greater abundance or quite often both. In addition, there are virgin markets for products and services offered by players in mature economies, waiting to be exploited. Even if the markets are not completely virgin, the demand for the kind of quality that is available in mature markets is always there. As a whole, these economies offer a greater opportunity for the companies that are forward looking and are willing to chance expanding their operations beyond their home turf taking advantage of higher growth and expanded markets.

Progression from Old to Transition Economies

In the past two decades, the world economy has progressed through the business cycle transition of old economy to new economy, however, even the new economy is drastically losing out to the transition economy. The changes that have occurred and that are predicted to occur can be summarised in a table (see table 1).

Table 1: Comparison: Old, New and Transition Economies

	Old Economy	**New Economy**	**Transition Economy**
Business priority	Product	Information	Knowledge
Success measure	Market share	Revenue	Profits
Leading function	Operations	IT	Marketing
Managerial mindset	Econo-centric	Web-centric	Customer-centric
Corporate structure	Pyramidal	Flat	Team-oriented
Sales target	consumers	vendors	customers

Source: Ettenberg (2002).

Localisation

Localisation is not the same as the old struggle between standardisation and customisation though there are some similarities between customisation and localisation. Whereas manufacturing loves standardisation, marketing would strongly prefer customisation. Lampel and Mintzberg (1996) have conceptualised five levels: pure standardisation, segmented standardisation, customised standardisation, tailored customisation and pure customisation. The decisions, which concern the mode of entry, the time of entry, location within the country, its magnitude of commitment are found to be interdependent with operational issues like product design, localisation v/s customisation to suit the local requirements (Klaus, 2003).

As firms expand into international markets and graduate from being an exporting company to being a true MNC, they need to acquire the ability to manage manufacturing and distribution functions on a global basis. Firms entering transition economies have found that more than customisation, what is succeeding is localisation. Paradoxically, the driver for localisation is the phenomenon of globalisation. One of the outcomes of globalisation is that consumers are feeling threatened by the common global culture. In an effort to maintain their individuality, consumers are drawing closer to their culture and are getting more averse to renouncing or forsaking it in favour of a common globalised culture. The second factor could be called the 'local fit', which is in tune with the local language, culture and 'look/feel' for the desired comfort level of the local consumers to use the product or see the right value for the feature of the product and indeed for what the company is perceived to be. This means that the product may need to be localised by adding, removing or pairing a feature to make it more acceptable and appealing. The third driver is, the technology that makes it possible to change the product to new specifications and minimal incremental costs.

Localisation as a Competitive Strategy

Localisation is a marketing response. It is not only about localising product or service but also about flexible and targeted distribution systems, organising consumers and producers together, information dissemination, suppliers and customers and organisational design. In this paper, only localisation of product attributes is focussed upon. Localisation is a strategic decision for sellers who determine the degree of local focus to make the product become either more durable or offer more value for money or more aesthetically appealing or a combination of these features. The benefit to the seller is that it gives him/her a ready acceptability among the local consumers; saving on marketing investments and making them go a longer way in capturing a share of the market. Another outcome of localisation is that it deepens the seller's dependence on the buyer, thus motivating him/her to engage in a relationship. As localisation innovations often require considerable product adaptation, it necessitates the dedication of significant idiosyncratic resources to a particular buyer/segment/group, thereby increasing the seller's dependence on the buyer (Athaide, Stump and Joshi, 2002).

Localisation focus on Transition Economies

The question is not whether to localise or not, but to what extent and how innovatively. It is easy to get carried away and out-localise the locals. Excessive localisation of products incurs and unnecessarily high cost of market entry and makes the firm fail to achieve product and marketing differentiation from local and other international competitors (Hui, Zhou, Han and Kim, 2003). An interesting study to explore the strategy-performance relationship of Korean companies in China by Han and Kim (2003) found that firms pursuing the emphasis of product competitiveness had superior market performance, whereas firms pursuing localisation showed poor performance. Even firms pursuing medium price-quality positioning strategy with a 'value for money' approach exhibited moderately good performance. The message perhaps is that excessive localisation is not preferable in isolation. It should be seen as a composite strategy for entry into transition economies. Too much localisation is likely to unnecessarily increase marketing entry costs and make the firm fail to achieve product and marketing differentiation from local and other international competitors.

One of the common defining attributes of transition economies is that the per capita GNP is low, albeit growing at a comparatively fast rate. The great middle class that is huge in numbers but low on spending power typically drives the growth rate. Companies wishing to enter these markets should seriously look at this segment. Since the middle class segment is very price conscious, it makes sense to provide the 'best value for money'. The cheapest way to make a product is to standardise it and make huge volumes of the same product, this way economies of scale are achieved. Whereas the local market may be willing to pay a small premium for the international tag and quality, it will certainly perceive value for either durability, value for money, aesthetic appeal or a combination of these features. For this class of customers, customisation or individualisation is all right if it comes at the same price as the standardised product. If it can be done, then more value will be perceived, but usually customisation comes at a price, which only the affluent customers will consider.

