



The fundamentals of standardizing global marketing strategy

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Abstract

Purpose – To examine issues of standardization and adaptation in global marketing strategy and to explain the dynamics of standardization.

Design/methodology/approach – This is a conceptual research paper that has been developed based on gaps in prior frameworks of standardization/adaptation. A three-factor model of standardization/adaptation of global marketing strategy was developed. The three factors include homogeneity of customer response to the marketing mix, transferability of competitive advantage, and similarities in the degree of economic freedom.

Findings – The model through the use of feedback effects explains the dynamics of standardization.

Research limitations/implications – Future research needs to empirically test the model. To enable empirical validation, reliable and valid measures of the three factors proposed in the model need to be developed. Additionally, the model may be used in future research to delineate the impact a variable may have on the ability of a firm to follow a standardized global marketing strategy.

Practical implications – The three-factor model aids decisions relating to standardization in a global marketing context.

Originality/value – The paper furthers the discussion on the issue of standardization. Through the identification of three factors that impact standardization/adaptation decisions, and the consideration of feedback effects, the paper provides a foundation for future research addressing the issue.

Keywords Marketing strategy, Standardization, Modelling, International business

Paper type Research paper

Introduction

The increase in world trade, an increasing integration of the world's major economies, and the onward march of globalization, will mean that decisions on standardization and adaptation of marketing strategies will continue to be an important issue for academic research and marketing practice. In spite of the substantial research on standardization/adaptation of marketing strategy for over 40 years, the theoretical foundation for standardization/adaptation research remains weak (Ryans *et al.*, 2003). There has been with the exception of Jain (1989), Cavusgil *et al.* (1993) and Johnson and Arunthanes (1995) little attempt to develop a theoretical framework that would be informative on standardization issues. In addition, the existing theoretical foundations of standardization “center on the perception of consumer homogeneity and/or the movement toward homogeneity” (Ryans *et al.*, 2003). While consumer homogeneity is an important issue, the dimensions of marketing strategy go beyond a consideration of



the customer. In particular, competition plays a critical role in the development of marketing strategy and consequently in decisions on the degree of standardization of marketing strategy.

In this paper, we develop a framework of standardization that while recognizing the importance of “consumer homogeneity” attempts to go beyond the focus on consumer homogeneity, by incorporating theories of competition. The framework identifies three complex constructs as critical to the standardization process – homogeneity of customer response to the marketing mix, the transferability of competitive advantage, and variation in the degree of market freedom. The three constructs serve as critical drivers of the degree of standardization and also serve as the mediating variables through which other variables impact standardization. In examining these three constructs, we elucidate how feedback effects interact with the constructs, in shaping the evolution of standardization/adaptation strategies.

Literature review

There is still no common interpretation of what standardization is (Ryans *et al.*, 2003). The different definitions of standardization include the notion of standardization as a common marketing program (Jain, 1989), and as a common pattern of resource allocation among marketing mix variables (Syzmanski, 1993). We view standardization as a common marketing program since the pattern of resource allocation represents only one, albeit an important one, aspect of a marketing program.

Just as there have been differences in the interpretation of what standardization is, there have also been differences among researchers on the benefits or lack thereof of standardization, and whether standardization is an appropriate strategy. Research on the benefits and costs of standardization of marketing strategy has proceeded in three different directions, one stream of research arguing in favor of a standardized approach (Elinder, 1961; Roostal, 1963; Fatt, 1964; Ohmae, 1985; Levitt, 1983), a second stream arguing in favor of an adaptation approach (Fournis, 1962; Boddewyn, 1981; Kashani, 1989; Killough, 1978; Wind, 1986) and a third and more recent stream of research focused on developing a contingent framework that suggests degrees of standardization (Cavusgil *et al.*, 1993; Jain, 1989; Quelch and Hoff, 1986).

The main argument in favor of standardization was proposed by Levitt (1983) who argued that the forces of globalization driven by technology were homogenizing markets and that marketers needed to take advantage of this trend by following a standardized marketing strategy. Ohmae (1985) focusing primarily on the “Triad” market consisting of the USA, Japan, and Europe suggested that these markets were fairly homogeneous and since these markets were amongst the major markets in the world economy a strategy of standardization was the appropriate one to follow.

The primary argument of the proponents of standardization therefore rests on the assumption of a homogenization of demand worldwide. This homogenization of demand expresses itself in a worldwide consumer demand for high quality and low costs due to the impact of technology. In addition, Levitt argues that firms could take advantage of technology by adopting a standardized approach that will result in products of high quality and low costs for world markets.

