Degree and Direction of Product Standardization and Adaptation for MNCs in Emerging Market

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Abstract. This paper is about the most appropriate level and direction of product standardisation and product adaptation for MNCs in emerging markets. Alternative works in this area have discussed strategy selection between these two or one-sided analysis of how to proceed, but two separate discussions established on one-sided analysis are barely seen. Hence, the method of study is a detailed analysis of individual cases based on SWOT models and data collected from surveys targeting people living in Asia, which is a major part of the emerging markets. The immediate results from the study are that LVMH's choice of products to standardise on the international market is part of what will always be universally accepted, and that the products they choose to adapt while selling to different regions are based on cultural differences and local living patterns. And, to be along with specific to the luxury industry, more innovation in the design of products rather than being classical would also be a smart choice in the future, in order to face distinct groups of consumers. In conclusion, for MNCs, product standardisation and product adaptation are equally noteworthy to the company, the degree and direction of which is the key reason for success. Standardisation is for a better brand image, and adaptation is for better sales.

Keywords: Multi-national corporations, product standardisation, product adaptation, luxury goods industry

1. Introduction

The business partners of multi-national corporations are always talking, especially from the perspective of the product adaptations they have done, as with the different flavors of pizza offered by Pizza Tant around the world. There are some more general protocols for product normalization and product adaptation. Consumers who insist product adaptation may come from the idea of local living patterns, because there are all kinds of different living habits all over the world. If any details about this product followed the living habits of the host country only, the sales volume might disappoint the managers just related the Subway in China. However, extreme product adaptation may lose some of the different cultural elements within the product of MNCs and make it look like a local one. The concerns are well acceptable but the disadvantages of it should also be taken place. Still, from the prospect of standardization of products, and for the same reason as those who insist on adaptation, a different mode of life can only benefit a few, not the many. Hence, the question I investigate is about a case analysis of a successful MNC and finding the product normalization and product adaptation they have done, in order to find what level of both moves is more appropriate for MNCs to do.

Understanding the importance of the degree of product normalization and product adaptation is important for at least two reasons. Firstly, this research could help corporations to find their guideline, which is about what part of the product should keep and which part still has some room for improvement, when it enters an unfamiliar foreign market. Also, by further distinguishing the real demand of the consumers, which is what they really need, and meet the demand as far as possible by adjusting the existing elements, such as service, design of the product, after-sale policy and activities from both sides of online and offline. Forecasting future patterns of consumer activity can also be very helpful for MNCs in the long run.

At the same time, empirical research on the field of standardization versus adaptation of products debate has been seldom seen in recent years, though, there is still some research devoted to confirming this subject was analyzed. Leonidou (1996), Thomas et al. (2010), Rao-Nicholson and

Khan (2017) also discussed the question, which is about standardisation or adaptation, and the factors which may affect the degree of adaptation [1]. However, most of them would focus on the extent of adaptation and the marketing strategies applied to achieve this, rather than the two-sided discussion of the feasibility of both standardization and adaptation, since the benefits of both are also non-negligible.

2. Case analysis of LVMH

2.1 Case description

As the development of the economies all over the world, multi-national corporations occur as the result of globalization, which aim at adding a new dimension to implementation because strategies that are based on achieving low costs often require setting up operations in other countries [2]. More specifically, as the case study used in this paper, LVMH, which is well known in the luxury goods industry, is the case study that would be used to analyse the appropriate level of product standardisation and adaptation in emerging markets. Although the luxury goods industry has existed since the 1850s, in the 1990s it can be counted as organisational and structural after a few years of changing [3]by the way of management which combined American management practice and European reverence which bring by Arnault [4]. However, as a brand built by two families of owners and from 1992 to 2001, it realised the strategy of globalisation in the 1990s at the same time [5].

