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The global facets of marketing: Part III

Analyzing product production data through the experience curve model helps marketers develop strategic goals. The last of a three-part series.

Last month we discussed the importance of defining specialty versus commodity products and services before going to market.

In the third and final part of this series we examine ways that the production of a product creates data over time that is very important and why understanding this data is also important. During the product production process, an experience curve model is created that helps marketers determine critical tactics in business strategy development.

According to the experience curve concept, unit manufacturing costs for a product typically decline by some characteristic amount—approximately 20%—each time accumulated out-put of that product is doubled (*Source: Boston Consulting Group*).

Companies that either want to or are now competing in the global marketplace typically face two types of competitive pressures including pressures for cost reductions and pressures to be locally responsive (*see Diagram 1 below*).

These pressures place conflicting demands on a company. Responding to pressures for cost reductions requires that a company try to minimize its unit costs. To attain this goal, it may have to base its productive activities at the most favorable low-cost location. It may also have to offer a standardized product to the global marketplace in order to ride down the experience curve as quickly as possible. On the other hand, responding to pressures to be globally positioned as well as locally responsive requires that a company differentiate its product offering and marketing strategy from country to country in an effort to accommodate the diverse demands arising from national differences in customer tastes and preferences, business practices, distribution channels, competitive conditions and government polices.

While some companies, such as Company A,

Diagram 1

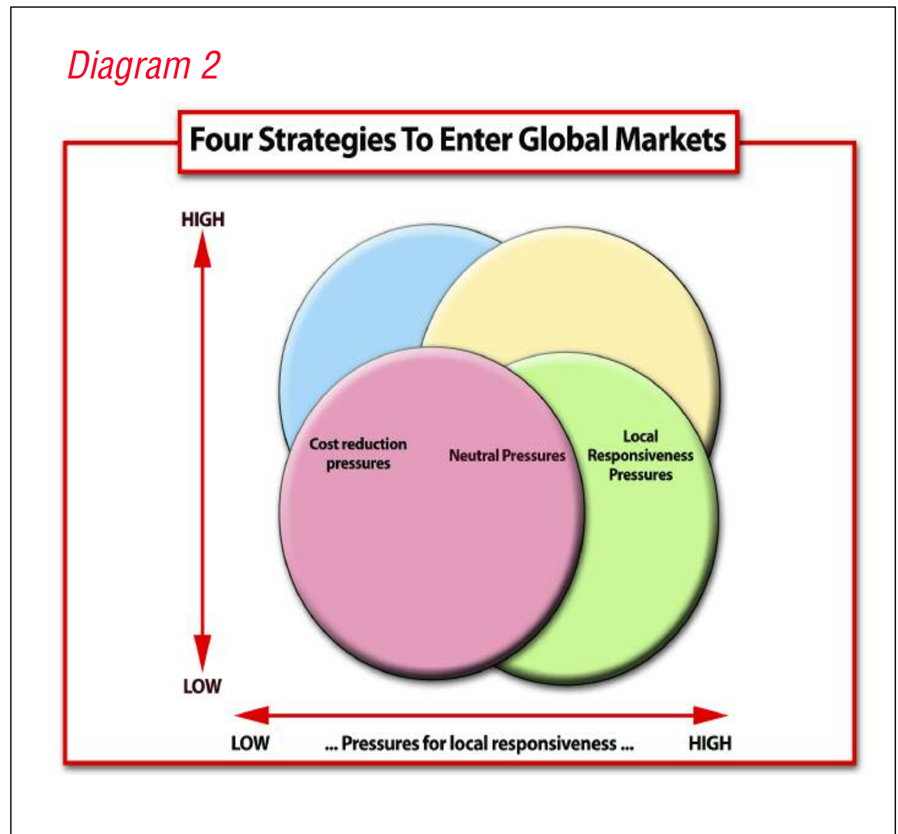
face high pressures for cost reductions and low pressures for local responsiveness, and others, such as Company B, face low pressures for cost reductions and high pressures for local responsiveness, many companies are in the position of Company C. They face high pressures for both cost reductions and local responsiveness. Dealing with these conflicting and contradictory pressures is a difficult strategic challenge, primarily because being locally responsive tends to raise costs.

Pressures for local responsiveness imply that it may not be possible for a firm to realize the full benefits from experience curve and location economies.

GLOBAL CHOICES

Companies make a choice among four strategies when entering the global market including an international, multinational, global and a transnational strategy (*see Diagram 2 on this page*).

Diagram 2



Pursuing an international strategy finds companies creating value by transferring competencies to foreign markets where indigenous competitors lack those competencies. Most would transfer differentiated products developed at home to foreign markets. They tend to centralize R&D at home, however, they do tend to establish manufacturing and marketing functions in each major country in which they do business. An international company also tends to limit its local customization and rely instead on home-grown differentiated products for value creation.

A multidomestic strategy allows adopters to maximize local responsiveness. In a MD strategy, costs are considered very secondary to differentiation. Therefore, few companies pursue this strategy in its purist form. Because companies pursuing this strategy thoroughly customize both their product offering and marketing strategy to match different national conditions, tending further to establish a complete set of value creation activities in each major national market, they are unable to realize value from experience curve effects and location economies.

Within the global strategy, companies focus on increasing value by reaping the cost reductions created from the experience curve effects and location economies. The production, marketing, and R&D functions of these companies are concentrated in a few well-chosen locations. In most instances, these companies do not customize their offerings but, instead, they prefer to market standardized products globally in an effort to maximize the benefits economies of scale. Obviously, the more an offering is undifferentiated, the greater the need for the supplying company to drive its volume experience up, hence costs down, in the process.

Bartlett and Ghoshal have developed the term "transnational strategy" to describe the strategic balance of simultaneously seeking to lower costs, be locally responsive and transfer competencies in a way that is consistent with global learning. Therefore, a business model that simultaneously achieves low-cost and differentiation advantages is created.

The transnational strategy is extremely difficult to create as well as manage. A notable example of a company that doesn't even try to accomplish both is Sherwin-Williams. Sherwin-Williams has done very well indeed by capturing the bulk of its value within North America and not really trying to be all things to all people globally. Rohm & Haas has done relatively well in balancing experience curve cost saving with local responsiveness in select regions of the world, while Caterpillar, Inc. is a current outstanding example of a successful transnational strategic marketer. ***CW***

See Chemark's ad this month on page 43.