However, other researchers (Fournis, 1962; Boddewyn *et al.*, 1986; Schlegelmilch *et al.*, 1992; Shoham, 1995; Craig *et al.*, 1992) have pointed out that markets continue to be different in spite of the forces of globalization. Boddewyn argued that the evidence

for standardization was weak and that standardization was not a must to compete in global markets. Even in markets or countries that are apparently culturally similar such as the European Union, differences in customer needs continue to persist and in markets where apparently customer needs were similar; there were still differences in the criteria that consumers used to make decisions (Fournis, 1962). Likewise, Wind and Douglas (1986) questions the feasibility and benefits of a standardized approach noting that in many cases the costs of production may not a significant part of the total cost for the firm to enjoy economies of scale. In addition, there are too many differences between countries and too many constraints in different markets for a standardized approach to be feasible.

Research supporting a contingent view of standardization has identified a number of different factors that standardization would be contingent on (Wind and Douglas, 1986; Jain, 1989; Shoham, 1999; Solberg, 2002, 2000). The list of factors are diverse and include economic factors such as economies of scale, competitive factors such as competitor similarity and competitive position, environmental factors such as the legal, political, and economic environment, and organization factors such as corporate orientation, and headquarters-subsidiary relationship. Jain (1989) developed a taxonomy of five different factors that impact standardization: target market factors, market position factors, nature of product related factors, environmental factors, and organizational factors. While the framework proposed by Jain (1989) is a useful beginning framework on standardization, there has been little effort subsequently to develop the framework. In addition, given the past focus on the centrality of customer homogeneity to the standardization debate, the importance of competition, though mentioned as a factor, has been relatively ignored. In this paper, we delineate the central role that competition should play in any consideration of standardization strategies.

In addition to the relative lack of emphasis on competition in past research on standardization, the large number of factors that have been identified in the literature as impacting standardization, point to the need for an organizing framework that is conceptually parsimonious and practically useful in thinking about the issue. Theories of bounded rationality (March and Simon, 1958) and the use of mental models by managers to simplify their environment (Day and Nedungadi, 1994; Hodgkinson, 1997) suggest that few marketing decision makers would or could consider all of these factors in standardization decisions. Other studies (Johnson and Arunthanes, 1995; Roth, 1995) support the notion that managers consider only a limited number of variables in standardization decisions.

In the following paragraphs we propose and develop a conceptual framework to address the issue of parsimony and integration. The framework identifies three key complex variables focused on the customer, competition, and the environment. In this framework, we define standardization as a continuum with adaptation of all aspects of marketing strategy at one end of the continuum and standardization of all aspects of marketing strategy at the other end of the continuum.

Conceptual framework

The notion that competition is central to marketing strategy in a market-based economy is well accepted by the majority of marketing academics and practitioners

and forms the basis for many fields of research including theories of competition, relationship marketing, consumer behavior, and marketing orientation.

Zou and Cavusgil (2002) in their conceptualization of global marketing strategy integrate three different perspectives: standardization, configuration-coordination, and integration. Of the three perspectives, the configuration-coordination perspective and the integration perspective primarily focus on the issue of competitiveness. According to the configuration-coordination perspective, the coordination and configuration of value chain activities globally will create comparative advantage through increased efficiencies. According to the integration perspective, the integration of competitive moves globally will create effective strategies through competitive leverage. If the creation of competitive advantage through increased efficiencies and effectiveness is the goal of global marketing strategy, it would follow that any extension of a marketing strategy globally needs at the minimum a strong focus on the issue of competitive advantage.

Theories of competition (Dickson, 1992; Barney, 1991; Hunt and Morgan, 1996) also suggest that one of the primary objectives of the firm in general, and marketing strategy in particular is to create sustainable competitive advantage. When the firm expands its markets to new geographic domains globally, a primary question that arises is whether the firm can continue to create sustainable competitive advantage with its existing marketing strategy? If the firm can sustain its competitive advantage in new markets with its existing marketing strategy, a strategy of standardization will be facilitated.

In spite of the important role that competition plays in marketing strategy, research on the role of competition in standardization has been relatively sparse. The few competition related factors have been identified as playing a role in standardization include competitive position in terms of market share and number of competitors (Jain, 1989), and market competitiveness (Cavusgil *et al.*, 1993). Given the centrality of competition to marketing strategy, the relatively low emphasis on competition in research on standardization needs to be corrected. In addition, the competitive factors that have been examined in past research: market position and market competitiveness represent the outcome of what we consider a more fundamental issue in standardization; the transferability of competitive advantage.

It is our argument that standardization is more critically dependent on the ability of a firm to transfer its competitive advantage from market “A” to market “B” rather than the existence of competitive advantage in either market “A” or market “B” by itself. When the degree of transferability of competitive advantage from market “A” to market “B” is high, standardization strategies are facilitated.