Overall, the overseas business segments are Wines and spirits, Fashion and leather goods, Perfumes and cosmetics, Watches and jewellery, Selective retailing and the other activities [6]. The selling platform will be divided into two parts, online and offline. The offline business has always adhered to the traditional approach, which is about opening a number of retail stores and counters in Asia's most popular regions. Another platform, online sales, has started to develop in recent years, especially in the context of the COVID-19 pandemic, thanks to the growth of online technology and authoritative electronic online shopping platforms. For example, some of its brands have already launched e-commerce mini-programs on China's WeChat platform, and others have participated in China's Virtual Sephora Day, among others.

2.2 Different marketing strategy factors

When we focus on the emerging markets of developing countries, some firms which survive in emerging markets like China have common features like taking great care in gathering consumers' information which helps them to understand the market environment, like retailing (Itoˆ-Yoˆ kadoˆ), consumer goods (Shiseidoˆ) and automobiles (Toyota) [7]. However, market entry timing is still required, as is capacity expansion in one area. For instance, Bosch's smart choice of entering the market of Southeast Asia in 1923, which was blank at that time, made it has a presence in all ten ASEAN member nations [8].

In order to discuss whether to choose product standardization or product adaptation on different occasions for MNCs in the emerging market, first of all, we should concrete a measurement for appropriateness of the different marketing strategies applied, which could be demonstrated further by combining them to a survey targeting people who live in developing countries. This measurement would assess feasibility in four dimensions, namely firmness, consumer, industry and social or economic [9]. From a firm's perspective, the initiative campaign metric used is the number of surveys firms have conducted in the past to familiarise themselves with the markets they are involved in, as well as the actions they have taken. The content of the survey should include information about consumers and consuming trends, also the substantial planning and monitoring prior to the market entry/product launch, plus tapping into the expertise of local partners [10]. This would help MNCs better learn about the local living patterns and adapt the cultural circumstances in order to make great sales.

At the same time, the actions they take are important, and this is the most institutional way to present the results of the research they have done before. The actions they take include, but are not limited to, product adjustments, from design or price prospects; only the manner of sale was adjusted; etc. These adjusting they practiced would further help them with the performance of the brand image and sales volume.

On the other hand, the indicators of passivity movement are profit earned and sales volume, which is the most direct way to show whether it is popular and well acceptable for the public. The profits earned by them should be classified into sections according to the region, and the same measure might be applied to the volume of sales, due to the reason that there is not significantly similiarity in the financial level of different cities in Asia. As for the volume of sales, it could be further classified into a small number of categories to ensure that the measurement labels can be more accurate. The content of the sales volume includes consumer purchase rate, repurchase rate, return rate, feedback rate, introduction of new consumers and probability of membership. This detailed information will help us to further investigate the logic underlying marketing strategies.

As for the consumer angle, one thing that can be measured is the level of satisfaction with the brand, which includes design, service, advertising, events, after-sales policies, product quality and brand culture. For industry, the level of competition represents the level of activities of competitors attempting to catch the attention of consumers [11], due to the comparison between quality of the products and number of technologies [12]. And as for society or the economy, reputation and popularity can reflect its appropriateness, which can be inferred from real comments on social media or surveys.

In order to make this study more practical and constructive, it will focus on a specific instance of MNCs, which concerns product adaptation and product standardization in emerging markets. The case of Moët Hennessy Louis Vuitton, which is commonly known as LVMH, would be analyst by the SWOT model.

2.3 Strength from the side of product standardisation

2.3.1 High level of standardisation

As a brand built by two families of owners and from 1992 to 2001, snapping up many well-known companies and brands, it is focused on fashion. Also planned to realise the strategy of glocalisation in the 1990s [13], it is easy for them to take over the market in Asia during the time period that the social media are not well spread. Hence, the right timing they came would bring them a huge advantage in advertising their own brand and construct a fine brand image for people who live there. The importance of this good impression was further increased by the good sales of the time. It will eventually shift to the figure of a luxury brand for Asian people in their subconscious, after several years of advertising and events aimed at reinforcing the brand's image and reputation.

After its entry into the emerging markets, there are some measures they have done to keep their products standardised, also turning this image to their advantage for this market.

