AN EXPLORATORY STUDY OF THE MARKETING ADAPTATION OF U. S. BUSINESS FIRMS OPERATING IN INDIA

Thesis for the Degree of D. B. A.

MICHIGAN STATE UNIVERSITY
MADHAV PRASAD KACKER

1970

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Madhav Prasad Kacker

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ABSTRACT

AN EXPLORATORY STUDY OF THE MARKETING
ADAPTATION OF U.S. BUSINESS FIRMS
OPERATING IN INDIA

By

Madhav Prasad Kacker

This study explores the nature and patterns of adaptation or adjustment made by American business firms marketing manufactured products in India. It also seeks to identify such social, cultural, economic, political and legal factors in the Indian environment which motivate these firms to adapt their marketing effort.

The concept of "marketing adaptation" is introduced and examined in the context of an underdeveloped economy. It has been defined as any change, adjustment or compromise that is made by a firm in its marketing effort to serve adequately a foreign market, and to survive and grow within a new environment. It is divided into two main categories: voluntary or self-imposed adaptation, and mandatory or externally-imposed adaptation. A marketing effort is considered to be a total integrated plan of action which a firm designs to exploit a market opportunity. It consists of policies and strategies in four major areas: product, promotion, distribution and pricing and terms of sale.

Information is largely based on primary data obtained through personal interviewing with 26 American firms engaged in the manufacturing of selected consumer, semi-industrial and industrial products in India. The interviews were conducted first with the parent company executives in the United States and, later, with the branches or subsidiaries of the same companies in India. A subsidiary is defined as any India-based company with 50 percent or more of its stock in the American firm's hands. A scoring technique is used to determine the level of marketing adaptation of each firm in relation to other firms within the sample. Based on personal observation and answers to various questions in the interview guide, each firm is given a rating on a scale from one to five. The final rating is called the Marketing Adaptation Index (MAI). The computation of this index has helped in the testing of some of the research hypotheses.

The main findings of this study are as follows:

1. The U.S. business firms operating in India adapt their marketing effort to a limited extent, often under great external pressure from either the government or competitors from other countries operating in India. The nature of adaptation made by a majority of firms in the areas of product and pricing is essentially mandatory or involuntary.

2. Relatively speaking, firms in the sample demonstrate a greater amount of voluntary adaptation in the areas of promotion and distribution than in those of product and pricing. Most of them are interested in maintaining their

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international product standards, yielding only to unavoidable mandatory changes in product design and packaging. This results in a marked difference in the quality and price-level of products made in India by the U.S. affiliated and local firms. The national interests often oblige the Indian government to keep this difference to a minimum. The firms are persuaded as well as forced to modify their marketing effort in the national interest of the host country in several ways. They are asked to make a greater use of materials and tools which are available locally, adopt simpler labor-intensive technology, sell at government-approved prices and devote greater effort to the promotion of the Indian export trade.

3. The level of marketing adaptation varies from firm to firm and in different facets of marketing strategy. It is not possible to measure it for each firm in absolute terms, though a relative assessment is possible with the help of a scoring technique. Using this technique, it is found that the consumer goods manufacturers (manufacturers of packaged food products, cosmetics and toiletries, soft drinks and home appliances) adapt more than the manufacturers of semi-industrial products (pharmaceuticals and chemicals, petroleum products and rubber tires) and industrial products (business machines including data processing equipment, medical equipment, auto parts, machine tools and heavy industrial equipment). The manufacturers of semi-industrial products adapt only slightly more than the manufacturers of industrial products.

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4. Most consumer and semi-industrial goods manufacturers show greater interest in adapting the promotion and distribution facets of strategy, and experience relatively less interference from the parent company in doing so. The firms use the conventional promotional media and channels of distribution in India for two main reasons. First, it is hard to alter the existing promotional and distributional infra-structure, at least in the short run and second, the social and cultural gaps need to be taken account of to ensure effective communication with the target market.

5. All major forces in the Indian environment--social, cultural, economic, political and legal--influence the marketing policies of American firms operating in India. Firms respond to these forces in almost similar fashion, regardless of the products they manufacture. The industrial goods manufacturers, however, are able to survive with relatively little adaptation in the areas of promotion and distribution.

6. Firms in consumer and semi-industrial lines try to escape these environmental forces by restricting their operations to the urban sector and by not moving down the socioeconomic scale to serve the semi-urban and rural sectors of the Indian economy.

7. On the basis of empirical evidence collected in this study, it can be said that there exists no discernible relationship between the size of a firm and the level of its marketing adaptation. There seems to be no relationship at

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all between the length of time a firm has operated in India and the level of its marketing adaptation.

8. The international marketing policy of the parent company and the degree of control exercised by it are important factors affecting the ability of a firm to adapt its marketing effort to the Indian environment.

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AN EXPLORATORY STUDY OF THE MARKETING ADAPTATION OF U.S. BUSINESS FIRMS OPERATING IN INDIA

By

Madhav Prasad Kacker

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1970

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1971

Dedicated to

Alfred L. Seelye

for his transferring the principles of modern business education across the frontiers of several underdeveloped countries including India.

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PREFACE

This study stems from my interest in understanding the role of foreign firms in the economic development of an underdeveloped country. It seeks to explore the directions in which these firms have moved to adapt their marketing strategy so that they are able to survive and grow in a strange environment. The fact that the study has been related to the U.S. business firms operating in India is attributable primarily to my having been exposed to the business environment of the two countries--the United States and India--for a fairly long time.

I am sincerely grateful to my dissertation committee composed of Dr. Reed Moyer, Chairman, Dr. Donald A. Taylor, and Dr. Donald S. Henley for their valuable guidance throughout the study. I am also thankful to Dr. Dole Anderson, Director of the Institute for International Business and Economic Development Studies for his thought provoking ideas and his interest in the project. The timely award of a travel grant from this Institute proved to be very helpful in the undertaking of field trips involved in this project both in the United States and India. The financial support received from the office of Dean, Graduate School of Business Administration, Michigan State University, is also thankfully acknowledged.

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I am indebted to my wife, Vijai, for her help at all stages of this work in addition to her taking care of our children and normal household responsibilities. Thanks are also due to Mrs. Grace Rutherford and Mrs. Judith Surlin who did an excellent job of typing the manuscript.

Finally, I express gratitude to Dr. Alfred L. Seelye, formerly Dean of the Graduate School of Business Administration, Michigan State University, who was a great source of inspiration and guidance during a major part of my doctoral program at Michigan State University. To him, this dissertation is respectfully dedicated.

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CHAPTER I

INTRODUCTION

This research focuses on the marketing function of United States business firms and their subsidiaries operating in an underdeveloped economy--India. It seeks to learn the degree to which these firms adapt their marketing effort to the Indian environment and the nature and pattern of such adaptation. Further, this research seeks to identify those environmental factors--social, cultural, economic, legal and political--which cause these firms to adapt their marketing effort.

The value of private direct investment from the United States to India was estimated at $281 million at the end of 1968. A substantial part of this, about 50 percent, represented equity investments in the United States controlled branches and subsidiaries operating in India. The balance represented investments in joint ventures in which the U.S. firms held a minority interest.[1] Before the scope and hypotheses of this research are spelled out, it may be useful to describe briefly the evolution and growth of foreign

[1] Survey of Current Business, U.S. Department of Commerce, October, 1969, p. 28; and Reserve Bank of India Bulletin, Reserve Bank of India, August, 1969, p. 1129.

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Evolution and Growth of Foreign Private Investment in India

The aftermath of the World War II was marked by spectacular economic activity in most free nations of the world. The European countries involved directly in war became engaged in various economic recovery programs. Other nations in Europe, Latin America and Asia which were not directly involved in war but which were helping the belligerent nations with material and personnel resources geared these resources to the satisfaction of long suppressed pent-up consumption demand. In India, the aftermath of war was marked by two historic events: (1) the attainment of political freedom from the British regime, and the installation of a national government in 1947, and (2) the appointment of a National Planning Commission in 1950 to lead the country on the path of planned economic growth. The colossal task of economic reconstruction and expansion that resulted from the deliberations of the National Planning Commission called upon the nation to exercise restraint on consumption and release a maximum volume of saving for investment in the agricultural and industrial sectors of the economy.

The magnitude of the industrial development program as envisaged in the Five Year Plans of development was much

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higher than what could be financed from the internal resources of the country, through taxation and public debt. External assistance was therefore requested from other economically advanced nations to enable the country to implement all development programs and to achieve self-sustained economic growth. Apart from official assistance on a government-to-government basis, the Government of India welcomed direct private investment from the western as well as eastern blocs. Private foreign investors were offered several types of incentives in the form of tax concessions, facilities for the remittance of earnings and dividends, freedom of repatriation of capital, guarantee against state acquisition or payment of adequate compensation in the event of such acquisition, facility for the import of plant and equipment, etc. Official external assistance from various countries aggregated $15,367 million from August, 1947, the year of Independence, up to the end of March, 1968. Of this about 67 percent was in the form of loans, 27 percent in the form of PL 480/PL 665 and third country currency assistance from the United States, and the balance of 6 percent in the form of grants. The United States accounted for 51 percent of the total. Other countries, such as West Germany, United Kingdom, U.S.S.R. and Japan, also made sizable contributions.[2]

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[2] Proceedings of the Seminar on International Investment: India, organized jointly by the Indian National Committee of International Chamber of Commerce and Indian Investment Center, November, 1968, p. 45.

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Foreign private investment in India which amounted to $550 million (Rs. 265 crores)[3] in June, 1948 reached a total of $1300 million (Rs. 980 crores) by March, 1967. In the initial stage, it was predominantly of British origin, the United States share being as low as about $30 million or 5 percent of total foreign private investment. This share jumped to about $200 million or 15 percent of the total by March, 1967. During the same time, the percentage share of the United Kingdom declined from about 80 percent to 60 percent of the total, though it still maintained its leadership.[4]

An idea of the cumulative growth of new business activity (number of newly initiated or acquired firms as well as expansion of existing firms) of United States business firms in India during the period 1961-1968 can be derived from Table 1. The continued growth of this activity can be ascribed mainly to the following factors:

1. Desire to continue to serve overseas markets which were previously supplied through exports from the U.S. This was the only alternative open to U.S. companies when imports into India were restricted tightly in the mid-fifties.

2. A variety of incentives and facilities that came to foreign investors as noted earlier.

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[3] A crore is equivalent to 10 million in Indian usage.

[4] Reserve Bank of India Bulletin, April, 1966, pp. 374-376; and August, 1969, p. 1129.

Table 1.

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Table 1. Cumulative growth of new business activity of United States business firms in India, 1961-1968

Year	Number of New Establishments		Number of Expansions		Total	Annual Growth
	Mfg.	Non-Mfg.	Mfg.	Non-Mfg.		
1961	21	..	2	..	23	23
1962	38	..	5	2	45	22
1963	58	2	8	2	70	25
1964	77	3	11	2	93	23
1965	87	6	13	2	108	15
1966	90	6	13	2	111	3
1967	94	7	13	2	116	5
1968	97	10	14	2	123	7

Source: New Foreign Business Activities of U.S. Firms, No. 14 (Chicago: Booz, Allen & Hamilton, 1968); and "What U.S. Companies Are Doing Abroad, A Statistical Summary," Business Abroad, May, 1969, p. 13.

3. Increasing external assistance from the Eastern bloc countries to underdeveloped regions including India.

The table shows that the rate of growth of new business activity started declining considerably after 1965. The average number of new establishments and expansions has been five annually since 1966 compared to twenty-one during the preceding five years. This setback can be explained by a variety of factors. First is the insistence by the Indian Government that the majority voting stock rest with Indian nationals. Secondly, the lack of confidence among investors was caused by such unfortunate events as the Chinese

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incursion into Indian territory in 1962 followed by the Indo-Pakistan military conflict that took place in 1965. The tragic death of two popular prime ministers, one in 1964 and the other in 1966 coinciding with acute drought and food shortages were among other factors that had a demoralizing effect on the foreign investors. This declining trend is also borne out by the statistics published by the United States Department of Commerce according to which the amount of plant and equipment expenditure by foreign affiliates of United States companies in India declined sharply from $91 million in 1966 to $50 million in 1967 and further to $25 million in 1968.[5]

Earlier Studies

The international operations of business firms, especially the United States and European manufacturing companies, have been researched a number of times during the last 15-20 years. Most of these studies, however, devote themselves to an analysis of general management problems encountered by these firms in their respective foreign environments. Very few studies have concentrated on the area of marketing operations. A brief introduction of some of these earlier studies may be useful here.

---

[5] Survey of Current Business, op. cit., p. 17.

In a study of United States manufacturing subsidiaries in Mexico, Barlow concentrates on management problems such as the organization to be used in foreign subsidiaries and in parent companies, methods of supervision, ownership policy, and the problem of staffing the parent as well as subsidiaries. In spite of a heavy management orientation in his study, the following extract from the concluding comments indicates the need for adaptation on the part of American firms:

> . . . The necessity for adaptation was particularly noticeable in the marketing area. The companies studied were following much the same methods of marketing their products in Mexico as in the United States. . . . Despite the basic similarities, a United States marketing program could not be transferred intact from this country to Mexico. . . . A company could expect that the basic marketing methods could be used in Mexico and in other countries throughout the world, but these methods would have to be changed and adapted somewhat to fit local conditions.[6]

Dunning's study on American investment in British manufacturing industry is another important work in this area. It seeks to evaluate the extent to which the United States business investment had an impact on the course and efficiency of British industrial development. Discussing the influence of United States financed firms on the marketing techniques used by British industries, Dunning makes this observation:

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[6]E. R. Barlow, Management of Foreign Manufacturing Subsidiaries (Boston, Massachusetts: Harvard University, Graduate School of Business Administration, 1953), pp. 193-194.

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> Perhaps no other branch of managerial practice has been so obviously influenced by American techniques and thought in recent years as that of sales and distribution policy . . . yet, . . . the U.S. methods in question have not always been successful. . . . Any wholesale assimilation of American techniques and the failure to appreciate the inherent psychological, economic and sociological differences in the two countries might lead to much wasteful and inefficient distribution.[7]

Another study by Lindeman and Armstrong examines the policies and practices of United States controlled companies operating in Canada. It was undertaken mainly to look into public complaints against the large United States corporations in Canada and to improve the business relationship between the two countries. With this purpose, the study addresses itself to broad issues related to subsidiary behavior such as sale of equity shares, canadization of personnel, publication of financial data, research and contribution to charity and education. It does not examine the marketing problems of United States subsidiaries in Canada. In the area of commercial policies, it only covers their export selling and purchasing policies.[8]

A study by Friedmann and Kalmanoff highlights the specific problems, experiences and prospects of joint

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[7]John H. Dunning, American Investment in British Manufacturing Industry (London: George Allen & Unwin Ltd., 1958), pp. 264-65 and p. 272.

[8]John Lindeman and Donald Armstrong, Policies and Practices of United States Subsidiaries in Canada, National Planning Association (U.S.A.) and Private Planning Association of Canada, January, 1961.

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business ventures operating in several underdeveloped countries. The specific cases presented in this study help readers understand the different patterns of ownership and distribution of equities, general management and personnel problems in such joint ventures. The marketing operations of joint ventures are not brought out in these cases probably because the marketing function is taken care of by the host country partner in most of the international business ventures.[9]

Richard Robinson has also contributed significantly to the existing literature on international business. His writings lay special stress on the need for adapting company policies to the environment facing the firm. Under company policies, he has considered mainly the policies related to ownership, growth, product and process design and investment. He has suggested a blending of business interest (profit) and national interest of the host country (for example, supply of foreign exchange and improvement in the balance of payment situation) in the programs of United States business firms operating overseas. He has identified many environmental factors within a host country that will be reflected in the product design suitable for that country. He describes his general thesis in these words:

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[9]Woligang G. Friedmann and George Kalmanoff (eds.), Joint International Business Ventures (New York: Columbia University Press, 1961).

> . . . Just as the past behavior has filled a large reservoir of ill-will toward private western enterprise in non-western lands, a reverse flow might be possible in the future. Given greater wisdom, forbearance, farsightedness and understanding, western enterprise might conceivably create a favorable political response as it moves through the twilight of the national era into the international age. To do so, however, will take much hardheaded thought. . . . Criteria, policies and organization will have to be re-thought and altered to fit into the radically different socio-political environment one can anticipate in the near future.[10]

Skinner's study of the American manufacturing firms in developing economies examines problems generally encountered by the United States executives in managing enterprises in developing countries. He concentrates on the production system of an enterprise and treats the marketing environment as one of the "given" in the host country having an impact on the production system. He recommends that American subsidiaries should design their total production system abroad to fit the environment instead of either operating in the United States way or leaving the system to relatively inexperienced foreign managers.[11]

In his analysis of competitive advantages of local and international firms engaged in two Central American industries, paint and detergent, Sorenson has deplored the lack of what he calls the "fundamental product adaptation"

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[10] Richard D. Robinson, International Business Policy (New York: Holt, Rinehart and Winston, 1964), p. xiii.

[11] Wickham Skinner, American Industry in Developing Economies (New York: John Wiley & Sons, Inc., 1968).

