

# HEC MONTRÉAL

DÉCIDER LA STANDARDIZATION OU L'ADAPTATION SELON LES

VILLES:

UNE ÉTUDE EMPIRIQUE DES SOCIÉTÉS MULTINATIONALES EN CHINE

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# HEC MONTRÉAL

THE DECISION TO STANDARDIZE OR ADAPT IN INTER-CITIES: AN  
EMPIRICAL STUDY OF MULTINATIONAL CORPORATIONS IN CHINA

BY

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MASTER OF SCIENCE IN ADMINISTRATION

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## Summary

This thesis focuses on the exploration of the marketing decision-making of standardization vs. adaptation in cities across China. It hopes to drive market research to the inter-cities perspective and to provide a refined comprehension of Chinese markets in both developed cities and less developed cities.

In this study, the researcher explores how multinational corporations should standardize or adapt when they come to different cities in one foreign country. Based on the literature review of marketing adaptation decision-making, the researcher proposes a conceptual framework to explore how the factors are different in different cities. In the study, the researcher approaches four leading international brands from multinational companies in China in the industries of food and beverage, automobile and beauty products. She conducts long interviews with marketing managers in China and performs case studies to understand each brand's difficulties and problems in both developed cities and less developed cities. From the analysis, the study recommends what brands should pay attention to when doing marketing adaptation decision-making in different cities and provides insights and implications for both academia and management.

Key words: China, Developed markets, less-developed markets, marketing adaptation, decision-making, multinational companies, international brands

## Résumé

Ce présent mémoire s'intéresse à la problématique des prises de décision en marketing concernant la standardisation ou l'adaptation des produits et services selon les villes à travers la Chine. Elle tente d'apporter des éléments afin de diriger les études de marché dans une perspective d'inter-villes et de fournir une compréhension fine du marché chinois aussi bien dans les villes développées que dans celles en voie de développement.

Dans cette étude, le chercheur observe comment les entreprises multinationales devraient se standardiser ou s'adapter lorsqu'ils s'implantent dans une ville différente dans un pays étranger. Basé sur une revue de littérature traitant des prises de décisions pour une adaptation du marketing, le chercheur propose un modèle conceptuel. Ce dernier cherche à explorer si les facteurs influençant et supportant les prises de décisions et les stratégies des éléments du mix marketing peuvent avoir une influence différente pour chacune des villes. Au travers de l'étude le chercheur approche quatre grandes marques internationales d'entreprises multinationales en Chine dans l'industrie de l'alimentaire et des boissons, de l'automobile et des produits de beauté. Il mène de longues entrevues avec des gestionnaires en marketing en Chine et travaille sur des études de cas afin de comprendre chaque obstacle et problème auxquels font face les marques aussi bien dans les villes développées que dans celles en voie de développement. Selon les analyses, l'étude permet de dresser une liste d'éléments à prendre en compte pour les marques lorsqu'il s'agit de prendre une décision pour une adaptation du marketing dans les différentes villes. Enfin, cela permet de généraliser les idées et les implications afin de contribuer à la recherche académique et au monde de la gestion.

Mots clés : Chine, Développement de marché, marchés sous-développés, adaptation marketing, prise de décision, entreprises multinationales, marques internationales

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## **LIST OF ABBREVIATIONS**

- MNC Multinational corporations
- FMCG Fast moving consumer goods
- DMC Dealer/ distributor managed channel
- FSDM Factors supporting decision-making
- FIDM Factors influencing decision-making
- MADM Marketing adaptation decision-making
- M&A Merger and Acquisition

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## **CHAPTER 1. INTRODUCTION**

Mainland China has long been the target market for multinational companies from diverse industries and sectors since its implementation of Opening and Reforming policies in the 1970s. The reason is indeed obvious. The largest population in the world brings a considerable number of potential consumers. Being one of the BRIC countries with a relatively steady economic and political environment, China has demonstrated a great capacity for consumption, as well as confidence that matches its rising purchasing power.

After World War II, the first significant inflow of foreign capital came to China in the late 1980s and early 1990s. During that period, ambitious companies ventured into this new market, one that is different from any other market they had known before. The multinational corporations that entered China at that time were mostly the industry leaders: some examples include L'Oreal, P&G, Louis Vuitton and BMW, who already enjoyed wide success around the world. Most of the "early birds" were rewarded for their courage with large market shares. They gradually expanded their investments in China, created their own manufacturing facilities in the country, and developed networks of marketing, sales and distribution. Most of them enjoyed profit growth along with the rapid economic development during that period, especially in mainland China (Brown Jr & Hartman, Sep. 7, 2011). Being envious of these companies' success, more and more MNCs then come to China to seek opportunities.

When MNCs came to China, they usually started in the most economically developed cities such as Beijing, Shanghai and Guangzhou, where customer density and purchasing power outrank those of less developed cities. But after 20 years of rapid growth, the markets in these developed cities began to mature while market conditions deteriorated. In earlier times, multinational corporations and domestic companies separately occupied Chinese markets according to the urbanization

degrees: MNCs concentrated in the developed cities, whereas Chinese domestic companies aimed at less developed cities with lower product prices and quality. Presently, besides other international competitors, Chinese domestic companies now provide more competition. MNCs used to observe that customers preferred foreign brands to domestic brands. Some successful Chinese domestic brands now have gained increased popularity and penetrated to developed cities with their successful products(Brown Jr & Hartman, Sep. 7, 2011).

Another driver of market deterioration comes from the Chinese government's attitudes towards foreign investment. In the early years, MNCs used to enjoy preferential conditions granted by the Chinese government. This was used to attract foreign capital (PRCgovernment, 2009). But since the financial crisis of 2008, preferential policies from the government gradually shifted to domestic companies. In the meantime, state and social media encouraged consumption of domestic products. Against this backdrop, it is clear that the Multinationals' advantages are diminishing, thus creating an urgency to change.

With a decreasing efficiency in generating profit in developed cities in China, MNCs began to search for fresh markets with larger profit margins. Thus, they have turned their eyes to the less developed cities in China. As the economy continues to thrive in China, these markets have become more and more lucrative. The Nielson report, *Winning in China, insights and strategies in 2011* points out that the third and fourth tier cities' consumers in China have tremendous purchasing power and that this group also has the world's highest consumer confidence index (Nielson, 2012).

When multinationals come to less developed cities in China, some practical questions arise: 1. How should they deal with the differences in urbanization degrees in these less developed cities? 2. How should multinational companies fit themselves into in less urbanized markets and adapt their previously successful strategies to these less developed markets? 3. To what extent should marketing strategies should be standardized or adapted? This researcher will explore possible

answers to these questions to understand the marketing adaptation/standardization decision-making in Chinese markets.

Previous research has concentrated on the marketing adaptation decision-making from an international perspective. Yet, an inter-city perspective is more practical, especially in geographically large countries such as China which also have considerable urbanization differences among the cities. Different markets produce diverse economic structure, social organizations, behaviours and consumption patterns. Thus, the inter-city perspective is required to analyze marketing adaptation decision-making.

A cross-cities perspective is important from both managerial and academic viewpoints. From the managerial context, neglecting it will result in companies having ineffective strategies and poor positioning in the market. The inter-cities perspective, on the other hand, enables a company to capitalize on a large market while taking into account the diversity of Chinese consumers in different cities (low tier and high tier), so they can then adapt to these needs. For academia, this cross-cities perspective can provide implications and generalizations that others can learn from.

To answer the research questions, the researcher has interviewed managers of MNCs in different industries in first-tier and third-tier cities to understand the challenges and difficulties MNCs meet and how they choose to select the strategies that fit different markets. The researcher has conducted four case studies in the automobile, beauty products and food and beverage industries. Based on the analysis, discussions were held to clarify the implications and recommendations about how to market in developed and less developed cities. Finally the study's contributions and limitations are presented to shed light on future studies and to clarify the research boundaries.

## **CHAPTER 2. LITERATURE REVIEW**

The literature review has four parts. The first and second parts reveal the factors supporting and influencing the marketing adaptation decision-making. The third theme is about marketing mix elements strategies. Finally, the literature review develops a conceptual framework that outlines the marketing decision-making process.

Previous research about the adaptation to China has been conducted on the national perspective and concentrates on the general influence of Chinese language and culture on the marketing in China. To the knowledge of the researcher, no available research has been done on the marketing adaptation from the inter-cities perspective in a country. Meanwhile, some fields have included inter-cities marketing into their studies as contexts, although they do not introduce the inter-cities perspective, as this research attempts to do.

For example, in the economic geography, the  $k=3$  marketing principle from the central place theory argues that the market area of a higher-order place occupies one third of the market area of each of the consecutive lower size place which lies on its neighbor(Christaller, 1933; Losch, 1940; Openshaw & Veneris, 2003). But the studies in economic geography focus on how to model the growth pattern starting from one city. Also, in the city branding, the study of Braun (2012) discusses eight important factors from policies and marketing in a successful implementation of a distinguished city branding (Braun, 2012).

Previous research has identified lots of factors supporting and influencing the marketing adaptation decision-making. Since this research is an exploratory discussion, only pertinent factors in the context of this study have been included. There were three criteria guiding the selection of pertinent factors. Firstly, the studies had to be useful and relevant in discussing differences in factors from a cross-cities perspective in China. The factors that are based on a national perspective such as “extent of local production in country” were not taken into

account. Secondly, the researcher applied a qualitative research method and excluded quantitative methods. Thirdly, only factors related to marketing issues were considered. Factors about management issues were excluded.

For the specific strategies of marketing mix elements, Rau and Preble (1987b) propose a three-layer process: firstly to decide the overall standardization approach; secondly to consider the standardization of the marketing program or process; finally, to detail and define to what extent brands should standardize or localize the marketing mix elements (Rau & Preble, 1987b)). Discussions cover the strategies for the following marketing mix elements: brand, product, advertising, sales and distribution channels, promotion, packaging, pricing, customer services and web marketing. Previous researchers have identified the relative standardization degree among the marketing mix elements and the factors that conceptually influence these strategies (Birnik & Bowman, 2007). Table 1 presents a synthesis of studies related to each of the considered factors.

Table 1. Factors in adaptation decision-makings with theories resources

Factors in adaptation decision-makings	Studies
Factors supporting strategic choices regarding marketing mix standardization	<ul style="list-style-type: none"> <li>• Clarity of strategic objectives (1) (Birnik &amp; Bowman, 2007; Bowman &amp; Ambrosini, 2000; Onkvisit &amp; Shaw, 1987; Rau &amp; Preble, 1987a)</li> <li>• Customer rather product orientation (2) (Birnik &amp; Bowman, 2007; Douglas &amp; Wind, 1987)</li> </ul>
Factors influencing marketing mix standardization	<ul style="list-style-type: none"> <li>• Consumer response pattern (3) (Harvey, 1993; Jain, 1989; Levitt, 1983) (Kanso, 1992; Kernan &amp; Domzal, 1993) (Chandra, Griffith, &amp; Ryans, 2002)</li> <li>• Environmental similarity (4) (Donnelly &amp; Ryans, 1969; Green, Cunningham, &amp; Cunningham, 1975; Jain, 1989) (Baalbaki &amp; Malhotra, 1993, 1995; Jain, 1989; Ozsomer, Bodur, &amp; Cavusgil, 1991a; Rau &amp; Preble, 1987b; Theodosiou &amp; Leonidou, April 2003; D. Vrontis &amp; Papasolomou, 2005) (Ozsomer et al., 1991a).</li> <li>• Product life stage in the market (5) (Baalbaki &amp; Malhotra, 1993, 1995; Rau &amp; Preble, 1987b; Theodosiou &amp; Katsikeas, 2001)</li> <li>• Competitive position and size of local market (6) (Jain, 1989; Laroche, Kirpalani, Pons, &amp; Zhou, 2001) (Rau &amp; Preble, 1987a)</li> <li>• Entry mode (7) (Harvey, 1993; Jain, 1989) (Rau &amp; Preble, 1987a) (Shenkar &amp; Zeira,</li> </ul>

	<ul style="list-style-type: none"> <li>Country of origin of parent company (8)</li> <li>Degree of centralization in decision-making (9)</li> <li>International experience of parent company (10)</li> </ul>	<p>1987) (D.A. Griffith, Chandra, &amp; Ryans, 2003; D. Vrontis &amp; Papasolomou, 2005)</p> <p>(Ozsomer et al., 1991a)</p> <p>(Jain, 1989; Ozsomer, Bodur, &amp; Cavusgil, 1991b) (Quelch &amp; Hoff, 1986) (Ozsomer et al., 1991a)</p> <p>(Cavusgil &amp; Zou, 1993; Leonidou, 1996) (Solberg, 2002) (Rau &amp; Preble, 1987b) (Sim, 1977).</p>
Strategies sort-outs	<ul style="list-style-type: none"> <li>The overall standardization approach (11)</li> <li>Program and process standardization (12)</li> </ul>	<p>(Michell, Lynch, &amp; Alabdali, 1998) (Britt, 1974; Buzzell, 1968; Miracle, 1968; Onkvisit &amp; Shaw, 1987; Wiechmann, 1974) (Peebles, Ryans, &amp; Vernon, 1978; Quelch &amp; Hoff, 1986; Sommers &amp; Kernan, 1967; Whitelock &amp; Jones, 1993) (Boddewyn, Soehl, &amp; Picard, 1986; Kassem, Ludwig, &amp; Beeman, 1993; Whitelock &amp; Kalapaxoglou, 1993) (Michell et al., 1998) (D. Vrontis, 2003)</p> <p>(Baalbaki &amp; Malhotra, 1993; Boddewyn, 1982; Harvey, 1993; Shaoming Zou &amp; Cavusgil, 1996) (R. Z. Sorenson &amp; U. E. Wiechmann, 1975) (D.A. Griffith et al., 2003)</p>
	Marketing mix elements	<ul style="list-style-type: none"> <li>Brand (13) and Product (14)</li> </ul>

		<ul style="list-style-type: none"> <li>• Pricing (15)</li> <li>• Packaging (16)</li> <li>• Advertising (17)</li> <li>• Distributions (18) &amp; Promotions (19)</li> <li>• Customer services (20)</li> <li>• Web (21)</li> </ul>	<p>Papasolomou, 2005; Yip, 1997) (S. Zou, Andrus, &amp; Norvell, 1997)</p> <p>(Boddewyn &amp; Grosse, 1995; Chhabra, 1996; Grosse &amp; Zinn, 1990; Michell et al., 1998; Ozsomer et al., 1991a; Rosenthal, 1994; R. Z. Sorenson &amp; U. E. Wiechmann, 1975; D. Vrontis, 2003; D. Vrontis &amp; Papasolomou, 2005) (Samli &amp; Jacobs, 1994)</p> <p>(Boddewyn &amp; Grosse, 1995; Rosenthal, 1994;(R. Z. Sorenson &amp; U. E. Wiechmann, 1975; Yip, 1997) (R. Z. Sorenson &amp; U. E. Wiechmann, 1975)</p> <p>(Grosse &amp; Zinn, 1990;(Yip, 1997) Ozsomer et al., 1991;(Harris, 1994) (Boddewyn &amp; Grosse, 1995; Rosenthal, 1994;(Harris &amp; Attour, 2003) (Peebles, Ryans, &amp; Vernon, 1977) (Harris, 1994) (Michell &amp; Bright, 1995) (Agrawal, 1995)</p> <p>(Boddewyn &amp; Grosse, 1995; Chhabra, 1996; Grosse &amp; Zinn, 1990; Michell et al., 1998; Ozsomer et al., 1991a; Rosenthal, 1994; R. Z. Sorenson &amp; U. E. Wiechmann, 1975; D. Vrontis, 2003; D. Vrontis &amp; Papasolomou, 2005; Yip, 1997) (S. Zou et al., 1997)</p> <p>(Boddewyn &amp; Grosse, 1995; Ozsomer et al., 1991) (Vrontis &amp; Papasolomou, 2005)</p> <p>(Esola, 2010) (Hathi, 2007)</p>
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## **2.1 Factors supporting strategic choices and implementation**

Birnik and Bowman (2007) propose several factors supporting adaptation decision-making: clarity of strategic objectives, use of cross-country research and segmentation, use of mapping tools, customer rather than product orientation, cross-border coordination, alignment and knowledge sharing, clear responsibility and modular product approach (Birnik & Bowman, 2007).

In this study, the researcher maintained the factors of “clarity of strategic objectives” and “customer rather than product orientation” and excluded the others to correspond to the nature of exploratory research and to simplify the study context and to focus on inter-cities differences. Moreover, the researcher discussed the communication problems in the following factors of “Degree of centralization in decision-making” and “International experience of parent company”, so the factor of “knowledge sharing” is excluded.

### **2.1.1 Clarity of strategic objectives (1)**

Bowman and Ambrosini (2000) argue that the marketing standardization occurs when managers aim either to increase customers’ perceived use value (PUV) and/or reduce cost. The PUV refers to customers’ subjective perceptions of the usefulness of a particular product or service. Increasing customer PUV could result in a positive outcome in terms of higher brands preference, larger market share, larger customer base, and more loyal customers. Thus, it can increase usage per customer and ultimately result in higher revenue. Reducing costs should result in improved margins. If marketing mix standardization could lead to increased PUV and/or lower costs, this strategy could improve financial returns and value creation for the corporation. The authors also point out that it would be important to analyze the total cost of ‘production’ across the value chain, including sourcing, manufacturing, marketing and sales and distribution. For example, lower production costs from centralized production might be offset by higher distribution costs or customs duties to reach more remote locations. Thus, it is essential to be clear about the objectives of standardization, (i.e.) to

define that the aim is either to increase customer PUV or to lower costs or to achieve both benefits.