Market position and market competitiveness of competitors are two among many other variables that may impact the ability of a firm to transfer competitive advantage. Other variables that may impact the transferability of competitive advantage include organizational factors identified by Jain (1989) and Cavusgil *et al.* (1993): consensus among parent-subsidiary managers, centralization of authority, and a firm’s international experience. Lack of consensus among parent-subsidiary managers, little centralization of authority, and lack of international experience will adversely impact the ability of the firm to transfer competitive advantage between markets and adversely impact the ability to standardize marketing strategy. We view the

transferability of competitive advantage as a complex mediating variable through which other factors impact standardization decisions.

In addition to the centrality of competition to standardization, clearly the customer is another essential consideration in standardization decisions. Substantial research has been carried out on the critical role that the customer plays in standardization decisions. In fact, the extant of research on the customer role in standardization has been of such a magnitude that it has led Ryans *et al.* (2003) to conclude that "The theoretical foundations of the standardization debate center on the perception of consumer homogeneity and/or the movement toward homogeneity."

We agree with the idea that a consideration of customer homogeneity is critical to standardization. However, there is also a need to explicate what we mean by consumer homogeneity. Does consumer homogeneity mean that consumers are demographically similar to each other or does it mean similarity in wants and needs, or does it mean similarity in perceptions of brand loyalty and risk perceptions? Clearly, the number of variables that one could use to define consumer homogeneity is vast. Our framework rather than focus on the homogeneity of the customer emphasizes the homogeneity of customer response to the marketing mix. The distinction though subtle is an important one to make. Homogeneous customers such as those that are demographically similar to each other in age or income may respond quite differently to the same marketing stimuli in which case they would not be candidates for a standardized marketing strategy. Homogeneous customers may have heterogeneous wants and heterogeneous customers may have homogeneous wants. However, customers of whatever nature if they respond similarly to the marketing mix are candidates for a standardized marketing strategy. Our focus, therefore, should be on the homogeneity of customer response to the marketing mix rather than the homogeneity of the customer. Consequently, we need to identify variables that define the homogeneity of the customer, and the impact of these variables on the homogeneity of customer response to the marketing mix. Techniques of market segmentation could be used to identify homogeneity across markets in response to any aspect of the marketing mix (Wedel and Kamakura, 1998).

A consideration of the transferability of competitive advantage and homogeneity of customer response to the marketing mix while critical to standardization decisions, are not complete. A third complex variable that needs to be considered in standardization decisions is the context within which transferability of competitive advantage and homogeneity of customer response are considered: namely the business environment. The recognition of the role of the environment in standardization decisions is not new. Past research has identified a number of environmental dimensions including the legal environment, political environment, physical environment, and marketing infrastructure (Jain, 1989). While the environment is a factor that impacts standardization what has not been delineated is the reason why the environment is a factor. The implicit assumption is that the environment is important because it serves as a constraint on business decisions, whether such constraints are prescriptive or adaptive. When the environment between two markets is different it would imply that a firm is faced with a different set of constraints in both markets, making a policy of standardization difficult to implement. When the nature of the constraints is similar across markets, a policy of standardization is facilitated. The environment is important in the consideration of standardization decisions only because it places constraints on

the firm's freedom to operate. Consequently, when economic freedom across markets is similar, standardization strategies are facilitated.

In summary, the degree of marketing standardization would be a function of the level of homogeneity of customer response to the marketing mix, the transferability of competitive advantage, and homogeneity of economic freedom across markets.

Based on the preceding discussion, we propose a normative framework (Figure 1) for standardization that includes the three complex constructs – homogeneity of customer response to the marketing mix, transferability of competitive advantage, and homogeneity of economic freedom.

According to the framework, the three constructs form the basis for standardization and subsume the many factors that have been identified as impacting standardization strategy. The level of the three constructs will impact the degree of standardization possible wherein standardization is viewed as a continuum with complete standardization at one end of the continuum and complete adaptation at the other end (Cavusgil and Zou, 1994). At one end of the continuum, the highest level of standardization is possible when the homogeneity of customer response to the marketing mix is high, degree of similarity in economic freedom is high, and