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on the part of international companies in spite of their superior R & D facilities and know-how. Sorenson concludes:

> . . . None of the international companies in the study did a good job of analyzing the special needs of Central American markets and then modifying their basic products to meet these needs . . . there is little doubt that most international companies have considerable room for improvement in the area of international product modification.[12]

Two later studies undertaken by Terpstra and Henley examine the impact of the formation of a common market on marketing policies and strategies of international firms. Terpstra restricts the scope of his enquiry to the American firms operating in member countries of the European Common Market and examines in great detail the marketing adjustment of these firms under the new economic conditions that emerged after the signing of the Rome Treaty.[13] Henley emphasizes the importance of marketing factors and competition in accelerating the process of economic integration in Central America. His discussion of the impact of increased intra-union trade on product, distribution and price policies of local and international firms is specially pertinent to this research. The creation of the Central American Market, he observes, motivated the foreign-affiliated firms

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[12] Ralph Z. Sorenson, "An Analysis of Competition Among Local International Firms in Two Central American Industries" (unpublished Ph.D. dissertation, Harvard University, Graduate School of Business Administration, Boston, Massachusetts, 1966), pp. 456-57.

[13] Vern Terpstra, American Marketing in the Common Market (New York: Frederick A. Praeger, 1967).

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to start manufacturing their products locally and widen their product line from previously high quality to medium and low quality as well, for serving the lower income groups.[14]

The studies cited thus far examined either the broad management problems of foreign based United States business firms or the impact of economic integration on their marketing policies and strategies. A somewhat reverse approach was adopted by two studies undertaken by Rocour and Matsusaki who examine the United States-based subsidiaries of European and Japanese firms, respectively. Rocour illustrates, among other things, the impact of environment on the market behavior of European manufacturing subsidiaries operating in the United States.[15] He finds that the sophistication of the United States consumer forced these subsidiaries either to be well equipped in offering comparable service to customers or to confine their operations to dealing in industrial products for which mass appeal and promotion were less necessary. In his study Rocour observes a remarkable change that comes in the parent-subsidiary relationship when a

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[14]Donald S. Henley, "Regional Trade and Market Performance: A Study of the Central American Experience" (unpublished Ph.D. dissertation, Harvard University, Graduate School of Business Administration, Boston, Massachusetts, 1966).

[15]Jean-Luc Rocour, "Management of European Corporate Subsidiaries in the United States" (unpublished Ph.D. dissertation, Cornell University, Ithaca, New York, 1963).

subsidiary is set up in a large and highly sophisticated market like the United States. The United States-based subsidiary enjoys a great deal of autonomy in decision-making and, contrary to normal practice, acquaints the parent company with new technical and marketing ideas.

Matsusaki examines in the other study the impact of Japanese business life on the management practices of Japanese firms operating in the United States. He identifies the following three characteristics of Japanese business life which influence the needed adaptation for doing business in America: (1) traditional features, (2) the life time employment system, and (3) the group decision-making system. Like Rocour, he observes that the Japanese firms put a significantly stronger emphasis on competitive pricing and dealer cooperation in their marketing strategy in the United States than in Japan. Advertising and sales promotion are also slightly more emphasized in United States.[16]

None of the studies mentioned so far was devoted to the operation of foreign-affiliated firms in India exclusively. There may be several reasons for the lack of academic interest in this area. Foreign investment in India in significant volume dates back to about twenty years or so

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[16]Hirofumi Matsusaki, "The Adaptation and Marketing Strategies of the Japanese Manufacturing Firms Operating in the United States" (unpublished Ph.D. dissertation, Michigan State University, Graduate School of Business Administration, East Lansing, Michigan, 1966).

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since the country became independent and initiated long-range development programs. The British rulers were not much interested in the industrial development of the country. The American investors, moreover, preferred putting their money in Latin America and Europe in preference to the Middle East and Far East as far as possible for reasons of distance and risk. Nevertheless, the area of foreign investment in India did attract some attention from academic researchers. Kidron, for example, wrote an authoritative account of the growth of foreign investment in India which is essentially historical and does not go beyond presenting factual data on foreign private investment in India and its growth since independence.[17] Another work by Copen deals exclusively with India and focuses on comparative management problems faced by United States manufacturing subsidiaries and the local companies in the Indian pharmaceutical industry. Copen observes that the United States subsidiaries operating in India enjoy many advantages: the financial and technical assistance available to them from their international headquarters, market reputation of products and aggressive selling techniques. However, their major disadvantage is the "frequent inability to assess the motives of government and labor organizations, inflexibility in adapting to the local environment, often due to a refusal to adapt to Indian

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[17] Michael Kidron, Foreign Investment in India (London: Oxford University Press, 1965).

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patterns, restrictions imposed by the parent companies on the type of decisions local personnel could make . . . and unfamiliarity with the motivational stimuli to which their Indian employees would respond."[18]

Scope of Present Study

This research attempts to add to existing knowledge of the operations of United States business firms in India. Its scope is restricted to a single activity--the marketing adaptation--performed in a cross-section of United States firms in Indian industries. As noted earlier, the primary interest of this research lies in exploring the nature and patterns of adaptation made by American business firms in their marketing efforts designed to serve the Indian market. It also seeks to identify such social, cultural, economic, political and legal aspects of Indian environment which motivate these firms to modify their marketing strategy.

The business firms included in this study are the branches and subsidiaries of American companies incorporated in the United States or India and engaged in manufacturing and selling (or just selling) certain selected consumer and industrial goods in India. A United States subsidiary is

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[18]Melvin R. Copen, "Management of U.S. Manufacturing Subsidiaries in a Developing Nation: India" (unpublished Ph.D. dissertation, Harvard University, Graduate School of Business Administration, Boston, Massachusetts, 1967), pp. 223-224.

defined for the purpose of this study as any India-based firm in which an American company holds 50 percent or more of the equity capital. In one or two instances, the study has included firms with a 49 percent equity interest where this step was necessary to enhance the representativeness of the sample. It may be pointed out, however, that a basic assumption of this study is that the United States company becomes actively interested in the marketing programs and policies for the Indian market when its share in the Indian organization is 50 percent or more. The study therefore will ignore those rather exceptional cases where, under the joint venture agreement, the American partner is given the authority to approve all final decisions pertaining to marketing in spite of its minority interest in the venture or, conversely, where the American partner leaves the marketing area entirely to the Indian partner in spite of a majority interest in the joint venture.

The term "marketing adaptation" has been used to include any change, adjustment or compromise that is made by an American firm in its marketing effort to serve adequately a foreign market and at the same time to survive and grow within a new environment. A marketing effort has been considered as a total integrated plan of action which a firm designs to exploit a market opportunity. It consists of policies and strategies in four major areas: product, promotion, distribution, and pricing.

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Statement of the Problem

More specifically this research seeks to gain insight into the following questions:

1. Have the United States business firms operating in India adapted their marketing strategy to the Indian environment?

   If so, how have they modified their product, promotion, distribution and pricing strategies to implement this adaptation?

2. What social, cultural, economic, political and legal aspects of the Indian environment motivate these firms to adapt their marketing strategy in India?

3. Do firms producing consumer goods present a different pattern of marketing adaptation from those producing semi-industrial and industrial goods?

4. Is there any relationship between the size of a firm and the extent of its marketing adaptation?

5. Is there any relationship between the length of time for which a firm has operated in India and the extent of its marketing adaptation?

6. Is a firm's ability to adapt its marketing effort in India affected by the managerial control exercised over it by its parent company?

The fundamental premise of this research is that a United States business firm making a direct investment in India, by initiating manufacturing and/or selling activity,

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adapts its marketing effort to the Indian environment. The nature and extent of this adaptation, however, vary from firm to firm. Some firms do not go beyond making a minimal adaptation which is indispensable for operating in the Indian market whereas others take an active interest in identifying the needs of different market segments and designing their product offering accordingly.

Hypotheses

The research will attempt to test the following hypotheses:

H-1 There are identifiable patterns of adaptation in the marketing strategy of U.S. firms operating in India.

H-1.1 There are identifiable patterns of adaptation in the product strategy of U.S. firms operating in India.

H-1.2 There are identifiable patterns of adaptation in the promotion strategy of U.S. firms operating in India.

H-1.3 There are identifiable patterns of adaptation in the market distribution strategy of U.S. firms operating in India.

H-1.4 There are identifiable patterns of adaptation in the pricing strategy of U.S. firms operating in India.

H-2 There are unique social, cultural, economic, political and legal conditions in the Indian environment that motivate American business firms to adapt their marketing strategy.

H-3 The patterns of adaptation noted in consumer goods manufacturing firms differ from those in semi-industrial and industrial goods manufacturing firms.

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H-4 The larger the size of a U.S. firm, the greater is the extent of its marketing adaptation to the Indian environment.

H-5 The longer the time period for which a firm has operated in India, the greater is the extent of its marketing adaptation to the Indian environment.

H-6 The nature of managerial control exercised by the parent company on its Indian branch or subsidiary is a factor in the latter's ability to adapt to the Indian environment.

Marketing Adaptation in the Context of an Underdeveloped Economy

A further elaboration of the definition of marketing adaptation is considered necessary before the main findings of this survey are discussed in subsequent chapters. An American firm operating in India is placed in the midst of several uncontrollable constraints which characterize an underdeveloped economy. Some of these are: a large rural sector, a heavy dependence of people on agriculture and an extremely low per capita national product.[19] In the context of these environmental constraints, a firm will be considered improving its adaptation performance, as it expands its market share and moves from urban to semi-urban and rural markets.

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[19] According to the 1961 population census, 82.7 percent of India's population lives in rural areas. The per capita national product was estimated to be Rs. 481.5 ($64.2) at current prices (1966-67). See India, A Reference Manual, Ministry of Information and Broadcasting, Government of India, 1968.

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For penetration into semi-urban and rural markets, a firm needs to add low priced and relatively simple products to its product line. This may amount to a major departure from the market unification strategy followed by many multinational firms, because new simplified products have to be developed specially for the needs of middle and low income group people. A backward research and development becomes necessary to make the products technologically less sophisticated and even physically less durable if this results ultimately in the lowering of product price. The use of locally available raw materials, parts and components may be necessary for the same reason. The state of surplus human resources, a usual characteristic of an underdeveloped economy, should lead a foreign firm to experiment with labor intensive manufacturing techniques. This also should bring down the cost of production and selling price.

Quite often a foreign firm is forced by the host country government to modify its product and pricing policies to facilitate the realization of goals set by government for the various development programs underway. The types of product changes described above may be forced on a firm by government as a precondition to the former's operation in the host country. A foreign firm will be considered showing greater adaptation if it blends its business goals such as profit with the national goals as laid down by the host country government. These goals include achieving a particular rate of national growth, improving the balance of

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Adaptation of promotion and distribution policies will also be judged in a somewhat different way when a firm is operating in an underdeveloped economy, especially in India where one observes amazing regional disparities in language, religion, social customs and the philosophical view of life. Multiplicity of languages spoken in different parts of this country and a very low literacy ratio are two serious limiting factors to the audience size of an advertising medium.[20] Taking care of these environmental constraints might require the development of advertising materials and programs in the host country, especially for consumer goods. The firm may also need to adapt its channel strategy to the mass market coverage. The traditional import-oriented channels may have to be gradually replaced by a market oriented and company managed channel network.

In brief, a foreign firm operating in an underdeveloped economy has to respond to a different set of environmental constraints to serve the market needs of that economy. Partly this response is conditioned by the host country government but, to a significant extent, the firm enjoys

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[20]The 1961 population census enumerated a total of 1,652 mother tongues grouped into 14 major languages spoken in different parts of India. The literacy ratio for males was 34.5 percent and for females was 13 percent according to this census. See India, A Reference Manual, op. cit.

the freedom of designing its strategy in a way that enables it to adjust fully with the new environment.

Usefulness of Study

The value of this study lies in the expanding of the existing body of knowledge on the functioning of foreign-affiliated firms in the environment of an underdeveloped economy. Most of the earlier studies, as noted above, examined a whole host of management problems encountered by firms in a foreign environment. A few of them covered a group of countries within their purview. The scope of this research has been narrowed to one functional area--marketing--and one country--India--so that the marketing operations of international firms operating in an underdeveloped economy come into sharp focus.

The study recognizes the increasing significance of direct private investment from the United States to India since the early 1950's when India started a planned program of development. Frequently, economic surveys and investigations are undertaken by the government of India to examine issues such as cost of production, prices, employment of expatriates, profits, etc., as far as the international firms are concerned. But so far no study has been made to examine the market behavior of these firms. It is hoped that this study will contribute new insights in this area to the benefit of Indian businessmen as well as the government.

The study may provide the Government of India with a new criterion for judging the performance of foreign enterprises--the degree of marketing adaptation to the Indian environment. It highlights the importance of examining a firm's market adaptability when its request for additional industrial activity might be under consideration by the Indian Government.

Finally, the findings of this study should be of interest to American companies which might be planning to make a direct investment in Indian industrial development. This study will provide prospective investors with additional information on Indian markets which could help them in their decision-making. Companies which are already involved in manufacturing and/or selling in India, ought to benefit from the portrayal of a total picture of the market behavior of foreign firms of which they are individually a small part.

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CHAPTER II

RESEARCH METHODOLOGY

The purpose of this chapter is to outline the methods used for testing the hypotheses set forth earlier. First, the research instruments used will be introduced. Sampling procedure will be discussed next. The criteria established for including a firm in the sample will be stated. This will be followed by introductory information on firms selected finally for field interviewing. In conclusion, the limitations of this study will be mentioned.

The Universe

The universe for this survey consisted of the branches and subsidiaries of American firms incorporated in the United States or India, and engaged in manufacturing and selling (or just selling) selected consumer and industrial goods in India. A United States subsidiary was defined for the purpose of this study as any India-based firm in which and American company (parent company) held 50 percent or more of equity stock. In exceptional cases, the study has included firms with 49 percent equity interest in an Indian

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firm when this step was necessary to enhance the representativeness of the sample. Details on this will follow later in this chapter.

To identify the universe, a list of American firms operating in India was obtained from the United States Department of Commerce, Bureau of International Commerce. The list contained names and addresses, as of July, 1968, of 246 American firms and their branches, subsidiaries or affiliates in India. It included principal product lines being manufactured and sold in India. From this list, 64 firms were selected using the definition of a United States business firm in Chapter I. The rest were excluded either because of their minority status in India-based firms or because they belonged to a service industry like banking, insurance, transportation, advertising, hotel, motion picture, engineering and construction, technical sales representation, etc. The sales subsidiaries of American firms engaged in actual selling and offering marketing services were included in view of the nature of this study. Thus, the universe comprised 64 firms, all of which were engaged in selling in the Indian market.

Research Instrument

As stated in the previous chapter, the primary objective of this research was to explore the nature and pattern of adaptations the American firms made in their marketing efforts designed to serve the Indian consumer.

An exploratory study of this nature did not lend itself to experimental research. The survey research was considered to be the appropriate research method for the collection of primary data. The small size of universe and the qualitative character of data sought were two important considerations in favor of the personal interview technique of survey research, though the mail questionnaire method had the advantage of economy of time and money. Personal interviewing was adopted as the main instrument of this investigation when a research grant was made available to cover the cost of field trips entailed in the United States and India.

Development of Interview Guide

Having considered the interview as the ideal research tool for this study, an interview guide was developed to obtain answers pertinent to the objectives of this research. Care was taken to include questions that were related to the hypotheses and to arrange them in a way that facilitated the process of personal confrontation. The guide sought general information of a classificatory nature and the basic information dealing with adaptation patterns in four major areas: product, promotion, distribution and pricing. Information was also sought on company reactions to government regulation or control of marketing activities in India. Most of the questions were structured to make sure that the interview brought forth all information needed to test the hypotheses. But, quite often, some compromise had to be

made when a respondent preferred an unstructured style or spent relatively more time on a topic in which he happened to be interested.

The interview guide was pre-tested on four companies in Detroit, Michigan and Akron, Ohio and was thoroughly revised before it was used in other interviews. However, the changes were not so important that the pre-test interviews needed to be repeated.

A second interview guide was designed for the purpose of conducting interviews in India. The main purpose of the second interview guide was to collect all classificatory and basic information on India in greater detail. A few open-end questions were added to enable the managing directors or other respondents in Indian companies to express their personal views on matters such as business environment and parent-affiliate relationship.[1]

It was decided to interview executives from 25-30 selected companies in the United States to be followed by a second round of interviews in India with the same companies (their respective branches or subsidiaries). The first round of interviews was conducted in November, 1969, in the United States. The majority of interviews within the U.S. firms were conducted with senior executives in the international

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[1]Copies of the two interview guides prepared for the United States and India, respectively, are enclosed in Appendices A and B.

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division who were associated with Indian operations. These executives carried a variety of designations such as president, executive vice-president, vice-president, director, regional director, manager, regional-manager, assistant to president and assistant to chairman.

The vice-president was the most frequent respondent, followed by director or regional director who were normally assigned a group of countries including India for administrative purpose. The second round of interviews was conducted in India in January, 1970. The most frequent respondent in Indian firm was the managing director who was often joined by the marketing or sales director or sales manager.[2] The follow-up interview in India with the same company provided not only a built-in verification mechanism in the survey design but also offered a valuable opportunity of observing the differences in internal environment facing the firms in the two countries. A clear view became possible of environmental forces such as governmental control, labor problems, market competition, advertising media, wholesaling and retailing practices, etc.