Studies also suggest that when establishing objectives, managers should separately analyze the feasibility and desirability of the strategies (Onkvisit & Shaw, 1987; Rau & Preble, 1987a). Rau and Preble (1987) argue that desirability is influenced by corporate strategies and implementation requirements. An ideal case could be that companies combine increasing PUV with reducing costs. It would demonstrate that a standardized marketing strategy effectively would meet customers' needs. On the other hand, when PUV decreases while production costs increase, a standardization strategy fails.

Usually, standardization can lead to lower costs but combines with a corresponding reduction in PUV because the product might be not sufficiently tailored to meet local requirements. Meanwhile, the general outcome might be neutral or positive if the lower costs can translate into a price reduction for customers. On the contrary, there will be new capability development where PUV increases but it will lead to higher production costs. Once again, results may be neutral or positive if higher revenues can offset the higher costs. Between the two extremes, one possibility is that production costs may be significantly higher; whereas PUV is only marginally improved. Another possibility is that the PUV can also remain the same while production costs are either increased or decreased as a result of standardization. Table 2 combines the theories of "PUV vs. cost reduction" with "feasibility and desirability" to discuss strategic objectives.

Table 2. Combination of “PUV vs. cost reduction” with “feasibility and desirability” to discuss the strategic objectives

Standardization strategy	Increase in consumer perceived use value (PUV)	Remain the same PUV	Decrease in consumer perceived use value (PUV)
Reduction in production cost	Desirable if feasible	Desirable if feasible	Desirable if feasible that lower cost can translate to a price reduction
Increase in production cost	1) Desirable if feasible that high revenue can offset the higher costs  2) Desirable if feasible that PUV is considerably increased as a new capability development	Undesirable	Undesirable

### **2.1.2 Customer rather than product orientation (2)**

When discussing whether or not to standardize or adapt in a market, firstly, the clarity of objectives should be assured; then it should be decided if the brands should adopt a customer orientation or a product orientation. Classic research indicates that a drawback of marketing mix standardization is that it tends to shift the focus away from customers to products (Douglas & Wind, 1987) . Consequently, if managers are to increase customers’ perceived value of the product, they should take measures to safeguard customer orientation during the standardization.

## **2.2 Factors influencing marketing mix standardization**

### **2.2.1 Consumer response pattern (3)**

Much research assumes customers may share a common behavioural response pattern when consumers in the target market react similarly to marketing stimuli (Harvey, 1993; Jain, 1989; Levitt, 1983). Levitt (1983) identifies this phenomenon as segment simultaneity that refers to parallel segments across

markets. It is the existence of simultaneous segments that makes standardization a feasible strategy. For example, if a firm approaches two widely divergent target markets with the same product, differences in consumer response patterns would require the firm to adapt its advertising program to effectively match the market's needs. (Kanso, 1992; Kernan & Domzal, 1993). In other words, the similarity of consumer response patterns reflects the psychological and cultural similarity of the markets, as it is the culture in one market that has built up local people's behavioural responses patterns and preference structures. Hence, the greater the similarity of consumer markets response pattern targeted by a firm across countries, the greater the economic and administrative benefits of standardization (Chandra et al., 2002).

#### **2.2.2 Environmental similarities (4)**

Environmental similarity refers to the similarity of legal, political, economic, regulatory and marketing infrastructure that a firm confronts in its marketing efforts. Environmental elements can dramatically influence a firm's ability to standardize its advertising programs (Donnelly & Ryans, 1969; Green et al., 1975; Jain, 1989). Differences can lead to adaptation in the marketing mix, while similarities can lead to greater standardization (Baalbaki & Malhotra, 1993, 1995; Jain, 1989; Ozsomer et al., 1991a; Rau & Preble, 1987b; Theodosiou & Leonidou, April 2003; D. Vrontis & Papasolomou, 2005). For example, differences in laws governing advertising across countries, such as the use of mass communications, can significantly limit the standardization (Boddewyn, 1982; Harvey, 1993). Some countries tightly regulate advertising directed to children. Similarly, differences in political and economic systems may directly influence the firm's ability to standardize its advertising since these inherent differences may result in differences in message interpretation. Furthermore, marketing infrastructure differences such as type of media available will affect the adaptation of a firm's advertising program (Harvey, 1993; Jain, 1989). While no two markets are completely identical, the focal issue is whether or not the two markets are environmentally similar enough to support a standardized advertising program.

Ozsomer, Bodur and Cavusgil's study MNCs' standardization in Turkey and their research supports the expectation that level of standardization in marketing programs will be higher where market conditions between any two markets are similar (Ozsomer et al., 1991a). They found a positive correlation between the overall standardization and similarity in market conditions indices. The total marketing program standardization increases as the similarities increase in the nature of competition, retail structure, target consumer segments, marketing legislation and product's life cycle stage (Ozsomer et al., 1991a).

### **2.2.3 Product life stage in the market (5)**

Previous studies have proposed that if the products in different markets are at the same life cycle stage, standardization would be greater (Baalbaki & Malhotra, 1993, 1995; Rau & Preble, 1987b; Theodosiou & Katsikeas, 2001). In other words, this proposition relates to the differences in market characteristics that cause the products to be at different stages in the life cycle. Sorenson and Wiechmann (1975) note that the mistake of standardizing when market conditions are significantly dissimilar is generally more serious than not standardizing under highly similar market conditions. For example, a product in the mature stage of the life cycle in the home market would need very different treatment in a market where it is still in the introductory or growth stage. One would expect more exclusive distribution, higher prices, and a different emphasis on promotions for a product in an earlier stage in the life cycle. Similarly, diversified firms would presumably use an even lower level of standardization than single-product firms. But generally, it can be observed that international product life cycles are getting shorter and shorter. Therefore, it is likely that standardization of marketing techniques would proceed at a faster pace (R. Z. Sorenson & V. E. Wiechmann, 1975).

### **2.2.4 Competitive position and size of local market share (6)**

The literature suggests that standardization is higher if there are greater similarities in the competitive position of the parent and the subsidiaries (Jain, 1989; Laroche et al., 2001).

Rau and Preble (1987a) propose that the size of the market influences the standardization of marketing techniques and market elements. In general, the larger the market size, the greater would be the standardization of marketing techniques. They explain that this proposition would make intuitive sense because the large market would make for easier standardization and achieve greater system efficiencies. As for market elements, the standardization would most likely occur in the product and promotional aspects and in the price and place decisions.

### **2.2.5 Mode of entry (7)**

Entry mode refers to the manner in which a firm enters a foreign market. The common modes of entry into foreign markets are direct exporting, indirect exporting, licensing, franchising, strategic alliance and direct investment. Researchers contend that a firm's selected mode of entry can significantly affect its level of marketing standardization (Harvey, 1993; Jain, 1989).

In joint venture types of partnerships, product standardization would be difficult (Rau & Preble, 1987a). As Shenkar and Zeira (1987) point out, joint ventures have unique complexities because of multiple goals, different perceptions, diverse sources of authority, multiple reference groups, and two or more dominant cultures (Shenkar & Zeira, 1987). Hence, it is likely that the degree of marketing standardization differs between wholly owned subsidiaries and joint ventures with differing foreign capital shares.

Research reports that franchising and licensing are the two most standardized entry strategies, as parent companies require franchising and licensing to standardize. On the other hand, indirect exporting and direct investment should be subject to more adjustment as they have relatively more flexibility to adjust to local needs. As two studies have indicated, there are higher degrees of standardization for indirect entry modes (exporting, franchising, joint ventures

and licensing) compared with direct entry modes (D.A. Griffith et al., 2003; D. Vrontis & Papasolomou, 2005).

### **2.2.6 Origin country of parent company (8)**

There is no consistent conclusion across the papers on the impact of the origin of the parent company on marketing standardization. Most previous studies discuss the influences of the country of origin of the parent company on standardization in marketing programs. The research of Ozsomer, Bodur and Cavusgil (1991a) has empirically observed in Turkey that standardization levels were highest for German MNCs, followed very closely by US MNCs. US and German MNCs tend to standardize their marketing activities significantly more than other European MNCs originating from United Kingdom, Denmark, France, and Italy (Ozsomer et al., 1991a). However, their findings are only somewhat illustrative due to the limited number of companies from these countries represented in the research sample.

### **2.2.7 Degree of centralization in decision-makings (9)**

A number of papers have reported a positive link between centralized decision-making and higher standardization (Jain, 1989; Ozsomer et al., 1991b). Quelch and Hoff (1986) point out that if headquarters gave country managers total control of their product lines, it would not be able to leverage the opportunities that multinational status provides. What's more, Quelch and Hoff (1986) further suggest that headquarters should make standard marketing programs that reflect the needs of large, rather than small markets. Small markets are more tolerant of deviations from what would be locally appropriate and are less likely to resist standardization. The authors revealed a positive and statistically significant correlation between overall standardization and centralization for marketing practices indicating that headquarters tend to control marketing decisions for implementing standardized programs.

But managers may presume that headquarter interference is time-consuming and inefficient in product design and in setting performance objectives such as

profitability and market share. Quelch and Hoff (1986) present in their research the local managers' frustration when trying to gain approval for the application deviations from standard marketing program.

The expanding headquarters bureaucracy and associated overhead costs reduce the speed with which the locals can respond to local opportunities and competitive actions. Slow response time is an especially serious problem with products for which barriers to entry for local competitors are low (P63).

### **2.2.8 International experiences of parent company (10)**

Previous research indicates that firms with significant international experience and a long market presence adapt their marketing more than those that lack this (Cavusgil & Zou, 1993; Leonidou, 1996). On the contrary, a higher level of local market knowledge at headquarters leads to more standardization, as the headquarters are better at perceiving important similarities across markets (Solberg, 2002).

Also, the more international experience a company has, the more it can bring a better level of communication to its dealings. Rau and Preble (1987b), proposed that standardization is likely to be higher when there is greater communication between parent and subsidiary (Rau & Preble, 1987b). Sim (1977) have noted that European subsidiaries tend to have greater autonomy vis-à-vis their parent companies but less delegation within the subsidiaries. On the other hand, American subsidiaries were more closely coordinated with their head offices but had greater decentralization within the subsidiaries. It is conceivable that the greater decentralization within subsidiaries with simultaneous close coordination from headquarters promotes the feedback of local knowledge. This knowledge can then be employed in other countries that share common characteristics.

### **2.3 Strategies of marketing mix elements**

Rau and Preble (1987) propose that the decision process for the strategies of marketing mix elements go through three layers: the overall standardization



approach, program vs. process standardization, and marketing mix elements (Rau & Preble, 1987).

### **2.3.1 Overall standardization approach (11)**

Concerning the overall standardization approach, previous research has identified four international marketing strategies: standardization, localized adaptation, “middle of the road” which means a mix of standardized and adapted elements, and a cluster approach of transnational regions with common market characteristics (Michell et al., 1998).

The standardization strategy involves a standardized marketing mix program. Levitt (1983) argues for this strategy as it can bring the transferability of better marketing practices, lower marketing costs, more effective planning and control, and development of more consistent corporate and brand images on global basis.

The strategy of adaptation stresses the dissimilarities between countries and even regions within the same country in the areas of culture, nationalism, the general environment, marketing infrastructure and other forces determining customer behaviours (Britt, 1974; Buzzell, 1968; Miracle, 1968; Onkvisit & Shaw, 1987; Wiechmann, 1974).

The ‘middle of the road’ approach focuses on standardizing some elements (often strategy) and localizing others (often execution), or for tailoring the global marketing concepts to fit each business. The essential factor is flexibility (Peebles et al., 1978; Quelch & Hoff, 1986; Sommers & Kernan, 1967; Whitelock & Jones, 1993)

The clusters approach favours marketing standardization across identifiable transnational market clusters (Boddewyn et al., 1986; Kassem et al., 1993; Whitelock & Kalapaxoglou, 1993).

Michell and Alabdali (1998) comment on these four strategies. They think that standardization and adaptation occupy opposite ends of the spectrum. Clustering

seeks to standardize the marketing mix to a substantial extent, across groupings of similar markets. They perceive this strategy would thus yield a range of heterogeneous market clusters but with a higher degree of marketing mix standardization within each cluster. In contrast, the middle-of-the-road strategies emphasize flexibility which leads to case-by-case decisions regarding standardization and adaptation for each market and each marketing mix element (Michell et al., 1998). Vrontis (2003) adds that standardization may also vary by element or sub-elements of the marketing mix, which makes it less meaningful to talk of the entire marketing mix as either standardized or adapted.

### **2.3.2 Program and process standardization (12)**

Marketing program standardization is defined as the pursuit of similar marketing programs across different countries or regions with regard to product offering, promotional mix, and price and distribution structure (Jain, 1989, Levitt, 1983; (Szymanski, Bharadwaj, & Varadarajan, 1993). Marketing program standardization is facilitated by homogeneity in firm processes across subsidiaries, which, in turn, enables the firm to transfer company-specific core marketing competencies across markets. Whereas process standardization refers to a firm's ability to employ similar marketing methods across geographies with diverse political, economic, and marketing infrastructures (David A. Griffith, Chandra, & Pyans Jr., 2003). Firms strive to achieve process standardization to capture efficiencies and cost savings through a greater coordination among global operations.

Regarding whether or not to standardize marketing program or process, research demonstrates that a combination of the two is beneficial. Chandra, Griffith and Ryans (2003) demonstrate the effectiveness of the standardization/adaptation of international advertising by using a sample of U.S. multinationals operating in India. Their results indicate a positive association between process and program advertising standardization of U.S. multinationals operating in India.

In order to standardize the program and process together, multinational companies must implement internal and external measures. Internally, a firm's global organizational structure needs to be compatible with a standardized marketing strategy. Externally, a standardized strategy may not be feasible in light of varying government regulations and marketing infrastructure differences (Baalbaki & Malhotra, 1993; Boddewyn, 1982; Harvey, 1993; Shaoming Zou & Cavusgil, 1996). Whereas similarities in environmental factors can facilitate promotion standardization, differences across markets can limit its effectiveness. For example, it may not be feasible to use the same marketing messages in diverse markets if the marketing infrastructure is different. Sorenson and Wrichmann (1975) indicate that the standardization of the process for developing marketing policies provides the ability to standardize a firm's strategies (R. Z. Sorenson & U. E. Wiechmann, 1975).

### **2.3.3 Marketing mix elements**

The most common elements of marketing mix are: brand, product, advertising, packaging, promotion, pricing, sales, distribution, customer service and web marketing. Vrontis (2003) suggests that standardization usually varies by elements or sub-elements. It would thus be less meaningful to talk of the entire marketing mix as either standardized or adapted, rather than discuss separately for each element (D. Vrontis, 2003).

#### **2.3.3.1 Brand (13) and Product (14)**

Previous research identifies brand and product to be the most standardized mix elements (Boddewyn & Grosse, 1995; Chhabra, 1996; Grosse & Zinn, 1990; Michell et al., 1998; Ozsomer et al., 1991a; Rosenthal, 1994; R. Z. Sorenson & U. E. Wiechmann, 1975; D. Vrontis, 2003; D. Vrontis & Papasolomou, 2005; Yip, 1997). The term "brand and product" covers the dimensions of product or service variety, design, features, quality, brand name, size and colour varieties, performance and image.

### **2.3.3.2 Pricing (15)**

Pricing is the process of determining what a company will receive in exchange for its products, including the retail price and the dealer's price. Pricing is determined by a set of factors such as manufacturing cost, market place, competition, market condition, and quality of product. Most studies argue that pricing is the least, or one of the least, standardized elements (Boddewyn & Grosse, 1995; Chhabra, 1996; Grosse & Zinn, 1990; Michell et al., 1998; Ozsomer et al., 1991a; Rosenthal, 1994; R. Z. Sorenson & U. E. Wiechmann, 1975; D. Vrontis, 2003; D. Vrontis & Pappasolomou, 2005). However, Samli and Jacobs (1994) argue in their research that while absolute pricing was among the least standardized marketing mix elements, relative pricing, which refer to a ratio between any two prices, was fairly standardized (Samli & Jacobs, 1994).

### **2.3.3.3 Packaging (16)**

Previous research argues that packaging demonstrates medium to high levels of standardization (Boddewyn & Grosse, 1995; Rosenthal, 1994; (R. Z. Sorenson & U. E. Wiechmann, 1975; Yip, 1997). Sorenson and Wiechmann (1975) have found an extremely high degree of standardization exists in the packaging combined with branding. Their study results indicate that brands, and packages in particular, are usually highly standardized for trademark considerations and worldwide brand recognition.

### **2.3.3.4 Advertising (17)**

Advertising is a form of marketing communication to attract and persuade an audience to continue or take some new action. Studies report mixed results regarding advertising, but the tendency is for advertising to exhibit a medium level of standardization (Grosse & Zinn, 1990; Yip, 2007; Ozsomer et al, 1991; Harris, 1994). Some researchers argue that advertising is closer to the standardization end of the spectrum (Boddewyn & Grosse, 1995; Rosenthal, 1994; Harris & Attour, 2003).

