A Perspective of Global Marketing Strategy
-Paradigm Shift from Standardization／Adaptation to Market Orientation-

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# A Perspective of Global Marketing Strategy:

## Paradigm Shift from Standardization/Adaptation to Market Orientation

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**Abstract**

Various research approaches have been taken to examine global marketing strategies. Among those approaches, the classic standardization/adaptation paradigm is still being discussed. This paper tries to show ideas for taking this classic paradigm in new directions. This is because, despite the half-century of discussions on the standardization/adaptation paradigms that influence the marketing polices in the global market, academics still cannot show a clear connection between the classic paradigm and marketing success. Using the decline of Japan's home appliance market share globally, this paper reimagines it using the concept of market orientation.

**Introduction**

The sales of Japanese home appliances, which dominated the global market in the 1990s, have been declining. (cf. Table 1) With one look at international sales as seen at Tables 2 to 4, one can easily see that Korean and Chinese companies are rapidly gaining strength and eating into the market share of Japanese manufacturers. However, when we look at Japanese car sales, we see a different story. Japanese car sales are still holding their dominance in the global market. The consumer appliance industry is rapidly losing its competitive edge, but the automobile industry remains competitive. How can we explain this dichotomy? It is easy to dismiss this question on the grounds that home appliances and automobiles have completely different product attributes. However, questions remain unanswered, not only for researchers, but also for consumers.

Table 1 World Share of Japanese Prodcuts

| | 1985 | 2003 |
|---|---|---|
| Microwave | 65% | 28% |
| VTR | 83% | 33% |
| TV | 47% | 34% |

Source: MITI Industrial Structure Council

Table 2 World Market Share (2020): TV Sets

| | | |
|---|---|---|
| 1 | Samsung | Korea |
| 2 | LG | Korea |
| 3 | SONY | Japan |
| 4 | Hisense | China |
| 5 | TCL | China |

Source: technabio blog/Largest TV Manufacturers in the World by Market Share 2020

Table 3 World Market Share (2020): Refrigerators

| | | |
|---|---|---|
| 1 | Haier | China |
| 2 | Whirlpool | US |
| 3 | Electrolux | Sweden |
| 4 | LG | Korea |
| 5 | Samsung | Korea |

Source: PIECE OF JAPAN/Market share of refrigerator

Table 4 World Market Share (2020): Washing Machines

| | | |
|---|---|---|
| 1 | Haier | China |
| 2 | Whirlpool | US |
| 3 | Midea | China |
| 4 | LG | Korea |
| 5 | Electrolux | Sweden |

Source: PIECE OF JAPAN/Market share of washing machine

In fact, looking only at the Japanese domestic market, Japanese home appliances, or more accurately, Japanese branded home appliances, have maintained their dominance in the Japanese domestic market. If we look at the Japanese automobile market, Japanese car companies are struggling to maintain a dominant position in the domestic market against European cars and Tesla. (cf. Table 5)

Table 5 World Market Share: Passenger Cars (Sales Units)

| | 1990 | 2000 | 2019 |
|---|---|---|---|
| 1 | Toyota | GM | VW |
| 2 | GM | Ford | Toyota |
| 3 | Ford | Toyota | Renault/Nissan |
| 4 | Nissan | Chrysler | GM |
| 5 | Peugeot | Nissan | Hyundai |

Source: Automobile Manufacturers Association of each country

Why do Japanese home appliances, which are dominant in the Japanese domestic market, rapidly lose their competitiveness in the global market, while Japanese automobiles still maintain their competitiveness in the global market? In order to answer this question, it is meaningful to approach the question from a global marketing strategy.

Why have the sales of home appliances manufactured by Japanese manufacturers declined in the global market in such a short period of time? This declining presence, especially in emerging markets, has been the focus of debates both in academia and business The long period of economic stagnation in Japan is often cited as a factor. However, when we examine Korea, which almost went bankrupt after the Asian Financial Crisis, new questions arise as to why Korean companies were able to develop global business in such a short period of time while Japanese manufacturers were not.