2.3.2 Inclusiveness of corporation culture

Due to the annual report of the LVMH submitted in 2020, at the very beginning of that report LVMH pointed out the contribution they made to the minorities. The Inclusion Index has expanded its scope to include all initiatives related to the LGBTI community. Some 150 initiatives relating to gender equality or the LGBTI community have thus been identified (P25) (www.annualreports.com, n.d.). A similar measure applies to women workers. It could be represented from the activity organised by LVMH and the film supported, which aim at supporting the dreams of women, by helping their voices be heard and expressing their emotions using only their gaze (P24) (www.annualreports.com, n.d.). The inclusive image they built during the recent years and culture of inclusion they spread would be a bright point they keep as a necessary part of the product standardisation, also helped them develop their own unique brand image and impression [14].

2.3.3 Concerns to human and environment

Despite the all-inclusive image they have built, as owners of well-heeled luxury brands, the kindness and spirit of giving will also be an advantage over local brands in emerging markets, most of which do not have the power to organise large-scale charities. In the emerging market, which is Asia, Sephora keeps on the “Sephora Stands” CSR program, which is about proving 500 local NGOs with financial support, involving its employees through volunteering initiatives and mobilising consumers to round up purchase amounts as a donation and buy products that raise funds for good causes (P98) (www.annualreports.com, n.d.). From a macroeconomic point of view, these activities are much closer than the others. These local friendly supports could easily obtain the favourable impressions from the consumers and earn the trust from them which would be helpful for consumption [15].

At the same time, LVMH has maintained its tradition of being environmentally friendly. For instance, the Maison reaffirmed its commitment to the environment through the highly acclaimed launch of its new 100% paper “second skin” case, which is sustainably designed and plastic-free (P53) (www.annualreports.com, n.d.). Calls for environmental friendliness are as attractive as financial support, and environmental pollution is becoming a more serious problem as industrialization increases. Hence, it is also easy to raise a lot of concerts and attention aimed at boosting sales.

In terms of product prospects, LVMH does see a trend in clothing consumption due to last year's sales volume. Hence, as for the year 2020, Celine expects a strong recovery in Asia in the second half. As a result, Maison went on to develop a womenswear ready-to-wear collection designed by Hedi Slimane, which enjoyed increasing success. In leather goods, the Triomphe line received an excellent welcome (P67) (www.annualreports.com, n.d.). The further improvement on the existing popular series is a contractual step to walk, but also with risks inside, because the feedback of consumers is uncontrollable and every improvement of the design could be the point that facing the blame of the old consumers and may even lose reputation from that.

2.4 Strength from the side of product adaptation

At the same time, from the perspective of product adaptation, there are other measurements that could be classified as some remarkable steps deep inside the emerging markets.

As covid-19 begins, LVMH is struggling to adapt to changing market conditions, which are about demand, working methods and the usual production and consumption cycles. In order to do it successfully, when some stores closure and reopen at the same time, they also adjust their communication, sales channels and supply chains in order to overcome the problems faced under the pandemic (P12) (www.annualreports.com, n.d.). The adjusts have been done from several angles while LVMH realise it in the real-life situation, which are products and ways of selling.

2.4.1 Product adjusting

In terms of product prospects, LVMH does see a trend in clothing consumption due to last year's sales volume. Hence, as for the year 2020, Celine expects a strong recovery in Asia in the second half. As a result, Maison went on to develop a womenswear ready-to-wear collection designed by Hedi Slimane, which enjoyed increasing success. In leather goods, the Triomphe line received an excellent welcome (P67) (www.annualreports.com, n.d.). The further improvement on the existing popular series is a contractual step to walk, but also with risks inside, because the feedback of consumers is uncontrollable and every improvement of the design could be the point that facing the blame of the old consumers and may even lose reputation from that. However, the conservative regular design could always earn the sales but without innovation inside, which may lose potential new consumers.