Multinationals are confronted with very complex decision-making regarding advertising standardization. It is more than a choice between standardization and adaptation since there are many possible types and degrees of advertising execution. Harris (1994) argues that it is important to clarify such standardization forms labeled 'partial' or 'modified', given that practices of firms that fall into those categories can vary substantially (Harris, 1994).

The research of Chandra, Griffith and Ryans (2003) details standardization of promotional elements in an international context and empirically examines the influence of four factors on advertising message and packaging: market similarities, process standardization, environmental similarity, and mode of entry. Their results indicate that these four factors have different effects on the advertising message. Furthermore, the findings of this study suggest that the more diverse the environments of the countries/ markets, the more likely a firm is to standardize its advertising message and packaging (D.A. Griffith et al., 2003).

Some evidence has shown that headquarters is more involved in making strategic advertising decisions compared with tactical decisions (Michell & Bright, 1995). In an overview of academic vs. practitioner-oriented papers on advertising standardization, Agrawal (1995) has found that academics tended to favour either adaptation or contingency approaches to advertising, while practitioners have alternated between adaptation and standardization prescriptions to a greater degree.

#### **2.3.3.5 Distribution (18) and promotions (19)**

The cumulative evidence indicates that distribution and promotions show fairly low levels of standardization but typically not as low as pricing (Boddewyn & Grosse, 1995; Chhabra, 1996; Grosse & Zinn, 1990; Michell et al., 1998; Ozsomer et al., 1991a; Rosenthal, 1994; R. Z. Sorenson & U. E. Wiechmann, 1975; D. Vrontis, 2003; D. Vrontis & Papasolomou, 2005; Yip, 1997). The research of Zou, Andrus and Norvell (1997) reveals the finer aspects of firms' standardization strategy required for the conventional 4-P level investigation that might be too

broad to detect varied emphasis in international marketing program. They point out that the promotional budget has been standardized more than some other aspects of marketing strategy.

#### **2.3.3.6 Customer services (20)**

Customer service covers the dimensions of pre-sale services, delivery installation, after-sales services and warranties. Previous research reports mixed results. Some research reports medium levels of standardization (Boddewyn & Grosse, 1995; Ozsomer et al., 1991). While other research notes higher standardization. Vrontis and Pappasolomou (2005) surveyed top UK multinational firms. Their study indicates that the standardization trends for pre-sales, after-sales and warranties. Furthermore, the notion of standardization of services can help companies to create synergies and also be a market differentiator that helps distinguish a company with its competitors.

#### **2.3.3.7 Web marketing (21)**

Using websites and social media has become a more popular way for companies communicate with customers and to construct brand image. However there is not much research about the adaptation or standardization of these newer forms of marketing. One reason might be that the use of web marketing focuses on product exposure to consumers, while the decision whether to standardize or adapt depends on a balance between cost and benefit.

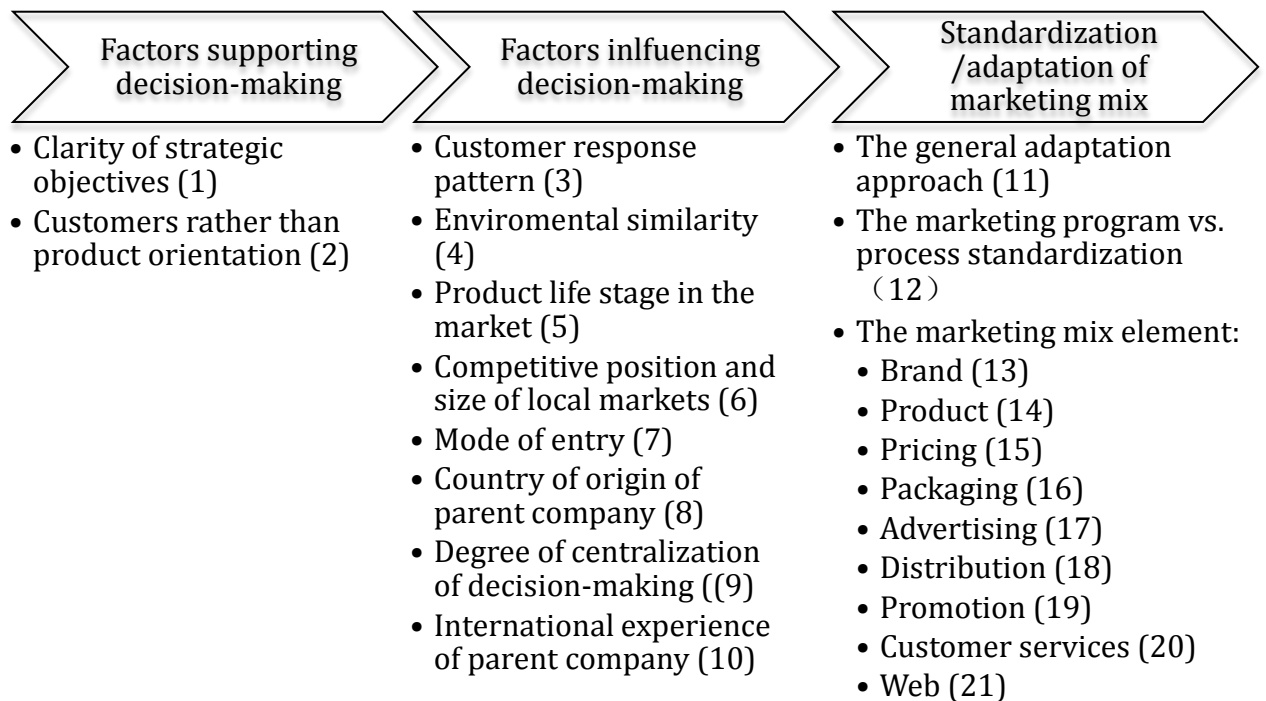
The literature presents some discussion on the risks that web marketing may bring. Esola (2010) thinks that companies tapping into such social media outlets as Facebook, Twitter and blogs to market their brand may not be prepared for certain risks. Because a company cannot control what people post on the web, it runs the risk of reputation damage. Anyone can post false, misleading or negative information as they wish (Esola, 2010). A recent survey by Melcrum, an international communications consulting company, has found that while large corporations are increasingly adopting social media for internal and external communication, nearly half the communicators who responded felt that

employees discussing their organizations online posed a significant risk to the company's reputation (Hathi, 2007).

## 2.4 CONCEPTUAL FRAMEWORK

Based on the literature review, the researcher proposes the following conceptual framework to go through the marketing adaptation decision marketing process to explore whether or not markets in different cities in a country require different treatments.

**Figure 1. Conceptual framework**



## **CHAPTER 3. METHODOLOGY**

### **3.1 Qualitative research methods**

The problematic of the research is to explore whether or not an MNC, when making marketing decisions, should standardize or adapt using an inter-cities context in China. To answer the problematic, the researcher decided to approach managers in marketing departments of MNCs in China.

It is exploratory research, to learn about and to understand how MNCs make decisions when faced with challenges. Based on the recommendations of Grant McCracken, the researcher applied the qualitative research method of in-depth interviews (McCracken, 1998). From these interviews with Chinese managers, the researcher hoped to see whether the standardization and adaptation considerations should go further from the country' levels to the inter-city level when MNC brands stretch from first-tier cities to low-tier cities in China.

Firstly, based on the literature review and conceptual framework, the researcher prepared a general interview guide (see Appendix I). The researcher first invited the interviewees to talk about the precise strategies and then lead to discuss the guiding philosophy behind them. This is the opposite of the conventional decision-making process which evolves from objectives to specific strategies. The interview guide consists of three major parts. The first part focuses on the strategies about the marketing mix elements and general standardization/adaptation approach; then, in the second and third part the interviewees are asked to elaborate on their thoughts about the factors support and influence marketing mix standardization.

Questions in the interviews invited managers to explain how they arrived at such decisions rather than put forward a final result. To improve the precision and validity, the researcher use some likert-7 point scale questions but did not apply statistical test to approve the generality as there is not enough samples. Before the



interviews, the researcher conducted background research and then adapted the interview guides to each case. Questions were shaped to the current context of each company.

In total, the researcher conducted eight in-depth interviews with marketing and brand managers in China. The interviews lasted approximately forty-five to ninety minutes, allowing the interviewees to elaborate their thoughts rather than putting forward simple answers. For convenience, one of the eight interviews was conducted over the phone, and the others were done on-site, at the managers' premises. The researcher recorded the interviews with the permissions of interviewees. Both the researcher and interviewees used Mandarin Chinese to communicate. The method of information processing during the semi-structured interviews was the 'hot summary', which meant taking notes simultaneously as each individual spoke (Couratier & Miquel, March 30, 2007). After the interviews, the researcher translated them into English and used the matrix method of response to facilitate the information process.

To present research results with certain confirmation and generality, the researcher performed case studies. Firstly, she used the analytic technique of pattern matching to compare the two interviews for each of the four cases (Yin, 2009). Secondly, the researcher applied a cross-case synergy to perceive the different influence on consumer-durables and nondurables (Yin, 2009). The inter-case comparison helped to clarify whether an emergent finding was simply idiosyncratic to a single case or whether it was consistently replicated in several cases (Eisenhardt, 1991). With multiple cases, an appropriate level of abstraction could be set that is more accurate than the individual instances (Eisenhardt, 2007). Thus, it could support the research to illuminate and extend the academic constructs and provide recommendations for brands and MNCs in the managerial context.

### **3.2 Selection of the country**

In the context of this study, the researcher decided to choose China as the host country where the cases would come from for the match of Chinese conditions to the study context requirements. There were four reasons to support this decision.

Firstly, China is experiencing an expansion of MNCs' business in low-tier cities, providing the best chance for the researcher to observe the phenomenon and to explore the problematic. Secondly, China is a large country where cities have different cultures and degrees of urbanization. These differences between cities would enhance the exploration if it required more detailed and separate marketing/ adaptation considerations. The thoughts and strategies of interviewees about the market differences in China would shed light on the issue.

Thirdly, China has clear definitions of cities classifications that the researcher was able to rely on and facilitate the studies. According to Chinese governmental classification (which is based on the national administrative division and urbanization degrees), the researcher was able identify suitable target cities for the study.

The fourth reason for selecting China comes from the researcher's resources and ability to conduct the study in China. The researcher grew up in China and understands Chinese language, conduct and communication patterns. In addition, she was able to use her contacts to approach companies who have multinational brands in China and therefore recruit appropriate interviewees.

### **3.3 Selection of industries**

The researcher decided to choose from the consumer durables and non-durables industries. One reason is that consumer-durables and non-durables are among the sectors that are expected to respond most directly and accurately to customers' needs. The second reason is the relative easiness to collect data. It is much easier to obtain data and reports for consumer durables and non-durables that follow the

market development of customer products, especially in the fast moving consumer goods (FMCG) industry.

Industrial products are excluded from the industry selection considerations because it is more difficult to observe the difference in customers' response for difference cities. Also, as academia reports, industrial products tend to be more standardized than consumer non-durables or durables (Baalbaki & Malhotra, 1993; Cavusgil & Zou, 1993; Chhabra, 1996). Thus, the researcher focused on consumer products.

Through background research and according to the researcher's interests and available resources, she chose four industries in consumer durables and non-durables: luxury products, beauty products, automobile and food and beverage.

### **3.4 Selection of brands**

Based on the industries selection, the researcher proposed five brands in each industry to make up a list of twenty brands to guide the contact process. She used clear criteria in the brand selection. Firstly, brands had to have a prevalent presence in China, especially in cities with different degrees of urbanization. Thus brands also needed to have a large enough distribution and sales networks. Secondly, the brands selected had to be well known in China. Customers had to have been able to receive frequent advertising or promotion information about the brands from all sorts of media. The channels of media cover television, radio, newspapers, magazines, posters and leaflets, websites, mobile phone ads and 2D barcode. This presence requires multinationals' investments in the publicity and advertising. Thirdly, these brands had to have official Chinese website and social media accounts in Renren (Chinese version of Facebook) and in Sina Weibo (Chinese version of Twitter) to enable a thorough analysis of marketing-mix management.

As the researcher is Chinese and has lived in China for most of her life, she listed brands according to her own recognition. Based on the above criteria and background investigation, the researcher selected twenty brands in the industries of luxury products, beauty products, automobile and food and beverage. These are listed below. In each industry, the researcher classified the brands according to her interest and available resources as the method of “convenience sampling” (Corbin & Strauss, 2008).

**Table 3. List of interesting brands for selection of case studies**

General selection criteria:

- 1) Prevalent presence in cities of different levels
- 2) High brand awareness among Chinese customers
- 3) Equipped with official Chinese websites and social media accounts

Product category	First choice	Second choice	Third choice	Fourth choice	Fifth choice
Luxury products	Louis Vuitton	BMW	Lancôme	Cartier	Rolex
Beauty products	L’Oreal Paris	Olay	Maybelline	Yves Rocher	Nivea
Automobile	Volkswagen	Ford	Buick	Chevrolet	CITROËN
Food & Beverage	KFC	Pepsi	Lipton	Dove	Nestlé

### **3.5 Selection of respondents**

In the next step, the researcher decided to approach managers from MNCs. Interviewees came from these MNCs and international brands. Managers had to have real practical experience in adaptation decision-making and first-hand knowledge of the differences between developed cities and less developed cities in

China. These respondents were those who are most concerned about adaptation decision-making in Chinese markets and who could talk about the strategies and their experience with executing them in different markets. Given the fact that MNCs usually have more international business experience and advanced marketing management and techniques in real practice, they could also help the researcher to discover if a foreign brand's international experience was applicable to different situations.

The researcher used the "snowball" method to contact and recruit interviewees. She started from contacts of friends, relatives and professors and also the information from websites. She then reached out to make contacts and to become acquainted with various people and then and finally get approval to conduct the interviews.

### **3.6 Selection of representative cities**

To understand the real context of the problematic, the researcher decided to approach managers in different tier cities. The Chinese government had already classified these cities.

First-tier cities are the developed cities in China. Customers in first-tier cities generally have the greatest purchasing power. Their living conditions and consumer behaviour are assumed to be comparable to those of customers in other developed cities around the world. Moreover, the headquarters of MNCs are based mostly in Beijing and Shanghai. Senior managers in headquarter positions take charge of marketing planning and execution on a national level. They make marketing adaptation decisions and encounter the complexity of the markets differences in high and low tier cities in China.

Compared to first-tier cities, third-tier cities are less developed. However, these cities are not classified as the least developed areas in China, as there are fourth

and fifth tier locations which include villages and towns. Third-tier markets still require marketing position setting, while MNCs judge it not necessary to set up a separate position in fourth and fifth tier locations.

The researcher chose to use the governmental classifications in Continental China, which are also adopted by Nielson China. These classifications are set up according to the national administrative division and economic development degrees. Please see as follows table 4 for the definition of the cities and Appendix II of third-tier cities in each provinces of China.

**Table 4. Definition of city-level classifications (Continental China)**

Nielson: City categories	Level	Definition (Grading standards according to China's national administrative division)
Key cities	First-tier	Beijing, Shanghai, Guangzhou, Chengdu
Cities of Level-A	Second-tier	Capital cities and economically developed cities ex: Shenzhen, Qingdao, Dalian
Cities of Level-B	Third-tier	Prefectural cities ex: Zhuhai, Tangshan
Cities of Level-C	Fourth-tier	County-level cities ex: Yiwu, Yixing
Cities of Level-D	Fifth-tier	Counties ex: Benxi, Anhui
Villages and towns	Five-tier	Villages and Towns ex: Qinggui, Shenken

(Resources from AC Nielson China)

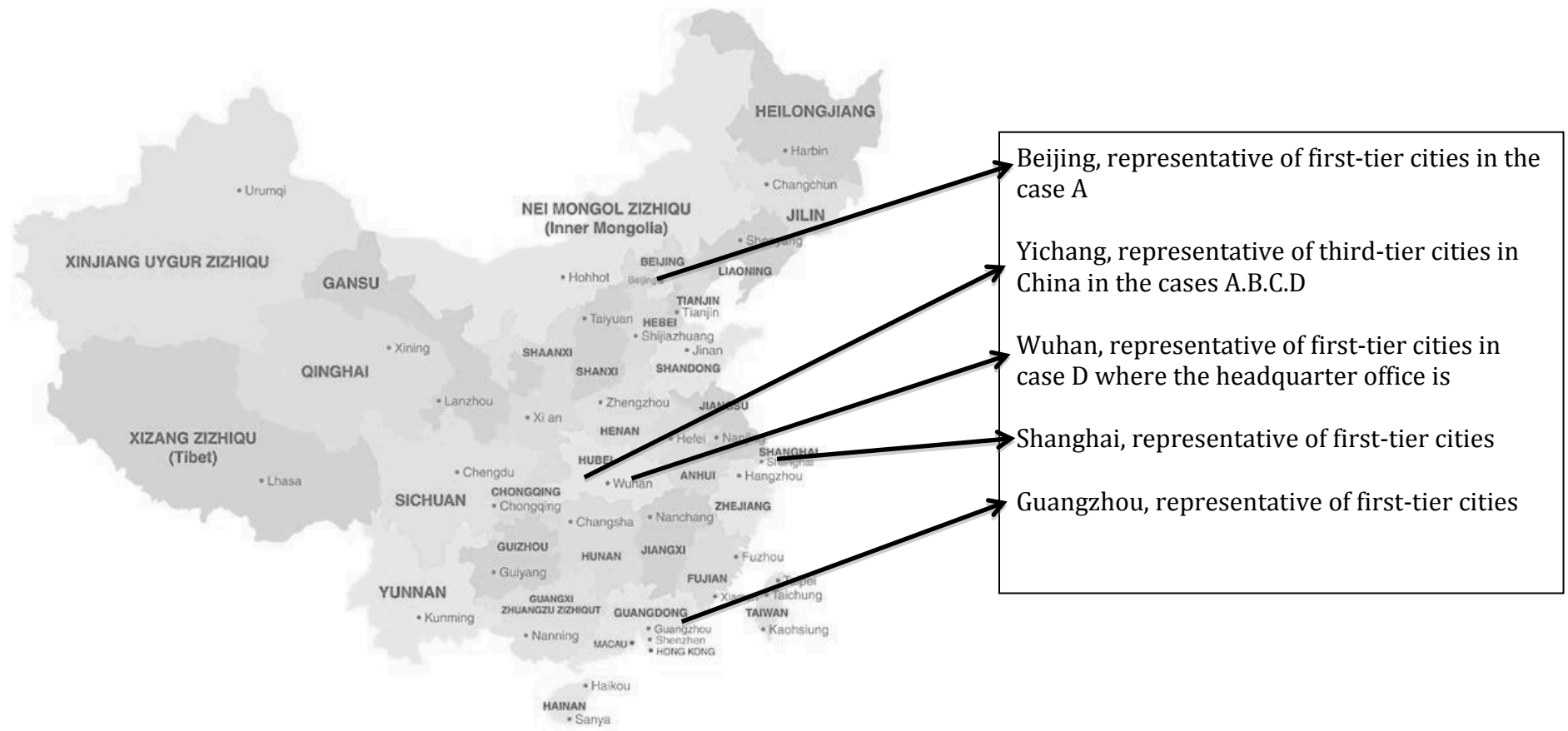
### **3.7 The data collection**

The researcher reached out to four brands for case studies and contacted potential interviewees. Three of the four brands come from the List of Interesting Brands for selection of case studies (Table 3). One brand was in the food and beverage industry, one was in the automobile industry and one was in the beauty products industry. The researcher did not approach luxury brands but added another brand in beauty products. Moreover, in some contexts, sales play a leading role, so sales marketing managers were also invited for interviews.

