

Master thesis

The experience of multinational companies in decision making process on marketing standardization and localization.

The practical application of findings in creating case company's marketing strategy.

By

Ieva Puriņa

The master thesis is carried out as a part of the education at the University of Agder and is therefore approved as such. However, this does not imply that the University answers for the methods that are used or the conclusions that are drawn.

Supervisor:

Prof. Joyce Falkenberg

The University of Agder, Kristiansand

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Abstract

This thesis was carried out as the final assignment of the Master of Business Administration Program at University of Agder, in the Faculty of Economics and Social Sciences.

The subject of the thesis is standardization and localization in marketing of multinational companies. Determinants that influence decisions of these companies whether to standardize or localize their marketing activities have been searched for and analyzed. Advantages and disadvantages of both strategies have been defined. The experience of multinational companies in decision making process on marketing standardization and localization is used to make a framework for developing a marketing strategy for a case company. The case company is introduced and the main differences of its subsidiaries' target markets have been searched for. As the case company is operating in service sector not production sector, the main differences between marketing in both sectors have been analyzed to find out if and how it could affect standardization and localization decisions. The same has been done with comparing marketing decision making in a multinational company that has branches in different countries, to a company, which is offering its services within borders of one country, as the case company.

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Introduction

Problem statement

The aim of the master's thesis is to analyze previous studies on the standardization and localization strategies in multinational companies and use their experience and knowledge to make an efficient marketing strategy for a case company. In this thesis the case company is a group of companies – a headquarters and two subsidiaries operating within one country (Latvia) in service sector (providing internet connection services). As a result the findings of this paper have been practically applied to establish a framework that helps developing a marketing plan in a group of companies in one country.

Research objectives

Tasks to reach the aim:

- 1) Literature review on international companies headquarters-subsidiaries relations dealing with the marketing activities;
- 2) Find out what are the main reasons which affect the standardization and localization decisions;
- 3) Search for possible tendencies in standardization or localization of separate marketing functions;
- 4) If possible, on the base of obtained information establish a framework that helps making the marketing decisions for a group of small companies in the service sector within one country.

Research questions

There have been proposed 4 main research questions which should lead to a clearer understanding on the relationship between subsidiaries and headquarters when making decisions about marketing.

- 1) What are the determinants that influence the decision whether to standardize or to localize?

To answer this question a review of literature is conducted to find out the experience of multinational companies, and the factors that are acknowledged to be the main in most of the articles have been summarized.

- 2) Which of the marketing activities tend to be more standardized and which – more localized in the multinational companies?

After reading some articles about standardization it became clear that there is no definite answer whether to standardize or customize and that usually the companies use both of these strategies each for different functions of marketing. The next issue is to find out, which of the marketing activities do the international companies prefer to standardize and which of them is better to customize in order to adjust to every market characteristics.

- 3) Which of these circumstances that influence the standardization decisions are important also when speaking about marketing activities within one country?

The main variables gained from answering the first question have been looked at of a viewpoint of having the headquarters and the subsidiaries in one country, because there might be differences and some of the circumstances could be irrelevant within the borders of one country. A framework of these variables is made in order to be used as a guideline for the case company in developing a successful marketing strategy.

- 4) What are the main differences in marketing activities in a production sector and those in a service sector and how do they influence the standardization/localization?

Also the possible differences between the marketing activities in a production and a service sector have to be taken into account. In this thesis the service sector is analyzed in more detail in order to eventually make the relationship model for the case company.

The thesis is organized as follows. In the introduction part the topic of this thesis is set, the research problems and questions are defined, previous literature regarding this research area is reviewed, and the methodology writing this thesis is described. Chapter 1 introduces the background information for a better understanding of the main research topic. Marketing, the specifics of international marketing and marketing in a service sector are introduced. The main aim of Chapter 2 is analysing the standardization and localization strategies, as well a mix of both strategies. Also

the impact of the headquarters-subsidary relationships on the marketing standardization and localization is discussed. Chapter 3 analyzes the standardization and localization of the four marketing mix elements. Chapter 4 introduces the case company and compares the regions, where it is operating in. On the basis of reviewed extant literature in Chapter 5 a framework for the case company is developed with guidelines on marketing standardization and localization decision making. This framework is made based on the marketing mix elements, as well as based on a chart developed by the Author containing all the influencing factors that are important for the case company. The last chapter summarizes conclusions that are made during the work on this thesis.

Literature review

There have been different studies on marketing strategies in multinational companies with the main problem being standardization and localization (Buzzel, 1968; Harris, 1994; Kanso & Nelson, 2006; Rigby & Vishwanath, 2006; Cheon, Chon & Sutherland, 2007; van Heerden & Barter, 2008) and about headquarter-subsidaries relations researching the level of autonomy of every subsidiary and knowledge sharing (Gates & Egelhoff, 1986; Kanso & Nelson, 2006; Roth, Jayachandran, Dakhli & Colton, 2009).

Specifics of the terms used

When speaking about the standardization or localization in a company, the problem is that it is not so easy to evaluate which of these the company supports more, because it is not a matter of “either/or” (Duncan & Ramaprasad, 1995), and there are many ways how to use some benefits of standardization and some of adaption and there are many levels to which a company may use either of them. A previous study on the major United States and European multinationals showed that 69% of the respondents practice standardization at least at some level, but most of them (61%) used standardization only in some or most of the cases, while only 8% of the respondents were totally standardized companies (Harris, 1994). In this study a company was called totally standardized if it was using the same marketing strategy everywhere, and just “adapting or translating the voice-over/copy into the local language” (Harris,

1994). Also Duncan and Ramaprasad (1995) view language as a “separate element” because of cases in their study with a complete standardization but for language.

In some of the previous articles and studies synonyms for the terms “localization” and “standardization” were used, but only in one of the articles studied (Kanso & Nelson, 2006) exact definitions for these terms were proposed. When speaking about localization, the terms “customization” and “diversification”, as well as “decentralization” were used, but the term “standardization” was occasionally replaced by terms “centralization”, “globalization” and “internationalization”. The definitions of these terms were searched in an online dictionary (<http://dictionary.reference.com/>) to find out the meanings and main differences. Definitions for the used terms:

- ✓ **to localize** – “to make local; fix in, or assign or restrict to, a particular place, locality, etc.” (online dictionary Dictionary.com, 2009);
- ✓ **localisation** – “adapting a product to meet the language, cultural and other requirements of a specific target market locale” (online computing dictionary Dictionary.com, 2009)
 - this explanation is very close to the meaning how this term is used in the articles speaking about marketing localization, and also to the definition of a localized advertising approach of Kanso and Nelson (2006);
- ✓ **to customize** – “to modify or build according to individual or personal specifications or preference: to customize an automobile” (online dictionary Dictionary.com, 2009)
 - while “localization” usually is used to describe a complete strategy, the terms “customization” meaning is more like an adjustment of a strategy to better fit to the local market;
- ✓ **to diversify** – “to give variety to; vary: diversify a menu”, “to extend (business activities) into disparate fields” (online dictionary Dictionary.com, 2009)
 - this term is also used more for the meaning as making changes, but it does not specify accordingly to what the changes are made;

- ✓ **to decentralize** – “to distribute the administrative functions or powers of (a central authority) among several local authorities” (online dictionary Dictionary.com, 2009)
 - this term is most often used when speaking about authorities and decision making, also in marketing, when it comes to the allocation of the responsibilities between the headquarters and the subsidiaries;
- ✓ **to standardize** – “to bring to or make of an established standard size, weight, quality, strength, or the like: to standardize manufactured parts” (online dictionary Dictionary.com, 2009);
- ✓ **standardisation** – “the condition in which a standard has been successfully established” (online dictionary Dictionary.com, 2009)
 - this is the meaning that is the closest to the one used in this thesis when speaking about marketing standardization. Kanso and Nelson (2006) provide a more precise definition of standardizing – “A standardized advertising approach uses identical advertising messages in both the home country of the corporate headquarters and in the Finnish or Swedish¹ market, regardless of cultural differences.”;
- ✓ **centralization** – “the concentration of administrative power in a central government, authority, etc.” (online dictionary Dictionary.com, 2009)
 - this term like “decentralization” is used more for describing legal issues;
- ✓ **to globalize** – “to extend to other or all parts of the globe; make worldwide” (online dictionary Dictionary.com, 2009);
- ✓ **globalization** – “the tendency of investment funds and businesses to move beyond domestic and national markets to other markets around the globe, thereby increasing the interconnectedness of different markets” (online financial dictionary Dictionary.com, 2009)
 - this explanation is more like an indication of the trend of different markets getting more and more similar by companies expanding their businesses all over the world;

¹ In their study Kanso and Nelson (2006) analyzed multinational companies’ subsidiaries in Finland and Sweden, thereby in this case Finnish and Swedish markets are the environment, where the foreign subsidiaries of these companies are operating in.

- ✓ **to internationalize** – “to make international, as in scope or character”, “to place or bring under international control” (online dictionary Dictionary.com, 2009)
 - this term is closer to globalization than to standardization, and explains the process of expanding with the difference that to be international it is enough for a company to be active in two or more countries, while to call itself a global enterprise, it has to operate worldwide.

After looking at the explanations it becomes clear that the terms “localization” and “standardization” are the most suitable for describing the processes researched in this thesis and all other can be used to replace them, but in a more restricted way only in some situations.

In this thesis the terms “standardization” and “localization” are viewed as antonyms meaning that the company can either standardize or localize their marketing activities or use both strategies, but each for a different activity. There are many advantages that standardization can offer, as well as disadvantages that speak in favour of customization strategies, which adapt the marketing communications to the local culture and needs. Most of the previous studies (Buzzel, 1968; Harris, 1994; Duncan & Ramaprasad, 1995; Kanso & Nelson, 2006; Roth, Jayachandran, Dakhli & Colton, 2009) have focused mainly on standardization and how to make it as efficient as possible with the help of economies of scale and other features, and localization is perceived as an approach that is used if there is no standardization. But if in a multinational company the headquarters and subsidiaries are not sharing knowledge and experience among each other and most of their decisions and advertising activities are made locally, this cannot be defined as a localization strategy. In order to achieve the advantages that a successful localization strategy can enable, the company has to pay attention to developing its organizational structure, as well as to conducting a data analysis (Rigby & Vishwanath, 2006). The main aim of the studies that have been made on customization usually is to argue against standardization and to point out all the positive aspects, which should not be forgotten while trying to achieve total standardization in our society that tends to move more and more towards globalization.

The term “standardization” can be interpreted in different ways. That is why a definition is required to avoid mistakes in analyzing the data and misinterpretations of

the findings. Also the different possibilities of applying this strategy can cause trouble in research of this area. Harris (1994) divides all the companies in four groups according to the extent and type of standardization that they practice:

- 1) Companies that have a very limited extent of standardization, e.g., having corporate logo as the only thing in common;
- 2) Organizations with a partial standardization in most or all of the main activities, but still with more signs of customization than similarity;
- 3) Companies with a substantial level of standardization where the most or all the key executional elements are unified, but some of the target markets have a strategy that significantly differs from the standardized strategy;
- 4) Companies, which are totally standardized in all of their markets (Harris, 1994).

