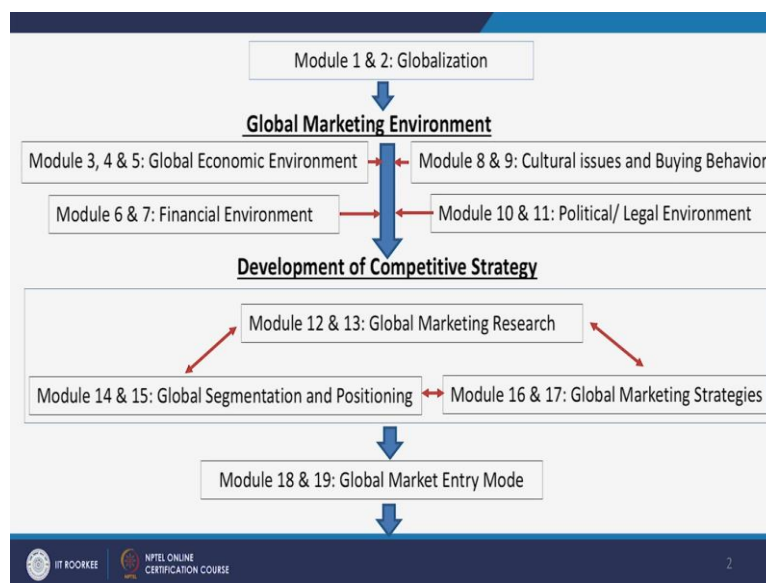


Global Marketing Management
Prof. Zillur Rahman
Department of Management Studies
Indian Institute of Technology - Roorkee

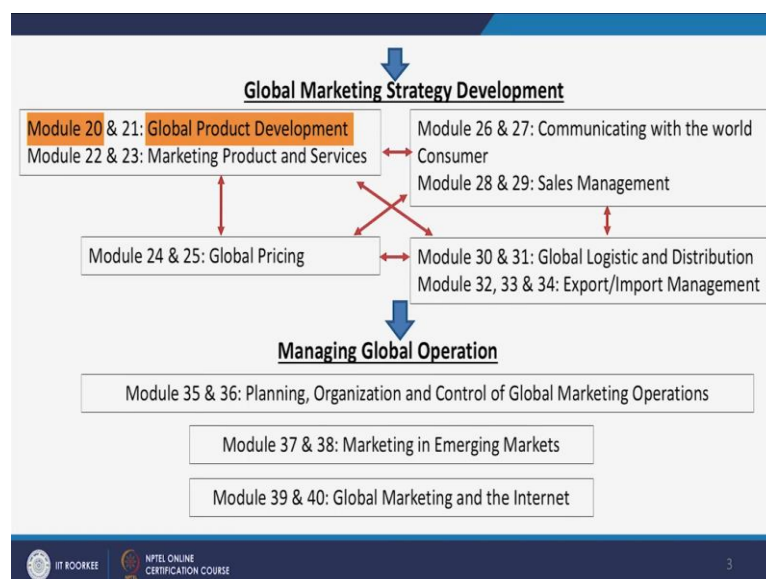
Module - 4
Lecture - 20
Global Product Development - Part I

Welcome to this course on Global Marketing Management. And we have talked about the global marketing environment, development of competitive strategy.

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And now, we will start with the next section that is on global market strategy development. The first 2 modules, that is module 20 and 21, they are dedicated to global product

development. And as we move on, we will talk about the other Ps also. So, let us start with the first P in this section on global marketing strategy development.

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And here we will talk about the global product strategies and the debate on standardization versus customization. Now, just to give you an overview, when a company enters a country the first thing is that very important in the marketing mix is the product. Because this is what the customer sees. And obviously, the customer wants a product that satisfy their needs their, that fulfil their needs and requirements.

So, this means that the company has to adapt the product according to local needs and requirements. On the other hand, the company itself want that the product should be standardized. Therefore, that leads to lower cost. So, this is the debate that come in, comes in with all the 4 Ps in marketing mix. And we will talk about how to go about resolving this debate.

Just to help you in recall, we have also talked about the same kind of debate when we were talking about the R & D manufacturing and marketing interface. So, you see that products are the most crucial element of the company's marketing program. And those product decisions are integral to the company's value proposition. Because value proposition is then implemented through the marketing mix and the product.