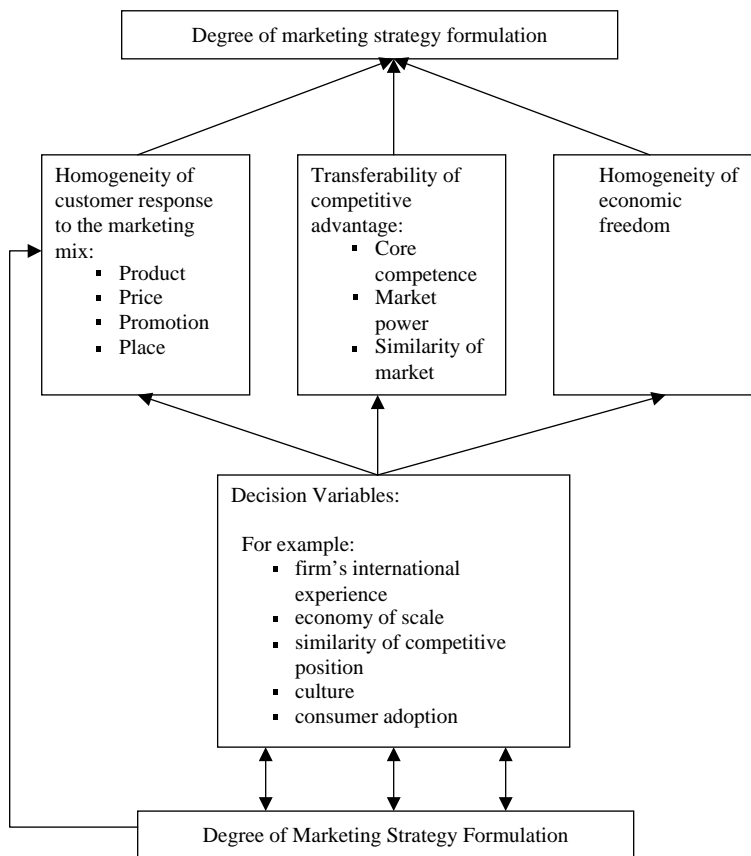


Figure 1.
Standardizing global
marketing strategy: a
conceptual framework

competitive advantages are easily transferable. However, at the other end of the continuum, where the homogeneity of customer response to the marketing mix is low, degree of similarity in economic freedom is low, and competitive advantage is not easily transferable, standardization is competitively irrational behavior (Dickson, 1992) that is likely to lead to sub-par returns and adversely impact shareholder value.

According to our framework, any factor will have an impact on standardization only if it impacts one or more of the three constructs. For example, factors such as economies of scale that is a part of competitive advantage will impact standardization depending on whether it has an impact on any one or more of the three dimensions. Specifically, if economies of scale serve as a source of competitive advantage in current markets but not as a source of competitive advantage in new markets, the transferability of competitive advantage is low making it difficult to standardize marketing strategy. However, when economies of scale are transferable to new markets and remain a source of competitive advantage, the transferability of competitive advantage is high and standardization is facilitated. In the following sections, we generalize this point by discussing the three constructs, the impact of system dynamic feedback effects on the three constructs, and their relationship with the degree of standardization in detail.

Transferability of competitive advantage

The concept of competitive advantage is a recurring one in marketing thought and may be defined as the strengths of a firm relative to the competition in a specific arena or in a particular context. Though there have been a few opposing viewpoints (Powell, 2001), competitive advantage is generally considered critical for the success of a firm (Barney, 1997; Grant, 1998; Roberts, 1999). In the context of standardization, Boddewyn *et al.* (1986) note that the biggest obstacle to standardization of strategy in industrial products is competition.

The sources of a firm's competitive advantage can be identified in different ways such as the concept of the value chain (Porter, 1980), based on a notion of downstream, upstream, and environmental advantages barriers to entry and firm specific resources (Wernerfelt, 1984; Hunt and Morgan, 1996). In general, the sources of competitive advantage are diverse and include advantages such as lower prices, superior product quality, superior product range, superior assets, superior skills, superior infrastructure, and superior entrepreneurship. According to the resource-based view of competitive advantage, a specific resource can serve to create competitive advantage when it produces economic value, it rare, and not easily imitable in a particular market context.

While the notion of competitive advantage is well accepted, the issue of transferability of competitive advantage has not received widespread attention even though it has been considered the most important competitive globalization driver (Loveck and Yip, 1996). Of particular relevance to standardization is the question of whether competitive advantage in any resource in one market will transfer to other markets that the firm competes in. If a firm has a competitive advantage in price in market "A" does this price advantage transfer to market "B"? If a firm has a competitive advantage in product quality in market "A" does this product quality advantage transfer to market "B"? Similar to questions on price and product quality, one can ask this question of any resource variable that forms part of a firm's competitive advantage in market "A". In effect, we are asking the question as to whether the competitive advantage profile of a firm based on a complex set of variables

in market “A” is similar to the competitive advantage profile of the firm in market “B”. Similarity in competitive advantage profiles between markets “A” and “B” suggest that competitive advantages are transferable between the markets. Since, competitive advantage plays a critical role in marketing strategy, similarity in the nature of competitive advantage across markets would facilitate the adoption of similar strategies across markets facilitating a standardization of strategy.