Several other sources were also used to obtain information pertinent to this research project. Efforts were made to meet persons in government and semi-government organizations and in trade associations representing the

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[2]For copies of letters requesting an interview, please refer to Appendices A and B.

industries covered in this investigation. Unstructured interviews were conducted with the staff of the Indian Investment Center, New York; Ministry of Petroleum and Chemicals, New Delhi; Office of Drug Controller, New Delhi; Indo-American Chamber of Commerce, Bombay; and All-India Manufacturers' Organization, Bombay. Informal discussions were also held with two leading American advertising agencies having branches in India. There was hardly any secondary data available in either country that could be used in this research. The Annual Financial Statements of companies selected for study were hardly of any use. They made scanty references to Asian or Far Eastern operations and very few statements referred to Indian operations.

Scoring Technique

A scoring technique was used to determine the level of marketing adaptation of each firm in the sample. Based on the personal observation of the interviewer and on answers received from firms pertaining to their product, promotion, distribution and pricing policies, each firm was rated on a scale from one to five. The final rating given to a firm is called the Marketing Adaptation Index. The computation of a marketing adaptation index for each firm provided a useful research instrument for testing some of the hypotheses spelled out in the previous chapter, especially those which relate the size and the length of operation of a business firm to the extent of its marketing

adaptation to the Indian environment. The actual basis for rating each firm has been elaborated upon in Appendix C.

Sampling Procedure

There was a problem of selecting between 25-30 companies in a small universe of 64--a cross-section of consumer and industrial goods manufacturers in the United States. Besides the fact that the sample represented all important industries crucial to India's economic development, the considerations of convenience and costs figured also in the final selection. Care had to be taken to ensure that both large-sized and small-sized firms were adequately represented in the sample. Similarly, it was necessary to make sure that the sample was not unbalanced in favor of a particular class of industry--consumer, semi-industrial and industrial. Within these constraints, it was not possible to make use of the technique of random sampling. A technique of deliberate selection has to be devised on the basis of the researcher's own judgment and convenience. This technique may be called the "judgment sampling," using statistical terminology.[3]

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[3]A judgment sample, according to Deming, is one in which an expert in the subject matter makes a selection of "representative" or "typical" counties or other areas or business establishments. For an evaluation of the reliability of such a survey, we must rely on the expert's judgment; we can not use the theory of probability. See W. Edwards Deming, Sample Design in Business Research (New York: John Wiley & Sons Inc., 1960), p. 31. Hansen and Hurwitz also indicated the appropriateness of a judgment sample to

It was decided to concentrate on companies with their world headquarters in and around New York, Detroit and Chicago as long as important consumer and industrial goods industries were adequately represented. This decision had the main consideration of economy and convenience in field investigation. Keeping this point in view and also providing a margin for possible negative responses, a total of 35 companies was approached for cooperating in this project. The response from these 35 companies is analyzed in Table 2.

The number of 25 companies which indicated their willingness to cooperate in the project was considered adequate for going ahead with the study. It was a coincidence that they happened to be conveniently located in the vicinity of New York, Detroit, Chicago and Akron. They also represented adequately the main industry groups as will be shown below. One company which did not give any hopeful response in this country was still included because its Indian subsidiary proved quite cooperative when approached in India. This inclusion also improved the represeantativeness of the sample. Thus, 26 companies made available the primary data for this research in this country as well as in India.

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situations where the universe was small and the results of high precision were not sought. See Morris H. Hansen and William N. Hurwitz, "Dependable Samples for Market Surveys," Journal of Marketing, October, 1949, p. 364.

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Table 2. Response analysis

	Nature of Response	Number of Companies
1.	No response	3
2.	Inability to cooperate as a policy decision	1
3.	Inability to cooperate because the companies considered their involvement in marketing activities of India-based firm as negligible	3
4.	Inability to cooperate because the persons directly concerned with Indian operations were not available at the time proposed for interview	3
5.	Willingness to cooperate communicated either in writing or by telephone	25
		35

The extent to which these 26 companies represented various industry groups is reflected in Table 3. It will be seen from this table that all the seven consumer goods manufacturers are included in the sample. Coincidentally, the international division offices of all the seven companies were located in the vicinity of New York, which made the interviewing work run smoothly and expeditiously. The miscellaneous class at the bottom of the table consisted of a heterogeneous group of products like process control instruments, aircraft parts, theater sound and projection equipment,

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Electrica
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Elevators
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Office ma
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Miscellan

Table 3. Representativeness of sample

Main Industry Group	Total No. of Firms in Universe		No. of Firms Included in Sample	
Consumer Non-Durables:				
Cosmetics and toiletries	3		3	
Flashlight batteries and cases	1		1	
Food and kindred products	2	7	2	7
Consumer Durable				
Home appliances	1		1	
Semi-Industrial				
Petroleum products	6		1	
Pharmaceuticals, industrial chemicals and fertilizers	22	31	7	10
Tire and other rubber products	3		2	
Industrial				
Automotive equipment, parts and machine tools	2		2	
Electrical and electronic equipment and supplies	3		1	
Elevators	1		1	
Industrial machinery	10	26	2	9
Office machines and equipment	3		3	
Miscellaneous	7		0	
	64		26	

agricultural machinery, textiles, industrial refrigeration and laboratory glassware. It was preferred to concentrate on a limited range of products and therefore, the seven companies in this group were ignored in the final selection.[4]

More About the Sample

Location Pattern

It might be useful to add here a brief introductory note on the sample of 26 companies selected for this study. Eighteen of these companies had their world headquarters located in New York and its vicinity, three in Chicago, two in Detroit, two in Akron and one in Dayton, Ohio. The Indian operations were controlled from these headquarters through either an autonomous international company or an international division, except in two cases where the various product divisions in the parent company organization took care of both domestic and international sales. In most cases, the global operations were divided into smaller geographical units known as "areas" or "regions." Each such unit is put under the charge of a vice-president or regional director. The Indian operations usually formed a small part of such geographical unit which varied in size according to the administrative needs of a company. Some companies, for

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[4] In subsequent discussion, the broad industry groups shown in Table 3--consumer, semi-industrial and industrial--will be considered as representing the product categories indicated under each in the table.

example, included the Indian operations in the Far Eastern region and others in the Eastern region. In the case of only seven companies, however, the Indian operations were being controlled through area or regional headquarters located outside the United States in cities like Hong Kong (4), Beirut (1), London (1) and Melbourne (1). The rest of the companies controlled Indian operations from the United States.

In India, Bombay may be considered as New York's counterpart having offices of 17 United States branches or subsidiaries. It was followed by Calcutta with five, New Delhi with three, and Madras with one. The 26 companies operated 28 plants in India which were not necessarily located in the same town or vicinity where the offices were located. Yet, the Bombay area accounted for 16 plants--the biggest concentration of American plants in India. The other 12 plants were scattered all over the country in Calcutta, Madras, Delhi, Lucknow, Ballabhgarh, Poona, Banglore, Madurai and Hyderabad.

Nature of Parent-Affiliate Relationship

The picture of the organizational pattern of the United States companies interviewed was slightly complicated. It stood as shown in Table 4.

Table 4. Organizational pattern of United States business firms

Organizational Pattern	Number of Companies
1. U.S. incorporated branch offices without any manufacturing operations in India (trading and servicing organizations).	2
2. U.S. incorporated regional offices with manufacturing operations of their own in India.	3
3. U.S. incorporated branch offices having equity interest in other Indian ventures	3
4. U.S. subsidiaries incorporated in India--in which the parent company had 100% equity interest.	6[a]
5. U.S. subsidiaries incorporated in India in which the parent company had 50% or more equity interest	12
	26

[a]One of these subsidiaries was essentially a trading and servicing organization having equity interest in two Indian ventures.

Size Patterns

The group of companies selected for this study was fairly balanced from the standpoint of size, measured either in terms of annual dollar world sales or annual dollar Indian sales. This is borne out by Table 5 which gives the distribution of selected companies in relatively small-, medium- and large-sized groups.

Table 5. Size distribution of United States firms operating in India

Size Groups		Size Groups	
World Sales for 1968 (million dollars)	Number of Companies	Indian Sales for 1968 (million dollars)	Number of Companies
Below $500	9	Below $5	9
$500-2,000	10	$5-10	7
Above $2,000	7	Above $10	8
	26		24[a]

[a]Sales data for India were not available with respect to two companies.

It should be useful to gain an insight into the size of Indian operations of individual sample firms in relation to the size of their respective world operations. This has been done in Table 6. It is interesting to note that the size of Indian operation of all American companies in the sample is remarkably small compared to the size of their global operations. Not only that, the larger the average size of global operations, the smaller is the percentage share of Indian operations. The average Indian sales as a percentage of average world sales tends to decrease as one moves from small-sized to large-sized group. This may be due to the fact that a substantial portion of the total international sales of most American companies is accounted for by the European and Latin American countries. An

Table 6. Size of Indian operations related to the corresponding size of world operations

Size Groups: World Sales for 1968 (million dollars)	Number of Companies	Group Average World Sales (million dollars)	Group Average Indian Sales (million dollars)	Average Indian Sales as Percentage of Average World Sales
Below $500	9	268	4.03	1.50
$500-2,000	10	1,082	9.81	0.91
Above $2,000	7	5,759	33.25	0.58

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American company, planning an expansion in its world operations, naturally gives preference to the European and Latin American operations which are relatively nearer to home and amenable to better control. It is only when the investment opportunities are saturated in Europe and Latin America, it gives thought to expanding in the Eastern or Far Eastern regions. In some cases, the Indian operations of an American company came into existence as an offspring of its European operation and were being controlled from Europe.

Limitations of the Study

The findings and conclusions of this study will have several limitations. The study was conducted at a given point of time and it examines the marketing behavior of American firms in India under a given set of environmental forces existing at that moment. These environmental forces are subject to constant change. For instance, the intensity of government control felt by firms currently may increase or decrease along with changes in the economic condition of the country. Thus, the conclusions of this study will have somewhat limited validity.

The data on marketing adaptation collected in the course of field interviewing were essentially of a qualitative nature and did not lend themselves easily to scaling techniques or statistical measurement. The research findings are therefore mainly exploratory and speculative. The

study was handicapped considerably by the absence of any secondary data on its subject matter.

In a country like India, it was a difficult exercise to persuade managements to disclose information on the internal operations of their respective firms, especially in the area of marketing. Though all the firms interviewed were affiliates of American companies, the fact that a majority of these were being managed by Indian nationals made a significant difference in the extent of cooperation received. The size of the sample had to be limited to the number of companies which agreed to cooperate in this project. The time and money constraints, moreover, did not permit the inclusion of some companies which were located in the western and central regions of the United States. Thus, the study was essentially an empirical survey based on interviews with 26 companies which may not be a completely representative sample. Moreover, only such industries were represented in the sample which in the judgment of this researcher had a significant role to play in India's economic growth.

This study might have also suffered from the limitation that is generally attributed to inferential analysis. The conclusions were based on what the respondents stated they were doing which might be different from what was actually being done. The possibility of such difference was minimized by introducing a system of double interviewing in

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the survey design as explained earlier. Still, it cannot be claimed that this study is entirely free from this limitation.

Organization of the Study

The main findings of this study are incorporated in the four chapters that follow. Each of these chapters has been devoted to an analysis of adaptation patterns in different elements of the marketing mix--product, promotion, distribution and pricing. Product, being the most critical component of the marketing mix, appears first in Chapter III. The next three chapters examine in a similar way the adaptation patterns in the remaining three areas. Finally, an attempt is made in Chapter VII to put together the main conclusions of this study. An important purpose of this chapter is to reexamine the problem questions posed in Chapter I and to determine the extent to which this study has been able to answer them. Suggestions for further research in this direction are also made in the end.

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CHAPTER III

PATTERNS OF PRODUCT ADAPTATION

Marketing adaptation was defined in Chapter I as the total adjustment a firm makes in its marketing strategy in order to survive and grow inside a new environment. It was considered to be a function of adaptations in four major marketing areas: product, promotion, distribution and pricing. The importance of product adaptation as an element of marketing adaptation need hardly be emphasized here. Adjustments in other elements of marketing strategy, viz., promotion, distribution and pricing are affected significantly by the way a firm adapts its product strategy. It is, therefore, necessary that the present study begins with a detailed examination of the patterns of adaptations in the product strategy of American firms operating in India.

The purpose of this chapter is to describe and analyze important patterns of product adaptation made by American firms in response to unique environmental forces in the Indian market. Adaptation in the areas of promotion, distribution and pricing will be examined in a similar way in subsequent chapters. The word "product" has been used to imply any tangible finished goods a firm offers its customers for ultimate consumption, resale or industrial use. It

includes for the purpose of this study the packaging, that may be given to an individual unit of product to protect its contents or body. However, shipment packaging essential for hauling products from the points of production to those of distribution has not been considered as part of a product. Also excluded from the domain of this chapter are activities pertaining to product labelling, branding, issuance of guarantee and warranty, technical servicing, etc., which will be examined later in this study at appropriate places.

Types of Product Adaptation

Earlier writers have indicated the nature and extent of product adaptation through the use of expressions such as "minimal or passive," "active," "fundamental," "minor" and "technological." In a study of political risks associated with American business firms operating in developing economies, Root observed that the act of complying with the government laws and regulations affecting a business firm can be described as minimal or passive adaptation.[1] Accordingly, when a business firm has to export a given proportion of its annual production under an agreement with the host country government, it is making a minimal adaptation. On the other hand, when it takes the initiative in promoting the export trade of the host country without any external

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[1]Franklin R. Root, "U.S. Business Abroad and the Political Risk," MSU Business Topics, Winter, 1968, p. 76.

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pressure, it is making an active adaptation to the foreign environment. Sorenson used the expression "fundamental product adaptation" to indicate the efforts made by a firm to discover special market needs and modify the basic products to meet these needs. He considered ordinary changes in size, package design, color, etc., as the cases of minor adaptation.[2]

A study by Baranson presented a case of technological adaptation of the design of diesel engine to the economic, physical, cultural and legal dimensions of Indian environment. He examined a number of factors having an impact on engine design such as driver habits, fuel economy, physical terrain and atmospheric condition, use of local material and labor intensive techniques, government regulations governing minimum speeds, weight and size limits, etc.[3] Similarly Cartaino conducted a study for Rand Corporation to determine the design for an aircraft intended for use in less developed areas. For this purpose, he gave a careful consideration to the following aspects of the aviation environment in these areas:[4]

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[2]Sorenson, op. cit., p. 209.

[3]Jack Baranson, Manufacturing Problems in India (Syracuse: Syracuse University Press, 1967), p. 19.

[4]T. F. Cartaino, Technological Aspects of Contemporary and Future Civil Aircraft for the World's Less Developed Areas (Santa Monica: The Rand Corporation, 1962), pp. 1-12.

1. Low aircraft utilization rate.
2. Rapid physical wear and tear.
3. Lack of alternative transportation media.
4. A diversity of missions and loads.
5. Operation from short and poorly prepared airfields.
6. Operation at high altitudes and under high temperature conditions.
7. Inadequate airway and ground support.

Both of these studies considered technological adaptation as a change or series of changes incorporated in the design of an industrial product to meet the unique environmental needs of a market. It was a significant move on the part of an overseas firm to match its product offering with market needs. However, a technological adaptation may not be confined to industrial goods only. Consumer durable goods like a washing machine or refrigerator may also undergo technological adjustments to meet special market needs of a particular country.

A review of earlier studies in the field of international marketing has given the impression that there has not been any serious effort so far to conceptualize the marketing adaptation types. The earlier writers including those quoted above made only casual references to the adaptation types and the dichotomies such as minimal-active or fundamental-minor were not so neatly defined and characterized. In a study which is devoted exclusively to marketing

adaptation such as this, a good starting point will be to create a workable classification of marketing adaptation types. This should not only narrow down the existing gap in the literature but will also be a useful frame of reference throughout this study. Toward this goal, the following classification is presented with special reference to product adaptation:

1. Mandatory or externally-imposed adaptation
   a. Minor type
   b. Major type

2. Voluntary or self-imposed adaptation
   a. Minor type
   b. Major type

Mandatory or Externally-Imposed Adaptation

Minor Type

The marketing behavior of a foreign firm may be partially conditioned by certain external forces in the host country on which it has no control. These forces may originate either from the technical or economic infra-structure in the host country or from the host country government. Thus, changing over the product design to 220 volts, 50 cycles power system or to the metric system of weights and measures will be examples of mandatory product adaptation imposed by the technical and economic infra-structure in the host country. Meeting the product quality standards laid down in government legislation or formulated by a statutory body set up by federal government such as the Indian

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Standards Institution also will be considered as a mandatory product adaptation. The Prevention of Food Adulteration Act in India, for example, requires the fruit products manufacturers to use a minimum of 25 percent of fruit juice in products such as fruit squash or syrup in order to associate them with the name of a particular fruit. In this example, the external force behind the mandatory adaptation originated from the government.

In all these examples, the adaptation needs of the host country did not have to be specially investigated. A firm could easily know these needs from the secondary data published in many countries for the information of foreign investors. The U.S. Department of Commerce comes out with several publications which seek to acquaint the American businessmen with legal, political and economic facts on other countries. Normally, a firm would not be required to do marketing research or invest funds in research and development to recognize such adaptation needs. Where this is true, it will be considered a minor type of mandatory product adaptation.

Major Type

In other cases, the adaptation needs may not be as easy to recognize and efforts may have to be made by a firm in the direction of marketing research or R & D in the host country. The government, for example, may ask a foreign firm to make use of locally available materials or parts

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wherever possible. A manufacturer of major equipment may be asked to use labor-intensive techniques in the production process so that the unemployment problem may not be aggravated in the host country. A situation of conflict of interests may arise where the government wants a foreign firm to design products suited to the needs of an export market in which the foreign firm might be already operating through one of its subsidiaries. In any case, a firm may be required to devote a part of its production to export sales as a precondition to its operation.