In his study Harris (1994) calls a company totally standardized if it is using the same advertising implementation in all of its markets, except for translating the advertisements into the local language.

Methodology

This thesis is mainly based on secondary data conducting a theoretical review of literature. The most recent studies, which have thoroughly analyzed marketing standardization and localization strategies in multinational companies, have been analyzed to find out the experience and trends of international marketing. This study focuses on the main factors that influence the standardization versus localization choice, and which of the marketing mix elements should be standardized or localized and to what extent.

The research started with data collection. Articles, which have studied the topics relevant to this thesis (marketing standardization and localization in multinational companies, headquarters-subsidiary relationship, marketing knowledge sharing) were found in journals on marketing, international marketing and business management. These journals are Journal of International Marketing, Journal of Marketing Communications, Journal of International Business Studies, Journal of International Consumer Marketing, Journal of Advertising and South African Journal of Business

Management. Also two Harvard Business Reviews were found with articles containing topic related information.

As the result of the literature review the key variables were identified that lead to a framework on standardization and localization decisions. In order to apply this framework to a case company, additional data has been gathered. For illustrating the situation of geodemography and economy in Latvia, the statistical data of Central Statistical Bureau of Latvia were used. This statistical data helped comparing the regions of Latvia and defining the differences that are relevant for the decision making process on marketing standardization and localization. To give an insight into the case company, its history and marketing activities, the company's documents were used, e.g., the client register, and the annual report 2008. Access to the internal documents of the case company, as well to the tacit knowledge about this group of companies was possible because of the Author's work experience in this company.

Validity of findings of this study could be reduced because of complexity of the researched area and diversity in defining the terms. Different authors use different research methods and also their findings differ. Not all the recent studies that were used for writing this thesis were having the same research questions, e.g., some of them were studying the standardization or localization level of all marketing mix elements (Solberg, 2000; Cheon, Cho & Sutherland, 2007; van Heerden & Barter, 2008), while others had narrowed their research on some of them or only one (Harris, 1994; Duncan & Ramaprasad, 1995; Rigby & Vishwanath, 2006). However, the validity of applying the theoretical framework to the case company might be reduced, because of the Author's close relation to the case company. Despite aiming towards unbiased conclusions, there might be some inaccuracies that are hard to notice and eliminate.

1. Marketing

In this chapter the background of the research issue is introduced. Before analyzing what influences marketing standardization and localization decisions, the role of marketing in a company has to be assessed, and the specifics of international marketing and marketing in a service sector have to be reviewed. Also the specifics of marketing in the case company are introduced.

1.1. The role of marketing in a company

Not always has marketing had such a high role in a company as now. In every time period of history different functions of a company have been the most important for achieving its goals, depending on a complex set of circumstances like the economic situation, political conditions, the development of the society and other. All of these conditions have to be taken into account when the company's strategy is developed. The most complicated decision is about investing money in different parts of the company because of the fundamental problem of economy - scarce resources and unlimited wants. And the executives of each department tend to insist on their department being the most important for the company. It is very difficult to find the right balance for investment in different functions of the company, and those CEOs who are able to achieve the most effective resource distribution, can gain a higher competitive advantage. Gaining competitive advantage has been a more or less important matter during all times with just some exceptions when the company is enjoying a monopoly, but even in that situation it is important to make this position as stable as possible. Nowadays there are so many choices of products and services and the development of technologies makes the whole process of shopping substantially different. Customers are provided with so many possibilities, which satisfy all of their needs starting from ordering any type of product online from any country (this leads to a more globalized market and a different price policy because of less chances for a company enjoying a monopoly and people finding the cheapest sellers even if the company and the client are each in a different continent) and ending with an overflow of information that leads to a longer and more complex decision making process. In this environment marketing has gained a crucial role in every company, because it is important for the economic growth and development (McCarthy & Perreault, 1990).

Marketing is not just selling or advertising; it includes also the analysis of customers' needs, many decisions about the types of products that need to be produced, about the tendencies of the product use, about the place and way how to promote the product, and estimating the product price (McCarthy & Perreault, 1990). Marketing adds the final value to the product and can convince the customers that this is exactly what they have been looking for, even if they had not thought about it before. Many companies do not consider marketing to be as important and invest more in production or research and development, whose results can be seen clearly, e.g., saving time or other resources with a new production method, instead of developing the marketing activities that lead to effective results in a longer period of time and that cannot be measured so definitely. There are several methods for measuring the results of marketing, but it takes more than the traditional accounting reports for an in-depth analysis (McCarthy & Perreault, 1990). Furthermore, the external data, e.g., to measure the customer satisfaction, is not so easy to obtain, because it might be intuitive that the customers do not want to fill in the questionnaires, and if they agree to do so, the data might not be completely reliable, and it must not be excluded that the advertisement affects the client only in the level of sub consciousness and the client does not even understand why he perceives this product as the most suitable for him.

1.2. International marketing

Marketing becomes international in the case of a company selling their products or services in more than one country and despite the fact that the basic marketing concept remains the same, the marketing plan can be adjusted accordingly to the local target market (Gould, 2008).

International marketing is a widely discussed issue since there have been multinational companies, and also the standardization is not a newly invented strategy – “whether to standardize or to customize has been a vexing question with which international marketers have wrestled since the 1960s” (Vernon-Wortzel & Wortzel, 1997). Many questions dealing with marketing have an important role in the daily decision making process in every multinational company, and there have been many researches on this topic. One of the main questions could be - is it efficient to

standardize all the marketing activities as much as possible to cut costs or do people rather prefer an individual approach? Is this different in the service sector than it is in the production sector? The first things crossing mind when thinking about standardization is that it could help cutting costs, saving time and people resources. On the other hand, a local approach can result in gaining customer loyalty and trust that are especially important in a service sector company. At the same time too much standardization can lead to an interruption in development, thereby to a reduced market share and profits, but too much of localization could end up in a corrupted brand and growing costs (Rigby & Vishwanath, 2006). How are the decisions made in reality and which are the most important factors affecting them?

1.3. Marketing in a service sector

The marketing activities of a company reveal very much about the company. Nowadays when there is such a big choice in almost every industry, it is very important to have a product that stands out among its substitutes to gain competitive advantage. The service marketing differs from product marketing because of the characteristics of service. The previous studies in service marketing show that there are five main characteristics which make the service marketing different from physical goods marketing:

- „intangibility;
- inseparability of production and consumption;
- heterogeneity;
- variability;
- regulation” (Vernon-Wortzel & Wortzel, 1997).

It is not only important to apply marketing considering the differences between the characteristics of a product and those of a service, but also the service marketing can be subdivided depending of the type of the service. For example the services can be divided in long and short term services, regarding the time period, during which the customer is a client. Such services are banking services, insurance services, subscriptions for newspapers, telecommunication services and other. Companies working in these sectors should care more about developing their customer service and increasing customer loyalty, because it takes fewer resources to keep the present

clients, than to acquire new ones. While large enterprises “enjoy superiority in marketing and production capabilities”, small and medium sized companies usually do not have enough resources needed for advertising and image creation (Svetličič, Jaklič & Burger, 2007). Because of the above mentioned reason for such small companies it is very difficult to get a stable position in the market, and that is why it is useful to optimize the business activities and to cut costs by standardizing processes and sharing all the knowledge which is necessary for all of the companies.

Once again this can be done easier in the manufacturing sector, rather than in the service sector because of the following reason. As the nature of providing a service makes it difficult to standardize, the main opportunities to gain economies of scale usually occur in marketing by establishing unite branding or corporate image, rather than in production (Vernon-Wortzel & Wortzel, 1997). It should be possible to make a prototype of optimizing the marketing activities in a group of companies. Previous studies (Gates & Egelhoff, 1986; Roth, Jayachandran, Dakhli & Colton, 2009) have looked at headquarters and subsidiary relationship models in a multinational level and found out that different companies have different strategies according to globalization and local responsiveness. There is a need to determine which of the relationship models is the most appropriate to be adapted to a group of companies within one country. Of the above mentioned five characteristics service intangibility, inseparability, and heterogeneity are those which have a direct influence on internal organizational design issues (Vernon-Wortzel & Wortzel, 1997).

Intangibility of the service means that you cannot take it in hands and evaluate it by its looks. That means that the reputation and identification of the company is very important in service marketing, because “the customer often finds it difficult to isolate service quality from the quality of the service provider” (Vernon-Wortzel & Wortzel, 1997). When speaking about standardization, creating a strong corporate image is the main thing to let the customers have a perception that they will get a guaranteed quality and to make the decision in favour of the company.

Inseparability of production and consumption means that usually the service is offered when there is demand for it (Vernon-Wortzel & Wortzel, 1997) and therefore in the service sector there are not so good chances to achieve economies of scale like it is in the manufacturing sector.

Heterogeneity means that the service is adapted to every customer in every situation a bit different. There has to be a well organized system, which ensures that every time when there is demand, it can be met, i.e. there have to be all required resources in stock. If the demand is too high and there are not enough resources in the particular moment, the customers have to wait and the longer they wait, the less satisfied they are and the bigger the chance is that they will leave and choose a service of one of the competitors. The enterprise has to coordinate the marketing activities according to the trends of the demand – e.g. the demand for internet connections is relatively high in fall that is why there is no need for a big marketing campaign, otherwise the demand will be too high and the customers will have to wait too long for satisfying their needs.

The service sector also differs from the production sector by having a direct contact with the client. The customers, both organizational and individual customers as well as households, prefer an individual approach more than they did in the past (Blois & Grönroos, 2000). In this way marketing in a service providing company is easier because the company can see its clients and by working with them get to know them better. The service provider can also make adjustments when interacting with every single customer if necessary, and the customer influences the development and result of the process (Blois & Grönroos, 2000). The weakness of this interaction with clients is that some of them are too demanding and always dissatisfied, therefore the client relationship manager might be unable to cope with all the requests and please every client. This leads to frustrated clients and that can lead to damage of the company's reputation.

An advantage for smaller companies is that they are more flexible, they do not need a significant investment in making changes and it is possible to make it happen faster than in the large companies, where everything has to be coordinated in a much higher level (Svetličič, Jaklič & Burger, 2007). Nowadays this is very important, especially in the high technology industry, because of the rapid changes in the general situation in the markets.

1.4. The specifics of marketing in the case company

Since the result of this paper is supposed to be a practical framework that can be used as guidelines for creating a marketing strategy in a case company, the specifics of marketing in this company's industry are investigated.