From January 2013 to March 2013, the researcher travelled to Beijing, Shanghai, Guangzhou, Wuhan and Yichang across China to conduct a total of eight interviews for the four case studies. In each case study, the interviews were with one senior manager from the marketing or sales department in the headquarter office and with one sales person in third-tier cities. There exists one exemption, in brand D where the researcher conducted the interview in Wuhan, a second-tier city, where brand B bases its headquarters. Please see below Figure 2 and Table 5 that indicates the representative cities where the researcher conducted interviews. Table 6 presents the interviews conducted in the case studies and table 7 presents the brands' descriptions. To respect anonymity, the name of the brands are replaced by letters of A, B, C and D. Detailed presentation of brand A, B, C, D are in the Appendix III.



**Figure 2. A map of China indicating representative cities where interviews are conducted**



**Table 5. Information of representative cities**

Representative cities	City level classifications	Inhabitants	Managerial levels
Beijing	First-tier city	20,693,000	Headquarter office of Brand B
Shanghai	First-tier city	23,474,600	Headquarter office of brand A
Guangzhou	First-tier city	12,700,800	Headquarter office of brand C
Wuhan	Second-tier city	97,853,92	Headquarter office of brand D
Yichang	Third-tier city	4,059,686	Sales and marketing personnel of brand A, B, C. and D

(Source: National Bureau of Statistics of China. Official website of brands)

**Table 6. Interviews conducted in case studies**

Cases No.	Brand	Industry	First interviewee	City of first interviewee	Second interviewee	City of second interviewee
1	A	Food and Beverage	Senior marketing manager, Greater China Region	Shanghai, First-tier city	Sales personnel	Yichang, Third-tier city
2	B	Automobile	Dealer side senior sales director, Beijing	Beijing, First-tier city	Sales personnel	Yichang, Third-tier city
3	C	Beauty Product	Senior marketing manager, national	Guangzhou First-tier city	Sales personnel	Yichang, Third-tier city
4	D	Beauty Product	Senior manager, brand promotion planning unit, national	Wuhan Second-tier city	Sales personnel	Yichang, Third-tier city

Table 7. General information of brand A, B, C and D

Brands/Cases	Settlement in China	Sales and profit in 2012	Market coverage	Employment and Distributions
Brand A	In the year of 1981	Up to 13% growth in China, achieving two-digit growth for a decade Up to 50% profit margin, most profitable market around the world	24 bottlers + alliance with a Taiwanese company	Directly employ up to 10,000 people Indirectly employ up to 150,000 people in services, sales and DMCs
Brand B	In the year of 1984	Sale of 2.81 million cars in China, Growth rate of 24.5% Profit growth up to 40%	Plan to build up 7 new factories before 2018	Cooperate with 3 major dealer chains
Brand C	In the year of 1989	Up to 10 years of two digit growth rate in China	Brand of beauty products with largest market share	Supermarkets Cosmetic store (up to 10,000 stores) Ecommerce 350 independent DMCs of different scales
Brand D	In the year of 1989	Began to appear positive since the acquisition	Second-tier and third-tier cities	Consumers-ends terminal sales

(Source: Official websites of Brand A, B, C, and D; industrial news and reports)

## **CHAPTER 4. ANALYSIS AND RESULTS**

According to Vrontis et al (2009) and the exploratory research process, the analysis part discusses tactical strategies of marketing mix and then describes strategic marketing factors that support and influence decision-making (Demetris Vrontis, Thrassou, & Lamprianou, 2009).

### **4.1 Tactical marketing strategies of marketing mix elements**

According to the literature review, 'brand' and 'product' present the core values and should be the most standardized. The element 'product' should be more standardized in developed cities and less developed in less developed cities. 'Pricing', 'packaging' and 'advertising' should be less standardized in the low-tier cities while 'distribution', 'promotions' and 'customer services' would be more standardized, depending on the degree of urbanization. Standardization in 'web marketing' is still evolving. Beside it is regarded as the development tendency and is now booming China, it may help MNCs to reduce the difficulties in their standardization and adaptation problems encountered in the Chinese contexts.

To compare the data from the interviews with the literature review, the researcher explored the marketing strategies of these marketing mix elements and drew conclusions about their adaptation and standardization strategies. Table 8 presents brands' standardization of marketing mix elements in developed cities and less developed cities. The following chapters discuss respectively the strategies and the managerial significance behind it.

**Table 8. Brands' Standardizations of marketing mix elements in developed cities and less developed cities**

S=standardization A=adaptation

Cases	Case 1, Brand A		Case 2, Brand B		Case 3, Brand C		Case 4, Brand D	
Marketplace	First-tier cities	Third-tier cities	First-tier cities	Third-tier cities	First-tier cities	Third-tier cities	First-tier cities	Third-tier cities
Brand	<b>S</b>	<b>S</b>	<b>S</b>	<b>S</b>	<b>S</b>	<b>S</b>	<b>S</b>	<b>S</b>
Product	<b>S</b>	<b>S</b>	<b>S</b>	<b>A</b>	<b>S</b>	<b>S</b>	<b>S</b>	<b>A</b>
Pricing	<b>S</b>	<b>S</b>	<b>S</b>	<b>A</b>	<b>S</b>	<b>A</b>	<b>S</b>	<b>A</b>
Packaging	<b>S</b>	<b>A</b>	<b>S</b>	<b>S</b>	<b>S</b>	<b>A</b>	<b>S</b>	<b>A</b>
Advertising	<b>S</b>	<b>A</b>	<b>S</b>	<b>A</b>	<b>S</b>	<b>A</b>	<b>S</b>	<b>A</b>
Distribution	<b>S</b>	<b>A</b>	<b>S</b>	<b>S</b>	<b>S</b>	<b>A</b>	<b>S</b>	<b>A</b>
Promotion	<b>S</b>	<b>S</b>	<b>S</b>	<b>A</b>	<b>S</b>	<b>A</b>	<b>S</b>	<b>A</b>
Customer services	<b>S</b>	<b>A</b>	<b>S</b>	<b>S</b>	<b>S</b>	<b>S</b>	<b>S</b>	<b>A</b>
Web marketing	<b>S</b>	<b>A</b>	<b>S</b>	<b>S</b>	<b>S</b>	<b>A</b>	<b>N/A</b>	<b>N/A</b>

#### 4.1.1 Brand (13)

Corresponding to the literature review, the researcher understood that the brands are standardized across China, in both developed cities and less developed cities. Brands are standardized across China, whether they are in first-tier cities or in lower-tier cities.

Interviewees explained this standardization by “*brand-sensitiveness*” of the Chinese customers. Whether they were in first-tier cities or third-tier cities, MNCs perceived that in the Chinese culture, people value a long-term reputation. To be chosen by consumers, brands should firstly be among customers’ potential choices. As customers find it easier to become acquainted with a consistent branding that responds to their needs, the standardization of brands can thus facilitate the brand recognition and recalling when consumers purchase products. MNCs pursue and value a standardized brand and achieve this with long-term strategic positioning in brand image and value propositions across Chinese markets.

What’s more, the present trend of branding is to focus on international branding, rather than focus on national standardized branding. Chinese customers often have received some ads in which a foreign celebrity or model endorsed a brand. The brands had wanted to demonstrate that they came from foreign countries and imply a better product quality. Now, as the markets in first-tier cities mature, brands can hardly distinguish themselves from their competitors if they continue to present similar statements and fail to make a distinct one. Going with international branding is a good choice. For MNCs, by taking Chinese factors into consideration and finding appropriate Chinese celebrity endorsement, they can create a unique Chinese version of an international campaign. In this way, brand A in the food and beverage industry and Brand C in the beauty products industry have successfully positioned themselves as international brands that also cater to Chinese customers’ needs and expectation.

#### 4.1.2 Product (14)

The previous research suggests that packaging demonstrates medium to high levels of standardization (Boddewyn & Grosse, 1995; Rosenthal, 1994; (R. Z. Sorenson & U. E. Wiechmann, 1975; Yip, 1997). From the interviews, the researcher realized that products are standardized in developed cities but less standardized in low-tier cities.

In developed cities, products are standardized for two main reasons. The first reason is to promote a consistency in product, including packaging and format. The second reason is that the product standardization can facilitate transportation and merchandise display.

However, products in low-tier cities are less standardized. Interviewees present two reasons why products are less standardized there. Firstly, brands may choose initially not to standardize its products. In the case of brand D, it decided to provide to the DMCs in low-tier cities some products that were in lower quality but similar in packaging with the DMCs' acknowledgement of product difference. An interviewee from brand D explained their reasons to do so. *"As brand D chooses to provide high profit margin for DMCs to push the market penetration in low-tier cities, we decided to offer products of different quality but similar packaging to DMCs and supermarkets at the different prices. We needed to make out the differences between the products going to DMCs channels and those going to supermarkets and shopping mall stores, to prevent falsifying."*

Secondly, while MNCs persist in product standardization in low-tier cities, some problems in the execution and operations may hinder this. In the case of brand C, it frequently distributes trial samples to their potential consumers when new products are coming out. Sales personnel have access to a large number of samples. Some sales persons take samples out and sell them on websites for their own money. Consequently, consumers can find out about products and those from the trial sample at a much lower price on the market, which may cause confusions at both consumers' side and brand's side.



### 4.1.3 Pricing (15)

The previous research suggests that pricing should be the least standardized marketing mix element (Boddewyn & Grosse, 1995; Chhabra, 1996; Grosse & Zinn, 1990; Michell et al., 1998; Ozsomer et al., 1991a; Rosenthal, 1994; R. Z. Sorenson & U. E. Wiechmann, 1975; D. Vrontis, 2003; D. Vrontis & Papasolomou, 2005). In this study, the researcher acknowledges that pricing is standardized in developed cities while less standardized in less developed cities.

Pricing in high-tier cities is standardized, thanks to the strict control and supervision of MNCs there. Mostly, MNCs take the responsibility for the marketing execution in developed cities where they have established their offices and personnel for the execution and control. In the case of brand B, since it is devoted to provide the best service and quality in both developed cities and less developed cities, its marketing execution demonstrates their devotion to details. So the marketing department set up strict criteria on the DMCs' side of marketing execution. These criteria cover all the details possible: how to present the posters, how sales personnel should approach to the clients and how to use the materials and documents. Frequently, brand B sends "mysterious shoppers" to each outlet and asks them to evaluate their experiences. A large devoted management team strives for this quality control. Then, brand B will decide on their order price according to the DMCs' performance. If a DMC has long failed to reach the ideal performance, brand B may set up a much higher order price or even limit its offerings to it. An interviewee from brand B explained the effectiveness of this strategy. *"On the DMCs' side, opening up a distribution outlet for a specific brand needs strategic planning. The swift cost of changing to another brand is high. So, most of them will try their best to meet up the criterion for a lower order price and higher margin."*

Whereas in low-tier cities, less standardization of pricing happens, as some MNCs delegate the responsibility of execution to local DMCs. In order to motivate the DMCs' efforts in market penetration, MNCs and brands usually have to set up an attractive margin. In the case of brand C, its price provided a much lower margin for DMCs in China compared with Chinese local brands. If a product of

brand C offers a 10-15% margin for DMCs, local DMCs can expect a margin of up to 30 or 40% from Chinese local brands. Even though brand C is a leading brand in China and the DMCs need to have their products in their stores to offer a necessary variety of products, DMCs are always in search of ways to gain better margin from products. An interviewee from brand C described the two most frequently seen ways to increase. *“One way that DMCs have sought out better margin is to hoard goods during the promotional period. During a certain period of time in China, brand C opened up a promotion to deal with the inventory. During that period, DMCs purchased a large quantity for a long-term sale. Another way that DMCs use the promotions is to cater to individual customers. Brand C frequently offers discount coupons to customers from websites, beauty magazines and flyers in the stores. Some DMCs collect these coupons for individual customers, use them to get a lower price from brand C and then sell the products at a price at which they can get a higher margin”.*

Less standardization of pricing harmed the image and profit of brand C. The interviewee from brand C expressed her worries: *“It creates a pricing confusion to customer when they perceive there exists such a disorder of the pricing. They begin to seek a lower price for the products, which leads eventually to harming the brand image.”* From another perspective, although the DMCs’ low margin from brand C can be offset by its volume of sales, it may not reduce the DMCs’ efforts in pushing brand C’s Chinese competitors. As the DMCs can get a better profit with them and local companies can have a higher cost-efficiency than MNCs, local brands can provide a high margin for the DMCs. In long run, Chinese brands may be able to acquire comparable brand awareness with international brands as was the case with brand C. This may eventually lead to more fierce competition. Recently, brand C put forward a trial solution to launch a new product line that offered up to a 25% margin for the DMCs’ in low-tier cities. The market feedback from this trial was not yet available at the time of the interview..

#### **4.1.4 Packaging (16)**

Research argues that packaging demonstrates medium to high levels of standardization (Boddewyn & Grosse, 1995; Rosenthal, 1994;(R. Z. Sorenson & U.

E. Wiechmann, 1975; Yip, 1997). As international branding becomes more and more important, packaging needs to present a formal and unified image. This study demonstrates that packaging is highly standardized in more developed cities and less standardized in low-tier cities.

In low-tier cities, brands and MNCs have to meet special requests and attempt to adapt the packaging. The case of brand D in hair care products demonstrates this. Customers in low-tier cities do not wash their hair as frequently as customers in first-tier cities do. For example, customers in developed cities may need to wash their hair every day or every two days, while costumers in third-tier cities may wash their hair twice a week. Customers in less developed cities prefer smaller bottles that cost less for each purchase. Brand D also found out that the customers in low-tier cities prefer a pack set of shampoo together with conditioner. So brand D launched packages of smaller bottles of shampoo and conditioner and then sold them in the DMCs channel in low-tier cities. This adaptation turned out to be a great success. An interviewee describes the efficiency of this adaptation. *"Some may say in low-tier cities companies and brands can only expect a 'low margin and high volume' pattern. But we proved that the importance is to understand how customers would like to have it. Price may be lower, but customers still feel that they get more value than what they pay."*

#### **4.1.5 Advertising (17)**

Studies report mixed results regarding advertising, some for a medium level of standardization (Grosse & Zinn, 1990; Yip, 2007; Ozsomer et al, 1991; Harris, 1994), some for low-level of standardization (Boddewyn & Grosse, 1995; Rosenthal, 1994; Harris & Attour, 2003). Harris argues for clarification of such 'partial' or 'modified' standardization (Harris, 1994).

From the interviews, it can be concluded that advertising is the most adapted element both in high-tier cities and in the low-tier cities in China. This research demonstrates that in a big country like China, adaptation of advertising is needed for local markets.

Brand A demonstrates a perfect example of advertising adaptation. In the beverage industry in China, brand A's Chinese competitors are not only other soda drinks but also tea drinks and juices, as Chinese customers have a long tradition of tea drinking. In addition, Brand A would have to consider the growing concerns about health, soda drinks and sweet taste . So how can a brand stand out in this complex situation? Brand A created a comprehensive advertising strategy for developed and less developed cities.