The number of resource variables that may serve as a potential source of competitive advantage is very large. The slew of variables may range in nature from control of physical assets such as raw materials to higher order knowledge-based skills such as innovation and management. Given the large number of resource variables that could potentially form the basis for competitive advantage, the questions arises as to the conditions under which competitive advantage is transferable. To identify these conditions, we turn to the concepts of core competence (Prahalad and Hamel, 1990), market power, and competitive similarity (Jayachandran *et al.*, 1999).

A corporation is considered to possess core competence when it leads to perceived customer benefits, acts as an entry barrier to competition, and can be leveraged in a number of markets (Prahalad and Hamel, 1990). Corporations that possess core competences would be in a better position to standardize their marketing strategies than corporations that do not possess core competencies. For example, a firm such as Honda can capitalize on its core competency of engine design to establish technological leadership and standardize engine design worldwide.

Similarly, corporations that possess a high degree of market power would be in a better position to transfer competitive advantages across markets and follow strategies of standardization than corporations that are low in market power. The sources of market power could be many including resources that result in barriers to entry such as reputation, economies of scale and scope, patents or market share that arises due to factors such as cost efficiency and financial strength. For example, pharmaceutical firms such as Bayer and Merck by virtue of patent protection and the market power that arises out of such protection may be in a position to standardize many aspects of their marketing strategy.

In addition to core competencies and market power, the theory of multimarket competition (Jayachandran *et al.*, 1999) suggests that when competitors are similar across multiple markets, competition intensity is lowered due to tacit collusion whereby firms avoid competing with each other, facilitating the transfer of competitive advantage across markets and consequently facilitating standardization. Cognitive analysis of competitive structures (Hodgkinson, 1997) would also lead to similar conclusions whereby competitive firms develop a shared understanding of the marketplace and the process of competition over time resulting in stable competitive structures when competitors are similar across markets. The resource-based view of the firm (Barney, 1991, 2001), argues that sustainable competitive advantage due to a particular resource is dependent on market structure. This would also support the notion that similarities in market structure between existing and new markets would facilitate the transfer of competitive advantage.

In summary, the concepts of core competence, market power, and competitive structure serve as markers that help us define the conditions under which competitive advantage is transferable. When a firm possesses core competencies, enjoys market power in markets “A” and “B” and the competitive structure is similar in markets “A”

and “B” standardized strategies are facilitated. Next, we discuss in greater detail the construct of homogeneity of customer response to the marketing mix.

Homogeneity of customer response to the marketing mix

The homogeneity of customer response to the marketing is not a new construct. In fact, it is essential in examining market segmentation (Dickson and Ginter, 1987). A market segment is defined by homogeneity of customer response to the marketing mix, while the delineation of marketing segments is based on the heterogeneity of customer response to the marketing mix. Since, the bases for the identification of heterogeneity in customer response to the marketing mix include determinants of variables such as demographic, psychographic, geographic, benefits, and usage situation (Wedel and Kamakura, 1998), the same determinants of these variables could also be used to identify homogeneity of customer response in the marketplace. When homogeneity across current and new markets or viable subsets of new markets[1] in the variables that constitute the basis for market segmentation is high, homogeneity in the customer response to the marketing mix will also be high, facilitating standardization strategies. When homogeneity across current and new markets in the variables that constitute the basis for market segmentation is low, homogeneity in the customer response to the marketing mix will also be low and standardization strategies will not be facilitated.

The homogeneity of customer response to the marketing mix can be examined through customer response to marketing strategies via product, promotion, price, and place. The homogeneity of customer response to the marketing mix is a composite variable that combines four other variables: homogeneity of customer response to product, homogeneity of customer response to price, homogeneity of customer response to promotion, and homogeneity of customer response to place. A number of studies have examined the homogeneity of customer needs across global markets as a factor affecting the ability of a company to standardize promotional strategy (Griffith *et al.*, 2002, Alden *et al.*, 1999), pricing strategy (Theodosiou and Katsikeas, 2001), product strategy (Hofstede *et al.*, 1999), and distribution strategy (Andras *et al.*, 1997). According to these studies, the factors that impact the homogeneity of customer response to the marketing mix include customer involvement in purchase, customer exposure to advertising, customer price sensitivity, criteria used to evaluate products, cultural factors such as family size, and education and demographic variables such as income and life expectancy.

According to Alden *et al.* (1999) the diffusion of mass media programming primarily from the USA has homogenized customer exposure to advertising making it feasible to position products on a global basis or what they call “global consumer culture positioning.” A consumer characteristic that would impact the homogeneity of customer response to promotion, therefore, is the similarity in consumer exposure to advertising in existing and new markets. In the area of pricing, Theodosiou and Katsikeas (2001) find that similarities across markets in the criteria that customers use to evaluate a product and similarities in price sensitivity impact the homogeneity of customer response to price. Variables that impact the homogeneity of customer response to product and place include customer involvement (Lovell and Yip, 1996), and consumer benefits and values in relationship to product characteristics (Hofstede *et al.*, 1999).