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Introduction

- Products are arguably the most crucial element of a company's marketing program. Product decisions are integral to the company's value proposition.
- Management must develop product policies and strategies that are sensitive to market needs, competition and company ambitions and resources on a global scale.
- Effective global marketing entails finding a balance between the payoff from extensively adapting products and brands to local market preferences and the benefits that come from concentrating company resources on relatively standardized global products and brands.



So, management must develop product policies and strategies that are sensitive to the local market needs and the competition in that country and the companies ambition in that country. While effective global marketing entails that there should be a balance between the payoff from extensively adapting products and brands to the local market preferences and the benefits that come from concentrating company's resources on relatively standardized global products and brands.

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Introduction

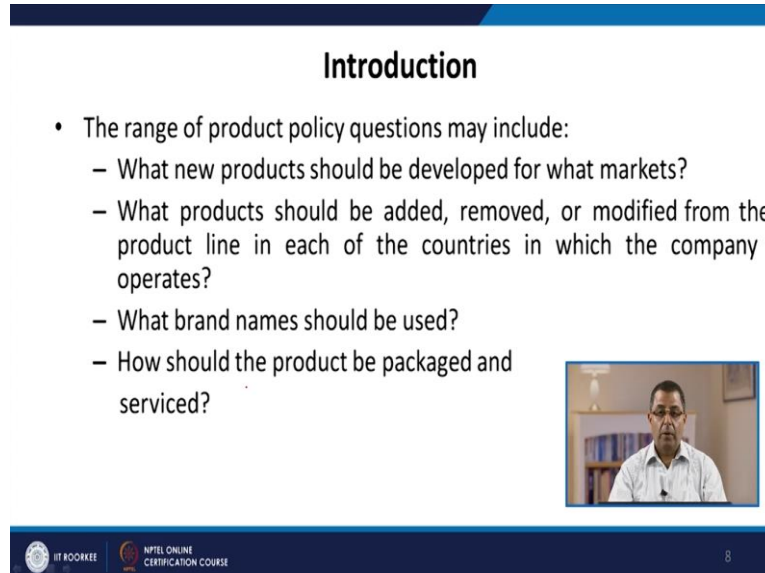
- A cornerstone of a global marketing mix program is the set of product policy decisions that multinational companies (MNCs) constantly need to formulate.
- Global product policy decisions are tremendously important for the success of a MNC's global marketing strategy. With this in mind, this module has as a primary focus on the new product development process in a global context.



So, the cornerstone of any global marketing mix program is a set of product policy decisions that this multinational companies constantly need to formulate. Global product policy decisions are tremendously the important for the success of the multinational in this global marketplace. With this in mind, this module has a primary focus on new product development process in the global market.


So, the company may think of entering a foreign market with the current products they have or they may come up with a new product to enter the market. So, this is what we are talking about today.



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Introduction

- The range of product policy questions may include:
 - What new products should be developed for what markets?
 - What products should be added, removed, or modified from the product line in each of the countries in which the company operates?
 - What brand names should be used?
 - How should the product be packaged and serviced?



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There are a range of product policy decisions that a multinational faces. And it includes, first is: What new product should be developed for what market? Should we develop new products for every market that we enter? Should we develop products for regional markets or should we develop product for global markets? What product should be added, removed or modified from the product line in each of the country in which company operates?



What should be the brand names that should be used? And also, how would the product be packaged and serviced? So, these are the host of new product decisions that a multinational has to take whenever it enters a country.

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Introduction

- Examples of improper product policy decisions in global marketing:
 - **Ikea in the United States:** Stores were in poor locations, it stubbornly refused to resize its beds and kitchen cabinet to fit American standards.
 - Its products were small and didn't fit to the American preferences of big spacious furniture. Bookshelves were too small to hold television sets, sofa sets were too hard, customers bought vases to drink from as glasses were too small.






9



Now, there are several problems; several examples of improper product policy decisions in global marketing. The first is that of IKEA in the United States. Stores were in poor locations. It refused to resize its bed and kitchen cabinets to fit American standards. So therefore, the products were small and did not fit to the American preferences of big spacious furnitures. Bookshelves were too small to hold television sets; Sofa sets were too hard for the American customers; customers brought vases to drink from as the glasses were too small. So, they used vases as drinking glasses.

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Introduction

- Ikeas system of self-service and self- assembly puzzled Americans. Also prices were too high.
- Ikea remedies the situation by adapting the product line, choosing new and bigger store locations, improving service and slashing prices.
- **Proctor & Gamble in Australia:** Decided to import disposable diapers rather than manufacturing them locally in Australia.
 - By using packaging designed for the Asian region with non-English labelling, P&G alienated customers in Australia.