2.4.2 Ways of selling

After the slowdown in demand observed at the beginning of the year due to the pandemic and the timing of the Chinese New Year, China showed very encouraging signs of a rebound in the second half, mainly driven by the Maison’s X.O quality and sales to consumers, both online and in stores. Hennessy strengthened ties with its customers by opening new points of sale, such as “BLENDS by Hennessy”, a concept bar on the Bund in Shanghai and a store in Sanya on the island of Hainan (P54) (www.annualreports.com, n.d.). At the same time of the strong recovery beginning in April, Louis Vuitton began to improve consumer relations by efficient digital service (P63) (www.annualreports.com, n.d.) and Celine also launched the e-commerce mini-program on the WeChat platform in China (P67) (www.annualreports.com, n.d.). The actions about online platforms are not a step to that, Sephora connected with more than one million people on social media on China's Virtual Sephora Day and the "11/11" day (P100-101) (www.annualreports.com, n.d.). The multi-selling approach has the potential to boost sales volumes and ensure that losses from the pandemic can be minimised simultaneously. Also, by capturing the statements of people who were bored and anxious when they were quarantined inside their homes due to coronavirus. Stimulating consumption is not a hard thing, only providing information and advertisement on the internet could easily do that and cover the cost during the time of strike.

2.5 Analysis of its weaknesses

Due to uncontrollable variables during a pandemic, such as the state of the situation, there are some problems that cannot be predicted. Some of the operations belonging to LVMH are directly linked to people's social life and tourism, in particular, were hit by the closure of restaurants, bars and hotels in many countries, and by the sudden drop in airport passenger traffic (P12) (www.annualreports.com, n.d.). The reason why it is almost impossible for LVMH to avoid these crises is that they did not anticipate some of the scenarios they might face and prepare contingency plans for them in the midst of such a severe pandemic. Thus, checking for bias and thinking tunneling is also essential for the day-to-day work of multi-national corporations. It may allow them to bring the Black Swan closer to the known unknowns rather than the unknowns and minimise the loss.

2.5.1 Lack of consumers' advice

As the annual report of LVMH shown, the total revenue earned last year was 44.7 bn euros, which is a 17% decrease compared with last year, and Asia (excl. Japan) even occupied 34% of them. Thus, Asia, which is also a developing country, is the largest consumer group compared to other regions. Evan China performed well during this process, as can be demonstrated by the following diagram:

Thus, consumers in Asia are not negligible and may enjoy more benefits as for the No.1 consumer group in the world. When it comes to the reality, the facts may not always come from the theory. The data from the survey that I made, which used to investigate the degree of satisfaction of consumers, and represented by the score they marked on each category. As the graph shown above, the average score they made is about 3.58, which is at the middle level. The lowest score is activity, then comes to service and after-sale policy, which are 3.205, 3.475 and 3.535 respectively. This data indicates the fact that the general service of LVMH in Asia is not always satisfied, but there is also some space for improvement. At the same time, the existing of this phenomenon again discover another issue, which is lacking of suggestions from the consumers and investigations about that. The brand image is inportant but also the service they done, because service is the only way that consumers feel the brand image of a luxury brand.

2.5.2 Limitation of the target consumers

This is the news spread in 2020 about the 'non-revenue consumer base' defined by LVMH for people with annual income below 3 million yuan. The original purpose of the classification may have been to target the major consumers to avoid the problem of waste of labor. It might be a practical measurement in other regions, but as for the instance about China, the practicability of this may decrease. As shown in the graph, also take the population and social circumstances of China into consideration, the majority is still focused on the middle class, and the growth of the middle class, is the major factor which boosts the growth of the luxury market as the Mainland China personal luxury market increases 48% compared with the year 2019. As a result, the major target consumers that LVMH has settled on are still up in the air, especially given the rapid growth in China, where the phenomenon is likely to play out even more violently. Hence the wasting of the potential consumer group is another problem waiting to be solved.

2.6 Analysis of Opportunity and Threats

2.6.1 Lack of famous retail stores

As the economy recovers after the brief closure of the service sector, another problem has emerged, namely the absence of well-known representative retail stores with local brands. At the same time, the policy that Sephora has developed regarding expansion is definitely a smart choice to make. As the demonstration above, the product standardisation from the prospect of environmental friendliness, inclusion, and humanity are all the points of competitiveness of Sephora compared with the local retail market.