For brand A, the frequent existence and high performance in high-tier cities guarantees broad recognition of "big brands", while sales from low-tier cities markets have become the most attractive. For these reasons, brand A sorted out strategies to combine the two levels of cities. Firstly, it employed famous celebrities for product endorsement. They selected some celebrities who have a stable, good-quality reputation among high-tier consumers and selected some others who are popular among low-tier cities consumers. Secondly, brand A chose to endorse a TV channel that receives the best ratings in low-tier cities and supports the film-shootings of this TV channel. Thirdly, brand A has, for two years, made 20-minute film clips during the Chinese New Year Festival that are based on reality and focused on and the problems that mass consumers face. These film clips were well made and successfully brought up people's emotions and synesthesia. Other competitors had also tried similar film-clips advertisement but were not as successful as brand A was,

Finally, brand A, in 2011, created a web platform to go beyond the differences in markets. This web platform provided discount coupons for brands that young people prefer and held entrepreneurial competitions each year among young people. Although this website has just started, brand A hopes that it will be able to promote the brand spirit of youth and possibility.

#### **4.1.6 Distribution (18)**

The literature review indicates that distribution shows a fairly low level of standardization. And this research also demonstrates, correspondingly, that

distribution is more standardized in high-tier cities while less standardized in low-tier cities, due to the limits of available resources and different customers' response patterns.

In the case of brand C, it had segmented the distribution for its 3 sub-brands: the first sub-brand for higher-income customers in first-tier cities, the second sub-brand for second-tier and third-tier cities, and third sub-brand for low-tier cities. Brand C established a clear classification of distribution channels to meet different sub-brands' requirements. See Table 9 and 10 for brand C product lines and distribution channels.

In practice, brand C took the responsibility for distribution in first-tier cities while leaving the distribution in lower tier cities to the DMCs. The distribution in DMC channels, however, was disorganized. . While Brand C focused on the first-tier markets in first-tier cities and relied on the DMCs for its markets penetration in low-tier cities. A number of industry reports in 2012 industry reports in China commented on brand C's slow reaction to the booming low-tier cities and criticized its carelessness for relying on the DMCs for market penetration. Furthermore some competitors of brand C reported higher market share during the low-tier cities boom, while brand C lost its absolute leading position and became passive in market challenges. Since these criticisms came out, brand C tried to rectify situation and sent more employees to low-tier cities markets to regulate the DMCs activities. However, its efficiency and performance needs to be to be measured in the years to come.

Table 9: Product lines of brand C

Sub-brands of brand C	Target customers segmentations	Product positioning
Sub-brand 1	Customers who go frequently to beauty salons with higher income in first-tier cities	<ol style="list-style-type: none"> <li>1. Price around 50 \$ per item</li> <li>2. Target to provide hospital and salon grade of beauty products</li> </ol>
Sub-brand 2	Customers in first-tier cities and second-tier cities, conscious about their skincare	<ol style="list-style-type: none"> <li>1. Price around 30\$ per item</li> <li>2. Create various products lines and encourage a purchase at a time of a set.</li> <li>3. Provide skincare lessons and large amount of samples to customers</li> </ol>
Sub-brand 3	Customers in low-tier cities	<ol style="list-style-type: none"> <li>1. 5-20\$ per item</li> <li>2. Focus on the conception of multiple effects with one product</li> <li>3. Without much variation, only seasonal lines for summer as sunscreens and for winter as replenishment</li> </ol>

Table 10: Brand C's distribution channels classification and sub-brands offered

Brand C's distribution channels	Distribution channel definition	Charge of product delivery	Scale of activities	Sub-brands offered
Store and Supermarkets	Cover the counters in shopping malls and the chained supermarkets such as Wal-Mart and Carrefour (only in large supermarkets)	Brand C	Great existence in first-tier and second tier cities	Sub-brand 1 & 2
Cosmetic stores	Chains of stores specialized in cosmetics and personal care	Brand C	1) Distribution up to 10,000 stores, such as Watson franchises 2) Great existence in first-tier and second-tier cities, stretching to third-tier cities	Sub-brand 1 & 2
E-commerce	With its official online shopping web-site and chartered stores in popular shopping websites such as Tmall, Amazon China and so on	Brand C+ DMC	1) Represent 40% of the business 2) A prevalence in all levels of cities benefited from the popularity of online shopping in China	Sub-brand 1 & 2 & 3
DMCs	Get ordered products after reached the previous performance criterion In Low-tier cities, villages and towns	Brand C	1) In total 263 DMCs across China 2) Reliance on DMCs for market penetrations, equipped them with marketing and sales trainees from brand C "3) Grow up together" program	Sub-brand 2 & 3

In some far and remote areas, the market environment can also present some difficulties. Transportation and deliveries are not as convenient and easy as they can be in developed places, especially in some areas without highways and standardized roads, since large delivery trucks may not be used. So MNCs are forced to use vehicles with lower capacity for transportation, which means a much higher cost and a much lower efficiency. Another problem combined with the transportation inefficiency is the need for packaging and distribution adaptation. For example, normal packages that brand A uses are glass bottles of 150ml, plastic bottles of 250ml, 500ml, 1L and 2L. Obviously, plastic bottles are much lighter and easier to transport compared with glass bottles. But through the market research, brand A has found out that consumers in villages and towns do not often purchase large pack of drinks unless it is the season of festivals. In daily life they would purchase comparatively cheap glass bottles of 150 ml. A manager from brand A explained the difficulties: *“Glass bottles are sold cheaply but require recycling, disinfection, refills and heavy transportation from MNC’s side. What’s more, the selection of the bottlers’ location also needs to be strategic and selective in order to facilitate the refills and attempt to cover a distribution network as large as possible”*. Compared to its competitors, brand A had shortcomings in distribution of bottlers and this problem has long troubled Brand A as an obstacle to expand its business. A senior marketing manager of brand A elaborated on these ideas in the interview. He claims that brand A has considered and is now planning to acquire a Taiwanese brand of food and beverage with to profit from its developed network of bottlers and distribution in China..

#### **4.1.7 Promotion (19)**

Research proposes that promotion should be less standardized. Interviews in this study support the literature review and revealed that promotion in high-tier cities is more standardized than it is in the lower-tier cities.

For durable consumer goods, promotional strategies correspond to different customer’ response patterns. In the case of brand B, consumers in the developed cities are rational about their purchases and keep on bargaining for



lower price and more services, which leaves a small margin for brand B. Whereas in the less developed cities, people consider the purchase of brand B as a showing-off consumption and are not keen on bargains, which leaves a higher margin for brand B and creates a much more attractive marketplace.

For consumers of non-durable products, MNCs have studied Chinese customers and have come to the conclusion that consumers in their daily purchases in low-tier cities are generally more price-sensitive than customers in first-tier cities. In order to gain maximum profit from customers, brands and MNCs must decide to use a more flexible promotion strategy in low-tier cities. In the case of brand C, it mostly used the discount coupon in websites, magazines, forums and flyers in first-tier cities. In these channels, brand C could control the promotional efforts and scope. But in low-tier cities, this method had its own shortcomings as the DMCs can create confusion in pricing.

Another method of brand C is to offer direct discounts through membership. Brand C would offer a set of products at a lower price or promote points accumulation on membership cards. Points could be used later to purchase products. So customers perceive this as getting a discount. The third method is the on-site promotion exhibition. This does not cost much for brand C, for it can catch customers' attention, incite their willingness to purchase, and present its brand and image. Since brand C can get a solid support from channel side to do a sales exhibition, it frequently uses this method.

#### **4.1.8 Customer services (20)**

The literature review argues that customer services demonstrate middle level of standardization. In China, customer services are standardized in first-tier cities but not established in low-tier cities. Customers in first-tier cities require a feeling of being well served as part of a brand's distinction, while customers in third-tier cities may not yet perceive it as a necessity.

Brand C is a good example of customer services. In the first and second-tier cities, sub-brand 2 provided a long list of short beauty lessons to customers to

present an image of expertise and to facilitate standardized customer services. However, these beauty lessons are only available to customers in higher tier cities but not to customers in DMC channels in low-tier cities. In low-tier cities, Brand C provides brief presentations of products but does not provide such lessons; thus customer services in low-tier are not as standardized as they are in high-tier cities.

In recent years, customer service has become an increasingly important marketing element in China as the market matures and as competition gets fiercer. Customer services can enhance brands' image and positioning. Consumers are now expecting that a good quality product should also demonstrate its pursuit of customer services. So consumer services can be developed as a method to distinguish a brand from its competitors.

#### **4.1.9 Web marketing (21)**

The literature review did not discuss much on the standardization or adaption of web marketing, thanks to its flexibility. In this study, the researcher understood that web marketing appears to be more standardized in developed cities while its usage is limited in less developed cities.

Among the four cases, brand A and brand C have actively participated in the web marketing. Using this strategy, they enhance their brand images, interact with their consumers, broadcast events and activities, and convey brand developments. Brand B in the automobile industry, for example, uses web marketing to present its images and products, booking services for test-driving and vehicle maintenance tips. Brand D, however, has not used web marketing.

Brand A, B and C have all established their official websites and separate national and local social media accounts. Take the case of Brand C, for example. Here, web marketing relies on several kinds of media to conduct different activities. It promotes both on-line activities and off-line activities and those activities are generally more standardized for the developed cities markets.

However, some events and activities do not reach low-tier cities. See Table 10 for web marketing media and activities of brand C.

Table 10. Web marketing media and their activities

Web marketing media		Target customers	Activities
Social media accounts	RenRen Chinese version of "Facebook"	Able to target the customers by their relevance	On-line activities: promote the customers to share their purchase and comments with their friends. No restriction regarding to the urbanization degree
	Weibo Chinese version of "Twitter"		Off-line activities: distribute the information of on-site promotional exhibition and provide discount coupons. Restricted in the low tier cities
Display-outs & Push-ins on portal websites		Group customers by lot IP address in all tier of cities	Official websites posters and ads  Promotional information and coupons

#### **4.2 Overall standardization approach**

The literature review presents four possible standardization approaches: 1) standardization, 2) localized adaptation, 3) "middle of the road" and 4) the cluster approach (Michell et al., 1998). In regards to the above discussion of the marketing mix elements, the overall standardization approach of MNCs in China is generally 'in the middle of the road' category. MNCs and brands choose to standardize some marketing mix elements while they adapt others. For example, MNCs, understanding the tremendously important role that advertising plays in purchasing decisions, all have adapted their advertising in low-tier cities, as it is subject to customer response patterns. In some other instances, MNCs would prefer to standardize to save on cost. In some special situations, MNCs have to adapt some elements, as there are limits in marketing execution.

The reliance on the DMCs is an operational limit that prevents standardization. Brand A in the beverage industry decided to totally control marketing planning and execution, as the DMCs only take charge of sales. Brand B has a rather strict control of marketing execution, as it frequently sends out mystery shoppers to dealers' outlets to observe and evaluate the branding and marketing execution.

Compared to brand A and B, it is much more difficult for brand C and D (in the personal care industry) who use the DMCs for marketing execution in low-tier cities. Since they rely on DMCs to penetrate the market for their products, this results in a loss of control in the marketing execution. In the case of brand C, the MNC took charge of ensuring the quality of marketing execution, but it was hard to work out in the pricing and promotions. An interviewee who is a senior marketing manager of brand C commented that *"consumers frequently see different prices and promotions for the same product of brand C in different stores and then gradually set up an idea of looking for always a lower price, thus it harms the general brand image and marketing concepts."*

Moreover, in the case of brand D, the situation is even more complex. Before its acquisition by the European MNC, brand D was famous for its large network of sales in the supermarkets, which employed cheap part-time sales personnel to promote products face-to face to consumers. A Chinese senior marketing manager described the outcomes of this method: *"At that period, Chinese labour was less expensive, and although this method of consumer-end promotions costs a lot, it was of high efficiency and a great success. It contributed a lot at that time to make brand D's solid market position in face of P&G and Unilever"*. After it was acquired by MNC D, this European company abandoned its own network of sales personnel and gave charge of these to the DMCs. Brand D set up lower prices for the DMCs with lower quality (still with high margins) for low-tier cities under the same brand and image, which may in long run hindered the development.

### 4.3 Process and program standardization (12)

Corresponding to the literature review suggestion of a beneficial combination of marketing program and process standardization (D.A. Griffith et al., 2003), the interviews revealed a conclusion about the combination of marketing program and process standardization. In all four cases, a higher degree of urbanization drives a higher likelihood of both process and program standardization.

Within the four cases, Brands A, B and C had all applied standardized marketing processes and programs in China. They provided two reasons to support this positive combination. The first reason is the MNCs' needs and objectives to save money and to maximize the turnover. It is the MNCs aim to achieve global coordination and thus build up company structures that ensure the head office is compatible with the overseas branches. The second reason is the push of international branding. Successful international branding requires a prevalent presence across the world, which is based on a standardized marketing process and a unified statement that comes from a standardized marketing program. Thus, the MNCs' brands are working hard to create and strengthen their combination of marketing process and program standardization.

The import car business of Brand B presents a perfect example of a combination of program and process standardization. It emphasizes its international recognition of outstanding quality from its marketing program and its process that guarantees the difference from those cars manufactured in China. In order to achieve this synergy, Chinese and European teams cooperate effectively in a highly standardized marketing process on the global scale. See below Figure 3 the process chart for brand B.

Figure 3: Process chart of Brand B import car business



In the designing phase, the marketing department in China conveys market research of Chinese customers and dealers, and then sends the results to the engineering department in Europe. The European engineer designers sketch out concepts and discuss these with the Chinese marketing department whether the ideas can work out in China. In the next step of modification, the Chinese marketing department conceptualizes the marketing program and prepares, with the dealers, the new product launch. Several models are sent to China for the roadshow. In the roadshow, Chinese marketing experts work with European engineers to promote new models, collect market feedback and improve the models if it is needed. In the final phase of going to market, the cars finally reach the dealers' outlets, The Chinese marketing departments ensure that customers are exposed to ads from TV, magazines, layouts in airports and on skyscrapers, and push-ins from websites. It also observes and regulates marketing and sales efforts from dealers' side. Meanwhile, the Chinese dealers work with European parts manufacturers to take orders.

#### **4.4 Strategic marketing of factors influencing marketing mix standardization**

The literature review proposes a long list of factors that can influence marketing mix standardization. In this study, the researcher succeeded to explore some of their influences although she did not have access to them. See table 11 for the list of factors influencing marketing mix standardization and to what extent the researcher was able to explore their influence. The following analysis elaborates the factors' influence and explains the reasons why the researcher failed to explore some of them.

Table 11. Factors influencing marketing mix standardization and exploration of their influences

Whether to succeed in exploration of its influence? Yes (Y)/ No, fail to (N)

Customer response pattern (3)	Y
Environmental similarity (4)	Y
Product life in the market (5)	Y
Competitive position and size of local markets (6)	Y

Mode of entry (7)	Y
Country of origin of parent company (8)	Y
Degree of centralization of decision-making (9)	N
International experience of parent company (10)	N

#### 4.4.1 Consumer response pattern (3)

Research suggests customers may share a common behavioural response pattern when they react similarly to marketing stimuli (Harvey, 1993; Jain, 1989; Levitt, 1983). From the interviews, the researcher has realized that in China, consumers in first-tier cities expect more diversity and choices while consumers in low-tier cities are more brand-driven and price sensitive.

In the four case studies, the difference lies in how customers perceive their consumption. Take the case of brand A as an example. For brand A, most of the profit comes from the lower-tier cities. An interviewee from brand A has described his work on brand love. *“Brand love covers the brand recognition and brand loyalty. It differs highly in first-tier cities and low-tier cities as consumers have different patterns of recognition to brands. First-tier consumers are prone to niche brand. They hope to use some brands that are unfamiliar to most of people as a way to demonstrate their unique taste and style. They hope to find some specific and stylish stuff that are different to others. Whereas in low-tier cities, they just simply want to have the so-called “big brand”, brands that all people recognize. In these cases, brand loyalty building becomes more difficult as customers go in opposite ways for brand preferences. Now the focus is to maintain the image of ‘big brand’ in higher-tier cities and to go to the low-tier cities.”*

Another interesting example is Brand B. Brand B has maintained the value proposition of long-term development from its origin and is targeted at the middle-to-higher price range. Thus, it is focused on providing first-class, after-sales service from the dealers’ channel. For brand B, going to third-tier markets is obligatory and essential. Consumers in the third-tier are used to buying their cars in first-tier and second-tier cities where after-sales service inconvenient. Going to third-tier markets responds to the value proposition of first-class

quality and after-sales service. It has become a must for its durable success in China. In addition, purchasing power in third-tier cities is rising rapidly. An interviewee from Brand B described its importance to sales. *“Customers in more developed cities still generally have bigger purchasing power but have become more rational and informed in their purchase decisions. Markets in developed cities are now mature and competition is fierce. The income gap between customers is generally smaller than that in less developed cities. But for customers in developed cities are more price sensitive when, purchasing middle-higher level products and require more discounts and gifts from the dealers, which further intensifies the market competition. Higher income customers in third-tier cities are usually still in a kind of “show-off” consumer behaviour. They are not that price-sensitive and are pretty brand-driven. Thus, it makes third-tier markets easier and attractive for dealers and automobile companies, even though the costs to reach out there are high and the number of potential customers is comparatively small in these cities. But it deserves a long-term devotion facing the current tendency”.*

#### **4.4.2 Environmental similarity (4)**

Research suggests that environmental elements can dramatically influence a firm’s ability to standardize its advertising programs. While differences can lead to adaptations in the marketing mix, similarities can lead to greater standardization (Baalbaki & Malhotra, 1993, 1995; Jain, 1989; Ozsomer et al., 1991a; Rau & Preble, 1987b; Theodosiou & Leonidou, April 2003; D. Vrontis & Papasolomou, 2005). This study demonstrates that environmental similarity has less influence in high-tier cities than it does in low-tier cities.