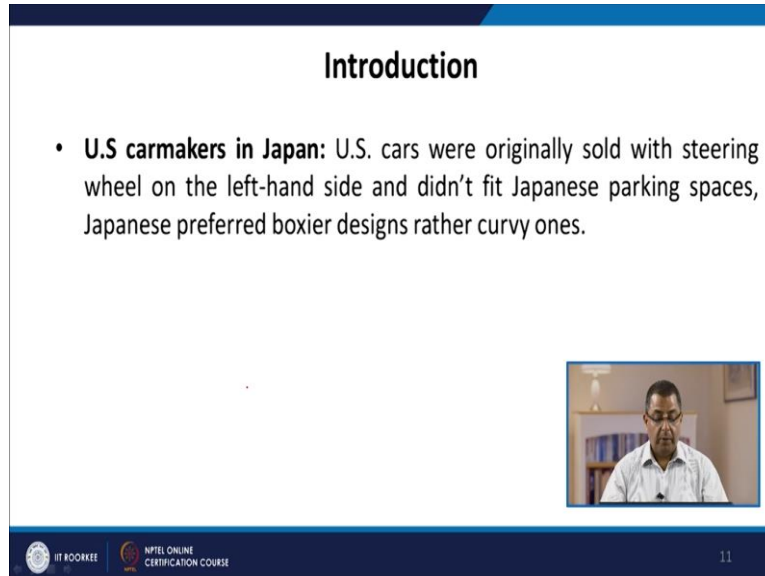


10

So, IKEA's system of self-service and self-assembly, they, it puzzled Americans and also the prices were too high. IKEAs remedy the situation by adapting the product line choosing newer and bigger store locations, improving services and slashing prices. Let us look at

another example of what happened with Procter & Gamble in Australia. They decided to import disposable diapers rather than manufacturing them locally.

So, they thought that it is better to import them rather than to manufacture locally, because that would have increased cost. But by using packaging design for the Asian region with non-English labelling, P & G alienated customers in Australia.

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Introduction

- **U.S carmakers in Japan:** U.S. cars were originally sold with steering wheel on the left-hand side and didn't fit Japanese parking spaces, Japanese preferred boxier designs rather curvy ones.

11

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This slide is titled 'Introduction' and contains a single bullet point about U.S. carmakers in Japan. It includes a small video inset of a man speaking and a footer with logos and the number 11.

What happened with U.S. car makers in Japan was the U.S. cars were originally sold with the steering wheel on the left hand side and did not fit Japanese parking spaces, because the U.S. cars are bigger in size and Japanese have smaller spaces. Therefore, and Japanese preferred boxier design rather than curvy ones that were made by the U.S. car makers.

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1. Global Product Strategies

- **Three global strategies to penetrate foreign markets:**
 - **Extension strategy:** Extension of their homegrown product/communication strategies to their foreign markets.
 - **Adaptation strategy:** Prefer to adapt their strategy to the local marketplace, enabling the firm to cater to the needs and wants of its foreign customers.
 - **Invention strategy:** Products re designed from scratch for the global market place.

12

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This slide is titled '1. Global Product Strategies' and lists three strategies: Extension, Adaptation, and Invention. It includes a small video inset of a man speaking and a footer with logos and the number 12.

Now, the 3 global strategies to penetrate foreign markets. The first strategy is extension strategy. Extension means extension of their homegrown product and communication strategy to the, to their foreign market. So, what they are doing at the home and in home about the product and communication in the home country, that is what they start using in the host country.

Another strategy is adaptation strategy. That is, they prefer to adapt their strategy to the local marketplace enabling the firm to cater to needs and wants of its foreign customers. And the third is invention. That is, products are redesigned from scratch for the global marketplace. So, instead of using extension or adaptation, they come up with the third strategy, that is products developing new products for the global marketplace,

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Global Product Strategies

- **Five strategic options for the global marketplace:**
 - **Strategic Option 1:** Product and Communication Extension -- Dual Extension
 - **Strategic Option 2:** Product Extension -- Communications Adaptation
 - **Strategic Option 3:** Product Adaptation -- Communications Extension
 - **Strategic Option 4:** Product and Communication Adaptation -- Dual Adaptation
 - **Strategic Option 5:** Product Invention



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13

And the 5 strategic options for the global marketplace are: 1, first is, strategic option 1, product and communication extension. So, you are extending product and communication both. So, that is dual extension. Another is strategic option 2. That is, product extension, but communication adaptation. So, in option 1, the both were extended. In option 2, communications is adapted.