Clearly, past research indicates that a large number of variables may be potential determinants of the homogeneity of customer response. The demarcation of the complex

construct of the homogeneity of customer response into the four dimensions of homogeneity of customer response to product, price, promotion, and place is a first step in understanding the construct. Subsequent categorization of determinant variables will require an examination of the relationship between these variables and the dimensions of homogeneity of customer response to the marketing mix. For example, similarities in price sensitivity between customers in markets “A” and “B” may likely impact the degree of homogeneity of customer response to price, but have relatively no impact on the other three dimensions. However, other variables such as education may impact the degree of homogeneity of customer response to promotion and product, but have relatively no impact on the degree of homogeneity of customer response to price and place.

While the homogeneity of customer response to the marketing mix has been examined in some detail in studies on standardization and market segmentation, our third construct: the “homogeneity of economic freedom” that we discuss in the following paragraphs has received relatively little emphasis.

Homogeneity of economic freedom

A number of researchers examining cross border commerce have found the relationship between the economy and the regulatory environment to be particularly strong. Linkages have also been established between entrepreneurial phenomena and the regulatory environment (Busenitz *et al.*, 2000). Whether it is Canadian customers crossing the border into the USA to buy shoes due to lower prices in the USA, or Californians crossing the border into Nevada to gamble, regulations have a strong impact on the ability of a company to standardize (Gillespie *et al.*, 2002; Zou and Cavusgil, 1996).

The relationship between marketing strategy standardization and the environment may also be viewed in the context of research on comparative marketing systems. When marketing systems are similar across markets it is likely that standardization will be facilitated than when marketing systems are dissimilar across markets. Given that the study of marketing systems would be useful in standardization decisions, the question arises as to the appropriate methodology that should be used to examine marketing systems. Iyer (1997) suggests that studies on comparative marketing systems would benefit from institutional analysis wherein institutions broadly defined consist of structured patterns of action and interaction in a society. In turn, one of the critical issues in carrying out an institutional analysis is the role of the institutional environment.

It would be difficult to examine the relationship between the institutional environment and marketing strategy standardization based on an examination of the impact of individual variables since there would be a large number of variables that form part of the environment. However, if the impact of the large number of variables that form part of the institutional environment can be captured substantially through a single complex variable with the loss of some generality, this would still represent a useful beginning in helping us understand the impact of the environment on marketing strategy standardization. It is argued here that the variable of “economic freedom” is such a variable. Specifically, we argue, that when economic freedom is similar across markets marketing strategy standardization is facilitated, and when economic freedom is dissimilar across markets marketing strategy standardization is inhibited.

Economic freedom impacts the environment by changing the motivation and learning of individuals, an issue that is of critical importance in ensuring economic efficiency (Bromley, 1989; North, 1994; Thorelli, 1996; Ensminger, 1992). When economic freedom is similar across markets, individuals and institutions face the same environment across markets. Consequently, if other conditions permit namely that we have homogeneity in consumer response to the marketing mix, and transferability of competitive advantage, a high similarity in economic freedom will encourage the marketer to follow policies of standardization while a low level of similarity in economic freedom across markets will discourage or inhibit the marketer from following policies of standardization.

While the research so far enables us to identify important characteristics on which customer similarity facilitates a homogeneous response to the marketing mix thus facilitating standardization, there has been little emphasis on the underlying higher order processes that result in similarity between customers on these characteristics. Standardization strategies are evolutionary and the degree of standardization changes over time. The large majority of products are not introduced simultaneously on a global basis and even in those cases where products are introduced simultaneously on a global basis the degree of standardization evolves over time as a function of the customer, the competition, and the environment. To understand the process by which the degree of standardization evolves over time we turn to the role played by feedback effects.

Feedback effects

According to Dickson *et al.* (2001):

A market feedback effect is a recursive relationship between one changing state of nature in a market and another changing state of nature in a market. It produces an underlying positive or negative trend, pattern, fundamental, systemic dynamic, or serial correlation in relationships between supply and demand constructs and within supply and within demand.

Feedback effects may be broadly classified as either asset position feedback dynamics or higher-order learning feedback dynamics (Dickson *et al.*, 2001). Asset position feedback dynamics encompass economies of scale of research and development investment, manufacturing investment, distribution investment, brand equity position, and network assets. Higher-order learning feedback dynamics include the dynamics of motivation/drive/contagion, learning-by-doing, learning-to-learn, routines/rules, and surveillance. In the context of our standardization framework, we discuss the role played by feedback effects in the evolution of standardization strategies pertaining to the homogenization of customer response to the marketing mix and the transferability of competitive advantage.