Attempts have been made to create a loyal customer base through mass customisation that is between the two extremes of pure standardisation and pure customisation. This was supposed to solve the problem by using new technology to make small batches relatively cheaply instead of customising each and every unit. However, this promise of mass-customisation has failed to materialise. Madrick (2002), points out that the traditional mass markets and simple economies of scale have prevailed whereas individualised e-commerce has remained a marginal force. Since it would be risky to localise for a smaller class, it is better to localise for the middle classes because they represent the largest segment of any transition market.

Honda, Nokia and Shanghai Jahwa

While it is true that a good product knows no national boundaries, there are subtle differences, from country to country and region to region, in the way a product is used and what customers expect of it. Sugiura (1990) of Honda Motor Company described how Honda adapted their activities to local requirements while promoting internationalisation by giving the example of their motorcycles. They found that North Americans used motorcycles primarily for leisure and sports; preferring a racier look with high horsepower and speed. Southeast Asians, on the other hand, used motorcycles as a basic means of transportation, so they wanted ease of maintenance and low cost of ownership. In Australia, shepherds used motorcycles to drive sheep; they looked for low-speed torque rather than high speed or ease of maintenance. So while Honda did use the basic technology, they developed different types of motorcycles for different regions. Such differences are applied to not only the cars and motorcycles but also to most industrial products as well. By localising their products, Honda has built a higher perceived value for their products.

A cellular phone is a good example to show how localisation can get innovative in a technology product, which is assumed to be universal. More functionality can be added to a product but that may not add any perceived value in the local market. Work on the new Nokia 1100 handset, which was being positioned as ‘Made for India’, began in Copenhagen. It was based on inputs from transition economies like India and Russia. Research had shown that dust was an irritant for Indian cell phone users. So the thrust of 1100 was to make it dust resistant. The keypad was created as a single unit and a min flashlight was added to it. This became Nokia’s best selling model in India, selling over 5,000 pieces a month (Business World, 2004). Nokia showed the way to localise for an emerging market by making their product more durable and perhaps also providing for the sudden power outages so common in India, by means of the min-flashlight.

China’s oldest cosmetics company, Shanghai Jahwa, shows how a local company uses localisation as a marketing strategy to hold its own in a highly competitive global marketing environment by exploiting its local orientation. Though there is not much pressure to globalise in the fashion industry, there exists a sizable market segment that is attracted to global fashion brands. As in other developing countries, young people in China are attracted to Western products. This is the natural segment for establishing a beachhead in a new market for global MNCs. So instead of fighting the MNCs on their turf, Jahwa concentrates on the large group of customers who believe in traditional way of healing. The company has developed low cost mass-market brands positioned around beliefs about traditional ingredients.

Many Chinese consumers believe that human organs like heart and liver are internal spirits that determine the health of the body (Dawar and Frost, 1999). One such traditional remedy for prickly heat and related summer ailments is Liushen, or six spirits. Based on this traditional cure, Jahwa launched a Liushen brand of eau de toilette and marketed it for use in summer season. The success of this brand that gained 60% of the market, lead the company to extend its line by introducing a shower cream targeted at the same segment. Other MNCs in the cosmetic business who are not familiar with such traditional cures find that their products are limited in their appeal to the young city folk. For these companies, it is also difficult to sell products designed for affluent customers because most buyers in transition economies don't find them to be price attractive. Nor can the MNCs lower the price to compete for it might damage its global brand by giving it a cheap image. Therefore, while Jahwa's foreign contenders are stuck at the top end of the market, it has created an advantage for itself by reaching to a larger group of consumers. As a result, Jahwa aims at over half the Chinese market compared to Revlon, which estimates its target market in China to be a mere 3% (Dawar and Frost, 1999). The Jahwa example illustrates that localisation can be a good defensive strategy for the locals and they must build up their quality to international standards, to be a contender. In the case of outsiders, localisation can be a contender strategy to take on the local competition head on.

Discussion

This paper is purely descriptive and it relies exclusively on secondary data. For future research a conceptual framework with a set of testable research propositions will be added. Any consideration of a pioneering strategy for a transition market should be accompanied by an evaluation of a host of economic, technological, social, political and marketing related factors. Many conditions specific to transition markets moderate first mover advantages, therefore, the notion that first mover advantages accrue automatically by virtue of entering ahead of others must be further investigated in the context of transition economies. The second implication is that firms that have decided to be pioneers in transition markets should expect environmental obstacles and hence prepare specific measures to overcome these obstacles. The final implication relates to the larger question of whether or not it pays to be a pioneer in a transition market. Although many transition market conditions appear to inhibit rather than enhance first mover advantages, companies need to account for internal qualities that may uniquely qualify some firms not only to embrace the risks and costs associated with being first in these markets, but also succeed through their ingenuity, tenacity and resources.

The question of 'how much localisation' is indeed very challenging and in many cases it requires a significant amount of ingenuity and insight to figure out which aspect of the product to localise. Companies can derive better results if they do not use replication strategies, rather, efforts need to be made by the companies to understand the consumers in transition economies as well as the market characteristics. Transition economies, being at the lower end of the economic prosperity ladder, look for value for money i.e. an acceptable level of quality at an acceptable price. Products that are localised in such a way that they deliver maximum perceived value at a minimum cost will end up garnering a lion's share of the market. The good old 80-20 principle could

be used in an advantageous manner here; give 80% localisation that comes at 20% cost and save the rest for later.

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