Two factors that may have given Korean products an edge are the customization of products for specific areas (i.e. localization) and the strong market-oriented global strategy of Korean companies. Japan's high-quality products have a good reputation among consumers, but with their higher price tags they are not the best value among the choices in overseas markets. On the other hand, Korean products are often chosen as having the best value in overseas markets even though they are of a lower quality than competing Japanese appliances.

Why did Japanese manufacturers, which were very active in the global market in the 1990s, rapidly lose their competitiveness in connection with the market orientation? By focusing on the concept of market orientation in global marketing strategy, this paper aims to offer an approach different from the classic approach of standardization/adaptation of global marketing strategy.

The standardization/adaptation paradigm of global marketing strategies proposed by Buzzell (1968) and Levitt (1983) has long been debated. This paradigm seeks to answer the question of how global companies should respond to global markets in different market environments. Should global companies use a common global strategy as much as possible, or should they use different strategies according to market conditions? Certainly, the global market has great variations in culture, economy, law, and politics. There is an issue of how companies should respond to this diverse market with such a wide spectrum of conditions. However, the point is, whether a company adopts a global standardization strategy or an adaptation strategy, it is more important for companies to continuously provide value to consumers in the global market.

Japanese consumer electronics companies may have lost sight of a key point by continuously delivering value to global consumers. The standardization/adaptation paradigm should be for providing value globally. Standardization and adaptation are tools; standardization and adaptation are not goals.

## Market Orientation

Researchers have been interested in market orientation since the late 1980s. Initially, market-oriented ideas were introduced as empirical studies related to marketing concepts. Prior to the 1980s, there was research on the relationship between salesperson behavior and marketing concepts (cf. Kurtz, Dodge and Kompmaker, 1976). Saxe and Weitz (1982) conceptualized the practice of the marketing concept at the individual level as customer orientation.

This research paper is concerned with marketing concepts at the company or SBU (Strategic Business Unit) level. It is not focused on a narrowly defined definition of customer orientation. "Market Orientation: The Construct, Research Propositions, and Managerial Implications", published by Kohli and Jaworski in 1990 in the *Journal of Marketing*, is classic market-oriented research. In the same year, Narver and Slater et al. also published a paper titled "The Effect of a Market Orientation on Business Profitability" in the *Journal of Marketing*. It is quite interesting that these two papers were published in the same year. Since then, these two studies have become the origins of two major currents in market-oriented research.

Many companies have customer-focused philosophies such as "customer satisfaction" and "customer first." However, it is questionable whether those philosophies are actually reflected in business activities.

Kohli and Jaworski (1990) advocate market orientation be used as a framework for measuring the degree of organizational implementation of a company's marketing concept. Kohli and Jaworski (1990) defined market orientation as "the organization-wide generation of market intelligence, dissemination of the intelligence across departments, and organization-wide responsiveness to it." In other words, market orientation is the generation of information on market knowledge and customer needs at the organizational level, the dissemination of this market information across departments within the organization, and the reaction at the organizational level in response to this market information.

Kohli and Jaworski (1990) derived the following three elements from interview surveys conducted in companies: (1) the process of grasping market information (information generation), (2) the process of disseminating market information within companies (information dissemination), and (3) elements of the process of acting in response to market information (information reaction).

On the other hand, Narver and Slater (1990) focus on organizational culture as a sustaining advantage. Narver and Slater (1990) defined market orientation as "the organizational culture that most effectively and efficiently creates the necessary behaviors for the creation of superior value for buyers and, thus, continuous superior performance for the business."

Narver and Slater (1990) focus on three aspects of organizational culture: (1) "customer orientation" to understand customers in order to create superior value for them; (2) short-term strengths and weaknesses and long-term organizational capabilities of existing and potential rivals; (3) “interfunctional coordination” that systematically utilizes management resources to create superior value for customers.