These examples of mandatory product adaptation differ from the earlier set of examples of minor type in two important respects. First, the foreign firm may not be able to recognize the exact adaptation needs unless some amount of marketing research and product development activities are undertaken by it. Second, involved in such adaptation programs, the foreign firm is contributing to the economic growth of the host country. Therefore, these examples represent the major types of mandatory product adaptation.

Voluntary or Self-Imposed Adaptation

Minor Type

A foreign firm may also adapt voluntarily to the host country environment if this promotes its business goals or the national economic goals set by the host country

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government. The case of voluntary adaptation may be considered as a minor and a major type. The minor type voluntary adaptation may be oriented to individual need fulfillment and, therefore, may call upon a firm to undertake marketing surveys to determine the exact market needs. It may involve a very little or no change in the manufacturing process. Thus, meeting the color, form and package size preferences of consumers may result in a minor type voluntary adaptation. The firm may decide to sell a consumer product in smaller size packages to make the product within the reach of a middle or low-income group family.

Major Type

A major type voluntary adaptation of product will result when a firm makes significant changes in its existing product or develops an entirely new product or product line with the objective of achieving an exact product-market fit in the host country. It may amount to an adaptation in the product-mix if a firm adds or drops products in order to make its total product offering in adjustment with the local market needs. Such adaptation may enable the firm to expand its market coverage from the traditionally served urban parts to semi-urban and rural parts of the host country. A tooth paste manufacturer, for example, may develop a special brand of dentifrice in the host country using certain locally preferred ingredients and flavors which may make the product relatively less expensive and more popular among the masses.

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A mechanical washing machine manufacturer may come up with an inexpensive manual washing device which may have the tumbling action of a modern automatic machine and save the women from scrubbing their clothes by hand. A new product development of this nature involves not only extensive marketing research but also a substantial R & D effort, sometimes inventing backwards, in order to make the products simple and less expensive.[5]

A major type voluntary adaptation may also be oriented to the economic growth requirements of a host country when a foreign firm makes a voluntary move to develop and design its product in such a way that the achievement of national goals--related to balance of payment, employment, etc.--is rendered easier. In connection with mandatory product adaptation of major type, some examples were cited to indicate how a firm can contribute to the economic growth of its host country under pressure from the government. The same examples can be cited to illustrate the case of voluntary adaptation (major type) provided the action is initiated by the firm without any external pressure.

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[5]Warren J. Keegan, "Five Strategies for Multinational Marketing," European Business, January, 1970, p. 35.

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Patterns of Mandatory Adaptation

Minor Type

Almost all the firms participating in the survey reported making minor product changes in the Indian market. The simplest of these were: adjusting to the system of metric weights and measures, 220-230 volts and 50 cycles electrical system and to the Indian currency units. Changes were made in product quality to bring it in conformity with the standards laid down by the Indian Standards Institution, or other statutory organizations established by law to safeguard the interest of consumers. Minor changes in body construction or formulation of products resulted indirectly when a business firm was unable to import a particular material or part from abroad and substituted in their place locally available or developed materials.

Major Type

All manufacturing firms performing product development activity in India reported that one of the important functions of their research organization was to test and develop the locally available materials for possible replacement of imported counterparts. Thus, the import policy revised periodically by the government had a significant impact on their product planning and designing. Another way in which the import restrictions were reflected in the product policy of American firms was "diversification." Two famous

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manufacturers of consumer goods resorted to local contract manufacturing and diversifying their product line when the traditional product lines which they sold in India could no longer be imported.

As most of the American firms adhered to high product quality and performance, they seldom found their products behind the standards formulated by the Indian Standard Institution. All firms interviewed denied that the present government policy in relation to product standardization had any effect on their product strategy. Most of the pharmaceutical companies interviewed claimed that the standards of product quality and effectiveness maintained by them exceeded the requirements of Indian Pharmacopoeia. Similar claims were made by the manufacturers of machine tools, auto parts, business machines, tires, toiletries and cosmetics. There were, of course, certain exceptions. The manufacturers of electrical components and power generating equipment felt that in certain cases more vigorous standards were being enforced in India than those in the United States. A heating element manufacturer was required to use a thicker wall covering to prevent injury from the leakage of current in Indian homes where the people are used to walking barefooted on brick or cemented floors.

The participation by American firms in India's export trade about which they made quite reasonable claims did not come about voluntarily in all cases. Many companies were required to design products specially suited to export

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markets as a precondition to their operation in India. A few of them did this rather reluctantly especially when they had to compete with one of the other subsidiaries in the same parent organization. Others erected their plants in India with full knowledge of and necessary planning for this obligation. They reported doing very satisfactorily in India's overseas trade.

Patterns of Voluntary Adaptation

Minor Type

Several patterns of voluntary product adaptation were noted in the course of field investigation. The manufacturers of food products, cosmetics, toiletries and pharmaceuticals offered a small range of package sizes with relatively greater proportion of goods packed in small sizes so that the people in the lower middle income group could afford to try these products. The drug and pharmaceutical companies adopted strip-packaging in aluminum foil to facilitate retail sale of pills and tablets in small units.

A food products manufacturer adapted its product to the preferences of vegetarian consumers by eliminating the use of eggs. The need for lower consumer prices for their products left a limited scope for offering drugs and nutritional preparations in different flavors or colors. The climatic factors, on the other hand, obliged them to ensure that the products could stand a minimum shelf life in India.

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Additional protective coating on paper boxes was necessary in certain cases. The dosage specifications were adjusted to the health standards of Indian people. This also affected indirectly the package size of drugs--ethical and proprietary. The pharmaceutical companies also took into account the fact that the Indian physicians prefer giving their patients injections, probably to achieve a fast relief. This led pharmaceutical companies to manufacture a relatively larger proportion of injectibles among other forms such as tablets, capsules, and syrups.

The inexpensive human labor, another phenomenon in the Indian environment, pulled the package size in another direction. A fertilizer company reported that fertilizers were packed in 50 kilogram bags, because these sizes could be easily handled by agricultural laborers employed in farms. This varied markedly from conditions in United States where either a whole truck load may be required by big farms or bags of smaller weight may be preferred during the planting time.

A home appliance manufacturer produced the body of its sewing machines predominantly in black color and made them usable by hand to suit the preference of a majority of Indian housewives. A gasoline manufacturer's product range was restricted to low octane lead free gas to meet local requirements. An elevator manufacturing company adapted its product to strong local preferences for collapsible gate and

single automatic push button control for which an attendant was normally required.

Major Type

Few major adaptations were reported by American companies in the course of field interviewing. A sincere move in this direction called for freedom of action from both sides--the parent company as well as the Indian government. Almost all the companies interviewed were part of a larger world wide organization with the result that their parent companies were specially sensitive to any major change in their well established product. The Indian government with its strong leaning toward product simplification and elimination of varieties did not readily come forward to provide necessary facilities and support a firm's move toward major product adaptation. Thus, the pace of major product adjustment was rather slow. Still, many interesting adaptation patterns were identified. These will be covered below in two sections: (1) product-line adaptation, and (2) product-mix adaptation.

Product-line adaptation.--In order to identify the patterns of product-line adaptation, the companies were asked if the products in India were different in any significant way from their counterparts sold in the United States or other countries. Of 26 companies, only 12 responded in affirmative and the number of such items exceeded hardly 4 or 5 with each individual company. The following

observations reflect notable product-line adaptation patterns:

> A fertilizer company with a liquid fertilizer line in U.S. had to switch over to dry complex fertilizer in India because of several environmental factors, for example, small average size of Indian farms and farmers' inability to use special equipments needed for the purpose.
>
> The fear of unemployment of hospital technicians prevented a hospital equipment manufacturer from automating fully the operation tables and mobile x-ray units designed and developed specially for India.
>
> The diversity of regional languages spoken in India was reflected prominently in the product adaptation of a typewriter manufacturer which gradually increased its keyboard models to 12 regional languages.
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> Two tire manufacturing companies manufactured a special tire line for use in animal drawn vehicles. They also manufactured other special products in India such as draft gear pads for use by railroads and compass cord belt for use by the jute industry.
>
> An automotive shock absorber manufacturer designed its product in 4 basic bore sizes to suit different types of vehicles, scooters, motorcycles, jeeps, passenger cars, trucks, buses and railroad coaches. The shock absorbers were valved differently so that they could have greater resistance on poorly maintained or unpaved roads.

Product-mix adaptation.--The product-mix of U.S. firms in India can be characterized by a far fewer number of product items than with the parent company. Both the width and depth of an individual product line were noted to be smaller in India than in United States and some of the larger subsidiaries in Europe and Latin America. Not a single manufacturing firm in this survey conformed to a

reverse situation. The reasons cited for this state of affairs were: small size of the Indian market in terms of purchasing power of the general public and limited resources of industrial buyers, government regulation of manufacturing activity in India, strong tendency of conglomerate mergers among business firms in the United States, and increasing economic prosperity in the United States.

The problem of discovering adjustments in product-mix was approached by first enquiring from participating companies why they started with a particular product-mix and second, what forces lead them to reshuffle the initial mix through adding new products or discontinuing some of the existing products. Generally, the product or product-line a firm started manufacturing with was one in which it had gained long selling experience in the past or for which it perceived an assured potential market. Of course, their choice was restricted to those products which the government considered to be of vital importance to the growth of the Indian economy. The firms were required to get an industrial license from the government before starting any manufacturing operations in India. When asked why they began their manufacturing operations with a given product-mix, the following answers came forth frequently:

1. Past acquaintance with Indian market through exports.
2. World reputation of the product.

3. Use of parent company technology and R & D.

4. Availability of industrial license from government.

In the course of time as the strange environment became better understood and some of the uncertainties removed, the firms expanded the range of products in their existing product line and also introduced new product lines.[6] More specifically, a firm turned to adding new products or product lines when:

1. It had built up a strong base and could afford to shoulder risks inherent in new product introduction.

2. It perceived new market opportunities originating from the economic growth of the country.

3. It began to realize the limited prospects of the current product line and decided to add new lines to spread the risks over a large range of products and ensure the profitability of total operations.

4. It could use the parent company technology in a new direction.

5. It was approached by government to add a new product, being imported previously, to save foreign exchange.

6. Its operation experienced a setback from the government import restriction and it took on a locally manufactured product to hold its sales organization together.

7. It wanted to reduce its dependence on imports.

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[6]Yair Aharoni, The Foreign Investment Decision Process (Boston: Division of Research, Harvard University Graduate School of Business Administration, 1966), pp. 150-151.

Thus, a food product manufacturer reported having added a fruit squash line some years back which the parent company did not produce. A soft drink manufacturer added a new variety of drink to face local competition. A home appliance manufacturer added to its product line ceiling and table electric fans not manufactured by it in the United States.

The drug and pharmaceutical companies diversified into veterinary medicine and animal feed supplement lines after they had built up a strong base on antibiotics, vitamins and other nutritional preparations. With the introduction of motor scooters in India, the manufacturers of tires diversified into scooter tire line and a manufacturer of shock absorbers introduced new models for use in scooters. A flashlight battery manufacturer took up the manufacturing of cinema arc carbons at government request which were being imported earlier. Three leading sales subsidiaries took on local contract manufacturing of items they could no longer import. This enabled them to continue their marketing operations in India. An oil refining company added agrochemicals and a fertilizer line when it encountered a situation of increasing government intrusion in oil refining and marketing business.

Discontinuance of products.--In a developing country, new manufacturing operations tend to be closely regulated by government. The purpose of regulation is to make sure that

the limited resources are allocated among different sectors of industry with due regard for the priorities of the development program. Moreover, in the early stages of growth, the supply of consumer as well as industrial goods remains considerably short of demand leading to general scarcity conditions. The less intense competition and the reputation of American products are two other factors which contribute to the extension of life-cycle of existing products. Under these circumstances, the cases of product discontinuation occur very rarely. Where they did occur, the following reasons were cited by firms:

1. There was need to operate within an import quota.
2. The import of some ingredients used in the product was disallowed.
3. The import of parts was banned resulting in the discontinuation of assembling operations.
4. There occurred more improved and efficacious versions of products, especially in the drug and pharmaceutical line.
5. The U.S. parent company discontinued the product in question.
6. Diseconomies from small operation rendered it unprofitable to continue with the product.
7. The overseas manufacturer whom the firm was representing as an importer-distributor started its own manufacturing operation in India.
8. The firm was not satisfied with the quality of local manufacturing.

U.S. Firms' Involvement in New Product Development Process

The extent to which an India-based U.S. firm is involved in the process of new product development would set a limit on its ability to adapt to the Indian environment. The U.S. parent company has usually the final authority for approving all capital expenditure to be incurred by the overseas subsidiary for new product introduction.[7] But this does not mean that the latter plays no role in this process. The Indian subsidiary, it was found, was invited to make new product proposals and do preliminary testing (laboratory and market testing) of product in India. Of the 26 companies interviewed in India, 18 reported that they sent new product suggestions to the international division or appropriate product division of the parent company. This was done either directly or through area/regional headquarters located in Hongkong, Beirut, London or Melbourne.[8] The suggestions also flowed from the parent company to its subsidiary in India. Five companies reported that the

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[7] In his study of the management of U.S. manufacturing subsidiaries in India, Copen mentioned that the managing directors of these subsidiaries were severely limited in the extent to which they could commit to future course of action. The limit on capital expenditure imposed by the international division was in one case as low as $100. See Copen, op. cit., pp. 229-30.

[8] Seven out of 26 companies interviewed had area or regional offices outside the U.S. which were responsible for Indian operations. In such cases, the India-based company communicated with the parent company through its area/regional headquarters.

suggestions pertinent to the Indian market originated from India whereas two companies said that these originated from parent company's international division.

In the absence of further details, it is rather difficult to judge the acceptability of suggestions of the Indian origin. Normally when a suggestion was referred to United States, it would be thoroughly examined by research, production, finance and marketing people. These people judged the manufacturing feasibility, market potential and the financial soundness of the idea. In case the market potential in India was considered to be inadequate for the size of investment involved, the suitability of idea to other markets would be examined. The marketing executives interviewed observed that it took as long as 12 to 18 months before a product concept originated for India finally got approved or rejected by the parent company. Several instances were noted where the commercialization of a new product was not approved by the parent company though the Indian subsidiary was satisfied with the results of market testing and subsequent dealer enquiries. Thus, the Indian market was sometimes deprived of the products for which the need was felt by U.S. subsidiaries but in the introduction of which the parent company hardly got interested.[9]

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[9]In his field study, Dunning came across a number of U.K. companies which said that any new idea or suggestion in respect of product design, manufacturing techniques, etc., which they might suggest was squashed or treated with the

R & D Facilities and Product Adaptation

One of the reasons for delay in new product decisions by the parent company may be the time consumed in laboratory testing in the company's research organization located in United States or Europe. The facilities of research and development established in India can be described as very limited. Only 1 out of 26 companies reported that it was involved in basic research in a modest way. Eighteen companies reported that they were involved in activities pertaining to new product development. However, in a majority of cases, these companies were engaged in applied research to determine the substitutability of locally available materials in product construction or formulation. The low level of research and development activity of American companies operating in India was also pointed out by earlier writers. Copen, for example, observed:

> In no case were any research activities being conducted in India, except when a product required some minor adaptation to meet local climatic conditions. In every case, the parent firm had to approve any additions to the product lines of the subsidiaries, and they invariably introduced only well established products.[10]

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greatest suspicion and rarely acted upon. See Dunning, op. cit., p. 108.

No company in India made similar comment to this researcher though it was learned from outside sources that some companies do have similar experiences in India.

[10]Copen, op. cit., p. 80.

The companies were asked if and how the absence of any substantial R & D facilities in India affected the process of new product development in the Indian market. A summary of replies is presented in Table 7.

Table 7. Company reactions to the lack of R & D in India

	Company Reactions	Number of Companies Responding
1.	It made no difference as they made use of these facilities with their parent company or larger subsidiaries of the same organization located in Europe or Australia	11
2.	The absence of R & D facilities on a substantial scale made the process of new product development somewhat slow but not to the point of a competitive disadvantage	6
3.	The absence of R & D facilities on a substantial scale not only made the process slow but also amounted to slight competitive disadvantage	1
4.	Both 1 and 2 above	2
5.	Both 2 and 3 above	1
6.	No particular views	5
		26

Is R & D a Limiting Factor to Product Adaptation?

It is debatable whether or not the provision of R & D facilities by parent companies in India would improve the potential of product adaptation, and enable the Indian subsidiaries to achieve a better product-market fit. It will be noted that among the executives interviewed, less than half seemed to agree that the absence of R & D at the Indian subsidiary made the process of product planning somewhat slow. It is significant, however, that in a group of 26, as many as 10 tended to believe so (see Table 7). They further indicated that the new product introduction in India would be much less time-consuming if the Indian subsidiaries did not have to transmit each product proposal to the international division in United States for necessary laboratory testing.

These executives indicated thus the value of R & D to the process of product adaptation in India. In United States, some corporations had publicly stated that they established overseas laboratory so that products and processes could be adapted to and developed for foreign markets.[11] In India, a few trade associations and government departments representing the industries covered in this research offered similar views. The government officials interviewed seemed unhappy with the poor response brought by tax incentives the

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[11]Aharoni, op. cit., p. 196.