Marketing in the industry which Hansa Internets group of companies is working in is quite specific because of the following factors. Firstly, it is a service sector, which means that the marketing has to be different than that of a production sector. Secondly, the service is a long lasting service, meaning that the customer does not just get a haircut or a meal at a restaurant, but if the agreement gets signed then the person is a client of the company for at least a year. That means that the company has to attract the clients just one time and after that there has to be a good customer relationship management not to lose the clients. Hence there is a longer decision making process for the customers to decide which internet provider do they find the most trustful and also not the most expensive. The third factor is the difficulty of defining the target customers, because internet is a product that everyone can use, starting from young to old and from uneducated to highly educated people etc. The target customers that have to be found and defined are the decision makers – is it the head of the family who organizes the finances, or the child who needs the internet connection for doing homework, or the student, who needs internet for as well university purposes as for contacting with friends. The universality of using internet makes it challenging to create a standardized marketing strategy or even advertisements.

2. Standardization versus localization

2.1. Main factors analyzed in previous studies

There are two main aspects in previous studies on standardization and localization – first, the trend of how different or similar the consumers all over the world are becoming and second, the balance between how many resources can be saved with the help of standardization versus the extra revenues that can be gained with the help of customization (Solberg, 2000). But there is another very important aspect in making the decision whether to standardize or localize the marketing – not all the companies are equally organized and can perform either one of the strategies with the same success (Solberg, 2000). It is crucial to find out if and to what level the standardization and localization is possible. This depends mainly on the organization of the company – what are the relations between headquarters and subsidiaries, as well as among the subsidiaries themselves, how effective the information flow and knowledge sharing is among different structural units of the company, and the autonomy of every subsidiary. After getting acquainted with the existing literature on the standardization and customization topics, these three aspects are considered being the main factors for choosing either one or another strategy or a mix of both of them.

2.2. Standardization

Many marketing specialists still argue about the trends of the global market of consumers, and there are completely opposite opinions. Some say that a consumer essentially is driven by the same motives everywhere and others object declaring that a standardization is not realistic, because “until we achieve One World there is no such thing as international marketing, only local marketing around the world” as stated by the president of Philip Morris Inc., George Weissman (Buzzel, 1968). While the experience of some U.S.-based multinational companies proves that a multinational marketing strategy can lead to some benefits that differ in every company and industry (Buzzel, 1968), other companies benefit from their localization strategies that develop willingness for experimentation and is not so easy to be copied by the competitors and other advantages (Rigby & Vishwanath, 2006).

Duncan and Ramaprasad (1995) have found that an international company's organizational structure has a strong influence on its standardization/localization strategies – if the company has centralized most of the functions in the headquarters, then also its advertising can be expected to be more standardized.

Many of the marketing experts have been searching an answer to the question which marketing issues and to what level should be standardized, but one thing is clear – every case should be analysed individually because in every situation there are different circumstances, which lead to different gains and costs, and there are many different types and levels of standardization. However, after a literature review on previous studies about multinational company experience the tendency of standardization can be drawn. A research showed that 68% of multinational companies standardize their marketing strategy in all countries and 24% in some of the countries, while execution of the strategy was standardized in 54% of the cases in all countries and 36% in some countries (Duncan & Ramaprasad, 1995). Because of the time when this study was carried out, the information could be outdated and the trends of standardization could differ.

It is not possible to establish a unique framework that suits every company worldwide. Nevertheless it is possible to determine some factors or groups of factors that should be considered by making the decision if the standardization is feasible and advisable and in which part of the marketing strategy. In the following chart there is a summary of the factors, which limit the standardization of the different elements of marketing strategy. Although Buzzel, the author of this chart, has summarized these factors more than forty years ago, the importance of this chart has not weakened and authors of recent studies still refer to it in their research (Harris, 1994; Cheon, Cho & Sutherland, 2007). Nevertheless for some of the resources there could be less significant differences now because of the globalization trends. Still this is a well organized list of possibly influencing factors that every company can adjust to its needs and specifics in the industry and then use it to make the decisions about standardization.

Factors limiting standardization	Elements of marketing program		
	Product design	Pricing	Distribution
Market characteristics			
Physical environment	Climate Product use conditions		Customer mobility
Stage of economic and industrial development	Income levels Labor costs in relation to capital costs	Income levels	Consumer shopping patterns
Cultural factors	“Custom and tradition” Attitudes toward foreign goods	Attitudes toward bargaining	Consumer shopping patterns
Industry conditions			
Stage of product life cycle in each market	Extent of product differentiation	Elasticity of demand	Availability of outlets Desirability of private brands
Competition	Quality levels	Local costs Prices of substitutes	Competitors’ control of outlets
Marketing institutions			
Distributive system	Availability of outlets	Prevailing margins	Number and variety of outlets available
Advertising media and agencies			Ability to “force” distribution
Legal restrictions	Product standards Patent laws Tariffs & taxes	Tariffs & taxes Antitrust laws Resale price	Restrictions on product lines Resale price maintenance

Table 2.1. – Obstacles to standardization in international marketing strategies (Source: Buzzel, 1968)

Factors limiting standardization	Elements of marketing program	
	Sales force	Advertising & promotion, branding & packaging
Market characteristics		
Physical environment	Dispersion of customers	Access to media Climate
Stage of economic and industrial development	Wage levels, availability of manpower	Needs for convenience rather than economy
Cultural factors	Attitudes toward selling	Language, literacy Symbolism
Industry conditions		
Stage of product life cycle in each market	Need for missionary sales effort	Awareness, experience with products
Competition	Competitors' sales forces	Competitive expenditures, messages
Marketing institutions		
Distributive system	Number, size, dispersion of outlets	Extent of self-service
Advertising media and agencies	Effectiveness of advertising, need for substitutes	Media availability, costs, overlaps
Legal restrictions	General employment restrictions Specific restrictions on selling	Specific restrictions on messages, costs Trademark laws

Table 2.1. (continuation) – Obstacles to standardization in international marketing strategies (Source: Buzzel, 1968)

This table describes four main groups of factors that influence the level of standardization – market characteristics, industry conditions, marketing institutions and legal restrictions.

The author of this chart, Buzzel (1968), expresses the assumption that the most constant differences among the multinational markets are emerging from the physical environment meaning the climate, topography and the available resources, and those affect the sales potential for different products or services, the density of population and thereby the distribution channels and strategies. In today's society this might not

be true anymore, but further research is needed to confirm any statements. The product use conditions are influenced by lifestyle of the consumers (Buzzel, 1968), like the average size of their house or flat, number of family members in one household, the whole environment around the consumers and other. There are many examples for the product use conditions, like the quality of the roads is important for car sellers; the existence or non-existence of bicycle paths in towns can change the market strategy for bicycle providers; as well as the number of households having a computer is a crucial prerequisite for an internet service provider. Buzzel (1968) also states that the stage of economic and industrial development has a quite strong and direct influence on all elements of marketing. The main factor in this group is the income level of citizens, because it affects the purchasing power of customers and that affects the demand for a product and its price. The differences among developed and developing countries can affect the whole marketing concept because while in the first a product is assumed as an everyday consumer product, in the latter it could be considered as a luxury item (Buzzel, 1968). Also the size and type of the packaging needs consideration depending on the shopping patterns and might be that it needs to be changed to adapt to the local customs. The cultural factors are the most discussed factors when it comes to standardization (Buzzel, 1968; Cheon, Solberg, 2000; Cho & Sutherland, 2007; Gould, 2008; van Heerden & Barter, 2008). This might be explained by the fact that culture is complex and it takes a lot of efforts to get to know the culture of a certain country, not to mention the nuances among different regions of one country. These factors are made in the minds of customers (it can be seen in the chart where most of the factors are related to the attitude, traditions and customs, and certain patterns of behaviour) and this is the hard part of marketing – trying to exclude the personal thoughts and beliefs and to understand other people’s way of thinking.

Industry conditions are divided in stage of product life cycle in each market and competition. Buzzel (1968) stresses the importance of product life cycle and the industry development differences in each country, again especially between developed and developing countries. For relatively new products, like everything relating to the newest technologies, a market research has to be done to find out if the target market is ready for this type of product or service and what type of advertisement is needed to get the best results. Also the level of competition is “partly, but not entirely related to the product life cycle” (Buzzel, 1968) and the

differences in prices and quality of the competitor products and other substitute products could require a different marketing strategy or at least some changes in it. Buzzel assumes that these differences could be caused by the traditional levels of competition in each market, but he also says that the multinational companies have reduced these differences and made the markets more homogeneous (Buzzel, 1968).

The next standardization restricting factors in the chart are marketing institutions. By this factor the author (Buzzel, 1968) means the availability of distributive outlets and advertising media and agencies, and this could be the group of factors that has changed the most since this chart was introduced. Nevertheless there still are some variations among separate markets that need customized promotional methods, as well as price and discount structures, e.g., nowadays media availability could be more or less on an equal level everywhere, while the prices still have differences.

Legal restrictions usually affect more other functions of a company, but also the marketing department has to deal with some of them. The most careful about these restrictions have to be the companies, which produce and need to advertise and promote products that are unhealthy, like alcohol and cigarettes, because these laws differ very much in every country. But also for any other type of product and service there are some rules to be followed, like the prices and taxes, as well as trademarks and patents, and also packaging of the product, and many more nuances that are stipulated by different laws and protected by the consumer protection organizations.

2.3. Localization

While some multinational enterprises invest in developing standardization strategies and try to maximize their profit by minimizing expenditures with the help of economies of scope and other benefits, others blame standardization for slowing down experimentation and development of new products and services, even for turning the products and services into commodities when the price is the main factor in the decision making process (Rigby & Vishwanath, 2006). It is no secret that if a company wants to have a competitive advantage, it has to stand out in the crowd of others, and while most of the multinational companies concentrated on standardizing their offered production, others found out that localization can lead to the same and even a better result for them. In a study of standardization and localization

influencing factors Duncan and Ramaprasad (1995) found out that the fiercer the competition in the market, the more localized is the advertisements of multinational companies.

There are proofs that the society is becoming more diverse – a comparison of the lifestyle of people living in the United States of America showed that in 1970's it was enough with 40 segments, while nowadays the number of these clusters has grown to 66 (Rigby & Vishwanath, 2006). More articles speak about the localization as a new trend and defend this strategy as a more customer friendly and attractive than standardization.

One of the biggest problems of localization is the amount of information needed for introducing an effective customization. There are three issues regarding to the required information:

- 1) Information collection – it takes time and is very expensive to collect the required data on market characteristics of every target market and its segments;
- 2) Information storage and organization – the data does not only need to be saved and arranged, but also organized in a way that ensures easy and fast operations with it. The newest technologies allow to save a lot of information and find the needed data momentarily;
- 3) Applying the information – after the information is collected and stored, an analysis of it needs to be carried out to find out every markets needs and desires. This process is crucial for further product development and adjustment to the local consumers, and if it has to be done individually for every country or even every market segment, it can become very expensive and time consuming.