Homburg and Pflesser (2000) classify market orientation research into two sections: “behavioral perspective” and “cultural perspective”. Both of these sections are based on the premise that market orientation is not simply an issue for marketing departments or marketing functions. Another common point is that this research is based on the positive relationship between a strong market orientation and business performance. In other words, the premise is that the more market-oriented the company is, the higher the company’s performance will be.

Unfortunately, the jury is still out on the accuracy of this premise. A number of empirical studies on the positive relationship between market orientation and business performance have been published (Jaworski and Kohli, 1993; Slater and Narver, 1995; Deshpande, Farley and Webster, 1993; Rueckert, 1992). On the other hand, some research results show that there is not necessarily a significant relationship between market orientation and corporate performance (Greenley, 1995; Harris and Ogbonna, 1999; Noble, Sinha and Kumar, 2002; Hult, Ketchen and Slater, 2005). However, the purpose of this paper is not to clarify the relationship between market orientation and corporate performance. Despite the controversy, the discussion here is based on the premise that companies with a strong market orientation also have high performance.

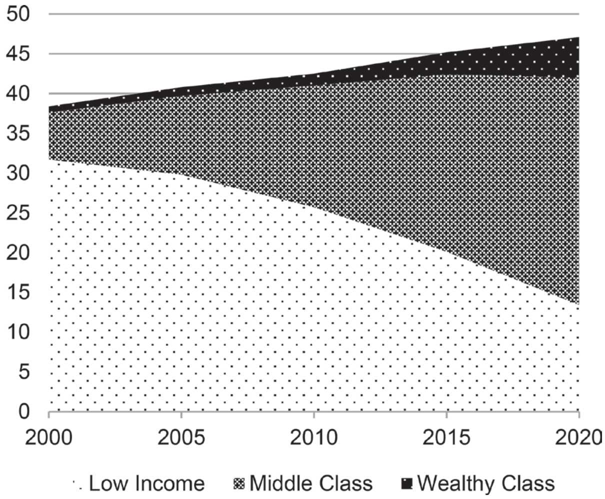
## The Changing Global Market

We need to recognize that the fastest growing segment of consumers in the global market is changing rapidly. As Figure 1 shows in 2000, 3.17 billion consumers, the majority of consumers, in the global market were low-income. In 2020, the number of low-income people in the global market fell by more than half to 1.34 billion.

On the other hand, the middle-income group of consumers in the global market is about five times larger from the year 2000 (590 million people) to 2020 (2.86 billion people). In 2000, only one in three people in the global market was middle-income. In 2010, the number of low-income and middle-income earners was about the same. In 2020, seven out of ten people were in the middle class in the global market.

Middle-income consumers increased in both developing and emerging countries. It is a well-known fact that the middle-income class has a strong desire to consume, leading to aggressive consumption behavior. In other words, the center of global consumption has shifted from developed countries to emerging countries.

Figure 1 Changing Emerging Markets by Income Group




Source: MITI, White Paper 2010
Remarks 1: Population by household disposable income = Calculated by multiplying the ratio of households in each income group by the population
Remarks 2: Household Annual Disposable Income: Less than $5,000 for "Low Income", $5,000 to $35,000 for "Middle Class", $35,000 or more for "Wealthy Class".

According to a survey conducted by the Japan Bank for International Cooperation (JBIC) in 2011, about 70% (68.1%) of all companies responded that the middle-income group in emerging countries is the most important target for Japanese manufacturers. (cf. Figure 2) Thus, most Japanese manufacturers recognized that the main battlefield in the global market was the middle class in emerging markets. Despite the fact that Japanese manufacturers have focused on increasing sales to the middle-income class in emerging markets, their efforts have been unsuccessful.