Government of India offered to foreign investors for doing research in India. Some of them felt that the currently serious brain-drain problem might be solved to an extent if the foreign parent companies moved a part of their research organization to India where the supply of technical and scientific personnal was more than sufficient. This move, they added, would not only result in a faster new product development but also bring the foreign investors in high public esteem. Even in Canada where the American companies controlled about one-half of the manufacturing industry, there was public resentment against the policy of these companies to maintain the research facilities in the United States.[12]

From the analysis of field interviews and general study of Indian environment, it appeared that the United States companies did not consider adding more to their existing small R & D set-up in India because (1) they did not encounter there a competitive business environment, (2) the size of their operations in India continued to be as small compared with the size of entire overseas operations, and (3) they did not extend their market coverage from urban to semi-urban and rural sectors of the Indian economy. It will be useful to elaborate upon these factors.

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[12]John Lindeman and Donald Armstrong, Policies and Practices of United States Subsidiaries in Canada (Washington, D.C.: National Planning Association, 1960), pp. 57-64.

Competitive environment.--The business environment in a country undergoing a program of planned economic growth experiences more government regulation and intervention than competitive interaction among business firms. The virtue of government control that no company will admit publicly is the protection it offers against external competition. Many companies including manufacturers of tires, machine tools, auto parts, elevators, etc. said in the course of interviews that they experienced no problem in disposing of whatever amount of finished goods they manufactured during a year. Some of them added they had no competitor in certain product lines manufactured by them. The conditions of shortage, moreover, make consumers or users less demanding or insistent in matters of quality or suitability of the product. Under these circumstances, the U.S. firms may not worry about achieving a product-market fit as closely as, say, in western Europe where the business environment is far more competitive.

Size of operations.--The size of Indian operations of most of the companies interviewed was very small compared with the size of total world operations. Measured in terms of annual sales for the year 1968, the size of Indian operations of all companies ranged from .05 percent to 3.2 percent of their respective world operations (see Table 6, page 38). The smallness of size may be considered as another factor in the present indifference of American companies

towards committing additional resources in research and development facilities in India.

Market coverage.--The operation of most of the consumer and semi-industrial goods manufacturers included in this study were confined to high and middle income urban markets. Very few perceived their target markets to be in the semi-urban and rural parts of India. To most industrial goods manufacturers, the government organizations including public sector undertakings constituted the biggest customer group. The information received from the sample firms on perceived target market is analyzed in Table 8.

Table 8. Perceived main target market

Perceived Main Target Market	Number of Firms Responding
Urban high income group	7
Urban middle income group	3
Urban and rural population	3
Government organization	7
Original equipment manufacturers (OEM)	5
Educational and research organizations	1
	26

One of the important reasons why the American firms concentrated on the urban high income group and the government as their main target market could very well be the financial ability of buyers in these segments to pay for the quality of products manufactured by them. The participating firms were asked to describe the principal product appeals they made in the Indian market. The replies were as shown in Table 9.

Table 9. Types of product appeal

Types of Product Appeal	Number of Firms Responding
High quality appeal	19
Brand appeal	15
After-sale service appeal	7
High value appeal	7
Low price appeal	0
Other appeals	2
	50[a]

[a]The total does not coincide with the acutal number of respondents because of multiple entry.

It is significant to note in Table 9 that not a single company checked "low price appeal" provided in the questionnaire as one of the alternative appeals. Thus, the target market of a U.S. company consisted of financially

strong individuals or organizations who could afford the quality and brand of its products. To serve this market segment, the company did not need any major product adaptation. The preference of high-income urban people in India came close to the mass market preferences in advanced countries like the United States. Efforts in the direction of major adaptation of products would have been necessary if a company had decided to expand its market share from primarily urban to semi-urban and rural sectors of the economy. It is in these sectors where the social, cultural and economic differences predominate. Once the market coverage of American companies broadens in this direction, they will encounter a real problem of product adaptation and will realize the need for strengthening their R & D facilities.

Conclusion

Does this mean that the U.S. companies have demonstrated a low level of product adaptation to the Indian environment? The answer is yes if the criteria of adaptation spelled out in Chapter I are the basis of an evaluation. Most of the companies did not go beyond making minor and minimal types of adaptation. Few consumer goods and pharmaceutical manufacturers engaged in active efforts for identifying market needs peculiar to the Indian environment. From the reasons given by companies for adding or dropping products subsequent to the start of manufacturing operations

in India, it was gathered that these adjustments rarely aimed at meeting a newly discovered market need. More often than not, they aimed at utilizing the technology and managerial capabilities of the parent company, maintaining the profitability of Indian operations, and responding to changes in the supply position of materials or parts used in production. Only in two or three cases, did a company attribute its product-mix adjustment to the exploitation of a new market opportunity. It has been earlier noted that most of the companies did not want to export from India unless they were forced to do so under the formation agreement. Thus, their business interests overrode the national interests of the host country.

The instances of major product adaptation cited earlier would appear to be only a little more than minor adaptation. A closer examination revealed that the companies involved had to adopt the changes to ensure their survival in the Indian economy. Only 3 out of 13 consumer goods and drug manufacturers indicated interest in the gradual coverage of semi-urban and rural markets and showed plans of new product introduction in these markets. According to one executive, the foreign companies in India spend at a level to maintain their leadership, instead of going out to increase the size of the market.[13] The industrial

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[13]"Vick in India," Sales Management, October 1, 1969, pp. 44-48.

goods manufacturers were found to be more interested in adjusting product designs to the needs of environment, as would be evident from the instances of major adaptation given earlier in this chapter.

While there was a lack of initiative among companies especially in the consumer goods line, their efforts were also thwarted by certain uncontrollable factors in the Indian legal environment. The official policies and procedures were such that excessive delays sometimes occurred in obtaining an industrial license for manufacturing a new product. Simple matters such as import of samples from abroad involved lengthy procedures, too much paper work and dealing with a number of offices. In certain cases, government approval was required when a company wanted to adjust the size or packaging of products to market needs.[14]

But, on the whole, it seemed that the U.S. companies were not interested in sacrificing quality for an increase in market share. They wanted to maintain the world-wide standardization of product lines and the reputation earned by them over years in their global operations. In this way, they saved the costs involved in product adaptation. The consumer resistance resulting from this policy of product

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[14]For details, refer to Obstacles and Incentives to Private Foreign Investment, 1967-68, Studies in Business Policy No. 130 (New York: National Industrial Conference Board, 1969), pp. 35-37. This study includes comments from foreign investors on obstacles and opportunities of direct investment in India and also the reactions of the Indian government to these comments.

extension or market unification was overcome by information and persuasion to the extent possible.[15] This was achieved through promotional efforts which is the subject matter of the next chapter.

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[15]John Fayerweather, International Business Management (New York: McGraw Hill Book Company, 1969), p. 133.

CHAPTER IV

PATTERNS OF PROMOTIONAL ADAPTATION

It is necessary for all sellers of goods and services to communicate with their respective target market. The purpose of such communication may be to seek new triers, to inform people about changes introduced in existing product line and to keep the current customers from switching to competing brands. It may be designed either on a face-to-face or personal basis or on an inpersonal basis, depending on the nature of product, extent of market coverage and the management philosophy of a firm. Face-to-face communication is accomplished through a field sales force which is hired to establish and maintain personal contacts with prospects. Impersonal communication may take the form of advertising, sales promotion and general publicity. In marketing literature, the term "promotion" is used to encompass both types of communication described above. A business firm, operating in the home country or overseas is usually involved in some kind of promotional activity to communicate with its market. The problem of communication becomes rather critical when a firm is operating overseas in a strange environmental setting. Such a firm might not find abroad the

necessary promotion facilities or infra-structure which it might be accustomed to in the home country. It might have to adapt its messages to the social, psychological and cultural background of its potential buyers.

The purpose of this chapter is to focus upon adaptations in the promotional strategy of American firms operating in India. A promotional strategy is defined as a plan of action designed to communicate with the target market through personal and impersonal media--field selling, advertising, sales promotion and general publicity. A major emphasis of this chapter is on advertising to examine how the advertising media-mix and messages are adapted to the Indian environment. This is because the patterns of adaptation were found to be more identifiable in the sphere of advertising than in other spheres such as personal selling, sales promotion and publicity, though the latter three are also examined where applicable. The promotional aspects of brands and labels are also examined in this chapter. The proposed discussion on promotional adaptation will be more meaningful if it is preceded by an analysis of the promotional infra-structure existing in the two economies--the United States and India.

The Promotional Infra-Structure

Table 10 presents a comparative view of the promotional infra-structure in the United States and India, as it existed in 1960-61 and 1967. It points out that the efforts of American firms are handicapped severely due to

Table 10. Promotional infra-structure in the United States and India, 1960-61 and 1967

	United States		India	
	1960-61	1967	1960-61	1967
General				
Population	180.67 million	199.114 million	432.56 million	511.125 million
Illiteracy	2.2% (1959)	2.2% (1959)	76% (1961)	76% (1961)
Major languages	1	1	14	14
Press				
Daily newspapers	1,763	1,749	465	588
Total daily circulation	59,211,464	61,561,000	4,610,000	6,593,000
Copies per 100 people	32.6	30.9	1.1	1.3
Radio				
Transmitters	4,555	5,809	60	62[a]
Receivers	183.8 million	285 million	2.1 million	7.57 million
Receivers per 100 people	100	142	0.5	1.5
Television				
Transmitters	607	619	1 (experimental)	1 (experimental)
Receivers	60 million	78 million	750	6,200
Receivers per 100 people	33.2	39	....	....
Film				
Cinemas	12,300 (fixed)		3,398 (permanent)	4,199 (permanent)
	4,700 (drive-ins)	18,000[b]	957 (touring)	2,026 (touring)
Total seating capacity	10 million	15 million (est.)	2.378 million	3 million
Seats per 100 people	5.6	7.5	0.6	0.6

[a]Provides medium coverage to 70 percent of population of India.

[b]Including drive-in theatres.

Sources: U.S. Department of Commerce, Statistical Abstract of the United States, 1969; India, A Reference Manual, Ministry of Information and Broadcasting, Government of India, 1968; and World Communications--Press, Radio, Television, Film (Paris: UNESCO, 1964).

very limited communication media available in India. The television medium is still conspicuous by its absence in that country. The All India Radio is a state-owned undertaking which started commercial broadcasting for the first time in its history in November, 1967 upon repeated representations from trade and industry. Thus, from the promotion point of view, the ratio of 1.5 receivers per 100 people was not significant until about the end of 1967. Even in 1970, the demand of time for radio commercials is reported to be far in excess of the supply released by the All India Radio. The average circulation of daily newspapers stands at the low level of 1.3 copies per 100 persons in India against 30.9 copies per 100 persons in the United States. The illiteracy ratio of 76 to 100 is considered to be a major cause of the extremely low level of newspaper circulation in India. Another limiting factor to newspaper circulation may be the multiplicity of languages used in different parts of the country for oral and written communication.

Relative to other media of promotion, India seems to be better off in the supply of movie theatres or cinemas. It had 4,199 permanent and 2,026 touring cinemas in 1967 with an estimated seating capacity of 3 million people. Short length commercials and cinema slides are shown at these cinemas to overcome the limitation of illiteracy among the masses. Interestingly, the cinemas provided a wider

arket coverage because of their dispersion all over the ountry in both urban and semi-urban areas. As indicated n Table 11, 30 percent of total cinemas in India are in owns with a population of 10,000 or less.

Table 11. Market coverage by Indian cinemas

ercentage of Total Number of Cinemas	Outer Limit of the Population of Towns Where Located
80	100,000
60	50,000
45	25,000
30	10,000

ources: S. Watson Dunn, International Handbook of Advertising (New York: McGraw Hill Book Company, 1964); and The Indian Advertising Yearbook, 1962, Our India Directories & Publications Private Ltd., Madras (India).

The relative inadequacy of promotional instruments n India as borne out by Table 10 should not be taken as eflecting the trend of promotional effort which seems to be ncreasing. The information on the total annual billings of nternational advertising agencies operating in India as een in Table 12 indicates the rising trend in advertising xpenditure in this country.[1]

[1]Unfortunately, no authoritative statistics are available on the total advertising outlay in India. Subrata anerjee in S. Watson Dunn, op. cit., estimated it between s. 100 million and Rs. 150 million ($20 million and $30 million) for the year of 1961. He speculated that the total dvertising expenditure was rising at the rate of about Rs. 0 million per year. Accordingly, the total outlay now can

Table 12. Estimated annual billings of international advertising agencies operating in India

Year	Number of Agencies	Amount of Annual Billings	
		Million Dollars	Million Rupees
1965	8	14.70	70.56
1966	10	12.95	97.12[a]
1967	17	25.51	191.32
1968	18	29.02	217.65
1969	14	29.88	224.00

[a]In 1966, the Indian rupee was devalued and the rupee-dollar exchange rate changed from Rs. 4.80 = $1 to Rs. 7.50 = $1.

Source: Advertising Age, Chicago, March 28, 1966, p. 72; March 27, 1967, p. 94; March 25, 1968, p. 50; March 31, 1969, p. 48; and March 23, 1970, p. 42.

Table 12 shows that the amount of total billings more than trebled during the period 1965-69. The rising trend of advertising expenses in relation to sales was the subject of another study undertaken by The Economic Times Research

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be estimated at Rs. 230 million (about $30 million). This is, however, an underestimate in the light of the 1969 figure for agency billings given in Table 12. The Indian Advertising Yearbook estimated the national advertising expenditure at Rs. 350 million for 1960. In view of such conflicting estimates it was preferred to take help from the statistics on annual billings of the international advertising agencies for gaining a feel of the trend. Admittedly, the volume of total national advertising should be now far above these figures, possibly in the neighborhood of Rs. 500 million ($67 million).

Bureau.[2] The Bureau analyzed the financial data for 65 manufacturing companies--23 consumer goods companies and 42 industrial goods companies for the period 1965-68. It was found that, whereas the sales of consumer goods manufacturing companies increased by 41 percent, the advertising outlay of these companies increased by 61 percent during this period. The advertising-sales percentage increased from 1.16 to 1.32 during the same period. With respect to 42 industrial goods manufacturing companies, it was found that, whereas the total sales of these companies increased by 40 percent during 1965-68, the advertising outlay increased by 69 percent during the same period. The advertising-sales percentage increased from 0.31 to 0.38. The lower advertising-sales ratio for industrial goods manufacturing companies was accounted for by the fact that these companies depended relatively less on advertising and more on personal selling. Thus, the study presented another evidence of the rising trend in advertising expenditure in India, both in consumer goods as well as industrial goods manufacturing companies.

Though the present promotional infra-structure in India may be in a state of acute underdevelopment when compared with that in the United States, it is gradually improving. An idea of this improvement can be had from

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[2]The Economic Times, Bombay, India, February 4, 1970.

Table 10 which presents comparable information on the infrastructure for the years 1960-61 and 1967. The table bears our the fact that during the period 1961 through 1967, the number of daily newspapers increased from 465 to 588 and the ratio of newspaper copies per 100 people went up from 1.1 to 1.3. Also, the number of radio receivers increased more than three times from 2.1 million to 7.57 million and the ratio of receivers per 100 people went up from 0.5 to 1.5. The number of cinemas increased from 4,355 to 6,225 and the ratio of cinema seats per 100 people remained steady at 0.6. These improvements were gained in spite of a little less than 20 percent increase in India's population during 1961-67.

Having gained an insight into the promotional infrastructure existing in two countries, it is now proposed to enter into the main subject matter of this chapter--the patterns of promotional adaptation. As done in the previous chapter on product adaptation, the types of promotional adaptation will be discussed first and following this, a review will be made of major adaptation patterns in the promotional strategy of 26 American companies studied for the purpose of this research.

Types of Promotional Adaptation

Mandatory Adaptation

A firm's decision to adapt its promotional effort to a foreign environment can either be mandatory or voluntary. The host country government may make it mandatory for the firm to use the national languages in its advertising and sales promotion. It may forbid a firm from using a particular advertising medium or it may impose arbitrary limits on the advertising expenditure a firm may plan to make during a given year. When the sale of advertising space or time is monopolized by the government, a firm may not be able to buy it to the extent and at the rate it might have planned for. This will amount to an indirect regulation of the firm's advertising expenditure and media-mix. The government may also regulate the sales promotion activities of firms by setting a limit on the distribution of free samples and gifts to customers. It may also prescribe the manner of labeling on food and drug containers or packages for sale within the country and for exports.

In practice, the government regulation and control over the promotional activities of business firms are rather minimal in India compared with other marketing activities such as product planning and pricing. The Government of India does not own any promotional media except the commercial broadcasting service. It has not imposed any limitation either on the use of a certain language in printed

advertisement or radio commercial or on the amount of total advertising expenditure that could be incurred by a firm. Only in an indirect way, it imposed a limit on a firm's advertising expenditure by fixing a ceiling on its deductibility as an allowable business expense under the Indian Income Tax Act. The Drug and Cosmetic Act, 1940 and The Prevention of Food Adulteration Act, 1954 have specified the information to be printed on the labels of containers in which food and drug items are sold in retail. The manner of marking has been prescribed for physician's samples and for medicines containing alcoholic or poisonous substances. The Drug and Magic Remedies (Objectionable Advertisement) Act, 1963 prohibits the publication of objectionable advertisements relating to sexual stimulants, alleged magic cures for venereal diseases peculiar to women.

However, such legislations are not peculiar to the Indian environment and, therefore, are not very strange to the American firms operating in India. All business firms, whether foreign or local, are under an obligation to comply with rules under these acts. Not a single American firm in this survey mentioned that it experienced any government restriction or regulation in the field of promotion.