As can be found out in the existing studies of localization, clustering is one of the most commonly used methods to organize the massive quantity of data and to keep track on changes in the markets (Rigby & Vishwanath, 2006). There are many clustering techniques, but the main idea of it is grouping similar elements together (online dictionary Dictionary.com, 2009). In this case all the markets are the elements grouped depending on exact characteristics that are found to be the main influencing customer buying behaviour and decision making process. In this way the marketing activities can be accustomed to each of the clusters, and this process helps to notice

the similarities among different markets and reduces the number of marketing decisions that need to be made.

Usually 5% - 25% of standardized formats are localized to adjust to the needs of local target markets, but there are also some companies that are called “extreme localizers” that do not customize using the traditional segment based methods, but rather more sophisticated methods according to new consumer trends, like that consumer behaviour is influenced also by purchasing occasion, not just the segment, or that customers, who use more possibilities where and how to shop, e.g., the internet, a shopping mall and a small store, contribute to a larger part of a company’s income than the others (Rigby & Vishwanath, 2006).

As mentioned before, information technologies and their rapid development makes localization much easier and more successful, but not just in a way of storing, analyzing, and sharing information, but also for enabling a more thorough understanding of the customer purchasing patterns. With the help of establishing internet stores and offering customers to buy their products online companies can create databases containing so specific information as never before. With every click and with every product a customer takes a closer look at, the company expands their database with important information that helps finding out customer demand patterns and analyze the similarities and differences among certain regions and target segments. The online store offers more possibilities than a physical store, e.g., a higher range of goods, and that is why establishing such in-depth databases is easier and they are provided with much more precise information (Rigby & Vishwanath, 2006).

However, also the decision about localization – whether to localize, what and how much to localize, has to be carefully thought over, because establishing a localization strategy that really is profitable and can have a high competitive advantage is neither an easy, nor a fast process. It needs information collection and handling, and as quite many of the organizational functions like manufacturing will have to be customized, a loss of economies of scale is inevitable (Rigby & Vishwanath, 2006). Boyd Rogers, the president for supply chain of VF, a company that is one of the leaders for localizing consumer products, has a good experience in localization and says: “It is not unusual for localization to improve sales by 40% to 50% while simultaneously

reducing store inventories and markdowns.” and he is confident that customization is one of VF’s greatest competitive advantages (Rigby & Vishwanath, 2006).

When a company has found out that customization could be profitable and help gaining competitive advantage, the matter is to decide, which variables should be localized. There are a quantity of possible variations how to apply localization, and Rigby and Viswanath (2006) suggest sorting all the elements that can be customized in three categories – offer, location, and time variables. In the following table the organization of the main elements is represented. This chart could be a guideline for companies in their decision making process, which of these variables have a greater impact on their product sales and therefore which of them would be more useful to customize.

WHAT: offer variables		
<p>Branding: Store (banner names) Product labels Vendor brands Proprietary (private brands)</p> <p>Store formats: Size and layout Store design type</p> <p>Merchandise space and assortment: Division Category Department Classification Attributes Style and flavour Color Size Good/better/best range Pack counts Packaging design</p>	<p>Pricing: Everyday low vs. high-low policies Ranges Points Matching policies</p> <p>Promotions: Types Temporary price reduction levels In-store displays Markdown policies Frequency Depth</p> <p>Vendor policies: Information sharing Expense sharing Product collaboration</p>	<p>Marketing programs: Spending levels Media mix Major messages</p> <p>Store service levels: Store hours Labor quality and schedules Delivery policies Checkout stations Special services (e.g., delivery, repair)</p> <p>Vendor services: Direct store delivery Replenishment and stocking Customer education</p> <p>Operating policies: Inventory levels Sourcing strategies Shrink controls Information sharing</p>
WHERE: location variables		
<p>Consumer characteristics: Demand patterns Store purchase Area purchase Geodemographics and attitudes Population density Age Income Marital status Ethnicity Religion Lifestyle segment Psychographic</p> <p>Special Demand Drivers: School seasons Hunting and fishing seasons Activities and sights Ski resorts Beach towns</p>	<p>Athletic teams Tourist attractions Military bases Special events Cinco de Mayo Pioneer Day Religious holidays Climate zone Temperature Precipitation Potential weather events</p> <p>Competitor Characteristics: Store saturation levels Market share Store locations Store formats Pricing levels Promotion policies Marketing programs</p>	<p>Our Own Store Characteristics Our market share Our store locations Location characteristics Site quality ratings Our store formats Sizes Design types (models) Condition Square footage allocation Special fixtures and displays Merchandise placement zones Stores of our sister division Locations Merchandise mix</p>
WHEN: time variables		
Hour Day	Week Month	Season Year

Table 2.2. – What, where and when should we localize? (Source: Rigby & Vishwanath, 2006)

2.4. A mix of both strategies

2.4.1. Standardization with a local touch

Experience of multinational companies proves that the right balance between standardization and localization has to be found, because as well total standardization, as total localization can lead to disadvantages for the company (Rigby & Vishwanath, 2006). The leading marketing managers of multinational companies suggest that the decision making has to be centralized also in the case of a localization strategy, because the local managers cannot see the whole situation thoroughly and often lack experience and relevant information needed for decision making (Rigby & Vishwanath, 2006). This leads to the necessity of the previous mentioned information organizing and processing methods, because all the data of every subsidiary has to be collected together in the headquarters and analyzed centrally by experienced managers. A meta-analysis of studies about standardization and localization of international marketing and advertising strategies found out that if the subsidiaries of multinational companies are very autonomous in making decisions then there could be problems in establishing “brand awareness, equity, or consumer familiarity” (Cheon, Cho & Sutherland, 2007). This finding suggests standardizing the programs and the way they are realized, letting the subsidiaries adjust it to the needs of the local market. Thereby it supports the method, which Rigby and Vishwanath have found in some multinational companies, when standardized decision efficiency is combined with the uniqueness of a local touch (Rigby & Vishwanath, 2006). “7-Eleven” has named its organizational structure “centrally decentralized” (Rigby & Vishwanath, 2006). The same opinion is expressed by Solberg (2000), who has concluded on a basis of reviewing extant literature that multinational companies seem to centralize their marketing decision making, at the same time leaving space for open dialogues with the local subsidiary managers.

2.4.2. Clustering

Nowadays to sustain competitive advantage among the fierce competition the companies have to customize their products and services to adjust them to certain segments of the market (Brijs, 2002). However, this does not mean that the company that decides in favour of the localization strategy has to do without the advantages that

standardizing can enable. With the help of segmentation and the previous mentioned clustering it is possible to apply a mix of standardization and localization and thereby gain the advantages of both strategies. Market segmentation could be described as dividing the market into different groups of customers who react similarly to the elements of marketing mix – product, price, place, and promotion (Brijs, 2002). Rigby and Vishwanath (2006) reveal a positive experience of more companies, which have applied standardization using clustering of the market segments according to customer demand patterns and customizing marketing activities for every segment individually. Clustering also becomes useful when the target market of a company is expanding more and more. Grouping different market segments into only few groups reduces a significant disadvantage of customization - the number of decisions that need to be made (Rigby & Vishwanath, 2006) and it is easier to keep a clear look over everything and not to make unpopular decisions that could lead to a significant part of the market remaining unnoticed.

2.5. Headquarters-subsidiary relationship

2.5.1. Headquarters-subsidiary relationship model

The organizational structure of a company correlates with the standardization and localization decisions of these companies, and the level of the headquarters' autonomy influences the success of standardization and localization (Solberg, 2000; Rigby & Vishwanath, 2006; Cheon, Cho & Sutherland, 2007).

Solberg (2000) has developed a model of four different organizational solutions, based on two dimensions – the headquarters' market knowledge and the headquarters' influence on marketing decisions. Market knowledge in this model is defined as “the level of understanding at HQ of diverse local marketing conditions”, whereas influence on marketing decisions contains “the extent to which the HQ coordinates and controls the content of local marketing activities in foreign markets” (Solberg, 2000).

Market Knowledge	Deep	<i>Confederation</i> Conscious development of local strategies; some learning and control	<i>Federation</i> Global strategies in cooperation with local representatives; learning and control
	Shallow	<i>Local baronies</i> Disparate profiles in different markets; limited learning and control	<i>Civil War</i> Standardized marketing without market knowledge; source for conflict
		Mainly local representative	Mainly HQ

Influence on Marketing Decisions

Figure 2.1. Classification of Governing Strategies in International Marketing (Source: Solberg, 2000)

On the base of this model Solberg (2000) suggests that the companies that can be categorized in the “local baronies” field are the furthest away of internationalizing, and could be having problems with establishing a unite brand image in all markets, but those, who want to establish a high centralization level with a shallow market knowledge will end up with a strong opposition from the local managers. He also expresses that headquarters of the companies in “confederation” are aiming for a more localized approach, because these companies “operate in markets that are less affected by globalization driving forces (e.g., global competition, international retail chains, demand homogeneity, liberalized trade)” (Solberg, 2000). At last but not least the companies called “federations” have a high extent of centralization, but also the local representatives take part in the decision making process by advising the headquarters about local marketing strategies (Solberg, 2000).

2.5.2. Sharing marketing knowledge

Sharing marketing knowledge is a crucial prerequisite for a successful marketing standardization, and when a company uses the marketing knowledge from its subsidiaries, the different marketing strategies applied in the subsidiaries obtain a higher level of standardization, thereby also a global brand image and more efficient marketing processes (Roth, Jayachandran, Dakhli & Colton, 2009). Also in the case of

a total autonomy of the headquarters and no decision freedom for subsidiaries, there has to be a continuous exchange of relevant marketing data, including explicit, as well as tacit knowledge. As mentioned before, for some multinationals the strategy called “centrally decentralized” is perceived to be the most suitable, and thereby the cooperation between the subsidiaries and the headquarters is highly rated and developed. Marketing knowledge includes not only general knowledge about different marketing strategies and their use, but also market knowledge, which is defined and examined in the previous chapter.

Knowledge is a resource that is hard to evaluate and measure. There is no way to say how much knowledge is needed to develop new products, services, technologies, or strategies, but exactly knowledge is the resource that can help a company with gaining competitive advantage and the more knowledge there is available for the company the more significant predominance it has among other enterprises. The product or service that the company offers might be the same or very similar to that of the competitors but with the right knowledge it is possible to establish a smart strategy and appealing marketing and accordingly get a high added value that makes this company’s products superior to the others.

Knowledge in general is also very expensive because of the high potential that it contains. That is why it is extremely important to appreciate this resource and not to waste any of it. Multinational companies can gain economies of scope by learning from the experience of other subsidiaries and sharing their marketing knowledge with highly developed efficient information flows.

