PRODUCT AND PROMOTION ADAPTATION BY EUROPEAN FIRMS IN THE U.S.

JAMES J. WARD*

European subsidiaries surveyed in this study exhibit a strong tendency to adapt products and promotion strategies to U.S. markets. While most products are adapted in some manner, changes and their costs are relatively minor.

Introduction

Much attention in the field of international marketing has recently been focused on the need for adaptation of strategies to new environments. One aspect of this is the extent to which products and promotion require adaptation for success in foreign markets. Writers have advanced various guidelines as to when products and promotion strategies should be standardized versus adapted.[1] Most of the literature on this topic is in reference to the operations of U.S. firms overseas. Few broadly based empirical studies are available to substantiate the theorizing. We are given many individual examples, mostly of foreign marketing failures with too little systematic analysis.

A number of excellent recent studies, however, have dealt with the operations of European firms in the U.S.[2] These studies have shown that the volume of direct investment by these companies in the rich market has been expanding quite rapidly in recent years. This is expected to continue. A number of reasons can be cited to explain why. The U.S. represents the largest single market, at least potentially, for most companies, irrespective of nationality. This fact is being increasingly recognized by the more aggressive European companies. The U.S. government is anxious to attract more foreign investment here to assist the balance of

* Professor Ward is a member of the faculty at the California State University, Hayward. Dr. Ward was winner of the 1972 AIB doctoral dissertation competition.

1. For example, see Warren J. Keegan, "Multinational Product Planning: Strategic Alternatives," *Journal of Marketing*, Vol. 33 (January, 1969), 58-62.

2. See P.E.H. Durston, "Five European Companies in America," *European Business* (Autumn, 1970), 31-51. The recently published Business International Research Report, *European Business Strategies in the United States*, gives an excellent review of many operational aspects of European firms' activities in the U.S.

payments and so is steadily promoting the advantages of direct investment. The success of many European companies in the U.S. such as I.C.I., Nestle, Unilever, Bayer, and Olivetti indicates that the fears expressed by many European companies about the rigorous competition of the U.S. market, the problems with antitrust, and financial investment required may be to some extent overemphasized. This realization is likely to encourage further entrants in the foreign direct investment field. Behrman has forecast that the continued reduction of trade barriers will increase foreign direct investment.[3] The proposed new round of trade negotiations can be expected to spur further investment activity both by European and U.S. multinationals. Thus, it is a particularly appropriate time to provide potential European investing companies with information on the environment they are likely to face and the responses they should make to it.

Objectives of the Study

It was the general objective of this study to examine changes in product and promotion strategies of U.S. subsidiaries of European corporations. Specifically the following factors were analyzed:

1. The extent to which product and promotion adaptation was necessary and the cost involved.
2. The factors which it was found desirable to change in both products and promotion.
3. The degree to which standardization of advertising was possible.
4. The major differences perceived between U.S. and European customers by the subsidiaries which may explain the need for product and promotional adaptation.
5. Differences in the extent and form which adaptation takes among subsidiaries of different nations.

Data for this study was gathered from fifty-three U.S. subsidiaries of European corporations. The parent corporations had their home bases in the U.K., France, West Germany, The Netherlands, Belgium, and Switzerland. These countries represent the major portion of foreign direct investment by European countries in the U.S. A mail questionnaire was used to collect data from the majority of subsidiaries. This was supplemented by in-depth interviews with top executives of the remaining firms

3. Jack N. Behrman, "Can Governments Slay the Dragons of Multinational Enterprise?" *European Business* (Winter, 1971), 53-62.

in the survey. The types of products covered included a broad range of both industrial and consumer type goods.

Major Research Findings

The main research findings are summarized below:

1. A substantial number of products required some form of adaptation for the U.S. Market. Of the 97 products represented in the sample 66 percent were changed.

2. There was a tendency for more consumer products to require adaptation than industrial products.

3. British products tended to be changed less frequently than Continental products.

4. Product adaptations were related to the following factors in descending order of importance: (a) How product is used or operated, (b) Labeling, (c) Quality, (d) Packaging, and (e) Styling. Adaptations were, however, spread fairly evenly over all factors listed.

5. Most adaptations were relatively minor in terms of cost. Ninety percent of adaptations cost less than 10 percent of selling price to make. Industrial electrical products tended to be the most expensive category to adapt.

6. Customer needs and competition were the chief influences on adaptation. U.S. legal requirements were the reason for a lesser but significant number of product changes.

7. Respondents rated U.S. customers more demanding than Europeans with respect to each of the following factors: (1) product quality, (2) product range, (3) service, (4) packaging & presentation, (5) product warranty, (6) lead time, (7) product data, (8) product image, and (9) price. The differences perceived were statistically significant for factors 2, 3, 4, 6 and 7.

8. Seventy-one percent of those responding reported promotional adaptations. This was primarily related to the following factors: (a) media used, (b) sales force incentives, (c) volume of advertising, (d) distributor incentives, (e) special promotions, and (f) publicity. A majority of firms found it necessary to change more than one aspect of their promotion mix.

9. Forty-three percent of the subsidiaries stated that standardized advertising had been used by parent and subsidi-

ary in the past. Most of these advertisements originated in Europe.

10. British subsidiaries reported significantly different practices to their Continental counterparts with respect to the following items: extent of product adaptation, place where adaptation is done, extent of promotional adaptation, and extent to which advertising is standardized.

Product Adaptation

A basic question in the study related to the extent to which adaptation of products was necessary for U.S. markets. Respondents were asked to compare products sold by them in the U.S. and by their parent company in its home market. Any difference in the product was regarded as an adaptation. The findings reveal that 66 percent of the products listed by respondents required some form of modification for the U.S. Such a large proportion is surprising, particularly in view of the fact that there were more industrial products than consumer products in the sample. These products are generally regarded as being more universally standardized than consumer goods and frequently assumed to be directly transferable between international markets.