Voluntary Adaptation

A foreign firm may adapt its promotional effort on a voluntary basis if this step is conducive to better communication with its target market and an expansion in its

market coverage. It may, for example, modify the verbal message or the illustration of an advertisement to make it more meaningful to readers from a different culture. It may also make significant changes in the promotional strategy to adapt to the infra-structure available in the host country. The promotion-mix, for example, may be adjusted in such a way that personal selling is given greater emphasis than advertising. The availability of human resource at a lower wage level than in the home country may be one reason for such adjustment. Adjustments may also be called for when a particular advertising medium is not available and needs to be replaced by some alternative mediu, the facilities for which exist in the host country. The absence of television and a limited supply of commercial broadcasting time in India, for example, oblige an American company to devote a greater proportion of its advertising budget to the print media or audio-visual publicity in cinema houses through short commercial movies and slides.

The more important area of voluntary adaptation is that of advertising appeal or theme that sets forth the key proposition (the unique selling proposition or U.S.P. as it is known in advertising literature) and stimulates the buying motive in the reader. A variety of factors--economic, social, social-psychological, cultural and anthropological--have to be taken into account in the selection of an appropriate advertising appeal when an American firm has to sell abroad, especially in an oriental culture such as India.

For example, the "do-it-yourself" appeals which are effectively used in the selling of parts, accessories or supplies in the United States may not be as effective in a labor-abundant economy. Ready-to-serve food items may be advertised with an appeal of time saving to an American housewife but not to an Indian housewife who will probably be more responsive to an appeal of utility and purpose; for example, the entertaining of unexpected guests.

The direction of voluntary adaptation in the promotional strategy of a firm may be determined with the help of consumer surveys, and at the time of test marketing the product. This chapter is not concerned with these techniques. Its main purpose is to identify the patterns of promotional adaptation made by American firms to the Indian environment. This is done in two parts: (1) promotion-mix adaptation, and (2) advertising copy adaptation.

Promotion-Mix Adaptation

The degree of promotion-mix adaptation made by American firms in India varied depending on the nature of products involved, extent of competition in Indian market and the state of promotional infra-structure existing in India.

Consumer goods.--An interesting adaptation pattern was revealed by the promotion-mix of consumer goods manufacturing companies, four of which rated sales representatives (personal selling) as their number one medium. This

contrasted sharply with the promotion-mix in their respective parent organizations which did not make any significant use of personal selling in the marketing of their products. Apart from the fact that the hiring of field salesmen for covering national market would have required a huge investment, the U.S. parent companies were able to dispose of their merchandise in bulk through big wholesalers and large chain organizations operating in grocery and drug lines. A significant use of a field sales force by their Indian affiliates was an adjustment to the following environmental factors: relatively less expensive availability of college educated young men, inadequacy of print and time media, presence of competition and the need to "push" products through regular contacts with Indian market middlemen (stockists, wholesalers and retailers).[3] The "pull" strategy through direct action consumer advertising could not be effectively used in an underdeveloped economy characterized by low disposable incomes, a high illiteracy ratio and a very low rate of circulation of daily newspapers as was seen in Table 10, page 76.

Among the advertising media it was noted that the consumer goods manufacturing companies rated either movie

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[3]As on December 31, 1967, there were 89,368 unemployed graduates registered with Indian employment exchanges. In addition, the number of clerical, sales and related workers without jobs stood at 114,504 on this date. See India, A Reference Manual, 1968, op. cit., p. 161.

or newspaper advertising as their "number one" medium. The parent organizations, on the other hand, considered television as their most effective medium in the U.S. market. The absence of television in India forced some of these companies to resort to movie in order to avail themselves of the next best medium available in India to appeal to the mass market.[4] Magazines, radio and point-of-sale displays were among other advertising media used by these companies in the United States and India.

Semi-industrial and industrial goods.--The promotional-mix adopted by the pharmaceutical companies in India paralleled very much the mix they adopted in the United States. In both countries, these companies made use of direct mail and the professional journal advertising, backed by a well trained force of medical representatives. The distribution of free samples to the physicians was the most important promotion used in both the countries. With one exception, all the pharmaceutical companies interviewed manufactured mainly an ethical drug line for which contact with physicians was of utmost importance. This factor was an important reason for their not advertising direct to consumers through newspaper or radio. The exceptional case was presented by one company which specialized in the O.T.C. (over-the-counter) line and was noted for using press media,

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[4]Table 11 indicates that this medium offers a wide market coverage in India, encompassing both urban and semi-urban population.

audio-visual advertising through movie and cinema slides and outdoor advertising, besides the conventional media used by the pharmaceutical companies. The adaptation made by this company to the Indian environment was in the form of making an extensive use of cinema advertising and holding mass consumer contacts on the road to reach the maximum possible number of prospects. To reach the semi-urban and rural markets, mobile vans were used by the company with necessary equipment for audio-visual publicity, samples, etc.

An important reason why this company was involved in a strong promotional program was the presence of greater competition in the proprietary medicine line than in ethical drug line in India. It was also involved in long range planning for new product development in India and had recently introduced a new product under an Indian brand name. On the other hand, none of the other five pharmaceutical companies used other than the U.S. brands. They confined their selling operations to the urban high income market and faced a relatively small amount of market competition. With this blend of market strategy, they managed to transfer to India the promotional techniques used in the United States for the sale of ethical drugs--detail men, direct mail to physicians and advertising in medical journals.

A fertilizer company adapted its promotional-mix by offering a strong educational program to the Indian farmers. The program consisted of guidance on the fertilization needs

of the soil, controlled demonstration of fertilized crops and recommendation to farmers about suitable crops that could be grown by them to achieve higher productivity. The company made use of audio-visual publicity in influential farm communities by using a fleet of mobile vans. These promotional means were used in addition to the conventional advertising media such as newspapers, magazines and professional journals.

One petroleum company considered the holding of press seminars as peculiar to its operations in India. The company was losing its market share in the petroleum line to a state owned corporation and was thus obliged to resort to this public relation activity.

The manufacturers of industrial goods such as auto parts, business machines, machine tools and heavy machine equipment depended primarily on personal selling and direct mail. The rubber tire manufacturing companies used newspapers, radio, movie and general sales promotion to the trade in addition to personal selling and direct mail. Their advertising was aimed primarily at truck and taxicab drivers who were considered to be the opinion leaders in the tire business. In the U.S. market too, the newspaper was the "number one" medium used by tire companies, followed by television, magazines, radio, trade journals and outdoor advertising.

For many pharmaceutical and industrial products manufacturing companies, the government, including public sector undertakings, made an important customer with the result that personal selling and technical demonstration received greater emphasis in the designing of their promotional-mix. A manufacturer of steam generating equipment, for example, relied primarily on frequent personal contacts with the chiefs of government electricity boards. Similarly, a manufacturer of pesticides considered technical demonstration to government agricultural departments and cooperative farming societies as of vital importance in its promotional program.

In brief, most American firms made important adjustments in their promotion-mix, guided by the nature of the product-line, the nature of the target market and the type of promotional infra-structure available in India. Firms in all product-groups made relatively greater use of personal selling because it was less expensive to hire college educated young men and women in India than in more developed nations. The absence of television was overcome by the use of short movie commercials, cinema slides and mass consumer contact. Technical assistance and demonstration received more emphasis in advertising programs directed at unsophisticated classes of people such as farmers.

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Advertising Media Rank Comparison

An attempt has been made in Table 13 to bring together the ranks assigned to different advertising media by 15 of the companies interviewed from whom the necessary data were available. The ranks are based on the amount of advertising expenditure incurred by a company on a given medium in United States and India during the year 1968. Where no such ranks are indiated, it is implied that the medium in question is either not used at all or used very sparingly. The information on the U.S. market was verified by data on the advertising expenditure of the top 125 national advertisers published annually by Advertising Age.

Table 13 presents a comparative picture of the value attached to various advertising media by American firms operating in the two countries. Some of the adaptation patterns referred to in the earlier discussion are reflected from these rank valuations. The television advertising conspicuous by its absence in India, is rated as the "number one" advertising medium in the U.S. market by 12 of the 15 companies and as the "number two" medium by the remaining 3 companies. In sharp contrast, 8 of the 15 companies reported the use of movie commercials and cinema slides for advertising their products in India but none in the United States. With the exception of one, all companies used radio advertising in United States as against only 7 in India.

Table 13. Advertising media rank comparison between United States and India[a]

Company Code No.[b]	Newspaper	Magazine	Trade and Professional Journals	Television	Radio	Movie and Cinema Slides	Outdoor Advertising
CP-1	3 (1)	2 (3)	5 (2)	1	6	...	4 (4)
CP-2	5 (1)	2 (1)	4	1	3 (3)	(2)	...
CP-3	3 (2)	2 (2)	5	1	4 (3)	(1)	6
CP-4	5 (1)	2 (1)	3 (4)	1	4 (2)	(3)	6 (5)
CP-5	4 (3)	3 (3)	6	1	2 (4)	(1)	5 (2)
CP-6	4 (1)	3 (5)	2	1	5 (2)	(3)	(4)
SI-1	6	2	4 (1)	1	3	...	5
SI-2	5	3	2 (1)	1	4	...	6
SI-4	...	3	2 (1)	1	...	...	...
SI-6	5 (2)	3 (2)	2	1	4 (4)	(1)	(3)
SI-8	5	3	4	1	2	...	6 (1)
SI-9	1 (1)	3	4 (3)	2	5 (2)	(4)	6 (5)
SI-10	1 (1)	3	5 (2)	2	4	(3)	6 (4)
IP-1	4 (1)	2 (1)	3 (2)	1	5	...	6 (3)
IP-4	4 (2)	1 (2)	3 (1)	2	5	...	6

[a]Ranks are based on expenditure incurred on a given medium during 1968; figures in parentheses indicate ranks for the same companies in India.

[b]CP stands for consumer products; SI stands for semi-industrial products; and IP stands for industrial products.

The pharmaceutical companies, as already stated, relied mainly on personal selling, direct mail and professional medical journals in India because of their strictly ethical product lines. Only when a company manufactured proprietary medicines, it employed print and time media to appeal to the final users. The product-mix of the same pharmaceutical companies consisted of a heterogeneous group of product lines in the United States--ethical and proprietary drugs, chemicals, fertilizers, hospital supplies, etc.--which called for the use of different advertising media to appeal to different market segments.

Advertising Copy Adaptation

In this section, the word "copy" has been used in a little broader sense to include both--the verbal message in words and figures (the conventional use of the word) and the visual elements (such as an illustration)--in an advertisement. The message underlying a copy has to be geared to a number of factors such as the product itself, the place where it is likely to be used, the functions it is supposed to do, the economic, social and psychological dimensions of the buyer behavior, etc. The theme or appeal inherent in an advertising copy is the crucial element of an advertisement which aims at stimulating the buying motives in prospective readers. Some multi-national companies have held the philosophy that the same advertising copy may be adopted in all the world markets in which they operate--the commonly

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known extension approach to multi-national advertising. The assumption behind this approach is that of the universality of human needs, reactions and responses. Others have held the philosophy that an advertising copy should be adapted to the environment within which a company was operating because the people it seeks to communicate to differ in many ways. They have different needs and value systems, they are brought up in different economic, social and cultural environment and are therefore, supposed to respond differently to identical messages contained in an advertisement.[5] In this last section, an attempt will be made to examine what changes, if any, were made by American companies in the advertising appeals or themes in order to move their products across the Indian market.

Advertising Themes or Appeals

The advertising appeals or themes used by American companies in India varied from product to product. The appeals of consumer goods manufacturers were quality and brand-oriented and aimed at urban high and middle income groups. Five of seven companies advertised and sold international brands in India. The remaining two, had developed

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[5]Ryans aptly classifies world consumers into three broad groups--international sophisticate, semi-sophisticate and provincial. He argues that the "provincial" group was the least receptive to the international approach of advertising being used by many American companies. See John K. Ryans, Jr., "Is It Too Soon to Put a Tiger in Every Tank?" Columbia Journal of World Business, IV, No. 2 (March-April, 1969), 69.

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some Indian brands too in addition to the international brands. A cosmetic manufacturer emphasized similar selling points in both the countries--beautiful look, softness of skin and early morning freshness. An advertiser of tooth paste used the appeal "stop bad breath and fight tooth decay" in India, whereas it emphasized the need for getting rid of cavities in the U.S. market. A soft drink manufacturer emphasized in India the suitability of drink for different occasions of family entertainment, whereas in the U.S. market, it used quite often the theme of "refreshing pause." A flashlight battery manufacturer laid stress on safety, protection and value of money in India where this product was used extensively in both the rural and urban parts of the country.

The advertising copy used by most of these companies was not as competitive in India as in the United States. It did not emphasize value or the reasonableness of price with the exception of one manufacturer. One of its main objectives appeared to be to propogate American brand names among the urban high and middle income group in India. The messages were stated in a simple straightforward way and were translated in major Indian languages to appeal to different regional markets within India. Most consumer goods companies or their advertising agencies hired translators for this purpose.

The pharmaceutical companies reported that they emphasized "quality" in their ethical drug advertising. To indicate quality, different expressions were used such as dependability, usefulness, efficiency, effectiveness and company reputation backed by original research. Most of the companies interviewed were not new to the Indian market. They had built up their reputation among Indian physicians through exports even before they started manufacturing operations in India. A very little institutional promotion appeared necessary to them. None of the companies reported having introduced any major change in their advertising appeals since the beginning of Indian operations. Nor did any of them claim that the appeals used in India were any different from those directed at the American physicians. In brief, the pharmaceutical companies did not have to make any significant change in the appeals they used in the United States for the following reasons:

1. Their products were identical in the two countries with very minor change in specifications forced by the nonavailability of an ingredient. The same brand names were used in both countries.
2. The advertising messages were directed at physicians, not the actual users.
3. Most of the companies were involved in multi-national operations and had to be careful about maintaining the consistency of claims the world over.

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A fertilizer manufacturer addressed its messages to actual users--the farmers or farm cooperatives in this case. It used cost- and benefit-oriented advertising appeals. Having to deal with a less-educated and less-advanced group of people, the company was cautious in using as sophisticated messages in India as used generally in the United States. Two tire manufacturing companies directed their appeals at truck drivers mostly and at taxi-cab drivers in metropolitan areas. They emphasized retreadibility and strength in the truck tire advertising and safety, dependability and extra-mileage in the passenger car tire advertising. Similar appeals were used in the U.S. market too. However, the price appeals were used more frequently in the U.S. market with attractive deals and bargains not known to the Indian tire buyer as yet because of scarcity conditions. Additionally, other appeals were used in the U.S. market to influence different market segments such as the teen-age market, the snow tire market, etc.

The manufacturers of business machines used consumer benefit-oriented and service-oriented appeals in both countries. One of the leading sellers and renters of data processing equipment reported that it was required to invest a larger proportion of its advertising budget in institutional appeals in India than in the United States. The abstract conceptual appeals were also used to introduce to prospects new management techniques like distribution cost analysis or inventory control. In making conceptual appeals,

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no adaptation was called for. An auto parts manufacturer emphasized in its advertisement safety, durability, economy, smoothness of ride and the adaptation of product to the Indian roads. A steam-generating equipment manufacturer stressed service and reliability. An elevator manufacturer made appeals of leadership, speed and quality of service. A major equipment manufacturer emphasized reputation, efficiency and the suitability of application.

On the whole, the appeals of the industrial product manufacturers did not vary much between the two countries, except that the Indian advertisements highlighted leadership and reputation of the company more often. The U.S. advertisements emphasized completeness of product line, low maintenance cost and experience--not so commonly emphasized appeals in India. These differences can be attributed to two factors: (1) less intensive competition in industrial product line in the Indian market and (2) narrower product lines carried by American companies in India. In both the countries, the advertising messages related to heavy industrial equipment sought to influence the top management in the prospective buying company as well as the opinion leaders such as building architects and designers, technical and engineering consultants, etc.

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Role of Parent Company

The parent company seemed to exercise a small degree of direct control over decisions pertaining to advertising and sales promotion reached by the Indian branches and subsidiaries. Many executives interviewed in the United States commented that they did not want to interfere in this functional area as long as the Indian affiliate operated within the budgetary limits approved by the parent company and produced results as well as or better than anticipated. There were, however, many proponents of centralized management of advertising in the United States. Advertising in the foreign markets, according to them, cannot be left entirely to the discretion of subsidiaries because there was a need for consistency and coordination of advertising programs launched by a company in different parts of the world. Many pharmaceutical, consumer non-durable and tire companies held this view. In these companies, the marketing and advertising programs for different countries (operation areas) were developed in the international division of the parent company in close consultation with the Indian subsidiary. They required their marketing and advertising executives from the international division to visit other countries twice a year in order to gain a first hand knowledge of the local environment.

Two of the six consumer goods (non-durable) companies in the sample indicated the use of special formats

by the Indian subsidiaries to seek approval for a new promotion. Further, information on changes in the original plans for major advertising and promotional campaigns (such as introduction of a new advertising theme) was required from the subsidiaries in periodic management reports. A high degree of parent company involvement was also noted in two tire manufacturing companies which considered advertising decisions on media and theme as major policy decisions and required their Indian subsidiaries to submit a detailed advertising and sales promotion plan for each year for approval by the international division. One subsidiary said that it was required to explain if the campaigns sent by the parent company were considered by it as being unsuitable to the Indian condition. Even decisions on the appointment of advertising agency in India were taken by the international division in some cases.