2.5.3. The enabling and motivating factors for sharing marketing knowledge

Marketing knowledge may be defined as the knowledge that the company gains during accomplishing the marketing to sell its products or services and it can contain everything that is related to marketing issues, e.g. clients, target markets, competitors, marketing strategies etc. (Roth, Jayachandran, Dakhli & Colton, 2009). There has been a study on foreign marketing knowledge that is the marketing knowledge, which is obtained in subsidiaries outside the case company’s location country, to find out how and to what extent does a company’s unit use the foreign marketing knowledge. The authors of this study claim that there are some organizational factors that

determine how efficient the use of foreign marketing knowledge can be. These conditions that enable and motivate the knowledge sharing include shared dependency, knowledge sharing processes, marketing experience, turbulence, cross-subsidiary market similarities, and measured outcomes

By creating a shared dependency the authors (Roth, Jayachandran, Dakhli & Colton, 2009) mean letting the knowledge holders (marketing staff members of headquarters and subsidiaries) know how important is the knowledge sharing process. It could help subsidiaries of a multinational company to gain tacit knowledge that is harder to get and analyze than explicit knowledge, and this is especially important in marketing where most of the knowledge required is tacit, but usually the subsidiaries do not share their experience and do not evaluate the appropriability value of knowledge as high as they should (Roth, Jayachandran, Dakhli & Colton, 2009). The shared dependency can be achieved with the help of shared corporate goals, vision and values, common cultural events and other incentives.

As sharing knowledge is a quite complicated process, when the subsidiaries are all over the world, there has to be a well organized efficient information flow across all subsidiaries and the headquarters and the process of sharing should be clear and easy completed by every marketing director or manager in such a way that it would not take much time and therefore reduce any motivation to share the knowledge. Nowadays the development of technologies makes this process much easier and the growing amount of information can be processed faster and more efficiently, and sharing the relevant data can be accomplished without interpersonal communication, e.g., with the help of video-conferences. Some of the multinational companies relocate their marketing personnel to their foreign subsidiaries from time to time to share their experience and lead by example, but most often they practise conference calls once a week for creating personal contact between the managers and thereby increasing the willingness to share their information (Roth, Jayachandran, Dakhli & Colton, 2009).

Marketing experience is a motivating factor and lets the manager of a subsidiary to get crucial information from other more experienced subsidiaries. This marketing knowledge is especially important if the product is in different life cycle stages in different countries and also when a subsidiary faces a problem that occurs for the first time in this country but is quite common in another country (Roth, Jayachandran,

Dakhli & Colton, 2009). Sharing marketing experience is the easiest, fastest and cheapest way to solve marketing issues and requires only internal resources.

The fast changes in the company's target market and the technology development motivate the marketing personnel to interchange their experience and knowledge. The market and technology turbulence is responsible for increasing the executional uncertainty and is especially typical for medium- to high-technology market companies, which offer products with short life cycles and whose competitors launch new products almost at the same time in their global markets (Roth, Jayachandran, Dakhli & Colton, 2009). In these multinational companies it is quite common to use marketing knowledge of another subsidiary because of lack of time to gain this knowledge by themselves, e.g., the marketing managers are exchanging with their market research studies.

Cross-subsidiary market similarities can be as well shared customers and competition, as cultural distance, and these similarities might persuade marketing managers to cooperate and work together to achieve better results (Roth, Jayachandran, Dakhli & Colton, 2009). In many cases, especially in business-to-business transactions, the customers of multinational companies are other multinational companies that require a standardized approach, hence stimulating the subsidiaries to share the market knowledge and use the same strategy. In global markets also a great part of competition is caused by other multinational companies, thereby making it easier to ask for help the managers of other subsidiaries, which already have had a similar experience with a competitor, than to obtain this kind of information by themselves. Speaking about cultural similarities the marketing managers tend to rather trust information that comes from a subsidiary, which is operating in a market that is similar in the cultural aspect than other subsidiaries (Roth, Jayachandran, Dakhli & Colton, 2009).

Another factor that makes sharing marketing knowledge desirable is measured outcomes, meaning that to motivate the managers to accept and use other subsidiary's experience, the knowledge has to have clearly visible and tangible results, like positive outcomes when using this idea or strategy in the past, not just some theoretical ideas or assumptions (Roth, Jayachandran, Dakhli & Colton, 2009).

Marketing knowledge is very expensive and there are not so many good experts, and "good ideas tend to have a universal appeal" (Buzzel, 1968), but the companies still

have to be careful when using the same advertisement in more countries, because not always an idea that has been very successful in one country will have the same effect in another country. This is a general matter of marketing that speaks in favour of standardization, at least of a partial one.

Knowledge sharing does not need a strict organizational structure between the headquarters and the subsidiaries. There are companies that have a decentralized organizational system, but still manage to establish and improve common resource centres where all the information and knowledge can be stored and transferred and the staff members are motivated to actively participate in the knowledge sharing process (Vernon-Wortzel & Wortzel, 1997).

2.5.4. Problems with sharing marketing knowledge

There are quite many problems organizing the sharing of knowledge among subsidiaries in different countries, therefore the CEO of the company has to make many efforts to motivate the marketing managers to speak about their achievements and also failures. One of the marketing managers said that people tend to hide their experience if they have been unsuccessful (Roth, Jayachandran, Dakhli & Colton, 2009). But also the negative experience is relevant information that could help other marketing staff members not to repeat the same mistakes and to come up with better solutions.

The management of the subsidiaries has to be organized in a way, which drives the managers of the subsidiaries to work in a team and to reach for corporate goals; in this case a competition among the subsidiaries will be an unsuccessful approach, for it will reduce any foreign knowledge sharing (Roth, Jayachandran, Dakhli & Colton, 2009).

A problem, which can be solved with the help of developing information technologies, is a possible overload of information (Roth, Jayachandran, Dakhli & Colton, 2009). If the shared data and information is not sorted and cannot be found by the marketing manager who needs it and when he needs it, the whole knowledge sharing process loses its importance and usefulness.

3. Standardization and localization of the marketing mix elements

As discussed before there can be and usually there is a mix of standardization and localization strategies. In the extant literature sources authors (Buzzel, 1968; Solberg, 2000; Cheon, Cho & Sutherland, 2007; van Heerden & Barter, 2008) use McCarthy's (McCarthy & Perreault, 1990) suggested classification of marketing mix named "the four P's" - product, price, place and promotion. These marketing mix elements are used to represent to what level standardized or localized the international companies are. Existing literature on standardization regarding each of the four P's is analyzed and the advantages and disadvantages are summarized.

On the basis of a literature review it can be assumed that three of four marketing mix elements tend to be localized – price, promotion and place or distribution (van Heerden & Barter, 2008; Gould, 2008). The most discussed variables regarding the issue whether to standardize or localize are advertising and branding. This could be explained by the fact, that promotion (including both advertising and branding) has a closer connection with a company's customers and their buying behaviour differences than the other marketing mix elements. Also Duncan and Ramaprasad (1995) mention cultural differences as an obstacle for a universal application of standardization in advertising.

3.1. Product

In a study of the role of culture in standardization and localization decisions van Heerden and Barter (2008) have found that the marketing specialists of multinational companies assure that the product is usually standardized. Also other studies on localization and standardization (Duncan & Ramaprasad, 1995; Rigby & Vishwanath, 2006) pay a greater attention to other marketing mix elements – promotion, place and price. Considering the product standardization in different markets the product life cycle has to be taken into account. There are different attitudes and usage patterns of the products in different markets, especially between markets in developed and developing countries. It can be possible to use the same strategy in a developing country as the one that was used in a developed country some time ago, but "the

history does not repeat itself exactly, and past marketing strategies cannot be reapplied without some modifications” (Buzzel, 1968).

Some marketing experts argue that standardization is possible for just some particular products whose brands are known worldwide and very little knowledge is required to use the product (van Heerden & Barter, 2008). But as the world gets more globalized, the consumers get more educated and there are not so strict differences among separate countries, but there still might be differences among the regions of the world, like East Europe against West Europe or against Asia etc. And some factors still play a quite significant role for standardizing the product marketing, like the product use conditions that are described in the previous chapter.

3.2. Price

Most of the key decision makers of multinational companies surveyed about standardization and localization in their companies had a unanimous point of view that the price policy always has to be localized because of the differences in the economies (van Heerden & Barter, 2008). The price is an element of the marketing mix that is very easy to customize and to adjust to every market because there is no need to include the price in the advertisements or printed materials, nor on the product packaging. And also the discount policy can be changed easily to attract more customers depending on their shopping patterns, e.g., the customers of one country could be accustomed to large sales and they are always waiting for discounts to buy the required products while in other countries this discount system does not have a big influence on the customer behaviour.

One more difference is the customer willingness to pay. That is why in setting a price for the service, also to the way how the consumers perceive the service has to be studied. It is important, if the target customer is willing to pay more for a higher quality or does he need just the basic features of having an internet connection for a price as small as possible.

The role of economical circumstances of a market can be seen in Table 2.1. - Obstacles to standardization in international marketing strategies in chapter 2.2.

3.3. Place

For the place of the distribution there is usually a need for customization – even if there is a standardized distribution strategy, it calls for localization in every market or separate groups of markets (van Heerden & Barter, 2008). This depends again on the cultural circumstances and lifestyle of the customers – do they prefer little shops and an individual approach, or big shopping malls, or shopping on the internet etc.

In the service sector there always have to be people that are interacting with the clients – performing the service, helping and advising them (Blois & Grönroos, 2000). That is why the distribution channels cannot be totally standardized. Although the main idea of providing the service can be the same for every subsidiary, customer service has to be localized.

An advantage that has to be analyzed regarding to this element of marketing mix is outsourcing. Many multinational companies establish their factories or warehouses in developing countries where the costs for manpower and other resources, like the rent of real estate, are much lower than in developed countries. This is usually a managerial issue, not a marketing department's problem, but the marketing department has a role in deciding whether there is a need for a new subsidiary and what level of customer service is required in a new market.

3.4. Promotion

Speaking about branding and brand image there can be found different examples of multinational companies whose strategies are completely different. Everybody knows The Coca Cola Company and McDonald's Corporation because they use the same brand everywhere and they also have standardized a part of their production, and there are also companies like Procter & Gamble Co and Unilever who operate mainly not with their corporate brands but with many different brands for each of the product lines. This fact proves that there are more ways how to deal with standardization according to the brand and that they can be equally successful. Bruno Boton, global director branding and communications, Research International, is convinced that the brands of luxury products do not need to be localized otherwise their global and aspirational appeal will be reduced, but some of day-to-day used product brands, like

food and personal care, should be localized to get the best results (Hargrave-Silk, 2005).

For choosing the best strategy for promotion the identification of the consumers with the product or service takes a significant role. As found in a study on brand reputation, “there is a strong connection between brand, individual identity and culture” (Veloutsou & Moutinho, 2009). This factor might change the whole marketing strategy, for although the product itself remains the same, still the reason, why customers decide to buy this exact product, is an individual matter and is affected by different circumstances. If the same service is offered to a customer who thinks that this service is a necessity and to a customer who is expecting this service to raise his prestige, the marketing strategy in both cases has to be completely different (Buzzel, 1968). This identification with the service can differ over different market segments, and, if a service can be offered to more than one market segment, the marketing has to be adjusted to every segment separately.