Strategic option 3 is, product is adapted while communication is extended. So, that is product adaptation and communication extension. The fourth strategic option is, product and communication adaption. So, that is, exact reverse of a strategic option 1, where we are extending both, in strategic option 4, we are adapting both of them. And then, strategic option 5. That is, product invention.

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Global Product Strategies

Strategic Option 1: Product and Communication Extension: Dual Extension.

- A company can choose to market a standardized product using a uniform communication strategy.
 - Early entrants prefer this approach.
 - Small companies with few resources prefer this form of extension.



Now, let us look at strategic option 1. What happens when product and communication, both of them are extended, which is called as dual extension. A company can choose to market a standardized product using a uniform communication strategy. Now, early entrants, the first movers, they prefer this approach. Small companies with fewer resources, they also prefer this approach.

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Global Product Strategies

- A standardized product policy coupled with a uniform communication strategy offers substantial savings coming from economies of scale.
 - This strategy is usually product-driven rather than market-driven.
 - This strategy can alienate foreign customers who prefer a customized product.
- Example: **Blistex Lip Balm**, sold same product in various European markets and ran a uniform European advertising campaign using identical positioning and advertising themes.



The standardized product policy coupled with uniform communication strategy of a substantial savings from economies of scales, because you are just extending both of them. So, this strategy is usually product driven, rather than market driven. This strategy can alienate foreign customers who prefer customized product. For example, Blistex lip balm

sold same product in various European market and ran a uniform European advertising campaign using identical positioning and advertising theme.

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Global Product Strategies

Strategic Option 2: Product Extension-Communications Adaptation

- Due to differences in the cultural or competitive environment, the same product often is used to offer benefits or functions that dramatically differ from those in the home market.
 - Customized advertising is the result.
 - Positioning themes are often used in the ad campaigns.
- Example: **Wrigley's** Chewing Gum advertising campaigns vary from country to country based on different benefits chewing gum offers.



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16

Strategic option 2 is product extension but communication adaption. So, you are using the same product but the communication is adapted to the local requirement. So, due to differences in cultural or competitive environment, the same product often is used to offer benefits or functions that dramatically differ from those in the home market. Customized advertising is the result of that and positioning themes are often used in the ad campaigns. For example, Wrigley's chewing gum advertising campaigns vary from country to country based on different benefits chewing gum offers.

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Global Product Strategies

Strategic Option 3: Product Adaptation-Communications Extension

- Firms can adapt their product but market it using a standardized communications strategy. Local market circumstances and regulations often favor this alternative.
- Another reason for this strategy is the firm's expansion strategy. Brands are added as firms buy local companies. Clever marketing ideas can be transferred from one country to another.
- Example: Taiwan-produced commercial for **P&G's Pantene** Shampoo was successfully transferred to Latin America with minor changes in the product.



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17

The third strategic option is product adaptation while communication remains the same. So, firm can adapt their product but market is using the standardized communication strategy. The communication strategy is used the same across different countries while the product is adapted in different countries. Local market circumstances and regulations often favor this alternative, because people the government want that the product should be adapted to their standards. For example, 110 volt or 220 volt, left hand cars and right hand cars.

Another reason for this strategy is the firm's expansion strategy. Brands are added as firm by local companies. So, when why would a company buy a local company? Just for the sake of the brand. So, clever marketing ideas can be transferred from 1 country to another. For example, Taiwan produced commercials for P & G, Pantene Shampoo was successfully transferred to Latin America with few minor changes in the product.

So, you see, now here the product is adapted, but the communication remains the same. So, we are adding features or changing product formulation, we are changing packaging also sometimes, but the communication of this product is remains the same with some minor changes. The it does not, remaining same does not mean that they are 100% same.

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Global Product Strategies

Strategic Option 4: Product and Communications Adaptation: Dual Adaptation

- Differences in both the cultural and physical environment across countries call for a dual adaptation strategy.
- This becomes a viable option for global expansion.
- Example: **Slim-Fast** adapted its weight loss products in Great Britain by introducing Banana flavor. It also used common people for testimonials instead of celebrities as per the regulations in Britain.

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The fourth strategic option is product and communication adaptation, that is dual adaptation. So, now in different countries there are different products and the each product, in each country they have a different communication strategy. So, that may arise because of differences in both the cultural and physical environment across countries. This becomes a viable option for global expansion.