Developed cities are generally able to provide a better and more standardized infrastructure. In the first-tier cities, brands can design their creative marketing concept according to local people’s preferences of different media and marketing activities. In the case of brand A, it has four major media with which to catch audiences’ attention: television channels, posters, digital layouts and



magazines. Through these four media, brand A builds up its brand awareness among customers and incite their brand loyalty.

But it might not be workable in low-tier markets, as the availability of local resources in low-tier cities creates obstacles for standardization. According to an interviewee from brand A, the brand A company launched a very successful interactive marketing program in high-tier cities that is presented in digital layouts on the streets where passengers can play with its design and thus experience the value proposition of brand A. But when it comes to some lower-tier cities where the digital layouts are not available, the ideas cannot work out as it did in first-tier cities. In this case, brand A had no choice but to adapt this design to a paper ad. Unfortunately, as the interviewee has commented, *“it lost much of its originality and interestingness in the process of adaptation.”*

#### **4.4.3 Product life stage in the market (5)**

Studies propose that if the products in different markets are at same life stage, standardization would be greater (Baalbaki & Malhotra, 1993, 1995; Rau & Preble, 1987b; Theodosiou & Katsikeas, 2001). Correspondingly, this research revealed that product life stage influences are felt more in first-tier cities than in in low-tier cities.

In first-tier cities, the product line turnover is very fast and product life is much shorter than it is in low-tier cities. One of the reasons for this is the fierce competition. Competitors are always trying to promote a new product that can drive customers from other competitors. If a product line is unsuccessful, competitors would quickly replace it with one that could occupy the market share. In this case, some companies are not willing to wait for competitors' responses to their failures. If they perceive the low probability of success, they would cancel the product line themselves and leave the market share to their own products. As an interviewee from brand C has described, *“in first-tier cities, we need to launch new products every three or four months, while in low-tier cities a line of products may need two to three years to mature.”*

Another reason is that customers hope to try new products approximately every three months in first-tier cities. If a brand fails to launch a profitable product line, it would be very easy to lose customers' attention. The interviewee then explained the difference in low-tier cities. She quoted one of brand's research results that *"generally in the low-tier cities, it takes two to three years to build up a successful reputation from higher-tier cities to low-tier cities customers in China. So a successful product line has to survive and thrive during two to three years in fierce competition in first-tier cities to win a reputed recognition in low-tier cities"*. As for brands and MNCs, the difficulties now are how to achieve a continuous success during two to three years in first-tier cities where competition is so fierce. It is natural that products and brands will go through each life stage on the market. But managers should think over these questions: how and when to refresh the brand and refill attachment of customers to the brand? How to bring new relevance to customers and re-awaken their attention? How to incite purchase willingness in long-term? All of these questions are worth pondering in product life-stage management.

#### **4.4.4 Competitive position and size of local markets (6)**

Literature suggests that standardization is higher if there are greater similarities in competitive position between the parent and subsidiaries (Jain, 1989; Laroche et al., 2001). The larger the market size, the greater would be the standardization of marketing techniques (Rau & Preble, 1987a). From the interviews, the researcher has realized that the competitive position and the size of the local market has a much smaller influence in high tier cities than in low tier cities.

An interviewee from brand C described their competitors in different markets. In first-tier cities, competition occurs from brands within the same segments and also from prestigious brands. Since customers in first-tier cities are increasingly willing to spend more money on personal care, some of brand C's customers shifted to prestigious brands that may perceive as having higher quality. While in low-tier cities, major competition came from brands within the

same segmentation and from local Chinese brands, some of which had established their brands in high-tier cities markets.

Table 12: Competitors in cities of different degree of urbanization: Brand C in China

In first-tier cities	Prestige brands (Luxury products)	Brands of MNCs coming from the same segmentations
In third-tier cities	Local Chinese brands	Brands of MNCs coming from the same segmentations

For brand C, competitions with other luxury brands are not unfamiliar, as it has already experienced such competition in other countries. But the competition with local Chinese brands may be uncharted territory for Brand C. Firstly, Chinese brands have more product lines than MNCs. For MNCs, to launch a new product line it must go through a long process of product testing in both China and headquarter country. Whereas Chinese brands usually have a much shorter procedure. An interviewee has described this difference. *“A product conception has to be submitted approximately two years before to the headquarter office in the USA before it launches. Also the conception has to be very pertinent so it must go through fluently financial considerations and medical testing on the headquarter side. But for one of our important Chinese competitors, it only takes four months to get out a product line from the conception to the launch-out. And they have 36 product lines. The difference is there, and it is hard for us to overcome.”*

Secondly, MNC brands experience discrimination from the Chinese government. An interviewee related that the *“Chinese government controls more strictly the product quality and communication message from MNCs. She said that” Chinese brands can use some mightily unrealistic promises to describe product performance, whereas MNCs’ brands using unrealistic promises in their ads are strictly forbidden by the Chinese government. What’s more, we cannot test our Chinese competitors’ products.”* Some of MNCs brands have chosen to demonstrate their product efficiency through comparisons in ads in China, but

this kind of advertisement grew less convincing as more and more brands have launched similar ones.

The third difficulty that MNCs encounter is the advantage of Chinese brands in recruiting sales personnel. Most of MNCs have a strict structure for recruiting and employment while the Chinese companies' structures are more flexible. Chinese brands can use their local resources to find sales talent who know the local markets and how to communicate with the locals. By contrast, MNCs usually recruit fresh undergraduates and send them to different cities after a short training. These undergraduates may be good at marketing and sales theories but they may lack a deep comprehension of local markets.

#### **4.4.5 Mode of entry (7)**

Researchers contend that a firm's selected mode of entry can significantly affect its level of marketing standardization (Harvey, 1993; Jain, 1989). In a joint venture type of partnership, product standardization would be difficult (Rau & Preble, 1987a). Franchising and licensing are the two most standardized entry strategies, while indirect exporting and direct investment could be subject to adaptations (D.A. Griffith et al., 2003; D. Vrontis & Papasolomou, 2005). In this study, the case performance corresponds to the findings in the literature review. Table 13 presents the brands' mode of entry in the case studies.

Table 13. Mode of entry: brands in the case studies

Brand A	Direct entry	Brand B	Import
Brand C	Direct entry	Brand D	Joint venture

Among these modes of entry, standardization for joint ventures would be the most difficult because of more complexities than others, as partners may have multiple goals and different perceptions of markets. It can also lead to an unclear division of authority and different dominant management cultures. All these can create confusion and chaos in practical work. In the case of brand D, the conflicts between the European and Chinese management hindered the communication and idea-exchanges. European managers hoped to upgrade

Brand D to higher levels and compete with brands such as P&G and Unilever in first-tier cities, whereas the Chinese management team tended to view the greatest potential for brand D laid in the low-tier cities. Recently, the European management team decided to build a premium product line for brand D despite the Chinese management team's disagreement. And this trial turned out to be a failure.

Direct entry mode also has its own limits. MNCs might not be as well equipped as their Chinese competitors in a low-tier market. For example, in the case of brand A, it wanted to reach into low-tier cities. But its comparatively smaller network of bottlers in China limited its further development. They planned a merger and acquisition with a Taiwanese brand that had established their bottlers and distribution networks since 1980s. According the interviewees, this merger and acquisition might be a great match, as the Taiwanese brand could help fill up brand A's shortcomings and help it attain an advantageous position in manufacturing and in distribution.

#### **4.4.6 Origin country of parent company (8)**

Aside from the fact that there is no consistent conclusion in academia on the impact of the origin of the parent company on marketing standardization, this study also fails to explore its influence in different cities. The researcher got one example to discuss the influence of parent company origin in first-tier cities, but failed to discuss its influence in low-tier cities.

The interviewee from brand B provided an example to discuss Europe-based Company's influence in Beijing. In 2011, Beijing suddenly implemented a policy to control the number of vehicles and stopped non-permanent residents' purchase of private cars. Before the policy was executed, the automobile market in Beijing boomed. Consumers in Beijing who could only buy cars before the policy's execution took their money, ran to distribution outlets and made quick deals. Unfortunately, during that time, consumers rushed to the Brand B's outlets only to discover that there were no more cars left. The manufacturer in Europe did not comply with overtime work regardless of customers' strong

willingness of purchase. Consequently, customers had no choice but rush to brand B's competitors. In this instance, brand B's dealers expressed their worries about its stubbornness in Chinese market. The Chinese markets are full of unpredictable incidents, both political and social in both higher and lower urbanized cities. Moreover, according to the procedures formulated by brand B, Chinese dealers had to pay the whole price in six months in advance to get the cars from Europe. It thus provided difficulties for dealers in sales forecasting and cash flow management. The sales director of brand B made comments that *"Its stubbornness and perseverance drives to its excellence in product quality but at the same time lacks flexibility in operation and management."*

#### **4.4.7 Degree of centralization of decision-making (9)**

The previous research indicates a positive link between centralized decision-making and higher standardization (Jain, 1989; Ozsomer et al., 1991b). But this study fails to reach a pertinent conclusion on its influence. In all four case studies, the decision-making is centralized to the parent company and the headquarter offices in China. The marketing personnel in low-tier cities are there to just execute directives without participation in the decision-making process.

All the four brands have demonstrated their belief that centralization of decision-making is appropriate and that small markets are less likely to resist standardization. But this belief might be dangerous. For MNCs that make their decisions based on the cost-benefit method, small markets might presently be incapable of generating a promising profit margin. But it is precisely these "small" markets that have bred several successful Chinese local brands. These Chinese brands started their business in the small markets and they now successfully stretch to bigger markets in first-tier cities. For example, one Chinese brand is famous for its position on Chinese traditional medicine. It sells well in smaller markets and now is received and thus is well increasing in popularity in big markets such as Shanghai and Guangzhou.

#### **4.4.8 International experience of the parent company (10)**

Previous research argues that firms with significant international experience and long market presence are better able to adapt their marketing (Cavusgil & Zou, 1993; Leonidou, 1996). Since the four brands in the case studies all come from global leading MNCs in different industries, it is difficult to draw conclusions from a comparing the significance of their international experiences.

What's more, interviewees expressed, to some extent, their doubts about the effectiveness of previous international experience in China. An interviewee from brand C comments, *"It might still be too early to discuss whether the international experience of the parent company has promoted our development. Although we may have been very successful in first-tier cities, it does not guarantee more success in low-tier cities. Chinese low-tier cities markets are so different. We may meet challenges that are incomparable to those that we have been through before. And if we mechanically make decisions based on what we know from before, there might be failures that wait for us."*

### **4.5 Factors supporting strategic choices and implementation**

#### **4.5.1 Clarity of strategic objectives (1)**

In the literature review, the objectives of MNCs to standardize or adapt marketing strategies is either to reduce production cost or to increase consumer perceived use value. This cost/benefit balance guides MNCs and brands' strategy planning and execution. In the Chinese market, clarity of objectives is greatly needed and highly treasured.

According the four cases conducted in China, MNCs have two ways to increase consumers' perceived value: one is to differentiate from their competitors and the other is to focus on certain qualities of the products. Table 14 presents objectives of brands in the four case studies in first-tier cities and low-tier cities.

Table 14. The objectives of brands in first-tier cities and low-tier cities

Brands' objectives	In first-tier cities	In low-tier cities
Brand A	Differentiation	Cost-leading
Brand B	Focus on quality	Focus on quality
Brand C	Differentiation	Cost-leading
Brand D	Differentiation	Cost-leading

According to table 14, most of brands adopted the differentiation strategy in first-tier cities and in low-tier cities. They adopted the cost-leading strategy with the exception of brand B, which focused on quality proposition. This can be partly explained that Brand A, C and D are in the food and beverage, and beauty and hair care industries where brands rely more on marketing to differentiate themselves with competitors. Brand B, on the other hand, is in the automobile industry where customers value good quality no matter what the market.

In first-tier cities, consumers refine their needs and appreciate the brands that respond to their various needs. Developed markets mature and become niche markets, segmented for specialized and differentiated needs. This is what brand C has done. It adapted its product lines structures to meet customer requests. Within this context, MNCs and brands should then focus on the creation of variety to respond to different needs. In the low-tier cities, consumers of non-durables and FMCG are more price-sensitive. This requires MNCs to invest considerable capital in distribution and infrastructure to reach these relatively remote markets while minimizing the costs.

Another possible challenge to the clarity of objectives in Chinese markets is from merger and acquisition (M&A), such as was the case of brand D. It had faced some complexity in management and execution from its M&A. This created confusion and hindered the clarity of objectives. At first, the European company purchased brand D in pursuit of market share and brand recognition in low-tier cities. As distrust grew between Chinese and European management, and as the parent company's intention to control intensified, brand D diminished its focus and lost advantages in low-tier cities and thus failed to



move up to high-tier markets. This led to a sharp decline in its business. As an interviewee complained *“The market share of brand D reduced sharply and we sadly presumed that it would disappear with one or two more failures in new product launching. Under this dangerous situation, communication between the Chinese and European team was still difficult. Chinese managers tried to explain the values of our considerations and ideas to European managers for greater support. But, it usually turned out be a demand from European managers in higher positions to force the execution of their plans.”*

In fact, no matter which objective that Brand D held since the beginning or whether its European management team felt obliged to change their objective later, the most important objective for the brand was to be clear about what it wanted and then let all the staff be thorough and committed to keen on this objective.

#### **4.5.2 Customer rather than product orientation (2)**

The previous study discussed that there are a drawback to marketing mix standardization. It argued that it may shift the focus away from customers towards the product dimension and suggests a safeguard to customers' orientation during the standardization that responds to enhance the customers' perception value (Douglas & Wind, 1987).

In practice, the researcher noticed that MNCs conduct serious considerations when deciding their orientations, rather than be swayed by willingness for standardization. Interviewees from the four cases demonstrated their advanced marketing techniques in market research, cost-benefit considerations and budgeting and cash flow control. These help to guarantee high-quality strategy, planning, and execution, which thus enable MNCs and brands to have flexible and sophisticated control and management.

Another factor that needs to be taken into consideration is the general tendency of the market to have customer orientation. Although presently MNCs perceive

that the customers in the low-tier cities can tolerate standardizations, these customers' purchasing power may grow quickly and eventually appreciate product variety as customers in the first-tier cities customers do. This is actually what makes going to the low-tier cities so promising and profitable. MNCs and brands should bear in mind that customer orientation is needed. As in the case of brand B, dealers express their urge to require the European design to be more considerate of Chinese preferences. An interviewee put forward one example: *"European manufacturers once produced cars in yellow and pushed them to dealers while in Chinese culture customers do not favour yellow cars"*. This caused great resource waste that could be saved if the manufacturers place customer preference as priority when making the decisions.

## **CHAPTER 5. DISCUSSION**

During the study, the researcher realized the importance of some other factors in the Chinese content that managers have taken into consideration. This discussion is dedicated to exploring and discussing these factors, in addition to the previous factors that have been touched on by the literature review. Then she modified and improved conceptual frameworks for high-tier cities and low-tier cities.

Previous discussion explored the factors that influenced the decision-making and tried to understand the strategies of marketing mix elements. Combined with the following factors that the researcher considers to be important to, she hopes to provide a more comprehensive consideration of Chinese markets in both developed cities and less developed cities.

### **5.1 Important factors besides literature review**

#### **5.1.1 Balance between cost-savings and responses to customers' need**

The clarity of strategic objectives is so needed in order to sort out pertinent decisions regarding marketing standardization and adaptation. Given the

Chinese geographic dimension and dispersion of markets in developed and less developed cities, it requires considerable capital investment in the marketing and distribution. As Chinese market conditions and customers are dissimilar to those in other countries, it demands that multinational companies be prudent with the differences in calculation and considerations over cost efficiency.

As it is understood from the interviews, to respond to customers' needs is always most important. Marketing research and its expertise are crucial to explore and understand Chinese markets. Besides the techniques and research, multinational companies need more comprehension and insights about Chinese markets, especially for low-tier cities markets. This shortcoming may result from two possible problems.

The first problem is about the trust of local talent. Marketing is about human, customers' feelings, desires and behavioural patterns. To understand local customers' expectations, accuracy and directness in the responses to customer's needs are essential. Local talent, as they grow up in the environment and culture of the market, can bring in the knowledge about the markets to international brands that goes beyond the analytics and statistics. Thus, multinational corporations should make their efforts to engage local talent into the strategies sort-out and decision-making.

In the comparison of Brand A, C and D, their respective success and failures can be partly explained by their different attitudes towards local talent. In the cases of brand A and C, they trust local talent and engage them into management and decision-making. Whereas in the case of brand D, it is different to communicate and cooperate between European and Chinese after the trust is broken. The lack of ideas exchanges, mutual comprehension and support certainly hindered the brand D's comprehension of Chinese markets and positioning accuracy.