4. The case company and industry

4.1. Hansa Internets Ltd. group of companies

Hansa Internets Ltd. is a group of companies, which have a headquarter-subsiary relationship. It operates in the service sector and provides households with a wireless internet connection. According to the European Commission Regulation 364/2004 (European Communities Regulation No. 364/2004, 2004), Hansa Internets Ltd. is a small company. It has ten employees and its turnover of the year 2008 is LVL 180 000 (Annual Report 2008 of Hansa Internets Ltd., 2009). Hansa Internets Ltd. has two subsidiaries – even smaller companies which are providing the same service in other regions of Latvia. Hansa Internets Ltd. was founded in year 2004 and is operating in Kurzeme, the first subsidiary Silvernet Ltd. was founded in year 2007 and is in Latgale and the second subsidiary Evernet Ltd. was established in 2008 and is situated in Vidzeme. At the end of year 2008, the number of customers was 451 physical and legal entities for Hansa Internets, 111 for Silvernet, but unfortunately because of some organizational problems, none for Evernet yet. Evernet Ltd. had its first clients in the beginning of year 2009.

Hansa Internets Ltd. is a wireless internet service provider. Wireless internet means that the internet connection is established with the help of a signal through the air. The only prerequisite, if a customer wants a wireless internet connection at home, is that there has to direct visibility from the customers home to one of the company's aerials that are usually placed on some towers or high chimneys in the territory. If the visibility is clear, the signal can go through without any problems. This type of internet connections has its plusses and minuses. The wireless internet connection is easy to establish almost everywhere that means that this is a big competitive advantage compared to the biggest competitors – the cable internet providers, who can offer their service only in the towns, but not in the country regions, where it would cost a lot of money to lay the cable. And the weakest point for this internet type is the quality of it, because the signal can be disturbed by some obstacles like big trees between the house and the aerial. Also the connection is not secure against bad weather conditions, e.g. when there is a strong wind or storm, the internet signal can get weaker or disappear at all. But as mentioned before, for the people who live in the country regions, it is not possible to get a cable internet connection that would be

more stable, so they do not have a big choice. Among the wireless internet competitors, Hansa Internets Ltd. service quality is one of the best and it is not the company's task to compete with the cable internet providers, because they are operating in another market segment.

There is no marketing strategy implemented and from the establishing of the headquarters in 2004 until now there have been some uncoordinated and unreasoned marketing activities without a profound market study. But until recently marketing was not the main issue, because there were enough customers and the demand for an internet connection was still growing. Now the situation is changing – the company is growing and it is more difficult to organize it, and also the potential customers are harder to attract because of the fierce competition and the differences in customer behaviour because of the financial crisis. Because of the crisis the future of entrepreneurship in general is getting unpredictable, hence the companies are spending more time on planning how to reorganize their processes to gain a higher efficiency. That is why it would be useful for Hansa Internets Ltd. to establish a marketing plan for the nearest future and to solve the localization versus standardization problem, to save time and other resources as well as to take over a greater market share.

Speaking about the customer relationship management, there are just two major groups of customers – the physical and legal entities. Among the physical entities that are normally households, there is not a big distinction – all of them pay the same amount per month and use the same service. That is why usually there is not a different approach to different clients. Exceptions are only some clients, which have some complaints and need a special service or special internet connection. There are always problems with these clients and the customer service has to be very careful and very patient. Another exception is the legal entities, which have different kind of service with a higher quality and they also pay more for their services. These customers are especially valuable to the company, because they need just a little more attention than the physical entities, but they bring in much more money, therefore it is very unfavourable to lose any of these clients.

4.2. Market segmentation for the case company

There are four regions in Latvia relating to the history of civilization – Kurzeme, Zemgale, Latgale and Vidzeme. When the Latvian National Development Plan for the years 2007-2013 was made, there were 5 regions established, by taking into account the historical division and agreeing with the local governments – Kurzeme region, Zemgale region, Vidzeme region, Latgale region and Riga planning region (the official website of the Latvian National Development Plan 2007-2013, 2006). Hansa Internets Ltd. group of companies is operating in three of the regions and therefore it should be useful to make a geographical segmentation and to apply marketing in a different way for each of the regions by looking at the history of these regions and the differences of the inhabitants.



Figure 4.1. – Regions of Latvia (Source: Latvian National Development Plan 2007-2013, 2006)

4.3. Kurzeme

Kurzeme is a region with 303 thousand inhabitants (the official website of Central Statistical Bureau of Latvia, 2009) in the West of Latvia. Since ancient times it has been known for its fishery and international trade traditions and nowadays accessibility of the sea has a significant impact on the development of Kurzeme. In the Ancient Times and also in the Middle Ages people from Kurzeme were known as courageous warriors who were involved in many battles and alliances with the

Swedish, Danish and Icelandic Vikings. It is said that the people from Kurzeme are tough, stubborn, and more self-sufficient than the other Latvians.

4.4. Latgale

Latgale has almost 350 000 inhabitants and is situated in the South-Eastern part of Latvia. Latgale is the poorest region of Latvia, and it has a high unemployment rate (in the end of year 2008 it reached 10% (the internet portal of the newspaper Diena, 2009)) and the lowest natural growth of population (-9.0 per thousand inhabitants). A significant fact is that there are many other nationalities in Latgale and Latvians make less than a half of the population there – only 43.8%. The other part consists of mainly Russians (39.5%), Poles (7.1%) and Belarusians (5.5%) (the official website of Central Statistical Bureau of Latvia, 2009). The people in Latgale are very friendly and open to each other, religious, helping, and they like to laugh about themselves. People living in Latgale speak Latvian with a strong dialect and use many words taken over from Russian language.

4.5. Vidzeme

Vidzeme is situated in the North East of Latvia and there are about 240 thousand people living in this region making it the smallest of these regions. Also this region has a long history about invaders and different nationalities living there, nevertheless Vidzeme is the region where the percentage of Latvian citizens nowadays is the highest (85%) (the official website of Central Statistical Bureau of Latvia, 2009). People in Vidzeme are kind, helpful, and hospitable and appreciate the Latvian culture very much.

4.6. Comparison of the regions

A table with the most important data comparing the regions is established for a better overview of the differences in the regions where the headquarters and subsidiaries of the case company are operating.

	Kurzeme	Latgale	Vidzeme
Basic information			
Population ²	303 000	350 000	240 000
Number of towns ³	16	14	16
Number of households ⁴	121 300	139 300	90 900
Percentage of other nationalities ⁵	26.1%	56.2%	15%
Economical information			
Average wage, gross ⁶	EUR 581	EUR 485	EUR 542
Percentage of people living under the poverty threshold ⁷	23%	40%	28%
Industry information			
Percentage of households having a computer ⁸	52.7%	45.3%	47.3%
Percentage of households having an internet connection ⁹	52.8%	39.5%	43.6%

Table 4.1. Comparison of regions Hansa Internets Ltd. is operating in (the Author, 2009; the official website of Central Statistical Bureau of Latvia, 2009)

The chart informs that Latgale differs the most among these regions. Firstly, being the largest in terms of population it has the smallest number of towns. If these indicators are taken into account and it is assumed that the average town in Latgale is not bigger than an average town in other regions, it can be concluded that in Latgale a relatively greater part of population lives in countryside. Secondly, it has the highest percentage of inhabitants of other nationalities, and it shows that less than half of people living in Latgale are Latvians. Thirdly, the average income level is the lowest of all regions, what leads also to the next indicator – the poverty index – being the lowest. The statistical data show that the average percentage¹⁰ of people living under the poverty threshold was two times higher in the country regions (33%) than in the towns (16%) in year 2007 (the official website of Central Statistical Bureau of Latvia, 2009). To

² Data of the beginning of 2008

³ Data of the beginning of 2008

⁴ Data of the beginning of 2008

⁵ Data of the beginning of 2008

⁶ Data of 2008; exchange rate of Bank of Latvia – 1 EUR=0,702804 LVL

⁷ Data of 2007

⁸ Data of the beginning of 2008

⁹ Data of the beginning of 2008

¹⁰ Including all data of Latvia, not just these three regions

some extent this tendency could explain the economical differences between Latgale and other regions, if a relatively larger part of Latgale's inhabitants are living in countryside, but still it does not change the factor, that Latgale is the poorest of these regions.

When comparing the data important to the specific industry in regions, Kurzeme is slightly ahead in development of the information technologies. 52.7% of the households in Kurzeme have a computer and 52.8% have an internet connection, while in Vidzeme 47.3 out of a hundred people have a computer at home and 43.6 of them have internet and in Latgale there are computers in 45.3% of the households and internet in 39.5% of the households (the official website of Central Statistical Bureau of Latvia, 2009). It is interesting that in Kurzeme the percentage of people having computer is even a bit lower than the one having an internet connection. This might be explained by people not having a computer at home but using a laptop of their workplace at home. According to a survey about e-communications in households of European Union (Eurobarometer, 2007), Kurzeme is almost at the average level of EU. The percentage of households in EU having a computer is 57% what is a bit higher than in Kurzeme, whereas out of 100 households in EU 49 have an internet connection, and that is 3 per cent less than in Kurzeme.

Among the differences that can be expressed in figures, like the financial parameters, there is a set of characteristics that cannot be determined so easy, but that could differ in the regions, e.g., customer lifestyle, needs and desires, also perception of life. These characteristics have to be determined to know which of them and to what extent influence the choice of the case company's target customers. There is an example of customer differences among the different regions in the following chart, showing not the real financial situation in the households, but their financial self-appraisal. This diversity can call for changes in promoting the service. This table of financial self-appraisals can be compared with the percentage of people living under the poverty threshold to see to what extent the self evaluation differs from the real financial situation. Both of these statistical indicators are measured in year 2007.

Financial self-appraisal of Latvian households in regions, 2007

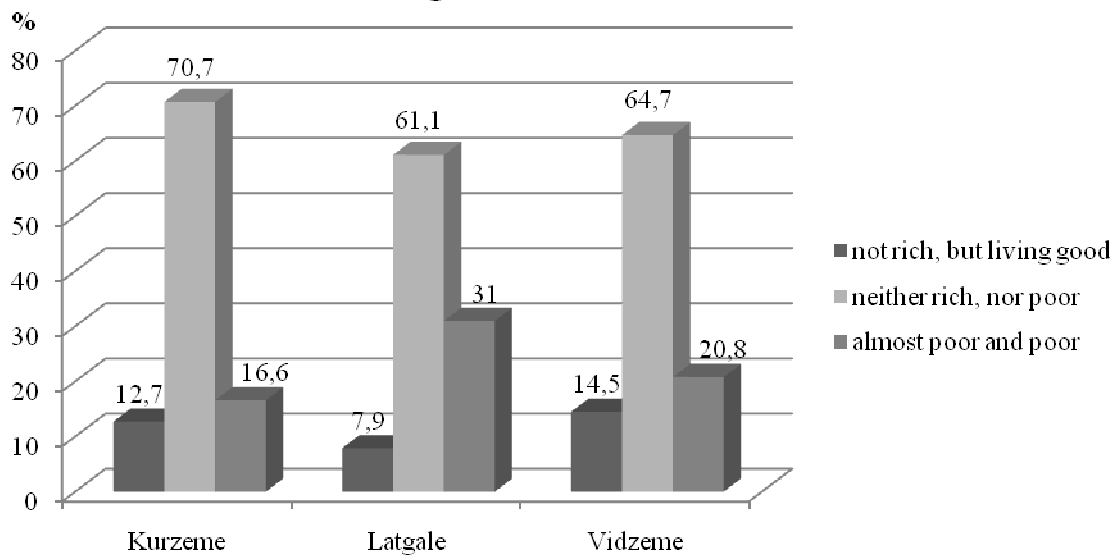


Figure 4.2. Financial self-appraisal of Latvian households in regions, 2007 (the Author, 2009; the official website of Central Statistical Bureau of Latvia, 2009)

The table depicts the financial self-appraisal of households in different regions in Latvia. A similar tendency to the one of poverty index can be observed here and Latgale has the lowest indications. The general impression of this table is that people are more optimistic about their finances than the real situation is – 16.6% of households in Kurzeme, 31% in Latgale and 20.8% in Vidzeme think they are almost poor or poor, while the percentage of people living under the poverty threshold is accordingly 23%, 40% and 28%.