2.6.2 Different consumption view of the young

However, the conservative regular design could always earn the sales but without innovation inside, which may lose potential new consumers. However, as for the emerging market, the young would be the target consumers of the luxury brand whenever. As shown in the data, the Gen Z, which is the younger generation, put much more focus on fashion and design rather than pursuing the classical brands. Hence, the classical luxury title might be less appealing to Generation Z, which is also the problem with classical brands that lack elaborate design and only have a logo on them. As a result, this has the potential to become a challenge for luxury brands in the future, and need for organisational innovation taken place on the future, as well as increasing competition with new designer and local retail established brands, as demonstrated by the data collected in the following survey.

3. Literature References

As in the analysis in the first question, the conclusion of the campaign on product standardisation done by LVMH is that it is inclusive, humane and environmentally friendly. It is not difficult, therefore, to see that the elements which remain in the standard are general conceptions, which may easily be accepted by all sorts of people, and announce the message of moral rectitude. Thus, it is important for the element standardised to be general accepted and have no correlation with the regional issue. From the prospect of product adaptation, the product and ways of selling are two typical examples of them. In order to satisfy consumers in emerging markets, there are certain ways of adhering to local life activities that should be adjusted, such as the way of selling. At the same time, the importance of the product launched meets the demand of the local market and confirmed by the consumption trend in the past few years.

In addition, from a microscopic point of view, there are some imperfections in the details that LVMH has done, e.g. the lack of consumer advice and the loss of potential consumers through the segmentation of targeted consumers. The first mistake is easily made by MNCs because they have to deal with business all over the world. The demand and feedback from only one country is not enough for them to pay attention to, but as for the instance of China, the demand is not negligible due to the sales volume it contributed. Hence, it could be seen as one suggestion towards LVMH, but as for problem two, biases might be the factor leading to this problem, which could be shown as a warning to all the other MNCs. Sales volume is important in the current situation, but long-term vision is just as important, or perhaps more so. Due to the reason that the young are in the direction of the future and the overall trend should supply what they want and satisfy them.

4. Conclusion

As for the discussion on the appropriate level of product standardisation and product adaptation for multi-national corporations in emerging markets, most of the attention has been focused on how to find a balance between product standardisation and product adaptation, and the degree to which these measures can lead to overall different outcomes, because it is essential to the success of the marketing. Thus, due to the analysis of the above three problems, their results are contributing to the improvement of the current applied measurements, and perhaps the MNCs could find some inspiration from the measurements done by other MNCs such as LVMH. From the side of product standardization, the most important idea, and the reason why it was chosen to standardize it, is generally accepted. It may refer to any political right or moral right, which is the safest way to do it, but it must be understood and supported by the majority of the world. As for the product adaptation side, it can be flexibly adjusted region by region, with reference to their daily activity patterns, and well-studied before launching it. MNCs better do the survey or local research carefully before any movements, because any mistakes made on details may lead to totally different outcomes, which is also essential from the micro view. MNCs always make mistakes in relationships with consumers and do not take the needs of the consumers very well. Thus, doing the research or going through the feedback received over a certain particular period of time would be much helpful to satisfy the demand of consumers and reward the better reputation.

This research fills the blanks about two sides of discussion, which is about product standardization and product adaptation at the same time in recent years. It also highlights the importance of both standardization and adaptation, which aim to make MNCs think in a realistic way, rather than assuming variables that are impossible to do in real-life situations. The scope of this research is only based on single case analysis, but in the future the comparison between MNCs and finding out the patterns of product standardization and adaptation is also important to learn. Still, to return to the real-life situation, from the perspective of product, how MNCs choose between standardization or adaptation becomes another serious question. I would choose to use a case analysis of LVMH in 2020 as a typical example, by analysing its annual report with the effects of covid-19 in-house, as this will always be a problem for us in the future. In order to get more information from the consumer's perspective, I also constructed a survey in order to receive real comments from consumers and make discussions referring to them.

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