The second problem comes from the bureaucracy in marketing management of MNCs. Big multinationals usually have large corporate structures and clear divisions, which makes the approval process long and complex. Even though

most headquarters have granted more flexibility to their Chinese branches, the long process and its complexity still prevent high efficiency in operations. Take the cases of brand B and C as examples. Brand B encountered difficulties that may hinder the business process on both the manufacturer and the dealer side. On one side, the sluggish response of European manufacturers decelerates the timeliness that dealers can receive products and thus slow down the response to customers' needs. On the other side, it is hard for dealers to make accurate estimations and orders six-months in advance as Brand B has demanded. As in the case of brand C, the approval process of marketing decisions and products launch-outs has to go through both in China and in US headquarter offices. It requires an accurate perception of customers' needs and a pertinent proposal submitted up to years in advance, which is pretty difficult. Whereas their Chinese competitors can complete the whole process and let products go out to markets in four months. These huge differences set up barriers to MNCs in operations.

### **5.1.2 Competition with Chinese local brands**

Unlike it was decades ago, now the competition between international brands and Chinese local brands is fierce. Most of Chinese local brands grew up in the markets where international brands didn't reach out before and now and then spread with rapidly growing popularity to the markets where international brands used to have advantages.

In order to win the competition, it requires a pertinent recognition of strengths of both multinationals and Chinese local brands. Multinationals may have comparatively advanced marketing techniques, in both research and marketing. MNCs also usually have long-term experience in exploring markets. Also, they may have a better brand awareness among customers in developed cities. Customers who believe in a positive connection between brand awareness and product quality may demonstrate a preference when purchasing products. Whereas Chinese local brands may have a better sensitivity to customers' needs, as they may understand better the local consumer behaviours. What's more, Chinese local brands may have a better cost-efficiency, with smaller operation

structure and lower transaction cost in information and operations. The third advantage would be a better recruitment of local sales and marketing talent.

As the competition becomes increasingly fierce, to employ the method of cost-saving is not enough for a durable development. In the Chinese markets, whether be in high-tier cities or low-tier cities, it requires companies and brands to continuously sort out really pertinent concepts and products to occupy the market share. Although the demand in the first-tier cities may grow stagnant while low-tier cities markets are booming, innovations in both product design and marketing concepts are always the most essential way a brand can distinguish itself from its competitors.

### **5.1.3 Reliance on DMCs in low-tier cities' penetration**

In many cases of this research, multinational companies chose to rely on the DMCs for their low-tier cities penetrations. There are some reasons to support this decision. In the case of brand A, by separating the canning and distribution to bottlers, it could concentrate its efforts on the marketing and brand management. As with brand B, Chinese dealers could offer better sales services with their local sales expertise. But the reliance on DMCs can, at the same time, create problems. For example, in the case of brand C, its reliance on the DMCs has created pricing confusion and promotion inefficiency. It is clear MNCs need to cooperate with the DMCs to explore the low-tier markets. But it is inappropriate if brands and companies decide to rely on the DMCs to realize their market penetration.

Giving too much power to DMCs in the market penetrations may lead to unhealthy development. Brands may lose control in pricing and marketing execution. Brands should never forget that DMCs are middlemen open to all the brands and products if the cooperation can bring them large profits. A grow-together-plan might sound promising and convincing for both brands and DMCs in the short-term and it permits quick development. But in the long-term, DMCs can open their business to anyone that can bring them best profits. So brands,

should consider one step forward -- how to let this grow-together-plan swiftly develop, to confirm, long term, their standpoint in this cooperation. Or, brands should be prepared to overcome the possible interruption of short-term cooperation and seek out a way for their own durable development.

#### **5.1.4 Merger & Acquisition in Chinese markets**

To make up for shortcomings in Chinese markets and expand its business, many international brands chose to do mergers and acquisition (M&A). Although not all M&As in Chinese markets would encounter similar problems, practitioners can learn from experiences and discuss the possible difficulties.

In the case of brand A, it came up with a Taiwanese brand to profit from its established bottler and distribution network.. In the case of brand D, it was firstly set up by a Hong Kong company and then bought by a European company for its market share in low-tier cities. MNCs wanted a complement of product line in the low-tier cities. But a recent failure of moving up to premium brands demonstrated its confusion in the brand positioning. This might come from a lack of consistency in the objective of M&A or an insufficiency in considerations over positioning and branding.

It is also possible that some M&As aim to swallow the market share and eliminate competitors. In these cases, no matter what objectives there are, it is suggested that brands and companies bear in mind the reasons why they are conducting the M&A,

Another difficulty with M&A is about the cultural difference between the Chinese management team and foreign management team. The Chinese way of management may not be professional. Frequently it is seen in the Chinese teams that management operates according to Chinese social wisdom or the traditional Chinese code of conduct. This is established by human feelings and mutual comprehensions under the Chinese culture. While in the multinational companies, operations and management follow a set of principles and incentive measures. Both managers and employees should accept and obey the guidelines

with no exceptions. Conflicts may come when multinational companies merge with Chinese ones as employees have not yet accustomed to the multinational companies' standardized conduct.

### **5.1.5 Long-term reputation and durable development perspective**

Chinese markets are still booming. As China is big, companies can expect up to 10 years economic growth combined with Chinese urbanization and industrialization. What's more, in Chinese culture, people believe in the long-term reputation and put great emphasis on trust. This requires MNCs to build up and maintain a positive reputation in China. So the present problem is how to achieve a sustainable growth pattern in the long run.

While some companies perform good crisis management in other countries, they have unfortunately omitted its importance in China. In the case of brand B, in March 2013, a Chinese influential media reported recalls of certain models with possible design problems in Mainland China compared to its recalls in Taiwan and other markets. MNCs should know that Chinese culture emphasizes social image. And once Chinese customers' impression and recognition go bad, it might be difficult to change and improve it. Brands and companies should both be quick and efficient to react to a negative incident and be prudent in the long-term about brand construction and maintenance.

The durable development focuses on the sustainability and healthy development. It should be pointed out that some companies in China are dazzled by the short-term large profit margin while forgetting about long-term development. In case D, they hadn't provided coaching and training yet for the DMCs as brand C had done. Brands should be cautious that they do sacrifice long-term large profits for the short-term smaller ones.

## **5.2 Modified conceptual frameworks for marketing managers in high-tier cities and low-tier cities**

### **5.2.1 Modified conceptual framework for high-tier cities**

There are generally three challenges for MNCs brands in developed cities. The first challenge is to do the differentiation. Customers in the developed cities may have too many similar products to choose from and it is difficult to catch and maintain their attention is difficult to on one particular product. So knowing how to distinguish from competitors and how to continuously refresh the brand image and recall and maintain customers' attention is the key to success. The second challenge is about the distribution channel. When other efforts are maximized, the problem is how to occupy most advantageous distribution channels to be most optimally exposed to customers. Almost all the brands are compete to snatch the distribution channels for example, the counters in a popular shopping mall, distribution outlets and specified store chains. Meanwhile, these distribution channels are charging higher and higher entry fees, which, in turn, increase the profit burden. The third challenge is the pressure from premium brands. Customers in the developed cities are becoming more cautious about their living conditions and more willing to pay higher prices to get better products. This motivates luxury premium product consumption while leaving the public goods unable to compete with.

The researcher modified the conceptual framework from what she has learnt during this research for managers in developed cities. She maintained the factors that influence in developed cities, added in those that she found important but not mentioned in literature and subtracted the factors she felt were of little importance and that did not lead to any conclusions.

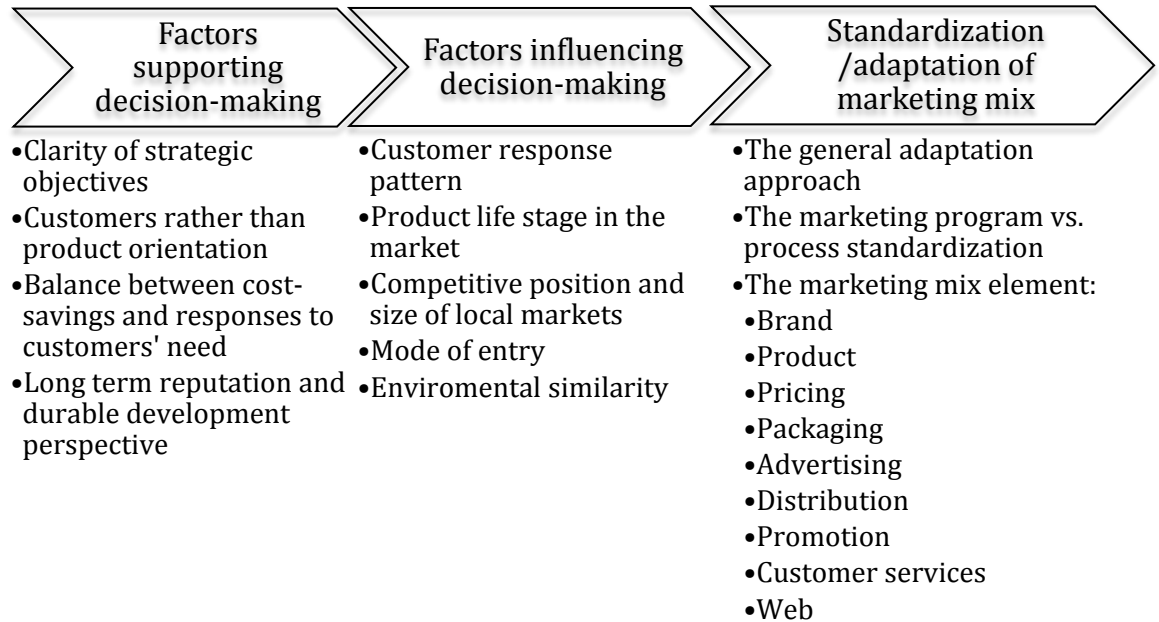
The researcher took the following steps to reorganize the conceptual framework:

- 1) Add the factors of "Balance between cost-savings and responses to customers' needs", and "Long-term reputation and durable development perspective" in the part of the factors supporting strategic choices regarding marketing mix standardization.
- 2) Exclude the factors of "origin of parent company ", "Degree of centralization of decision-making" and "International experience of parent company" from the conceptual framework, as this research fails to confirm their influences.
- 3) List the factors in descending importance according to the frequencies that



they have been mentioned in interviews.

Figure 4: Modified conceptual framework for markets in high tier cities



### 5.2.2 Modified conceptual framework for low-tier cities

In low-tier cities, there are also mainly three challenges when multinational companies come to low-tier cities markets. The first is how to adapt to the less developed cities, to be compatible with customers' value and response patterns there. Brands should consider different urbanization degrees and a stronger Chinese traditional culture's influence. The second challenge lies in the distribution. China has a large geographic dimension and the less developed cities of third and fourth tier are mostly less populated and are far from the developed cities. It is important to sort out how to reach these markets with efficiency. The third challenge is the competition with local Chinese brands. Customers in less developed cities are generally more price-sensitive and their consumption behaviours are different from those in developed cities, which require multinational corporations to adapt their marketing strategies and executions.

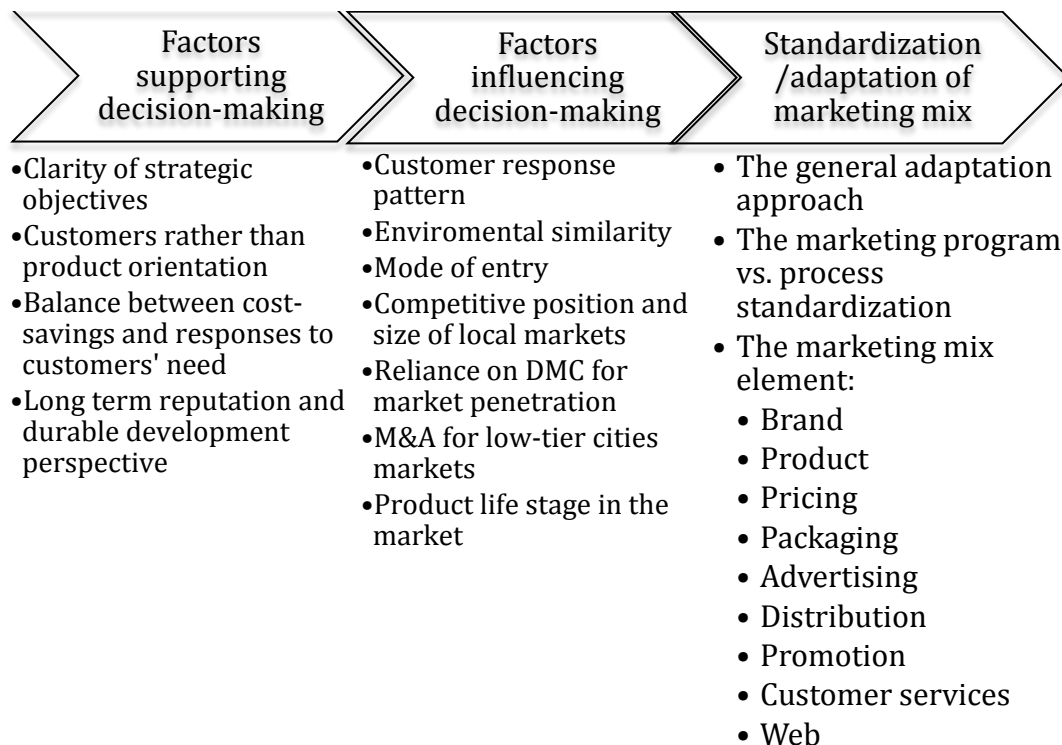
The researcher modified the conceptual framework from what she has learnt for less developed cities. She maintained the factors that influence in these less developed cities, added in those that she found important but not mentioned in

literature and subtracted the factors she felt were of little importance and that did not lead to any conclusions.

The researcher took the following steps to refine the conceptual framework:

- 1) Add the factors of “Balance between cost-savings and responses to customers’ needs”, “Long-term reputation and durable development perspective” in the part of factors supporting strategic choices regarding marketing mix standardization.
- 2) Add the factors of “Reliance on the DMC for market penetration” “M&A for low-tier cities markets” in the part of factors influencing marketing mix standardization.
- 3) Exclude the factors of “origin of parent company”, “Degree of centralization of decision-making” and “International experience of parent company” from the conceptual framework, as this research fails to confirm their influences.
- 4) List the factors in descending importance according to the frequencies that they have been mentioned in interviews.

**Figure 5: Modified conceptual framework for markets in low-tier cities**



### 5.3 Discussion on differences between modified conceptual frameworks

### **for developed cities and less developed cities**

The discussion dedicates to discuss the differences between the modified conceptual frameworks for developed cities (figure 4) and for less developed cities (figure 5).

Four factors supporting decision-making are critical for both developed cities and less developed cities. They start from the clarity of the objectives, to customer orientation, and then discuss the balance between cost saving and orientation. Finally, they urge MNCs to adopt a long-term durable development perspective and reputation.

The different influences of these four factors in developed cities and less developed cities would come from the different objectives and emphasize customer orientation. While MNCs invest in product variety in developed cities, they invest in distribution and infrastructure construction in less developed cities. The long-term perspective and reputation are important to consider for both markets.

As regards to factors influencing decision-making, the importance sequence would be different. For developed markets, the sequence is customer response pattern, product life stage, competition position and local market size, and environmental similarity, while mode of entry is more influential for management rather than for marketing.

In low-tier cities, the factors are different and so are their influences. It remains important to understand customer response pattern, competition position and local market size. Here MNCs should pay more attention to environmental similarity and mode of entry than they do in first tier cities. Particularly, for less developed cities, the researcher has included, within the conceptual framework, the additional factors of reliance on DMCs for market penetration and M&A to better define the possible distribution problems. Lastly, product life stage in low-tier cities is influenced by its life stage in developed cities.

The general approaches are the same in developed and less developed cities. MNCs should all consider 'a middle of the road', to standardize some elements while adapting others. They should also adopt a standardization combination of marketing program and process to benefit from the synergy.

Marketing mix elements standardization and adaptation varies depending on the situation. Brand is mostly standardized across all cities, while product is standardized in high-tier cities but more adapted in low-tier cities. Pricing, packaging, distribution and promotion are standardized in first-tier cities and highly adapted in low-tier cities. As for advertising, it is the most adapted marketing mix element. Customer and web marketing are generally standardized across cities, but MNCs provide more variety in developed cities than in less developed cities.

## **CHAPTER 6. CONCLUSION**

The conclusion presents the theoretical contribution, managerial implications, limitations of this study and avenues for future research.

### **6.1 Theoretical contribution**

This research explored if the inter-cities perspective is needed to decide whether to standardize or adapt when MNCs comes to a country with different markets.

Firstly, from the exploration, this research demonstrates that it is academically critical to observe a special caution about market research on the inter-cities perspective. Especially in countries such as China, this research can provide some recommendations for MNCs in their market development there.

Secondly, this research contributes to marketing adaptation as it explores that a market's urbanization degree can influence the decision-making. In this research, cases and examples from markets in developed cities and less developed cities demonstrated that it is necessary to take a market's urbanization degree into consideration. Since no previous academic research has explored the possible connections between urbanization degree and market adaptation, this research helps to shed light on its significance.

Thirdly, the researcher explored the different effects of the supporting and influencing factors in the decision-making and tactical strategies of marketing mix elements. For those factors that the researcher could not draw a conclusion from, she presented her reasons.

Lastly, this research reveals some other factors that are needed to be taken into consideration when deciding whether to standardize or adapt. These factors include competition, M&A and DMC channels. The research hopes to drive academic attention to these factors for their importance in the decision-making.