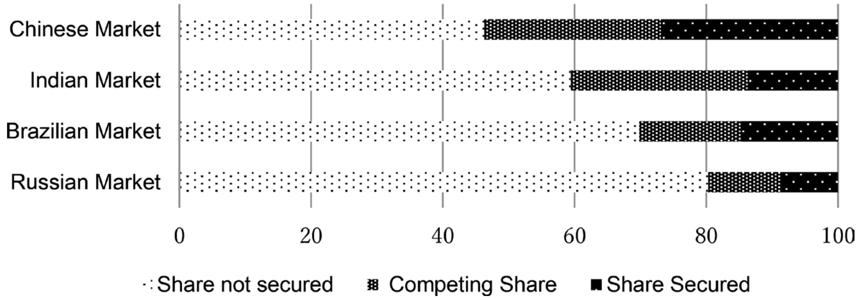
There was a survey sent out to Japanese manufacturers that asked questions at the perception level about their market share in emerging markets. This survey was unique in that it examined perceived success and not the sales-based market share of Japanese manufacturers. According to the survey results, few Japanese manufacturers recognize that they have a large market share compared to other foreign companies. (cf. Figure 3) Even in China, where Japanese manufacturers are relatively active in the Chinese emerging market, about 25% of Japanese manufacturers answered that they have secured a considerable market share. About half (46%) of Japanese manufacturers in China perceive that they do not have a sufficient market share compared to foreign companies.

Although Japanese manufacturers are focusing on emerging markets, they themselves recognize that this is not reflected in their business performance.

Figure 2: Most Important Targets


Source: JBIC "Foreign Direct Investment Survey" February 2011

Figure 3 Recognition of Market Share in Emerging Markets (comparison with foreign companies)




Source: MITI, White Paper 2008

## Emerging Market Strategy Dilemma

Japanese manufacturers in emerging markets are not doing well. Shintaku (2009) points out the following three problems that Japanese products often face when entering emerging markets: (1) excessive quality at unaffordable prices; (2) no matter how good the product is, the quality of the product is not understood by consumers; and (3) the specifications of the product do not meet local needs*.

Shintaku points out that the reason for these problems is that Japanese manufacturers are continuing to use the same strategy that worked well to enter developed markets in the 80s and 90s. That strategy was for Japanese manufacturers to enter the low-end product market in developed markets where the middle class was expanding rapidly. Japanese manufacturers were able to achieve low prices with relatively low labor costs using favorable foreign exchange rates. These two factors enabled them to steadily increase their sales share in the low-end segment of developed markets. The products, some of which required precise assembly of minute gears and screws, demonstrated the technology and diligent human resources of Japanese manufacturers. Japanese products underwent annual improvements to their performance and design, but the prices remained the same.

As a result, the image of Japanese products being of high-quality and low-priced, was made, and the reputation for cost-effective Japanese products took hold in developed markets. By improving the performance of their products every year, Japanese manufacturers were able to gradually expand their customer base from the low-end to the high-end.

This was the global market entry strategy of Japanese manufacturers. At that time, emerging markets were not target markets for Japanese manufacturers because of the low

* They call it the "dilemma" because the underlying logic is the same as Christensen's (1997) *The Innovator's Dilemma.*

number of middle-income consumers.

However, this strategy of entering from the low-end segment and gradually expanding the market to the high-end segment is useless in emerging markets because local companies have already secured a share in the low-end market. When new manufacturers, including Japanese manufacturers, enter the market in these areas, they find it extremely difficult to challenge the products that have an established foothold in the market.

Therefore, Japanese manufacturers have no choice but to target the middle or high-end markets. However, in the middle-range market, Japanese manufacturers are exposed to severe competition from local companies. In the high-end market, the market scale is not large enough, and it will take time to expand this market.

To understand the situation more clearly, let us look at washing machines. When comparing the washing machines of Japanese, Korean, and Chinese major home appliance manufacturers on the online shopping site of a major Chinese home appliance store, we can see the following facts.

LG Electronics and Haier have the widest lineup of entry-level drum washing machines ranging in price from 3,000 RMB to 4,000 RMB. On the other hand, Panasonic does not have drum washing machines in the same price range. Panasonic does not focus on entry models. However, LG Electronics, Haier, and Panasonic are the leading home appliance brands in Korea, China, and Japan.