Also this kind information is relevant for marketing, for it shows how positive or negative the customers are about their income level, and can indicate the main drivers of their buying behaviour, e.g., customers who think that they are almost poor or poor will not need an internet connection at all or will consider its price as the main limiting factor.

As Hansa Internets Ltd. and its subsidiaries are located within borders of one country, not all of the obstacles that influence the standardization versus localization marketing decisions in multinational enterprises have the same role and power in this case, but still the cultural diversity and customer buying behaviour, as well as differences in their taste can have a great influence on the success of a company's marketing activities.

To find out if there is a need for a local responsiveness in each of the subsidiaries, there has to be gathered main data about the situation in every region. This data should include all the most important things for an internet service provider – the number of households, the number of households with a computer but without an internet connection, the offerings and the prices of competitors, the average wages, the nationality of the potential customers, the lifestyle of people. This data can help understanding the differences of the regions and develop an individual approach for each of the markets.

It can be assumed that the Latvian market is small enough to be studied thoroughly and that different market niches can be found that are the right target customers for a wireless internet connection. By taking an example from the multinational enterprises, Hansa Internets could find out new ways how to organize its marketing activities in a way that helps gaining competitive advantage, and develop a strategy that needs the right approach, standardization or localization, for every activity, starting with product design and pricing to complete marketing campaigns.

5. Framework for the case company

In order to develop a marketing plan the company has to find out which strategy is the most suitable – localized so that it doesn't lose customers to the local small competitors, which know the customers very well, or standardized to gain some economies of scope, e.g. to operate with just one brand not with several different ones and to establish an association of quality and loyalty of the brand, to make a centralized call centre, to cut costs by sharing marketing knowledge and planning marketing activities centralized etc.

As mentioned in the theory review, there are three main aspects that cause debates most often when speaking of standardization versus localization - the level of globalization of the today's society, the advantages and disadvantages for the company when standardizing and when localizing, and the actual ability of a company to introduce a successful standardization. In this thesis the existent literature about these three aspects is reviewed and analyzed to find out the most efficient strategy for a group of companies in one country considering also the fact that this organization is operating in the service sector.

The never ending discussions about globalization affect also Hansa Internets Ltd. although it operates within the borders of one country. This process concerns customers of all over the world and their movement towards a homogeneous market or on the contrary – dividing into more and more small groups with diverse interests and behaviour patterns. A market research has to be carried out to find out the extent of how similar or different the internet users in different regions are. If signs of a homogeneous market can be found a standardization strategy might be introduced, but if the customers prefer a customized approach, localization strategy will be more desirable. It is unlikely that an extreme result will be found; therefore a mix of both strategies is more likely to be needed.

Taking into account the experience of multinational companies with their decisions on standardization and localization can be helpful also for organizing a marketing strategy for a headquarters and subsidiaries within one country. International marketing is a more complex process than marketing within one country's borders, but also in a little group of companies it has to be developed and controlled in order to gain the advantages. Small- and medium-sized enterprises often do not pay enough attention to planning and developing a marketing strategy. This statement is true for

the case company. There is no marketing strategy and without it the marketing activities are quite chaotic and not as effective as they could be. This leads to spending resources on marketing without measuring and analyzing its outcome. Another factor why it is advisable to take an example from the multinational companies is their marketing knowledge. The marketing managers working in international companies are highly educated and very experienced. Small companies usually do not invest a lot of resources in marketing issues; sometimes there is even no one to carry out marketing activities. That is why the experience of multinational companies can be as a useful example for the smaller companies.

The possible advantages and disadvantages of standardization and localization strategies, as well as the prerequisites for both strategies have been analyzed for the case company in further chapters.

5.1. Headquarters-subsidary relationship model for the case company

According to theory on marketing knowledge sharing in headquarters-subsidary relationship that is required for introducing successful standardization and localization strategies, there has to be a close link between the headquarters and the subsidiaries as well as between the subsidiaries themselves. According to the theory review on the best practices of experienced multinational companies it is possible to draw a framework for headquarters-subsidary relations in the case company.

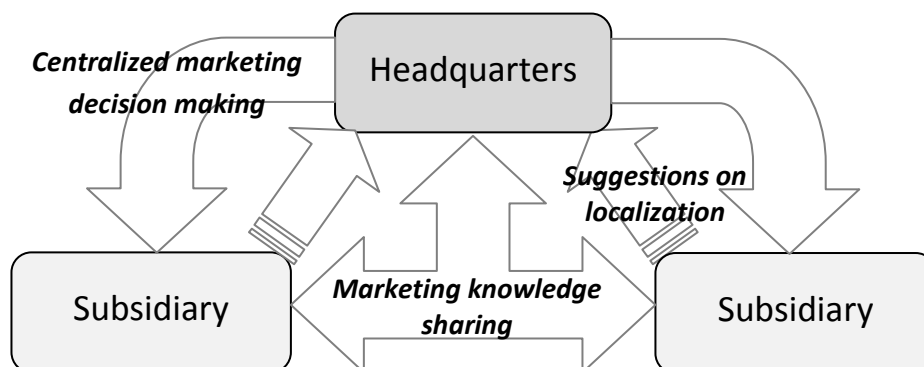


Figure 5.1. Headquarters-subsidaries relationship model for a better marketing organization (the Author, 2009)

This developed relationship model suggests:

- 1) a centralized marketing decision making in the headquarters, because there all the needed resources and skilled and experienced managers;
- 2) suggestions on localization from the subsidiary managers, because only they can obtain information on small nuances that could improve marketing results;
- 3) a developed information sharing process, with the help of which the managers of headquarters and also the subsidiaries can share relevant marketing knowledge.

5.2. Clustering

Because of the specifics of this service industry, clustering would be a good solution for gaining advantages both from standardization and localization. As there can be defined different market segments dividing all internet users in several groups, each with different demand and decision making patterns, it would be advisable to apply clustering in order to customize the marketing activities, at the same time not losing a possibility for economies of scale or saving resource on a more sophisticated decision making. In this way the market segments of all regions can be grouped and the marketing decision making can be centralized, e.g., marketing activities for legal and physical entities have to be planned separately, but they can be planned for all regions simultaneously. Nevertheless the differences among the regions have to be considered, and minor adjustments of the marketing activities should be made locally.

5.3. Standardizing or localizing of the 4 P's for the case company

5.3.1. Product – standardized

As the main idea of having an internet connection and its benefits are clear to most consumers in the world, although there are differences in the percentage of internet users in the market or the purposes why it is used, internet can be placed in the category of products/services that do not have much product knowledge requirements for use. Drawing up conclusions from existing literature, this service can be standardized to a high level and, as the case company is operating within the borders

of one country, there are no worries about the different stages of product life cycle in the different regions. Nevertheless some adjustments can be made to the service and its marketing accordingly to the characteristics of a region. In this specific case of providing an internet connection, diversity of the service itself can be introduced very easily just by making some changes in the settings of the technology, that limit the speed and quality of the internet connection. It is a bit different with marketing of the service, because the more diverse the offered services, the more diverse has to be the marketing, and different market segments need different approach in the advertisements. This is why Hansa Internets Ltd. has to optimize the diversity of offered services in order to satisfy the needs of its target market, while keeping the marketing standardized at least to some level in order to reduce expenses.

As mentioned before, Hansa Internets group of companies provides mainly one type of service with some differentiation possible in the speed and quality of the internet connection. In the service sector the standardization problem is easier to solve, as this is a service not a good, and there is no product packaging or appearance to be changed, or user manuals to be translated to adjust it to the target customers. In this specific case of an internet provider, there are no service changes needed, because the computers are the same everywhere and everybody knows how to use the internet and why the internet connection is required. The technologies used for supplying the customers an internet connection and also the knowledge and skills needed are the same, which leads to an assumption that there could be achieved some economies of scale, e.g., by making large and repeated purchases the terms of the suppliers are more beneficial. Also the monitoring program that is used to control the entire network is introduced one time and then updated whenever needed. Actually for all other organizational issues, program implementations, and changes in the everyday work the same system should be applied to save time and financial resources and to make the organization work without delays. There is no need to invent the wheel once more and if the best way how to perform is found and tested in headquarters or one of the subsidiaries, the findings have to be passed on to the other branches so that they do not have to go through the same process one more time.

5.3.2. Price – localized

In the previously mentioned study of van Heerden & Barter (2008) there was a unanimous opinion among the surveyed marketers about standardizing the prices, namely, that they have to be localized. The product price for Hansa Internets should be definitely a local decision because of the differences in the regions.

For the company's main part of the target market – the inhabitants of country regions, the price is the main factor in choosing the internet provider, leaving the quality of the service in the second place. That is why it is very important to adjust the price of the service for every region, because the prices of competitors differ and Hansa Internets group of companies cannot put a higher price for the same service as the competitors. This is why a competitor analysis is needed in every of the regions in order to set the most appropriate price.

5.3.3. Place – localized and standardized

The specifics of this service that there is a need for a continuously available customer service call for a localized approach, even for a company in one country. Place is especially important in the wireless internet service sector, because of two reasons – 1) the time period from the moment when a customer applies for the internet connection until the moment when the internet connection is established, 2) the duration of damage prevention after a storm or in any other situation. For both reasons the main issue is time, this means that there have to be more departments with technicians to act momentarily and keep the clients satisfied. Nevertheless it is advised by some of the marketers as mentioned in the theory chapter to have a united strategy how to organize the work in the subsidiaries and if a pattern that is used in the headquarters is proved to be efficient, it should be passed on to the subsidiaries, but still leaving space for improvements and adjustments.