For example, Slim-Fast adapted its weight loss product. In Great Britain, they introduced banana flavor. It also used common people for testimonials instead of celebrities, as per the regulations in Britain. So, elsewhere they use celebrities, but in Britain, because of the regulations they had to use common people as to give testimony of how good their product was.

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Global Product Strategies

Strategic Option 5: Product Invention

- Genuinely global marketers try to figure out how to create products with a global scope rather than just for a single country.
- This strategy focuses on opportunities and inventions.
- Example: **Black & Decker- Snakelight** was a new invention that emerged as a global product launched in various parts of the world addressing global need for portable lighting.


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The last option is that of product invention. Now forget about the product and the communication that we had in the home country. We are looking at obviously a new product and therefore a new communication. Genuinely, global marketers try to figure out how to create products with a global scope rather than just for a single country. This strategy focus on opportunities and invention.

For example, Black & Decker, Snakelight was a new invention that emerged as a global product launched in various parts of the world, addressing global need for portable lighting. So, obviously, when they have developed a new product they will also have to come up with new kind of communication strategy for this new product. So, now you see that there are, we have discussed these 5 strategic options that are available to any multinationals when they want to move from the home country to the host country.

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Global Expansion Strategies					
Product Strategy	Function or Need Satisfied	Conditions of Product Use	Ability to Buy Product	Recommended Product Strategy	Recommended Communications Strategy
1	Same	Same	<u>Yes</u>	<u>Extension</u>	<u>Extension</u>
2	Different	Same	Yes	Extension	Adaptation
3	Same	Different	Yes	Adaptation	<u>Extension</u>
4	Different	Different	Yes	Adaptation	Adaptation
5	Same	—	No	Invention	Invention



Now, look at this, the global expansion strategy. In product strategy 1, the functions on, we have different dimensions, the functions or whether the functions or needs satisfied. What are the conditions of product use. Ability to buy the product, recommended product strategy and recommended communication strategy. So, 1 is where the need satisfied are the same. The conditions of product use are the same, the ability to buy the product is yes. So, therefore, you extend the product and you extend the communication.

In second strategy the need satisfied are different. So, someone wants dandruff free hair, someone wants longer hair and silky hair, etcetera, etcetera. So, the need that people want from a shampoo, they are different. So, the conditions of use obviously are the same. People have the ability to buy. So, what you need to do is to extend the product while adapt communications. So, you will communicate dandruff free in 1 country, while black hairs in another country, long hairs in the third country, silky hairs in the fourth country.

In the third product strategy, that is the need satisfied are the same, but the conditions of product usage are different. The ability to buy the product is there. Therefore, there is a need to adapt the product and recommended communication strategy is extension. In the fourth option, the functions are that, the needs that are satisfied are different, the uses are different, there is the ability to buy; therefore, there is a need to adapt.

Because the need satisfied are different and the usage are different. Therefore, there is a need to adapt or change the product strategy as well as the communication strategy. In the fifth option, the need satisfied are the same, the use of product are yet to be defined, ability to buy

is not there; therefore there is a need to invent a new product and therefore invent the new communication strategy.

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2. Standardization versus Customization

A recurrent theme in global marketing is whether companies should aim for a standardized or country-tailored product strategy.

- **Standardization** means offering a uniform product worldwide.
 - Capitalizes on commonalities among customers.
 - Minimizes costs.
 - These cost savings are usually passed on to customers in the form of lower prices per product.



Now, let us look at this or pervasive debate in global marketing. That is the debate between standardization and customization. So, this recurrent theme in global marketing is whether companies should aim for standardized or a country-tailored product strategy. The what have; what does standardization means? Offering a uniform product worldwide. So, that capitalizes on commonalities across customers.

So, we are looking at a global customer segment, a customer segment that are that is common there, common across the world or they are available in different parts of the world. It minimizes cost, these cost savings are usually passed on to the customer and that leads to lower prices per product.

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Standardization versus Customization

- **Customization** leverages cross-border differences in needs and wants of the firm's target customers.
 - Changes are made to meet local conditions.
 - This is a market-driven strategy.
 - Increase customer satisfaction by adapting products to meet local needs.

– higher prices



While customization means leveraging cross-border differences in needs and want of the firm's target customers. So, the firm target customers, they have different needs and wants and the company want to leverage on those differences. So, the changes are made to meet the local conditions. This is a market driven strategy. It increases customer satisfaction by adapting products to meet local needs. But here in this case meeting needs will may come at a higher price.