The advantages of Japanese manufacturers, such as *kaizen* capabilities, are extremely effective when trying to expand the market while upscaling from the low-end market to the high-end market. This is because kaizen enables Japanese manufacturers to improve quality without increasing costs. However, this mechanism does not work in emerging markets, so the more Japanese manufacturers make use of their strengths as technological innovators, the more mismatches arise with the conditions of emerging markets. The unexpected success of this market upscaling strategy in developed markets may have given Japanese manufacturers the illusion that it might work again in emerging markets.

Shintaku (2009) and Amano (2009) refer to this situation as the "dilemma of emerging market strategies[(1)]". Japanese manufacturers have locked themselves into the middle-income class in the markets of developed countries. They may not be able to unlock emerging markets.

If Japanese manufacturers want to unlock these new markets, they need other strategies and mechanisms focused on the value demanded by emerging markets. More specifically, Japanese manufacturers need innovation in market development.

Shintaku (2009) and Amano (2009) emphasize that products need to have the appropriate quality. They present the following three strategies for Japanese manufacturers to develop markets in emerging countries.

The first strategy is to introduce low-priced products that sacrifice some performance and quality. Nokia and Samsung Electronics carefully re-evaluated quality specifications at the component level and developed low-priced mobile phones to meet the requirements of emerging markets.

In fact, Japanese manufacturers have success stories similar to those of Nokia and Samsung Electronics. One is Honda's motorcycle business in Vietnam. In Vietnam, Japanese manufacturers temporarily lost the motorcycle market due to similar, lower priced Chinese motorcycles. However, instead of pursuing the expensive, high-performance motorcycle market, Honda lowered the market price with a slight adjustment in quality. The result was Japanese motorcycles regaining their market share.

Another example is the automobile market. In emerging markets, the middle class is newly formed, but in developed markets there is a "mature" middle class. In developed countries a driver with six to seven car purchases over 30 years is likely to be particular about the next car purchase. However, in emerging markets, a driver who buys a car for the first time may simply focus on having a car. In this way, in developed markets to is important for auto companies to differentiate cars models, but ease of purchase is more important in emerging markets.

The second strategy mentioned by Shintaku and Amano is having a visible difference in the quality of products. It is a strategy that uses the high value-added components that Japanese manufacturers are good at. The first strategy tends to emphasize only low prices. By using that strategy there is a risk of harming positive images of high performance and quality that Japanese products have cultivated over many years. Getting consumers to associate high quality with a product does not happen overnight. Once attained, this association is an extremely important competitive advantage for Japanese products. If possible, Japanese manufacturers need to provide high value-added products and high value-added services in emerging markets.

Consumers in emerging markets, as many research results show, have a good image of Japanese products. In several product categories they have absolute confidence in Japanese products. To maintain this confidence level, a key strategy in emerging markets is to provide high value-added products that are affordable to local consumers.

In order to realize this strategy, it is necessary to find a way to present the added value in an easy-to-understand manner so that consumers will be willing to pay a premium price. Instead of improving all aspects of product performance and quality, it is important to focus only on aspects that consumers tend to respond to. It is not the business-oriented idea of marketing good products with the assets owned by companies, but the market-oriented idea of marketing good products that consumers want.

The third strategy that Shintaku and Amano identify is a localization strategy based on a shift in the axis of differentiation. Consumers demand different functions and quality levels depending on their local environment. Similarly, the level demanded by the market also differs. In areas where there are frequent squalls, for example, it is necessary to improve the sealing performance of joints on items such as doors and window glass, even in low-end vehicles. Eliminating a few gimmicks and maximizing joint sealing performance is not difficult for an auto company to achieve. Localization is about product characteristics that may not be important in the Japanese market, but are vital in the local market, and vice versa.

Adding functions that are desirable in the local market will differentiate the product from the competition, but that will be at a cost. To offset that cost, other aspects of the product can be of lower quality or have diminished performance. This will save in manufacturing costs so that Japanese manufacturers can sell the localized product at competitive prices.

Japanese manufacturers can increase their market share in emerging markets following the strategies outlined above. However, they will need to search for an axis different from the conventional axis. Moreover, they will need market-oriented thinking which is also crucial.