An advantage that has to be analyzed is outsourcing. Many multinational companies establish their factories or warehouses in developing countries where the costs for manpower and other resources, like the rent of real estate, are much lower than in developed countries. In a case of a company's headquarter and its subsidiaries located in one country there are not so significant differences among the prices, but still it has to be considered where it is more beneficial to locate the headquarter and where the

subsidiaries, e.g. in the capital city of Latvia the prices are quite higher than the average prices in the rest of the country.

5.3.4. Promotion – localized and standardized

As Hansa Internets is offering just one main service, it would be advisable to use a strategy of one brand to gain economies of scale in standardizing at least a part of the printed materials – brochures, posters, the forms for contracts – as well as commercials in the media – newspapers, radio, and internet. The companies aim is to continue expanding the service availability area and one brand could serve for high brand recognition in all country, and it can be observed that people are more loyal to well known brands and larger companies with a longer experience.

The main ways used for communicating with potential customers of the company are advertisements mainly in newspapers, radio and by placing colourful leaflets in the post-boxes in the regions where the service is available, and for communicating with the existing customers there is the customer call centre – the Public Utilities Commission of Latvia has recently issued a regulation that provides that every service provider company must have a call centre where customers can call for free 24 hours a day, and every call has to be registered (official website of the Public Utilities Commission of Latvia, 2009). The web page represents the company to all its stakeholders that is why it is a very important part in the corporate image and should be constantly updated and taken care of. As the company operates in one country and the number of its clients has not yet reached one thousand, which means that the income level is rather low, the company has to plan the finances very carefully. For this reason it might be recommended to standardize the promotion as much as possible and the company is already trying to do so, e.g., there is one call centre for all customers, not one for each subsidiary. The only thing that needs a localizing approach is the advertising mainly because of the different market characteristics of the regions Hansa Internets operates in, e.g., using Latvian language as the only one in advertisements might attract all interested consumers in Vidzeme, while in Latgale and Kurzeme that could lead to losing more than a half of target market (there are 85 per cent Latvians in Vidzeme, 74 per cent – in Kurzeme and only 44 per cent Latvians

in Latgale (the official website of Central Statistical Bureau of Latvia, 2009)) because they are Russian speaking people.

5.4. Main factors that influence standardization and localization decisions in the case company

The theory review gives evidence that a mixed strategy of standardization and localization is usually recognized as the best. A framework of factors that influence the standardization/localization decision in the case company operating in a service sector is made. This table is developed for applying in the case company. Further comments are made on all of the factors.

Factors	Marketing mix element influenced	Standardization/localization
Service factors		
Similarity of service use	Product Promotion	Standardization, segmenting Standardization
Branding	Promotion	Standardization
Service quality	Place	Localization
Customer factors (similarity/diversity)		
Nationality	Promotion	Standardization and localization
Lifestyle, living conditions	Product Promotion	Standardization, segmenting Localization, clustering
Taste	Promotion	Localization
Income level	Price Promotion	Localization Localization, clustering
Countryside/town	Price Promotion	Localization Localization
Economical factors		
Money saving	Place Promotion	Standardization (centralization) Standardization
Increase of sales	Promotion	Localization
Organizational factors		
Time saving	Promotion	Standardization
Success of the idea	Promotion	Standardization
External factors		
Competitors	Price Promotion	Localization Standardization and localization

Table 5.1. Standardization and localization decision influencing factors (the Author)

Five different groups of factors have been defined – service, customer, economical, organizational and environmental factors. On the basis of the theoretical literature review and the real conditions of the case company’s industry and situation in the

market these groups of factors have been analyzed and suggestions have been proposed on the standardization and localization decisions.

Similarity of product use and customer needs was among the main standardization influencing factors in a study by Duncan and Ramaprasad (1995). The service of this specific case – internet – has a high level of similarity of use. However there are some differences among separate market segments of the reason why the customers need an internet connection. Hence the service could be diversified by offering more types of internet connections regarding to the speed and quality of internet. This way there would be a suitable service for everyone - for people who need the internet connection just to check their e-mail as well as for those who want to play online games in high quality. The diversity of product calls for customization in the promotion ways, adapting the advertisements according to the segments.

The advantages of a single brand image are discussed previously in chapter 5.3.4. Using a corporate brand for the whole group of companies means also a level of economies of scale possible and accordingly saved resources. If there is one brand, there are fewer changes needed in the company's website, printed materials, business cards and other corporate style elements.

The service quality in this industry is very important, because customers have to conclude a long-term agreement, and if they are not confident about the quality of a provider, they will simply choose another provider. This means that there always has to be responsive feedback if the clients have any kind of problems. Therefore a subsidiary in every region has to be established for a timely prevention of technical problems, which are the most common reason for client complaints.

The next group of factors deals with the similarity or diversity of the target customers. Nationality, lifestyle and living conditions, taste and income level have been proposed as the key factors. Nationality is a significant issue in Latvia because of the great proportion Russian nationality people. As the table comparing three regions of Latvia shows, even less than a half of the population are Latvians in Latgale. This means that the advertisements could be translated into Russian to attract more potential clients, but the concept of advertising itself does not need to be localized.

Lifestyle and living conditions influence as well product, as promotion. Regarding to the localization of product, the conditions are the same as for the similarity of service use – people living different lifestyles have different needs for using internet. As to

the promotion, it can be localized and standardized with the help of creating clusters that include separate segments of every region. This way every market segment is approached in an individual way, but it is still possible to gain economies of scope and reduced number of decisions needed to be made.

Here an example of differences among the three regions can be mentioned. In Kurzeme people like to use the public transport, because it is very easy accessible and the buses run often enough, therefore it is used to put advertisements on the buses or at the bus stops. A similar system of public transport is in Latgale, but in Vidzeme people do not use public transportation so often. In Vidzeme outdoor advertisements are not so popular, people rather read newspapers, watch television or listen to the radio. And one more way of outdoor advertising that is not popular in other regions is advertisements on the walls of buildings in Latgale.

Taste is a factor that is hard to measure. If it is possible to find out any major differences of the taste among the different regions that could affect the attractiveness of the advertisements, it would be worth considering the use of adjusted marketing campaigns. Here the possible benefits have to be measured in relation to the investment in the customization.

By using these cultural differences it is possible to achieve a more powerful advertisement, e.g. if the people in one region like bright colours, then there should be bright advertisements otherwise they will be left unnoticed, or if the people in one region use public transport very much, than the buses or the bus stations could be a useful place to put an outdoor advertisement, because people usually are bored when going by bus or waiting for it. These slight differences are sometimes very important, that is why every subsidiary should be responsible for seeing the way how to attract this peculiar market in the most efficient way and to adjust the marketing activities to their needs.

The income level of the target audience influences the service price in a very direct way. However, also the promotion needs to be localized, i.e., the most appropriate ways and places for advertising have to be found. Comparing the regions it can be observed that inhabitants of Latgale are poorer than those of other regions, thereby also the price policy should be customized, for it cannot be expected that the demand for internet service is as high in this region as other regions.

Countryside/town is a factor of where the customers are living. This influences the price similarly as the income level does, because the income level is on average higher for people living in towns than for those who live in countryside. This factor has an impact also on advertising. As the experience of Hansa Internets shows, there can be different approaches for promoting the service in towns and in country regions. In towns there is a higher competition, because in most houses cable internet is available, and that is why it is more difficult to highlight this peculiar service as something special. Meanwhile in country regions there is less competition, and also word of mouth has a greater power, and therefore less effort is needed to attract new clients.

The economical factors – saving money and increasing sales – are the most contradictory, because while one supports standardization, the other needs localization. In this case the right balance has to be found and a mix of both strategies is most likely to be the appropriate. Resources can be saved by centralizing the marketing decision making, also creating a centralized customer call centre and concentrating other organizational functions at the headquarters. Increase of sales can be achieved by a local approach in promotion, but this issue needs a deep market research to find out what is the best way to customize the advertisement. One option would be customizing not on the basis of regions, but on the market segments, because the latter have more significant differences than the first.

Both factors that are named as organizational factors – time saving and the success of a good idea – would suggest a standardization strategy. Saving time is quite related to saving money, because time is a valuable resource and every resource saving means also money saving. This can be achieved by the previously mentioned reducing of marketing decisions required to be made. And it is also connected with the factor of a successful idea, because if a marketing concept is successful in one region and the same is approved for using in other regions, then no more time and other resource spending is needed for developing a new concept.

External factors here are meant to describe the influence of the surroundings on the company. In this case the competition is a significant factor that affects the price policy and also promotion. When comparing internet service providers in Latvia, Hansa Internets Ltd. group of enterprises is somewhere in the middle of small local companies that operate just in one town or one region and the large companies that

operate and are known all over Latvia. This means that the competitors have to be analyzed and the best price for the service has to be named in every region. Although the large competitors have a standardized price in all regions, the local competitors' prices differ from region to region. According to comparison of the competitor offered service prices and quality, the most suitable price for Hansa Internets can be set.

The competition level has an impact on the promotion as well. There are places where internet services are more available than elsewhere, and the fiercer the competition, the more effective has to be the advertising. And accordingly in some places, mainly in the countryside, there is hardly a competition and therefore little investment is needed in informing the inhabitants about the service.

Summarizing the information of the influencing factors, it can be observed that there is one marketing mix element that is affected much more than others – promotion. This explains why some of the previous studies in this research area concentrated on this particular element. And one more tendency can be noticed – while the suggestions for product is a standardized strategy, and for place and price – a localized strategy, promotion causes diverse reactions. From here it follows that in this case promotion requires a careful planning and organizing to achieve the highest result.

Conclusions

Analyzing the previous studies on standardization and localization, the main factors that influence this decision have been found. Most of the sources reveal that the multinational companies tend to localize their marketing considering the cultural differences in their target markets. This usually leads to making clusters of countries with similar cultural characteristics and applying the same marketing strategy for all countries within one cluster and changing the strategy for other clusters.

It can be summarized that pattern standardization or the standardization of the strategy with a local touch is used by the multinational companies. Accordingly a mix of both standardization and localization is preferred in most multinational enterprises.

If a closer look at the literature and reference list is taken, it can be discovered that the articles about standardization tend to be of earlier origin and those about localization are written more recently. This tendency could mean that the standardization is an older issue what the marketers have been analyzing, and customization is a relatively newer strategy for multinational companies to differentiate themselves from other competitors, but this statement has to be further explored for a complete affirmation.

There are still uncertainties about the advantages and disadvantages of standardization and localization strategies and the most contradictory standpoints are those concerning promotion out of the marketing mix elements.

Broader research is needed to make conclusions about marketing standardization and localization in the service sector, because there are differences between marketing in a service sector and manufacturing sector, but previous studies have not concentrated their attention exclusively on this sector.

When speaking about the headquarters-subsidiary relationships extant literature is based on studies in multinational companies. Cases of headquarters and subsidiaries being located within one country have not been analyzed in terms of standardization and localization decisions.

Further research is needed in the environment of the case company for an in-depth understanding of the target market segments and customer similarity or diversity among the different regions, as well as competition level in the regions. Then the most appropriate strategy can be established and marketing activities can be better planned and organized.

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