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Standardization versus Customization

- Five forces favoring a globalized product strategy:
 1. Common customer needs
 2. Global customers
 3. Scale economies
 4. Time to market
 5. Regional market agreements



So, there are 5 forces that favor globalized product strategy. 1 is common customer needs. There are global customers. It leads to economies of scales. The time to market is lesser and because of regional market arrangements.

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Standardization versus Customization

1. Common customer needs

- For many product categories, consumer needs are very similar in different countries, for example, Apple's iPhone.
- Many product categories also show a gradual but steady convergence in consumer preferences. The exhibit shows Global color popularity report 2008 by Du Pont, shows color preferences are converging but with subtle differentiation between markets.

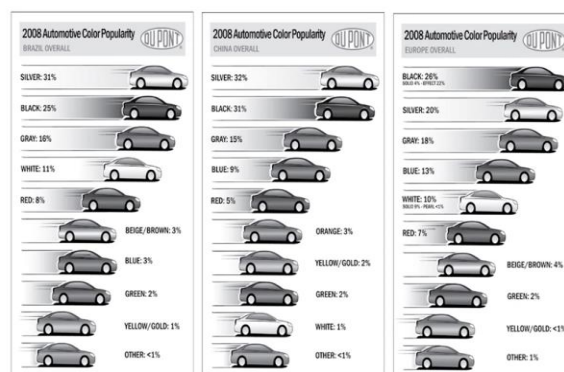


Now, let us look at all of them in detail. What does common customer needs means? For many product categories, consumer needs are very similar in different countries. For example, Apple iPhone which is not customized to any particular country. Many product categories also show a gradual but steady convergence in consumer preferences. Now, we will show global color popularity report 2008 by DuPont.

Shows color preferences are converging, but with subtle differentiation between markets. So, there can be n number of whites. People may like white, 1 kind of white in 1 country and another kind of white in another country. And similarly, it goes for black also.

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Standardization versus Customization

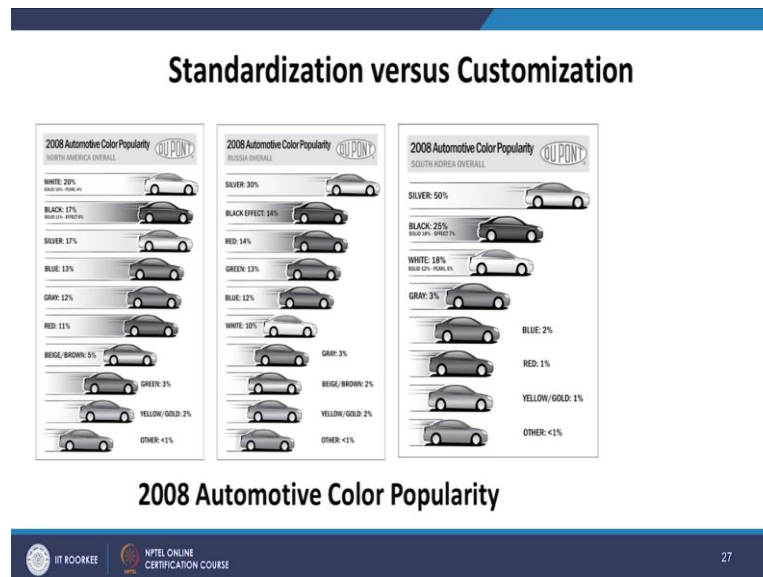


2008 Automotive Color Popularity

So, this shows, this 2008 automatic automotive color popularity. So, for Brazil, silver is 31; for China, silver is 32; and for overall Europe, the black is 26, while the silver is only 20. So,

you see that, for these 5 colors, people have different kind of likings across the world. White accounts for 28% of popularity in India; that was in 2008. While white accounts for 32% in Japan and for Mexico it is 20%. So, you see that white is liked overall by people across the world. Similar is a situation with silver. It is 27%, 28% and 17%.

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So, this figure shows the color popularity across various countries.

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Standardization versus Customization


2. Global customers

- In business-to-business marketing, the shift towards globalization means that for many companies a significant part of their business comes from MNCs that are essentially global customers.
- Buying and sourcing decisions are centralized.
- As a result such customers typically demand services or products that are harmonized worldwide.