Most of the companies interviewed stated that they regularly received the promotion materials and campaigns used by parent company and subsidiaries operating in other countries, though they were under no obligation to use them and could modify them according to local requirements. Out of 26 companies, 19 stated that they developed different campaigns for India and faced no interference from the parent company. Six companies said that they could use the U.S. advertising material with some modification. Only one company, a manufacturer of heavy power generation equipment,

reported that it used the same advertising material in India as its parent company used in the United States.

Indian subsidiaries in industrial goods lines reported that the parent company involvement did not go beyond the conventional budgetary control. They received all technical sales and advertising material from the parent company and adapted the same to the needs of the Indian market wherever necessary.

Conclusion

The patterns of promotional adaptation varied with the nature of products manufactured and sold--consumer goods, pharmaceuticals and chemicals, auto parts, business machines and major industrial equipment. No relationship was found between the size of a company and the nature of its promotion-mix or advertising appeals used for the Indian market. Moreover, the advertising appeals used by American companies in the two markets were basically the same, though significant differences were noted in the design of advertising copy. It was less sophisticated, less competitive, less frequently changed and relatively more simple and straightforward in India. Special care was taken in India to see that the message did not cause confusion and misunderstanding among the readers through frequent changes, and that it was translatable into as many as 9 or 10 different languages. Thus, the findings of this study give support to Ryans'

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conclusion that the time was not yet ripe for American companies to adopt a common advertising approach in multiple national markets.[6]

None of the companies, with the exception of tire and fertilizer manufacturers, emphasized the economy or cost aspect of the selling proposition in its Indian advertisement. The commonly stressed selling points were: quality, dependability and reputation. The existence of a sellers' market for most of the products covered in this study was reflected in the advertising copy which rarely made any price appeal. On the contrary, the copies designed for the U.S. market were more sophisticated, persuasive and sometimes argumentative.

The promotion-mix used in India was adapted to the nature of the product, nature of the target market and the type of promotion infra-structure available in that country. A relatively greater use was made of personal selling in the promotion of all categories of products. Mass contacts with consumers were made through cinema slides and movie commercials by most consumer goods and semi-industrial goods manufacturers. The advertising of semi-industrial and industrial products primarily aimed at educating and informing people. The parent companies seemed to exercise only a small degree of direct control over the promotional activities of their Indian branches and subsidiaries. A majority

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[6]Ryans, op. cit., p. 75.

of them did not get involved in decision areas such as the selection of media and theme, or hiring of an advertising agency, as long as the Indian affiliates operated within the budgetary limits set for them each year.

Relative to the promotional environment prevailing in India, the American companies were more aggressive in advertising and sales promotion than the local manufacturers. It is hard to judge the extent to which they indulged in overselling in India. A majority of consumer goods and pharmaceutical companies (9 out of 14) reported steady growth in their annual advertising expenditure as a percentage of sales, since the beginning of their operations in India. Under the present Indian conditions of highly regulated production and a limited supply of finished goods to market, this steady growth of advertising expenditure may give an indication of overselling on the part of companies engaged in the production of consumer goods and pharmaceuticals.

Durston and Rocour observed in their respective studies, that a common error of American marketing in Europe was to oversell a customer.[7] If the American firms oversell in India, how far is this overselling in the national interest? An answer to this question is not possible within the

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[7]Patricia H. Durston, "Machine Bull vs. The Americans," The International Executive, Winter, p. 3; and Rocour, op. cit., p. 178.

scope of this study. A few comments may, however, be made. An overemphasis on promotion by these firms may not be in India's economic interest if it leads low and middle income group people to spend relatively more on luxury products and less on products of necessity and comfort. Second, it may not be in India's economic interest if it results in higher retail prices to be paid by the consumer. Since most of the products manufactured by American firms in India met the basic needs of people or industry, the first point is irrelevant to this issue. On the second point, it may be said that the general retail price-level of product manufactured by these firms in India is higher than comparable products made by local manufacturers. While the quality of product is claimed to be the main reason for the prevailing price differential, the possibility of aggressive promotion as another reason cannot be ruled out. This was partly evident from an event that occurred recently in India. When the Indian government announced the controlled retail prices of basic drugs in May, 1970, most big pharmaceutical manufacturers were not satisfied with these prices and decided to withdraw all advertising contracts with press and time media under protest.[8] It is believed that such a cut-back in promotional expenditure is in the national interest if it enables the manufacturers to reduce their prices for products as crucial to public health as basic drugs.

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[8] The Statesman, Calcutta, May 14, 1970.

It may be speculated that aggressive promotion is undertaken by the U.S. companies to maintain a strong world image of their products in the Indian market--the products which are not fully adapted to the needs of a mass market as concluded in the previous chapter. It could well be that one of the goals of their promotion strategy is to overcome consumer resistance attributable to the lack of product adaptation and to bend the demand, gradually but steadily, in line with the supply. However, there was not enough evidence available to support this viewpoint.

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CHAPTER V

PATTERNS OF ADAPTATION IN MARKET DISTRIBUTION

This chapter is devoted to an analysis of the adaptation patterns displayed by American firms in the area of market distribution. The term "market distribution" has been used to mean a total distribution system evolved by a firm to deliver goods and services to the ultimate consumer or user. It consists of mainly, (1) the physical distribution of goods through various modes of transportation, company-owned and common carriers, and (2) the intra-firm and extra-firm distributive mechanism, commonly known as the channel of distribution in marketing terminology. The first component of the distribution system is a matter of infrastructure and an element in the external environment on which a business firm has little control, especially in the short run. The second component offers a mixed ground for adaptation. The intra-firm organizational arrangements are manipulable. An overseas firm may design its sales organization in a pattern similar to that in its home country, without any adaptation to the local environment if it so desires. The extra-firm institutional arrangement may not

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be as flexible in a foreign country unless a firm decides to establish a direct link with its target market.

The primary interest of this chapter is to examine the patterns of adaptation in the distribution policies of American firms operating in India. Though occasional references may be made to the physical distribution facilities available to these firms in India, the emphasis is on the extra-firm channel policies which are affected significantly by the environmental forces. The chapter has been organized as follows: First, extracts from published statistics on distributive infra-structure in the United States and India (facilities of transportation and the composition of wholesale and retail trade) are presented to gain an insight into the gap that exists between the two countries in this area. Some adaptation patterns in the channel policies of American firms, as will be seen later, may be attributable to this gap. The statistical presentation is followed by an analysis of broad adaptation patterns under major product categories covered in this study--consumer, semi-industrial (pharmaceutical and chemicals, petroleum and tires) and industrial. Finally, the role of a parent company will be examined in the determination of channel policies for its Indian subsidiary.

Statistical Presentation

A set of four tables is presented below to highlight the importance of the distribution sector in the economies of the United States and India. Before the statistics contained in these tables are discussed, it should be pointed out that the data may not be exactly comparable for two main reasons: (1) the varying time periods during which the population census or the census of business are conducted in the two countries, and (2) the classes or groups in which the total population or a sector thereof is divided may not be exactly similar in definition and composition in the two countries. Another problem was created by the fact that the Government of India did not conduct any census of business comparable to the U.S. Census of Business with the result that information on the number of Indian wholesale and retail establishments is unavailable. The employment data on different sectors of wholesale and retail trade in India were extracted from the regular population census last conducted in 1961. The most comparable United States data on employment in wholesale and retail trade were considered to be those contained in the Census of Business, 1963. In spite of this two years' time lag, it is believed that the statistics would still be useful in reflecting the relative composition of distributive activity and its place in the national economy of the two countries.

The absence of a census of business in India was responsible for the nonavailability of comparable information on the number and size of establishments, number of active proprietors and pay roll employees for different trades, etc., which are usually published in the U.S. Census of Business. Inasmuch as most of the retail establishments located in villages and small towns of India are hole-in-the-wall type single man operations, the information on employment in various retail trades in the rural parts of India would also be a fair indication of the number of establishments. However, it was not possible to get a dependable estimate of the number of wholesale and retail establishments operating in the urban parts of India.

Occupational Distribution of Workers

Table 14 gives the occupational distribution of workers in the United States and India, in absolute number and in percentages. The figures bear out clearly the sectorial disparities between the economies of the two countries and seem to support the Clark-Fisher thesis which holds that the countries at the early stage of development concentrate their resources on the primary industries such as agriculture and extraction and as they move forward in their development programs, the emphasis shifts to

Table 14. Occupational distribution of workers in India and the United States, 1960 (U.S.), 1961 (India)

Sector	United States		India	
	Number of Workers (million)	Percentage	Number of Workers (million)	Percentage
Civilian labor force employed in agriculture	5.458	9.2	131.0	69.5
Mining, manufacturing and household industry	17.508	29.3	25.2	13.4
Construction	2.885	4.8	2.1	1.1
Trade and commerce	14.06	23.5	7.6	4.0
Transport and communication	4.004	6.7	3.0	1.6
Services	15.776	26.5	19.5	10.4
	59.692	100.0	188.4	100.0

Source: U.S. Census of Population, 1960; and Census of India, 1961.

processing and tertiary industries including all forms of trade.[1] The percentage of workers employed in agriculture in India (69.5%) contrasts sharply with 9.2 percent in the United States. On the other hand, the tertiary industry comprising of trade, commerce, transport, communication and services, accounted for an employment of 16 percent in India as against 56.7 percent in the United States. The disparity is still more pronounced if the sector of trade and commerce, especially relevant to this study, was taken into account. Only 4 percent of the total number of workers were employed in trade and commerce in India as against 23.5 percent in the United States.

Employment in Wholesale and Retail Trade

Tables 15 and 16 reveal these disparities further with reference to wholesale trade and retail trade respectively. These tables suggest that for almost all product lines covered in this study, the size of distributive activity is amazingly small in India when compared with the U.S. Though information on the number of wholesale and retail establishments in India was not available, it is quite possible that gaps of the same order exist in this respect too

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[1] Colin Clark, The Conditions of Economic Progress (London: MacMillan & Company, 1940); and G. B. Fisher, Economic Progress and Social Security (London: MacMillan & Company, 1945).

Table 15. Employment in wholesale trade in United States and India (limited [illegible]

Table 15. Employment in wholesale trade in United States and India (limited to product lines covered in this study)

Product-Line	Size of Employment (thousand)		Employment per Million of Population[a]	
	U.S.	India	U.S.	India
Wholesale trade, total	3,226	495	16,979	1,128
Groceries and related products	532	N.A.	2,797	N.A.
Soft drinks (beverages in case of India)	9	12.4	47	28
Drugs, chemicals and allied products including toiletries	167	9.8	880	23
Tires and tubes	26	1.0	135	2
Petroleum bulk stations	152	16.9	798	39
Electrical goods	195	6.4	1,027	14

[a]Based on the estimated U.S. population for the year 1963 (190 million) and the Indian population for the year 1961 (439 million).

Sources: U.S. Census of Wholesale Trade, 1963; and Census of India, 1961.

Table 16. Employment in retail trade in United States and India (limited to product lines covered in this study)

Table 16. Employment in retail trade in United States and India (limited to product lines covered in this study)

Product-Line	Size of Employment (thousand)		Employment per Million of Population[a]	
	U.S.	India	U.S.	India
Retail trade, total	9,955	6,727	52,395	15,323
General merchandise stores (departmental and variety stores)	1,296	N.A.	6,822	N.A.
Grocery stores (beverages only in case of India)	1,316	87	6,924	198
Drug stores (medicines, chemicals, toiletries, perfumes and cosmetics stores in India)	406	178	2,136	406
Tires, batteries and accessories	131	7.1	690	16
Gasoline service stations	733	26	3,855	58
Household appliances (electrical goods, fans, etc., in case of India)	87	29	456	67

[a]Based on total U.S. and Indian population, 190 million and 439 million, for the years 1963 and 1961, respectively.

Sources: U.S. Census of Retail Trade, 1963; and Census of India, 1961.

between the two countries. One can, therefore, speculate that a critical marketing problem for American companies manufacturing consumer and semi-industrial goods in India would be to secure the cooperation of available wholesale and retail outlets. This point will be taken up at a later stage in this chapter.

In Table 17, an attempt has been made to highlight the urban character of the distributive trades in India. The absolute figures related to employment in wholesale and retail trade were first broken up into urban and rural, and then converted into ratios, measuring each of them against one million of urban or rural population as the case may be. The table contains only these ratios. It indicates that both the wholesale and retail trades in product lines covered in this study are concentrated in urban areas to a very great extent. The wholesale trade is almost nonexistent in the rural parts of India. On the whole, this table gives an indication that product items like toilet goods, cosmetics, drugs, petrol, tires and electrical appliances find a very limited place in the budget of an average village family for whom food, clothing and shelter are still the main problems of life to worry about.

Table 17. Employment in wholesale and retail trade in India, urban-rural stratification[a]

Product-Line	Wholesale Trade: Size of Employment per Million of Urban/Rural Population		Retail Trade: Size of Employment per Million of Urban/Rural Population	
	Urban	Rural	Urban	Rural
Total trade	5,139	247	44,873	8,839
Beverages including aerated waters	141	4	684	92
Toilet goods, perfumes and cosmetics	30	1	786	105
Medicines and chemicals	87	1	714	61
Petrol, mobile oil and allied products	199	4	271	12
Tires, tubes and allied rubber products	12	0	74	4
Electrical goods	78	1	342	6

[a]According to the 1961 census, India had an urban population of 79 million and a rural population of 369 million.

Types of Adaptation in the Area of Market Distribution

Mandatory Adaptation

In Chapter III, the term "mandatory adaptation" was introduced with reference to product policy, and was defined as an adaptation imposed upon a business firm through government action. In order to operate in a foreign country, it is necessary for a firm to comply with various government rules and regulations. There may be mandatory types of adaptation in the area of market distribution. A firm might be required, for example, to deal with only such distributors or stockists who were licensed or registered with an appropriate government department. As an extreme case, a firm might be forced to use the conventional market middlemen rather than sell the product directly to the final user on the ground that the latter step could cause unemployment. The ultimate aim of such government action may be to safeguard the interest of the consumer and the country as a whole. In order to implement a mandatory adaptation, the firm is usually not required to conduct any marketing research.

In actual practice, government interference is rather limited and informal in the area of market distribution. The manufacturers act upon the government directions or suggestions with respect to the distribution of essential commodities such as drugs, petroleum, tires and tubes. The tire manufacturers, for example, agreed to sell 20 percent

of their production of cycle tires and 10 percent of their production of scooter tires through the retail outlet of consumer cooperative stores. They also complied with the government directive in regard to the shipping of ad hoc supplies to regions or organizations which reported shortages of tires and tubes.[2] The expansion programs of petroleum companies were regulated by government with the result that they experienced some restrictions in the expansion of their retailing activity. Barring these types of mild and informal government interference, the business firms in general enjoyed freedom in the formulation of distribution policy and the selection of market intermediaries.

The levy of interstate sales tax in India influenced indirectly the warehouse location policy of American firms. To save the incidence of this tax on consumers, most of the firms located their warehouses in all important states so that the interstate movement of goods from factory to one of the warehouses was not considered as a "sale" liable to be taxed.

Voluntary Adaptation

A voluntary adaptation was defined in Chapter III as a move taken voluntarily by a firm to adapt its product to

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[2]The Journal of Industry and Trade, Directorate of Commercial Publicity, Ministry of Foreign Trade & Supply, Government of India, New Delhi, XIX, No. 4 (April, 1969), 454.

the foreign market needs. It was considered as self-imposed and one that was undertaken after careful market study and efforts in the direction of research and development. Based on these criteria, a firm will be considered as adapting its market distribution voluntarily when it makes some adjustments in its distribution system without any external pressure and after a careful study of market needs. The ultimate goal of such voluntary adaptation may be both, to maximize profit as well as serve the interests of the host country consumer. It may result in the use of an entirely different channel in the host country. With respect to certain product categories, the American firms may not experience any need for adaptation in the area of market distribution due to the nature of product and target market being very similar to that in the host country. Many types of industrial goods--heavy mechanical and electric equipments, machine tools, etc.--are sold by manufacturers directly to the industrial users in almost all countries. On the other hand, the distribution policies for consumer and semi-industrial goods may have to be adapted considerably in response to varying environmental factors. This will be more clear in subsequent discussion.

Patterns of Voluntary Adaptation in Market Distribution

The American firms operating in India found relatively less scope of strategy differentiation in the area of market distribution than in other areas such as product or promotion. The firms built up their image mainly through product and promotional strategy. They exercised relatively less control on market middlemen who constituted the channel of distribution for their products. This was especially true for the manufacturers of consumer and semi-industrial goods who needed an extensive distribution of their products and depended largely on local wholesalers or stockists to bear the brunt of market distribution. They did not find in India the institutions of large scale retailing characteristic of the American economy nor was it possible for them to establish direct contacts with the consumer through mail order or door-to-door selling as done by many consumer goods manufacturers in the United States.

Placed under these constraints, the American firms had to rely on market channels very similar to those used by their local competitors. They had, of course, greater flexibility in the designing of internal sales organization. Most of them had built up a strong sales organization to support the market distribution of their products. The manufacturers of industrial goods, on the other hand, did not have to look for the cooperation of market middlemen for the sale of their products, and relied mainly on their

internal sales organization as they did in the United States. This is attributable primarily to the nature of the product involved. Thus, the need for adaptation in market distribution was more pronounced in the case of consumer and semi-industrial goods than in the case of industrial goods.