Most adaptations were related to use or operation of the product and to labeling. It should be noted also that where a product needed modification it was related to more than one of the above factors in almost all cases. Thus, a European manufacturer of almost any industrial product who is interested in the U.S. as a market could expect to make product adaptations with respect to how his product is used or operated, and also in labeling. Styling tends to be relatively important for electrical goods and for consumer goods.

In 84 percent of all products changed for the U.S. market, customer needs and competition as causal forces is evidenced by the fact that they were mentioned simultaneously on so many occasions. The significance of U.S. legal requirements was also apparant.

Promotion Adaptation

To determine the extent to which promotion strategies varied between the U.S. and European markets for the same company, respondents were asked to note whether there was a difference in how they promoted their products in this country and the parent company's promotion of the same products in Europe. Of the 52 firms that responded, 37 (or 71 percent) stated that adaptation was necessary. Of the 37 that found changes necessary, 20 made adaptations in the media they used and in sales force incentives. Volume of advertising and distributor incentives were next in importance in terms of changes made.

It was obvious that many firms found more than one change was required. This was so in the case of 29 subsidiaries. In fact, 19 respondents stated that three or more elements of their promotion mix differed from that of their parent company.

Standardization of Advertising

The extent of standardized advertising between parent and subsidiary was also studied. Twenty-three firms reported use of standardized campaigns. This could not, however, be regarded as representative of all countries. There was a major difference between British and Continental firms in evidence. While 50 percent of U.K. firms reported using the same advertisements for both the U.S. and European markets, only 17 percent of Continental firms did so.

Respondents were also asked to specify who used the advertisements first, parent or subsidiary, so that the direction of flow could be determined. Generally speaking, we would expect the parent to exert the major influence in this respect. The findings showed that 16 firms using common advertisements first used them in the parent company's market, four used advertising first in the U.S., and three firms had experienced flows going both ways.

Summary and Conclusions

This study has implications both for practitioners of international marketing and for the further development of a field of study in this area. It serves to increase the body of knowledge in a subject which has tended to suffer from a one-way bias in the literature previously available. The leading books and articles on international marketing have long been dependent on experiences of American firms abroad and have oriented themselves toward foreign marketing from the U.S. viewpoint. The significance of the United States as a foreign market for most countries in the free world has not received the attention which appears warranted. Few studies have dwelt on the problems of foreign companies that market their goods in this, the richest, market. Little could be deduced from the literature on the adaptations in marketing strategy found necessary by these firms when they enter the U.S. market. This attempt to fill the vacuum will, it is hoped, have some relevance in the practical world, and supplement the developing theoretical base.

The findings have implications in particular for European firms that are presently or potentially interested in the U.S. as a market. This applies equally to exporters and operating subsidiaries in the U.S. What is obvious now, if it was not so already, is that market entry must be preceded by a certain amount of market research. This point was emphasized by a number of those interviewed and it has also emerged from the overall findings. If so many firms were required to make both product and promotion adaptations in the past, it seems that the same would hold for the future. The changes made were not very significant in terms of costs in most cases. However, it is doubtful if they were made without a recognition of market needs. Such recognition can be achieved only through adequate gathering and use of market intelligence.

The U.S. customer has been perceived as more demanding, in almost every respect, than his European counterpart. This gives the European firm due warning as regards customer expectations. If the European customer has lower expectations, it may induce a lower level of performance by the supplier. A firm, however, cannot afford to transfer the same performance level to this country and be assured of success. In addition, when dealing with a foreign firm, a U.S. customer is likely to be more cautious than normal.

Perhaps what European firms lack most as a result of their domestic experiences is a fuller understanding of the total product concept. European customers, it appears, are chiefly concerned with the utilitarian qualities in a product. This tends to differ from the situation in the U.S. even for industrial products. Thus, the European entrant to the U.S. must seek to market something more than just a basic product. It is here that extra service, greater range, styling, packaging and labeling and the numerous intangible factors become important. In fact, the marketing effort assumes a larger role. Not only must the product be adapted but promotional strategy, it also appears, must change. European firms should expect to use quite a different promotional mix, judging from the experiences of those surveyed. For example, it is likely that the media patterns used in Europe will differ in some ways from those used in the U.S. The volume of advertising is also likely to be greater. There does, however, appear to be a potential for some cost cutting through greater use of standardized advertising in both areas. Thus, while overall promotional mix may change, advertising can become more uniform.

European firms will continue to face a "not invented here" bias in the U.S. In the long term this will likely disappear except perhaps in the case of government purchases. Foreign companies have the alternative of endeavoring to divorce their U.S. operations from those in their home countries. One very large Dutch multinational has been very successful at this, so that in many of its present lines U.S. customers are unaware of any foreign connection.

In the past, Europeans have many times been awed by the marketing abilities of American firms. U.S. marketing expertise has occupied a place of high esteem almost worldwide. A major fear among European companies was their inability to compete with this efficient marketing technology even in their domestic markets. What appears to emerge from this study is that when U.S. firms enter a European market they begin to cater to customers who demand less of them than those in their domestic market. If they do more than these customers' expectations require, U.S. companies will probably appear to possess superior marketing expertise. Two factors have served to make this so. One has been the fact that U.S. customers required more than did Europeans and, secondly U.S. firms were more adept at recognizing and serving customer needs. While it may have been recognized by U.S. companies already, an implication emerging from this study is that they too may have to make some changes in their strategies. Their greater marketing know-how in the U.S. is not always directly transferable to Europe. The European desire for a more basic application probably applies to products in general, not just those produced here. Also, U.S. firms would find it necessary to adapt promotional strategies to the European environment.