Now, what are global customers? In a business-to-business marketing, the shift towards globalization means that many companies, a significant part of their business comes from multinational companies that are essentially global customers. So, these companies their most of the business is happening within between the companies and between B2B and not B2C. So, the same companies are selling to the same companies across the world.

And same companies are buying from same companies across the world. So, CEAT Tyres may be selling tyres to Suzuki across the world and Suzuki maybe buying Philips bulbs from Philips across the world. So, there is an emergence of global customers. And therefore, the buying and sourcing decisions are centralized. So, they decide that the, Suzuki decides that they will buy Philip automobile bulbs from Philips across the world. As a result, each customer typically demands services or products that are harmonized worldwide.

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Standardization versus Customization

3. Scale economies.

- Savings in a variety of areas is a big reason for standardization.
- The result is lower prices to the consumer.
- Production procedures such as flexible manufacturing and just-in-time production have shifted the focus from size to timeliness.
- CAD/CAM allows for small batch production.
- There are hidden costs (such as administrative costs) associated with large size production.

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This leads to economies of scales. Saving in a variety of area is a big reason for standardization. The result is lower prices to the customer. Production procedures such as flexible manufacturing and just-in-time production have shifted the focus from size to timeliness. So, now size is not so important, but the timeliness of delivering the product is more important. CAD CAM allows for small batch productions.

So, for economies of scales we do not need to have huge batch sizes. Smaller batch sizes can also lead to economies of scales. There are hidden cost such as administrative cost associated with large size production.

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Standardization versus Customization

4. Time-to-market.

- Companies must seek to shorten the cycle from invention to production to market.
- Centralizing efforts (such as in research) often helps.

5. Regional market agreements.

- Formation of single markets and other market agreements help to launch regional or re-designed products. For example, **Single European Market**.



The fourth advantage is that of time to market. Companies must seek to shorten the cycle from invention to production to the market. So, this time to market from invention to production should be shortened. Otherwise, the more, the longer it is the more time and cost; the longer the cycle from invention to production is more, cost will be incurred. So, centralizing efforts such as in research often helps.

The fifth advantage of standardization is regional market arrangement. So, we are talking of regionalization of global marketing strategy and various regional trading blocs. So, formation of a single market and other market arrangements help to launch regional or redesigned product. For example, single European market, there is 1 product.

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Standardization versus Customization

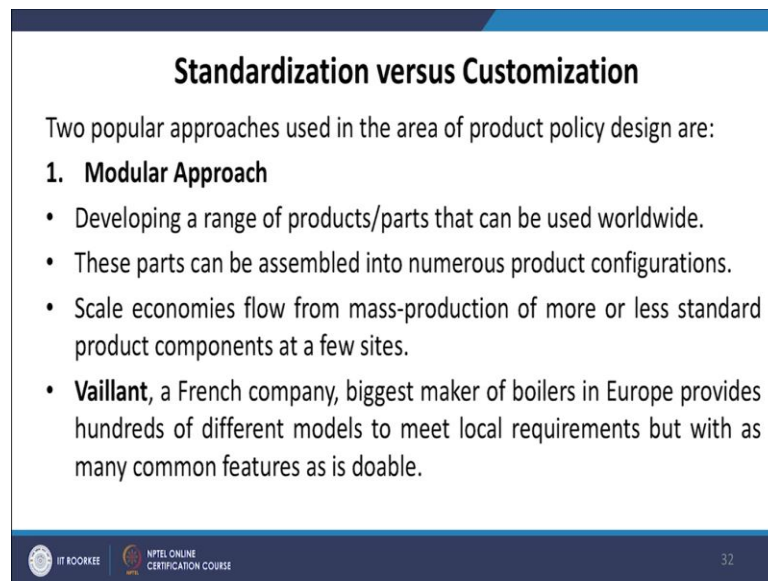
Two Alternatives: Modular and Core-Product Approach

- Whether firms should go for standardized or localized products should not be the question.
- Product managers should instead look at it in terms of the “Degree of globalization”.
- What elements of the product can be adapted as it is and what can be tailored further.



Now there are 2 alternative approaches so that this can, this debate can be handled. The first is modular and the second is core product approach. Whether firm should go for standardization or localized products should not be the question. There has to be a balance between these 2. Product managers should instead look at it in terms of degree of globalization and obviously that will lead to degree of localization. What elements of the product can be adapted as it is and what can be tailored further.