Role of feedback effects in the homogenization of customer response

Customer response to the marketing mix is a demand construct and homogeneity within this demand construct can be explained as the outcome of feedback effects. For example, customer investment in technology may result in a homogeneous response to the product that is advantageous to the company. Realizing these advantages, the company invests more in getting customers to invest in its technology. As more customers invest in the technology, the company allocates even more resources to encourage additional customers to invest in its technology. This positive feedback

effect or “End-User Investment Dynamics” results in homogeneity of customer response facilitating a standardized marketing strategy. The Windows operating system of Microsoft would be an example of such end-user investment dynamics.

Besides, “End-User Investment Dynamics” other types of feedback effects that may enhance homogeneity of customer response include network utility effects, brand equity position economies of scale, network learning dynamics, and routine/rule dynamics.

Franchise systems are examples of systems that are successful due to economies of scale in brand equity positioning. When McDonalds expands in new markets the brand equity positioning enjoyed by McDonalds is leveraged and as these customers in new markets travel to other places they facilitate the further expansion of McDonalds. In addition, global advertising enhances economies of scale in brand equity positioning by directly influencing the customer as well as through word of mouth. The homogenization of customer response to McDonalds is also supported by use of routine/rule dynamics where customers flock to McDonalds because they know what to expect. The behavior of a consumer in a McDonald’s restaurant worldwide follows the same routine that in turn results in the efficiency of consumption and the allocation of minimal cognitive resources.

Network learning dynamics can result in homogenization of response to the marketing mix due to the formation of customer networks that share a similar understanding of the product, resulting in reinforcement of this understanding by the suppliers, which in turn serves to further enhance the base of customers that respond similarly to the marketing mix offered by the supplier. A number of direct selling networks such as that of Tupperware and Amway succeeded by following such a strategy.

Role of feedback effects in the transferability of competitive advantage

The transferability of competitive advantage is a supply side construct that can be explained as a consequence of feedback effects. Feedback effects that are particularly useful in explaining the transferability of competitive advantage include in particular “Asset position feedback dynamics” (Dickson *et al.*, 2001) such as research and development investment position economies of scale, manufacturing cost structure position economies of scale, distribution investment position economies of scale, and brand equity position economies of scale. Some “Higher-order learning feedback dynamics” such as learning-to-learn ability dynamics, surveillance capability dynamics, and routines/rule dynamics are also useful in explaining the transferability of competitive advantage. We discuss a few of these feedback effects in greater detail in the following paragraphs.

In markets that involve heavy investment in fixed assets, economies of scale serve as a competitive advantage. The positive feedback effects of such economies of scale facilitate the sustainability and transferability of competitive advantages. For example, in the oil industry, which involves heavy investment in fixed assets for production and exploration, manufacturing cost economies of scale and distribution investment economies of scale, enables Exxon-Mobil to enter new markets and transfer their existing competitive scale and feedback advantages to new markets. The feedback from the market encourages Exxon-Mobil to further enhance their economies of scale reinforcing their competitive advantage, which in turn results in further investments to enhance economies of scale. The positive feedback effects arising from economies of scale thus facilitates the transfer of competitive advantage from existing to new markets.

Higher order feedback effects may also facilitate the transfer of competitive advantage by reinforcing what succeeds resulting in the replication of a successful model in one market in new markets. For example, a firm may enjoy a competitive advantage in an existing market by virtue of its ability to assimilate and learn new information, a learning that reinforces the ability of the company to learn even more resulting in a positive feedback effect. When the firm enters a new market, its superior learning ability that is under dynamic reinforcement, transfers as a competitive advantage to the new market as well. The spread of this learning process could potentially result in standardization of marketing decision processes even if the marketing decisions themselves are not standardized.

In addition to learning capability dynamics, surveillance dynamics may also result in the transfer of competitive advantage from an existing market to new markets. This may be particularly important in duopolistic markets such as the cola market where Coke and Pepsi learn more about the market by keeping tabs on each other and in essence reinforce existing competitive advantages by reducing the capability of each to surprise the other. Similarly feedback effects that arise out of following rules or routines either within the firm or by the customer may result in similarities in behavior on the part of the firm and the customer in existing and new markets resulting in the transfer of competitive advantage.