## **6.2 Managerial implications**

### **6.2.1 Recommendations to managers**

For corporations, the decision of marketing standardization or adaptation comes from a balance between cost savings and responses to consumers' need. But subtle tactics that keep changing without a persistent core value may lead to a lack of consistency. In fact, no matter the culture, consumers share an appreciation of some qualities and virtues, for example happiness, family, pursuit of excellence, challenge to the impossibilities, and beauty beyond ages. The researcher thus proposes an international branding that is adaptable to a Chinese context using Chinese images. This would be a good compromise. Brand A demonstrates this. Its value proposition of 'youth and challenge to impossibilities' has been implemented throughout the whole marketing program. Brand A also chose pertinent Chinese celebrities to endorse it, thus providing a Chinese interpretation of the core value proposition to bring up Chinese customers' synesthesia.

Regarding competition and long-term sustainable development, MNCs should cater to the more detailed needs of Chinese customers and provide better customer services in order to distinguish themselves from their competitors. On the one hand, one suggestion is to go further in using market research to study market differences and the customer services. The successful brands have perfectly demonstrated the importance of market research. Especially in the case of brand C, it embraces the era of big data and web marketing, which, in turn, does bring excess profits. To make full use of data mining and market research in China can contribute to its success whether in high or low-tier cities. These methods should have referential significance.

On the other hand, multinational brands need to create better plans for further development. The first suggestion is to propose that headquarters not be too conservative in giving permission for launching new products. It demands an established strategy for a trial process in the market, such as defining how long a brand can offer for a trial period or how much it can invest for a trial. Meanwhile, brands and companies should be able to afford failures. The success

of a product can happen but may not happen each time. The accuracy and efficiency in the response to customers' needs are trained to the long-term process. And it is through both successes and failures that companies can deepen their comprehension of Chinese markets. This means 'no trial, no gains'.

The second suggestion comes in the local trust and pertinent employee education. For management, it is great value to build up the local trust and include local talents input into the decision-making, to benefit from their rich comprehension of local markets. Meanwhile, it is also important to educate the local employees of the MNCs' value and management philosophy, especially for the M&As. By setting up training for employees and establishing an internal branding, employees can better comprehend the strategies' proposition. Employee training can also promote and facilitate an efficient communication mutually, and then help MNCs to become more effective in decision-making and execution.

Last, the researcher perceives that for international brands in China, penetrating to low-tier cities is a great opportunity to learn, in depth, about the Chinese markets. The experiences accumulated in execution can bring precious comprehension of Chinese customers and society. This knowledge is of tremendous value, something that cannot be gained through granting reliance on DMCs. The practical application of this information may require a considerable long-term investment to grow and build up a company's own marketing and sales networks. Nevertheless, it would contribute to establish a firm's market share and management independence, which would help it realize durable and healthy development.

### **6.2.2 Recommended decision-making process for markets in developed cities**

Based on the modified conceptual framework (figure 4) for developed markets and recommendations given above, the researcher outlines a thorough recommended decision-making process for managers.

Table 15. Recommended decision-making process for high-tier cities developed markets of China

Step 1	(1)	Establish clarity of objectives
	(2)	Set up customer-orientation and cater to customers' expectations
	(3)	Determine the balance between cost-saving and response to customers' need
	(4)	Build and maintain positive reputation and conducts with durable development perspective
Step 2	(5)	Pay extreme attention to customers: customers' response pattern and product life stage in the market
	(6)	Analyze the competitive position and size of local markets: competitions from Premium brands, other international brands and Chinese local brands
	(7)	Consider over entry mode, environmental similarity and origin country of parent company
Step 3	(8)	Define the overall standardization approach, marketing program and process
	(9)	With Market environment and available resources permitted, consider a positive combination of marketing program and process to maximize the efficiency of operation cost
	(10)	Specify each marketing elements' standardization: brand, product, pricing, packaging, Advertising, distribution, promotion, customer services, web marketing



### 6.2.3 Recommended decision making process for markets in less developed cities

Based on the modified conceptual framework for less developed cities (figure 5) and recommendations given above, the researcher outlines a thorough recommended decision-making process for managers.

Table 16: A list of recommendations for marketing standardization or adaptation decision-making in low-tier cities markets in China

Step 1	(1)	Establish a clarity of objectives
	(2)	Set up customer-orientation and cater to customers' expectations
	(3)	Determine the balance between cost-saving and response to customers' need
	(4)	Build and maintain positive reputation and conducts with durable development perspective
Step 2	(5)	Pay extreme attention to customers' response pattern
	(6)	Consider market conditions: environmental similarity, mode of entry
	(7)	Analyze the competitive position and size of local markets: Other international brands and Chinese local brands
	(8)	Think over the reliance on DMC for market penetration and M&As for low-tier cities markets, be prudent on their possible effects
	(9)	Assess influences of the product life stage in the market and origin country of parent company
Step 3	(10)	Define the overall standardization approach, marketing program and process
	(11)	With Market environment and available resources permitted, consider a positive combination of marketing program and process to maximize the efficiency of operation cost
	(12)	Specify marketing element's standardization or adaptation: brand, product, pricing, packaging, advertising, distribution, promotions, customer services, web marketing

### **6.3 Limitation of the study**

Despite the fact that everything has been done to minimize the bias throughout the research process, limitations of this research have to be identified for the purpose of transparency.

#### **6.3.1 Data collection**

The first limitation of this research concerns the data collection. The researcher has selected brands based on her available resources and preferences. This non-random sampling method can be considered as a limitation since the researcher has used her personal contacts to approach brands and recruit interviewees. However, the repetition in the responses, cases studies and cross-cases comparisons provide a good level of confidence in the results.

What's more, this research is an exploratory study to pinpoint insights. The limit of this kind of research lies in the fact that there is no field analysis or quantitative analysis to confirm the results. It will be interesting to conduct further studies with a larger number of samples and convey a quantitative analysis to help approve the results. But, the insightfulness and authenticity of this research are assured by the rigid qualitative research method and pertinent participation of interviewees who are national senior level managers in marketing department of multinationals in China.

#### **6.3.2 Product categories**

In the original plan, the researcher hoped to conduct case studies with one brand in four product categories of food and beverage, automobile, beauty products and luxury products. It turned out that the researcher had approached to brands in food and beverage, automobile and beauty product but failed to get connected with brands in luxury products. It would be interesting to have conducted a case for a luxury brand, as to further diversify the cases studies and provide a broader coverage in the research.

## **6.4 Avenues for future research**

This research presents an exploratory study in multiple levels, both on theoretical and managerial levels. The exploration of the marketing adaptation study combined with urbanization degrees allows a more comprehensive and refined understanding of marketing in China that has only been touched upon in this paper. Based on the results, a number of interesting avenues for future research have been revealed.

### **6.4.1 Study context**

It will be interesting to conduct studies on the marketing adaptation in a longitudinal context. This research is conducted from the perspective of corporations, to consider the decision-making. Corporations generally assume that consumers will appreciate the adaptation as a way to add value for consumers. It will be interesting to bring in the concept of consumer behaviour and study and conduct research to reveal how the degree of urbanization influences consumer behaviours and how consumers react to the marketing adaptation strategies. This will be a great way for companies and brands to learn about how to distinguish themselves from their competitors.

Another interesting domain revealed by this research relates to distribution. Distribution channels are the most valuable resources for a brand in the Chinese markets. How to occupy an advantageous channel and establish a long-term prosperous position is the key to success. For international brands may still experience some difficulties: for example, how to build up a healthy relationship with Chinese local DMCs', and when and to what extent should a brand grow on its own in China, or when to seek for local partnership and acquisition.

### **6.4.2 Adaptation strategies**

To adapt to some specific markets, for example to some Chinese markets, companies may have several choices: the first one is to create a new brand; the second one is to acquire one brand that has already established with certain advantages in the markets; the third is to adapt marketing strategies of an

existing brand. These three choices all have their advantages and disadvantages and thus create confusion and difficulty for corporations when making decisions.

As it has been revealed in this research, multinational companies that want to acquire Chinese local brands for low-tier cities penetration have to be aware of four tactics: 1) to smooth out possible conflicts that arise from culture and management differences, 2) to strategically position the acquired brand in their brand line structure, 3) to execute successful marketing transition and improvement after the brand is acquired and 4) to update objectives as the market conditions change. It will be interesting if there can be some future studies to discuss and help clarify how to make smart decisions when companies expand their business to less developed cities without neglect any importance of their durable success in developed cities.

## **APPENDIX I Interview guide used in case studies**

Part 1: the overall standardization/adaptation approach

1. What is general approach of marketing adaptation in your city? (Standardization, clustering/regionalization, middle of the road, adaptation etc.)
2. Does the degree of urbanization in your city influence the decision-making? If yes, how does it influence?  
Other factors combined with the degree of urbanization in influencing this decision-making?
3. How do you reach the decision?

Part 2: marketing program or process

4. You have decided to standardize/adapt marketing program or process?
5. What drives you to reach such a decision?
6. Do you perceive the influence of the degree of urbanization in this decision-making? If yes, how does it influence?  
Other factors combined with the degree of urbanization in influencing this decision-making?

Part 3: Marketing mix elements

7. What are the strategies of marketing mix element management in your city? How do you adapt the headquarters' guidelines to your city's condition? Pricing? Brand? product? Packaging? Advertising? Sales, distribution & promotion? Customer services? Web?

Marketing mix elements	Headquarters' guidelines	Adaptations to your city
Brand		
Product		
Pricing		
Packaging		
Advertising		
Sales		

Chanel: Communication chanel Distribution chanel Services chanel		
Supply chain		
Promotion		
Customer services		
Web marketing		
Mobile marketing		

Part 4: factors influencing marketing mix standardization

8. What are the factors that you have taken into considerations when deciding the marketing mix standardization?

How do you perceive these factors proposed? Other factors? How does the degree of urbanization influence the decision-making?

Why you made such decisions?

Factors	How do you perceive these factors and their influences	The affects of urbanization degree in the decision-making for your city
Customer response pattern		
Market similarity		
Product life cycle in the market		
Competitive position and size of local markets		
Mode of entry		
Country of origin of parent company		
Degree of centralization in decision-making		

International experience of parent company		
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9. Other factors combined with the degree of urbanization in influencing the decision-making?

Part 4: factors supporting strategic choices regarding marketing mix standardization

10. What supporting factors influence your decision-making? How do you perceive these factors proposed? Other factors?

How does the degree of urbanization influence the decision-making? Why you made such decisions?

Factors	How do you perceive these factors and their influences	The effects of urbanization degree in your city on the decision-making
Clarity of strategic objectives		
Customer rather than product orientation		

12. Other factors combined with the degree of urbanization in influencing this decision-making?

Part 5: Review and conclusion

13. Review the previous parts. What is your general philosophy facing the degree of urbanization in marketing decision-making?

14. How do you perceive the tendency in China of city urbanization for your brand and company's development? Opportunities and threats?

15. The importance of market analysis concerning urbanization degree and its influence for your brand and company? According to you, how should it be positioned in strategy elaboration and planning?

## **APPENDIX II. List of Third-tier Cities in Continental China**

### Northern

Province	Cities
Liaoning	Jinzhou, Liaoyang, Panjin, Tieling, Yingkou,
Jilin	Liaoyun, Siping, Songyuan, Tonghua
Heilongjiang	Jixi, Mudanjiang, Qiqihaer, Qitaihe, Shuangyashan, Suihua, Yichun

### Central North

Province	Cities
Hebei	Fangzhou, Qinhuangdao, Tangshan, Zhangjiakou
Shanxi	Jincheng, Jinzhong, Linfen, Luliang, Shuozhou, Yangquan

### Eastern

Jiangsu	Lianyungang, Nantong, Suqian, Suzhou, Wuxi, Xuzhou, Yancheng, Yangzhou, Zhenjiang
Zhejiang	Jinhua, Lishui, Ningbo, Quzhou, Shaoxing, Taizhou, Wenzhou, Zhoushan
Anhui	Liuan, Maanshan, Suzhou, Tongling, Wuhu, Xuancheng
Fujian	Longyan, Nanping, Ningde, Putian, Quanzhou, Shanming, Xiamen, Zhangzhou
Jiangxi	Jingdezhen, Jiujiang, Pingxiang, Shangrao, Xinyu, Yingtan,
Shandong	Jining, Laiwu, Liaocheng, Linyi, Rizhao, Weifang, Weihai, Yantai, Zaozhuang, Zibo



### Central South

Henan	Kaifeng, Luohe, Luoyang, Nanyang, Pingdingshan, Puyan, Shanmenxia, Shangqiu, Xinxiang, Xinyang, Xuchang, Zhoukou, Zhumadian,
Hubei	Jinmen, Shiyan, Suizhou, Xiangfan, Xianning, Xingtai, Yichang,
Hunan	Loudi, Shaoyang, Xiangtan, Yiyang, Yongzhou, Yueyang, Zhangjiajie, Zhuzhou
Guangdong	Maoming, Meizhou, Qingyuan, Shantou, Shanwei, Shaoguan, Yangjiang, Yunfu, Zhanjiang, Zaoqing, Zhongshan, Zhuhai
Guangxi Zhuang Autonomous Region	Laibin, Liuzhou, Qinzhou, Wuzhou, Yulin,

### Southwest

Province	Cities
Sichuan	Leshan, Luzhou, Meishan, Mianyang, Nanchong, Neijiang, Panzhihua, Suining, Yaan, Yibing, Zigong, Ziyang,
Guizhou	Liupanshui, Tongren, Zunyi
Yunan	Lijiang, Qujing, Yuxi, Zhaotong

### Northwest

Shanxi	Shangluo, Tongchuan, Weinan, Xianyang, Xinzhou, Yanan, Yulin, Yuncheng
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(Resources from AC Nielson China)

### **APPENDIX III. Presentations of brand A, B, C and D**

#### **Case 1, brand A**

Brand A comes from US, a worldwide major player in the food and beverage industry. The MNC A has a long list of product lines and categories in China. With trust to local talents and ample financial support, brand A has acquired a better market awareness in China than most of its international competitors.

As people in developed cities become more and more concerned about health and low-calories food, brand A's revenue resource has shifted to low-tier cities. For its gross profit distribution, its business in low-tier cities has become most attractive, not only for the market share but also for the consumption volume, low-tier cities are the markets where best performances come from.

The marketing department of brand A has clear definitions of functions. A marketing department in the headquarter office in Shanghai is responsible for strategy and brand building while bottlers in the provinces take charge of distribution. The three functions of head office marketing department are: 1) Creating the brand team, taking care of different brands in categories; 2) Media, including for media contacts and communication; 3) Insight, about market research and strategy sort-outs. Brand A in China is outstandingly successful in obtaining celebrity endorsements and in the promoting the brand spirit "Youth and impossibilities".

#### **Case 2, brand B**

Brand B is a European brand, one of major players in middle-higher levels of automobile industry in China. Brand B emphasizes its value proposition of long-term development and is devoted to provide a first-class quality and service. The major business is used to be in the first-tier cities. As these markets now become mature and competition is fierce, and as the purchasing power and consumption confidence rise in low-tier cities, its goal now is to expand to third-tier cities with sales capacity, brand awareness and purchasing willingness.

The marketing department in Brand B takes charge of branding and marketing and controls marketing execution on the dealers' side. Dealers complain about the need for more adaptation to Chinese markets, from the product colour design to the deliveries. The European management culture sticks to their planning and modes while the Chinese ways of doing business are far more flexible.

Dealers also require a more rapid and accurate response to the market environment change in China. Brand B is expected to learn more about how to react to the incidents and how to respond to complaints of Chinese customers and dealers. The long term positioning of first-class quality and services is pertinent and advantageous in China. But how to realize, effectively build up and maintain this positioning is tremendously important.

### **Case 3, Brand C**

Brand C is from an American leading FMCG MNC of beauty products and personal care, which is recognized as one of the most successful MNC's brand in China. Also the Chinese market is brand C's most important and profitable market. Brand C came to China very early and succeeded in building up a highly standardized and efficient marketing process and program.

The product lines of brand C respond to different segments of customers, which facilitates the marketing adaptation in markets of different urbanization degree. The major business is still in the first tier cities, whereas it pushes DMCs to take charge of distribution and sales in less developed cities.

Recent years have reported a short lag of brand C in market penetration to Chinese low-tier cities. It responds this problem by tying up a relationship of grow-together with its DMCs, by sending marketing and sales experts to conduct market research, by offering knowledge to DMCs on planning and execution and helping each of them to build up a specified development plan. Moreover, Brand C faces problems of weakness in price control in DMC channels and fierce competition from Chinese local brands and other international competitors.

#### **Case 4, Brand D**

Brand D is a hair care product and originally built by an Asian company that has entered the Mainland China's market and established its Chinese headquarter in Wuhan in 1989. Unlike most international brands that started from first-tier cities, brand D used to have steady standpoints in second-tier and third-tier cities. During this period, brand D benefited from inexpensive sales labour, its comprehensive distribution network and an emphasis on customer-end sales, and thus created an advantageous competitive position against brands from P&G and Unilever. In 2003, a European beauty and personal care company acquired Brand D.

Brand D has offered different products to DMCs and to the supermarkets. It takes total charge of product delivery to the supermarkets while the DMCs are responsible for the distribution to remote areas. With the desire to push products to the low-tier cities, the company modified these products (designed them to be similar to the ones in high-tier cities but less expensive) and distributed them to DMCs.

From 2003 to 2008, the European company has been through accounting disputes and management culture discord with the Chinese management team in Brand D. The communications between the two different cultures have been difficult. Recently, the European management team has made a decision to build a premium product line for brand D despite the Chinese management team's disapproval. This trial turned out to be a failure.

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