## Case Studies

In recent years, LG Electronics products have been prominent in the Asian consumer electronics market. LG Electronics is a large electronics manufacturer that is also strong in home appliances such as refrigerators and washing machines. LG Electronics is said to have the top share in terms of unit sales in the refrigerator, washing machine, and air conditioner markets in Asia.

How has LG Electronics increased its presence in emerging markets so rapidly? Based on observations in home appliance stores in Bangkok and media reports, LG Electronics is a manufacturer with an extremely strong market orientation, and it is believed that this is contributing to the expansion of its home appliance market share in emerging countries.

In Bangkok, you can easily find massive electronics retailers such as Power Buy and Akihabara in most shopping malls. Tesco Lotus (GSM) home appliances department is also substantial. What you notice when you enter the sales floor of these home appliance stores is that products made in Japan and Korea are popular, while products made in China and local manufacturers are less popular.

By observing the product display, it is possible to determine which manufacturers are popular with consumers. Two Korean manufacturers, Samsung Electronics and LG Electronics, are dominant in air conditioners, washing machines, and microwave ovens, while Japanese manufacturers are dominant in refrigerators and rice cookers. It is difficult to generalize because it varies depending on the product category, but it is difficult to find low-priced entry-level Japanese brand products. Japanese consumer electronics companies seem to be focusing on selling premium products based on high quality and brand power in the Bangkok market.

In comparison to Japanese manufacturers, Korean manufacturers cover a wide range of models from low-priced entry models to premium models. The entry model of a Korean manufacturer clearly distinguishes itself from the entry models of Chinese and local manufacturers. There is probably no significant difference in the quality of materials used by Korean and Chinese manufacturers, but Korean manufacturers' products are well designed and do not look cheap.

LG Electronics used localization strategy to attract consumers. For one thing they added Thai food to the automatic cooking menu function of the microwave oven. Japanese brand microwave ovens do not have a switch for Thai food. Later, in 2004, when LG Electronics introduced a fully automatic washing machine to the Thai market, they replaced the metal cover of the fully automatic washing machines with a glass cover. This is because housewives were used to washing clothes in twin-tub washing machines and watching the inside of the machines to check on the laundry’s progress. Thanks to LG Electronics, washing machines with glass covers became popular in Thailand.

LG Electronics' success in emerging markets in Asia is not due to low prices. They offer a low-priced entry model targeting the middle-income class, which is the population segment with the most potential in emerging countries. At the same time, they also offer high-end models in a high price range that contribute to future upscaling and enhance brand image. Their low-priced entry models are esthetically appealing. The automatic cooking function of their microwave ovens is a selling point for local housewives. LG Electronics provides us with an excellent example of a market-oriented strategy.

In 2006, LG Electronics announced a “Declaration of Design Management.” Their aim is to develop all products and services based on design and to widely utilize design as a management resource. LG Electronics global policy that emphasizes design does not mean that they will make the design the same globally. Though there may be products with the same design globally, their policy is simply to put an emphasis on product design. They may sound the same, but the policies are quite different.

The policy of emphasizing design leads to understanding the customer and the market. The standardization/adaptation paradigm certainly makes some sense in global marketing strategy, but it makes more sense when focusing on market orientation.

## Limitations and Suggestions for further Research

This research examines the issues of entry into emerging markets by Japanese global companies while focusing on market orientation. The concepts of standardization and adaptation alone are not sufficient for global marketing strategy planning. Instead, a shift to a market-oriented paradigm and further discussions and research are required.

In this paper two definitions of market orientation were introduced, one based on information processing and the other based on corporate culture. However, this research did not indicate which definition should be followed. The reason for this is that the purpose of this paper is not to discuss the concept of market orientation, but to show the importance of incorporating the concept of market orientation into global marketing strategies.

The relationship between market orientation and performance in global markets is the next issue to research. In order to prove the hypothesis that companies that are more market-oriented perform better in the global market, there needs to be a way to measure a company's market-orientation. Creating an empirical system to measure market-orientation is needed for this research to progress.

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