When a firm exploits feedback effects that result in the transferability of competitive advantage, an important question that arises is whether all the identified sources of competitive advantage need to transfer to the new market or whether the transfer of a subset of critical competitive advantages would be sufficient to facilitate standardization. Hao Ma (2000) suggests that a single competitive advantage by itself will usually not be sufficient to sustain general competitive advantage in the long run, and that multi factor competitive advantages are better than single factor competitive advantages. The transferability of multiple competitive advantages would suggest similarities in the competitive dynamics between the domestic and international markets thus facilitating standardization. For example, Intel's competitive advantages in North America, and superior capabilities in manufacturing, product innovation, and marketing (Grove, 1996) are all transferable competitive advantages facilitating a strategy of standardization. However, Wal-Mart's competitive advantages of economies of scale in transportation, monopoly power, and entry barriers for latecomers in rural America (Ghemawat, 1986) are not all transferable to new markets where customers do not have the ability to travel or buy in large quantities. This lack of transferability of competitive advantage would inhibit the ability of Wal-Mart to follow a policy of standardization.

Implications of the three-factor standardization model

The implications of the three-factor standardization model are two fold. First, the model identifies three factors as critical to standardizing marketing strategy: homogeneity of customer response to the marketing mix, transferability of competitive advantage, and similarity in the degree of economic freedom. To understand the degree of standardization possible in a given context, the level of the three factors need to be examined. When the ability of a company to transfer competitive advantage across markets is high, the homogeneity of customer response to the marketing mix in different markets is high, and there is a high similarity in economic freedom across different markets, a high level of marketing strategy standardization will also be possible.

Second, the ability of any decision variable to support standardization will depend on the impact of the variable on the three factors of homogeneity of customer response to the marketing mix, transferability of competitive advantage, and the degree of economic freedom. For example, a decision variable such as the “level of similarity in a firm’s competitive position across different markets” would impact standardization by virtue of its impact on the transferability of competitive advantage. When the same firms compete in many markets, and the level of similarity in the firm’s competitive position is high, the intensity of competition will be lower (Jayachandran *et al.*, 1999), facilitating the transfer of competitive advantage, and consequently standardization.

Similarities in decision variables such as customer culture across different markets would enhance the homogeneity of customer response to the marketing mix and result in a higher degree of standardization. Similarities in legal systems across different markets would enhance economic freedom in different markets and thus result in a higher degree of standardization.

In order to understand the effect of a specific decision variable on standardization therefore, an examination of its impact on one or more of the three factors would enable us to identify the relationship between that decision variable and the issue of marketing strategy standardization. In addition, the role of feedback effects is particularly useful in enabling us to understand the dynamics of why and how standardization strategies are followed in the marketplace.

Conclusion

The three-factor model of standardization is useful in three ways. First, it provides a conceptual model that can be used to identify and understand the impact of different variables on the issue of standardization and adaptation. Second, the model explains the underlying dynamics of standardization through the use of feedback effects. Third, the paper furthers the discussion on two variables that have not been widely discussed in the marketing literature – the transferability of competitive advantage and the degree of economic freedom in different markets.

By providing us with a conceptual framework on standardization, the model should serve as aid to decision-making as well as provide an impetus to further research on the impact of decision variables on standardization strategy. Before embarking on standardization decisions it would be useful for a manager to examine the decision context with regard to the three factors. A manager can go ahead with standardization when the three factors look favorable. To understand the longer-term implications of the decision, the manager can examine the potential role that feedback effects would play in the success or failure of standardization decisions. To understand the role of feedback effects the manager would need to understand the dynamics of a demand side factor, i.e. the homogeneity of customer response to the marketing mix, the dynamics of a supply side factor, i.e. the transferability of competitive advantage and the interaction between them in the context of a third factor, i.e. the degree of economic freedom.

The model can serve as an impetus to further research through the identification and examination of how additional decision variables could impact standardization. For example, in this paper, we have identified feedback effects from routines as a factor that impact both supply side and demand side factors especially important in standardization decisions in franchising. Such theoretical insights represent a first step in understanding

standardization. Further research to empirically validate such cause and effect relationships, and to explicate the concepts of routines need to be undertaken.

This paper also represents initial steps in understanding the concepts of transferability of competitive advantage and degree of economic freedom as it relates to marketing strategy. The concept of competitive advantage and the sustainability of competitive advantage has received widespread research attention, however the concept of transferability of competitive advantage, the conditions which make competitive advantage transferable, and the importance of transferability to the growth of the firm has received little attention. Similarly the degree of economic freedom while receiving attention in the context of theories of competition has been relatively ignored in its impact on marketing strategy. In the context of globalization, and the development of global marketing strategies and the issue of standardization in particular further research on these variables will enhance our understanding.

Note

1. When we refer to viable subsets of new markets we refer to the possibility that even when existing and new markets differ substantially as for example between countries that differ widely in economic development, market segments in existing markets could be similar to segments in new markets facilitating standardization.

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