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Standardization versus Customization

Two popular approaches used in the area of product policy design are:

- 1. Modular Approach**
 - Developing a range of products/parts that can be used worldwide.
 - These parts can be assembled into numerous product configurations.
 - Scale economies flow from mass-production of more or less standard product components at a few sites.
 - **Vaillant**, a French company, biggest maker of boilers in Europe provides hundreds of different models to meet local requirements but with as many common features as is doable.

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And for this, there are 2 approaches that can be used. 1 approaches the model approach. Developing a range of products or parts that can be used worldwide. For example, Intel chip. These parts can be assembled into number of product configurations. Scale economies flow from mass-production of more or less standard product component at a few sites. Vaillant, a French company, biggest maker of boilers in Europe, provides 100 of different models to meet local requirement, but with as many common feature as is doable.

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Standardization versus Customization

2. Core-product (common platform) Approach

- The core-product approach starts with the design of a mostly uniform core-product and then adds attachments that might fit local needs.
- Savings comes from centralizing the production of the core.
- Easy product modification is a secret of success.
- **Renault**, following this approach, keeps body, engines, transmissions of a given model same across different markets. Minor changes such as stronger heaters in Nordic countries are easily implemented.



Another approach is that of core product. That is common platform approach. The core product approach starts with the design of mostly uniform core products. And then add attachment that might fit local needs. Saving comes from centralizing the production of the core. And easy product modification is the secret of success. For example, Renault, followed this approach, keeps body, engine, transmission of a given model same across different markets. Minor changes such as stronger heaters in Nordic countries are easily implemented.

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Conclusion

- We have discussed product development process including several broad approaches like extension of the domestic strategy, adaptation of home-grown strategies, or invention by designing products that cater to the common needs of global customers.
- As an issue to be considered within these alternatives is whether to standardize or customize the product. This issue is not an “**either-or issue**”. Instead it is a “**degree**” issue. Proper balance is the mark of a successful global competitor.
- This process is somewhat similar to the new product development process used domestically. However, the global decision has its own set of complicating factors.



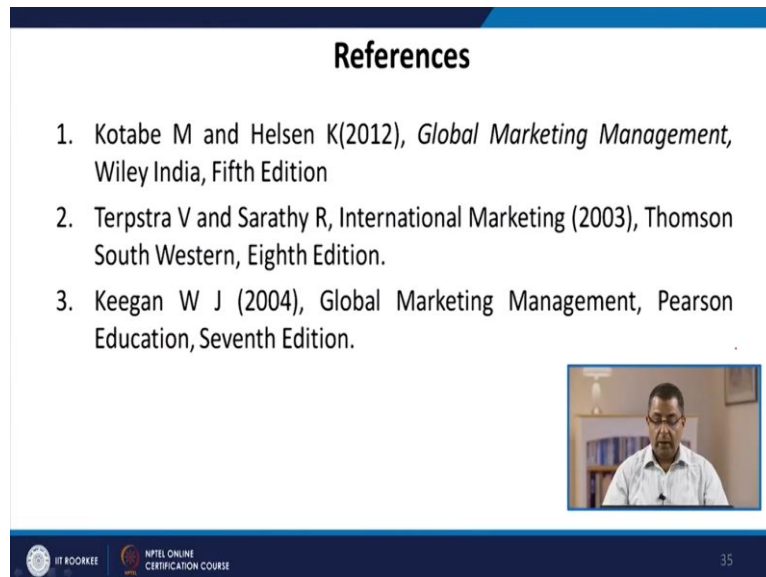
So, in the end, let us see what we have done. We have tried to see the various kind of product strategies available to a global company that are called as global product strategy. And then we have seen how to strike a balance between standardization and customization. So, we have discussed product development process including several broad approaches like

extension of the domestic strategy, adaptation of home-grown strategies or invention by designing products that cater to the common needs of the customers.

Then we have talked about an issue to be considered within these alternatives is whether to standardize or to customize the product. This issue is not an either-or issue. Instead, it is the degree issue. So, we are not, whether should, whether we should standardize or not, whether we should customize or not. So, this is not the issue, the issue is to what extent we should standardize and to what extent we should customize.


So, that is the debate. It is not either-or debate. So, proper balance is the mark of successful global competitor. This process is somewhat similar to the new product development process used domestically. However, the global decisions has its own set of complicating factors. So, it is, this process is similar to the new product development in for the domestic market, but it is not so simple because of various factors, complicating factors that come in the process of global marketing. And these are the 3 books that have been used for further understanding this module. Thank you.



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35