Transportation and Warehousing

The railroads are the predominantly used mode of transportation within India though the use of trucks is also growing fast. In spite of being the world's second largest single railway network, it was not considered to be as flexible and efficient by most of the firms interviewed as they found it in the United States. The three different gauges in Indian railways (broad gauge, meter gauge and narrow gauge) presented problems of transhipments and caused inordinate delays in the movement of merchandise. Table 18 presents data on the transportation facilities existing in the two countries in 1967. It indicates the limitations of physical distribution which the American firms have to bear while operating in India.

The commercial warehousing facilities available in towns and big cities were far short of demand. During the past few years, the Central and State governments had set up a network of warehousing corporations in India but this was done primarily to improve the storage facilities for food-grains. The manufacturers, therefore, avail themselves

Table 18. Transportation facilities in United States and India

Transportation Facilities	United States	Per 1,000 Square Miles of Area (miles)	India	Per 1,000 Square Miles of Area (miles)
Estimated area (square miles)	3,615,000		1,262,000	
Railroad mileage (thousand miles)	209	58	37	29
Road mileage				
Non-surfaced (thousand miles)	847	234	396	314
Surfaced (thousand miles) (national, municipal & rural)	3,769	1,043	179	142
Navigable rivers (thousand miles)	29	8	8	6

Sources: India, A Reference Manual, 1968, Ministry of Information and Broadcasting, Government of India, 1968; and U.S. Department of Commerce, Statistical Abstract of the United States, 1969 (Washington, D.C.: Government Printing Office, 1969).

of the warehousing services offered by traditional wholesalers, who often reserve part of their residential accommodation for storage purpose. The large scale retailing institutions (drug and grocery chains or department stores) which emerged in the United States in the early twenties are still unknown in India. The American firms manufacturing consumer and semi-industrial goods are thus unable to establish direct contacts with retailers as most of them do in the United States. A vast majority of the retail stores in India are small single man operations which are accustomed to making hand-to-mouth purchases from local semi-wholesalers or stockists. Generally, they lack ambition, initiative and drive. Moreover, the type of specialized wholesalers, figuring prominently in the food, drug and toiletry lines in the United States, do not exist in India.

Types and Functions of Market Middlemen

The wholesale stockist.--These environmental forces exercise a considerable influence on the distribution policies of American firms operating in India. A widely used middleman for the distribution of packaged consumer goods, ethical and proprietary drugs, toiletries, etc., is the wholesale stockist or town stockist as some companies called him. The stockist acts as a consignment agent for the manufacturer and does not take title to the goods that are invoiced and dispatched to him either from the factory or from an upcountry warehouse. He agrees to maintain a certain

minimum level of stocks (generally equivalent to two months' demand) which assures the American firms of a regular flow of merchandise toward different consuming centers, and protects them against possible delays in the movement of goods. He is responsible for the grant of credit to his immediate customers who could be small wholesalers as well as large and small retail stores. The incidental risk of bad debts forces him to be careful and choosy in the selection of dealers (wholesalers and retailers) to whom he sells on his own account. Periodically, he remits the sale proceeds less expenses and commission to the manufacturer. Thus, the wholesale stockists provide two important services to the manufacturer:

1. The storage service in upcountry large and small towns. These towns often lack private warehousing facilities and are not in some cases conveniently located from the viewpoint of transportation.
2. Insurance against bad debts. The manufacturers are relieved of responsibilities such as the ascertaining of credit status of upcountry wholesalers and retailers and are saved from assuming risks pertaining to bad debts.

The wholesale stockists are usually appointed in all large towns throughout the country. In smaller towns having some market potential, the manufacturers appoint sub-stockists who work under the direction of the main town stockist though

they are supplied directly by the manufacturer. The number of stockists appointed by a manufacturer of consumer and semi-industrial goods varied from firm to firm, ranging between 225 and 500.[3] In large metropolitan towns such as Bombay, Delhi, Calcutta, and Madras, some manufacturers sold direct to the retailers. The wholesaling function, in this case, was performed by the sales department of the manufacturer. Usually, the factories and warehouses/depots were located in these large metropolitan towns so that the supply of goods periodically to retailers and the credit collection did not present any big problem to the sales department of the manufacturer concerned.

The field sales representatives of a manufacturer are usually responsible to make sure that the goods move regularly from factory or warehouses to the town stockist and from him to the market middlemen such as semi-wholesaler, retailer and hole-in-the wall retailer. They check from time to time the stock position of various items in the stockist's warehouse as well as in the shelves of retail stores and often supplement the efforts of stockists in accelerating the movement of slow-moving merchandise to the retail stores. Toward this end, they offer guidance to

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[3]According to the 1961 Population Census, there were 248 towns in India each within a population range of 50,000 and above. The number of towns within the 20,000 and 50,000 range was 515. Thus, it may be guessed that most of the towns covered by these firms were within the range of 35,000-40,000 and above.

retailers in matters such as stock planning, merchandise display and after-sale services to customers.

Sole distributor.--Another important institution engaged in the marketing of most consumer and semi-industrial goods is the "sole distributor." A sole distributor is usually the traditional middleman who used to act as an importer and distributor in the past when the companies represented by him did not have their manufacturing operations in India. He acts primarily as a sole selling agent taking the responsibility of selling the entire factory production for an agreed rate of commission. Having entered into such contractual arrangement with a sole distributor, the manufacturer usually saves himself from performing such functions as warehousing, shipping, dealer selection, promotion and credit and collection. Under this arrangement, the sales department of a manufacturer acts mainly as an order taker and supplies goods either to the regional depots/warehouses maintained by a sole distributor or directly to wholesale stockists as directed by him from time to time. Some companies rely upon more than one sole distributor who is/are assigned to different geographical territories.

Thus, a wholesale stockist obtains his supplies from a distributor's warehouse where the manufacturer concerned has such an arrangement. Out of 15 manufacturers of consumer and semi-industrial goods, 10 reported that they used distributors in the sale of their products. However, only two of these ten manufacturers indicated that they relied

entirely on one or more sole distributors. The other companies were noted for having a combination of two systems, i.e., they appointed sole distributors in territories in which the latter were considered to be fairly strong and effective whereas in other territories they sold directly to the wholesale stockists or retailers.

This is an important pattern of adaptation displayed by American firms which are accustomed to supplying directly to large retail chains from the distribution centers established at strategic points in home country. Though a majority of firms reported that the conventional institution of wholesale stockist worked very well in the Indian conditions, they also indicated their plans for bypassing the stockist and supplying direct to the retailers. Some pharmaceutical companies, for example, reported that they were supplying direct to the chemists in certain states of the country, doing away with the services of sole distributors and stockists. Two pharmaceutical companies which were actively engaged in new product development programs, had taken over the promotion and planning function from their respective distributors about the time this study was being conducted in India. This resulted in considerable net saving to these companies because with the curtailment of these functions, the distributors agreed to work for a smaller rate of commission. It is believed that the rigorous government control on the prices and distribution of pharmaceutical

products was one of the motivating factors that led the pharmaceutical companies to integrate their marketing organization and reduce the distribution costs. The nature of government control on prices will be discussed further in a later chapter. It is now proposed to examine the adaptation patterns more specifically with reference to main product categories covered in this study.

Conventional Channel Structures in United States and India

Consumer goods (non-durable and durable).--All the seven firms manufacturing consumer non-durables and durables such as processed food products, cosmetics, toiletries, soft drinks, flashlight batteries and household appliances were noted for using indirect channels which often involved the use of wholesale stockists and retailers. The direct channel to the ultimate consumer or user was almost nonexistent except when the government placed bulk orders or invited bids from approved suppliers. A household appliance manufacturer was noted for operating a limited number of its own retail outlets.

The difference between the conventional channel structures used by manufacturers in India and United States for similar product categories is borne out by Exhibit I. It will be noted that the specialized wholesale institutions such as food wholesalers, drug and toiletry wholesalers and rack jobbers who are active in the United States marketing are not used by manufacturers in India because they have not

UNITED STATES	INDIA
Packaged Food Products	
M → Food Chain → C	M → S → R → C
M → Food W → Retail Food Stores → C	M → SD → R → C
M → Food W → (Food Brokers) → Retail Food Stores → C	
Cosmetics and Toiletries	
M → Chains (drug, department & grocery) → C	M → S → W → R → C
M → Drug and Toiletry Wholesaler → R → C	M → S → R → C
M → Rack Jobbers → R → C	
Soft Drinks	
M → Chains (drug, fountains, grocery) → C	M → R → C
M → R → C	M → D → R → C
M → Vending Machines → C	
Flashlight Batteries	
M → Chains (drug, grocery & department stores) → C	M → D → W → R → C
M → W → R → C	M → R → C (direct contact with small retailers in semi-urban markets)
Sewing Machines and Small Household Appliances	
M → C (through company owned retail outlet)	M → E → R → C (for small appliances)
M → Approved Dealers → C	M → Approved Dealers → C
	M → C (through company owned retail outlets)

M = Manufacturer; D = Distributor; S = Stockist; W = Wholesaler; SD = Sole Distributor; R = Retailer; C = Consumer

Exhibit I. Conventional channel structures in United States and India for consumer goods.

yet emerged in that country. Similarly, manufacturers' direct dealings with large retail chains have dominated significantly the U.S. marketing scene. In the absence of such institutions and faced with limited infra-structure in India, the American firms have to make use of traditional market middlemen such as stockists, wholesalers and large and small retailers including the hole-in-the-wall shops. One of these firms was noted for still continuing with its traditional sole selling agency system (sole distributorship) in the southern part of the country.

Semi-industrial goods.--The manufacturers of semi-industrial goods (pharmaceutical, chemicals, tires, etc.) reported adapting their channel policies somewhat on similar lines as the manufacturers of consumer goods. The pharmaceutical companies indicated a substantial use of direct channels to retail drug stores in the U.S. market ranging between 85 percent and 90 percent of the total U.S. sales in some companies. In India, the same companies used distributors and stockists in order to reach the retail "chemists shop."[4] Only bulk supplies to hospitals or physicians were shipped directly from factory or manufacturers/distributors' depots located in various parts of the country. A majority of Indian physicians practising in small and big towns and even cities derive their main source of income out of dispensing

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[4]A drug store is known commonly as a chemist shop in India. Some companies reported supplying these chemist shops directly in the large metropolitan towns.

their own prescriptions. The poverty of people prevents them generally from charging consultation fees for each office visit. This point is important because the Indian physician is not only an opinion leader but also a sizeable buyer himself. His dual role is specially significant to the sales department of an American company. One company had given the selling right of its entire production to a single distributor which acted as an importer for its products in the past. Another company used to have similar selling arrangements but was at the time of this study in the process of breaking off from its sole distributor (and a past importer of its products) and assuming itself the control of its distribution channel in gradual stages.

A fertilizer manufacturer which used direct channels to reach large farms in the U.S. market, preferred to sell through distributors and dealers in India for three main reasons: the distributors had accumulated a long experience in fertilizer distribution in the area of the company's operation, they were in a better position to rate the credit standing of fertilizer dealers and they shared with the manufacturer the burden of meeting the credit needs of farmers which were estimated to be in the order of $25-30 million annually.

Two tire companies operating in India indicated that a substantial portion of their sales in the replacement market were generated by their own retail outlets in the United States. In India, these companies supplied through

about 5,000 well established tire dealers who would stock up to 8 competing brands made in India. As far as the O.E.M. and government's requirements were concerned, the companies used direct channels in both countries. The intra-firm sales organization consisting of regional and district sales and service offices was designed more or less the same way in the two countries. The requirements of state nationalized transport, large private fleet owners and major industrial establishments were also met directly through the company's district offices.

A set of generally used channels in the marketing of semi-industrial goods is presented in Exhibit II to illustrate more clearly the patterns of adaptation by American firms to the Indian environment.

Industrial goods.--The American firms manufacturing and selling industrial goods in India (business machines and office equipment, auto parts, hospital equipment, standard machines, etc.) deal generally direct with the industrial users in India through their branches and field sales representatives.

The auto part manufacturers had distributors appointed in India to take care of the replacement market but not so in the United States. They carried themselves the responsibility of selling to the O.E.M. market in both countries. One of these appointed a leading tire company as its sole distributor in India for replacement parts and

UNITED STATES	INDIA
Ethical and Proprietary Drugs	
M → Drug Chains → C	M → D → S → Chemist → C
M → Drug W / Rack Jobber → Independent Drug Store → C	M → SD → S → Chemist → C
M → Drug W → Drug Chains → C	M → D → Chemist → C/Physician
M → Hospital	M → Chemist → C
	M → Hospital/Physician
Proprietary Drugs Only	
M → Food Chain Stores / Variety Stores Chains → C	M → S → W → R → C
M → Food Wholesalers → Food Retail Stores → C	M → R → C
Fertilizers and Pesticides	
M → Regional/National Distributor → Dealer → Grower	M → S → Farmer
M → Grower	M → D → Dealer (R) → Farmer
	M → Apex Cooperative Society → Coop. Store → Farmer
Tires, Tubes, Etc.	
M → Dealer (R) → C	M → Dealer (R) → C
M → Company Operated Retail Outlet → C	M → Fleet Owners/Government
M → Fleet Owners/Government	M → Original Equipment Manufacturer
M → Original Equipment Manufacturer	

M = Manufacturer; D = Distributor; S = Stockist; W = Wholesaler; SD = Sole Distributor; R = Retailer; C = Consumer

Exhibit II. Conventional channel structures in United States and India for semi-industrial goods.

thus gained the benefit of the latter's extensive field sales organization.

The volume of business being small and limited to large industrial establishments and government organizations (including hospitals, utilities, etc.) the manufacturers of these products would rarely appoint delaers, or wholesalers/ jobbers as they do in the United States. In some cases, they preferred to go direct because they were not satisfied with the servicing capabilities of existing wholesale and retail outlets. The channel structures used in the marketing of industrial products in United States and India are presented in an outline form in Exhibit III.

The three exhibits on conventional channel structures used by American firms in United States and India present a comparative view of the length of channels and the types of marketing institutions functioning in the two countries. It will be seen that the channels used by American firms are not in all cases longer in India than in the United States and even where they are longer, the difference does not go beyond one or two levels. This may sound a little surprising in view of some earlier studies which hypothesized that the length and complexity of marketing channel increases as an economy moves from the primitive stage to attain higher levels of economic development. The primitive stage of an economy is characterized by short channels, the developing stage is characterized by long channels and a highly advanced stage is again characterized

UNITED STATES	INDIA
Business Machines and Office Equipment	
M → R → C	M → Industrial User/Government
M → Company Dealer → User	
M → Industrial User/Government	
Hospital Equipment	
M → User	M → Parent Company Office in India → User
Standard Machines	
M → Industrial Users	M → Industrial Users (through agents)
	M → Industrial Users (direct)
Air-Compressors, Pneumatic Tools and Construction Equipment	
M → Industrial Users	M → Industrial Users/Government
M → Dealer → Industrial Users	
M → Automotive Jobber → R → Users	
Heavy Industrial Equipments	
M → Industries, Government and Utilities	M → Industries, Government and Utilities
Auto Parts	
M → D → R → User	M → D → R → User
M → Original Equipment Manufacturer	M → Original Equipment Manufacturer

M = Manufacturer; D = Distributor; S = Stockist; W = Wholesaler; SD = Sole Distributor; R = Retailer; C = Consumer

Exhibit III. Conventional channel structures in United States and India for industrial goods.

by short channels.[5] According to this hypothesis, one would expect a little longer channels with more levels of distribution in India than what is evident from these exhibits.

It will, however, be observed that the channel structures presented in these exhibits may not be truly representative of the structures commonly used by Indian manufacturers. The American firms, on an average, were far larger in size than an average Indian firm manufacturing comparable products. They sold highly differentiated products in India and had achieved considerable integration of their distributive systems to gain better control over the marketing channel. The length of a marketing channel used typically by a local manufacturer could very well be longer than represented in these exhibits because with smaller scale of operations and less differentiated products, the local manufacturers rely more heavily on the support of wholesale markets and a variety of market intermediaries.[6]

Intra-Firm Sales Organization

As indicated earlier, the American firms enjoyed relatively greater freedom in designing the sales organization

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[5]Reed Moyer, Marketing in Economic Development, Institute for International Business Management Studies, Graduate School of Business Administration, Michigan State University, East Lansing, 1965, pp. 36. Also see George Wadinambiaratchi, "Channels of Distribution in Developing Economies," The Business Quarterly, Winter, 1965, pp. 74-82.

[6]Harper Boyd and Ralph Westfall, "Marketing in India," Journal of Marketing, October, 1960, p. 12.

structure within the firm than what they had in designing the channel structure. The division of potential market into regions, districts and sales territories was done on the criterion that it should result in maximum market cultivation at minimum cost, in other words, a maximum productivity of sales personnel. Though only one-third of the U.S. size in area, India is two-and-a-half times as populated as the United States. The lack of purchasing power among the masses with their primary involvement in agriculture affects considerably the amount of market opportunity perceived by a manufacturer of consumer and industrial goods in India. The industrial activity in India is still concentrated in selected regions though efforts are being made to disperse it in relatively less developed regions. As a result of these factors, the total number of sales territories in which a consumer or an industrial goods manufacturer divided the country, was much less in India than in the United States. At the same time, the lack of quick transportation and communication facilities and the multiplicity of languages and dialects spoken in different parts of the country were two serious factors setting the upper limit of the size of a single territory.

With the exception of three companies, all reported an expansion in their respective field sales organization with an increase in the number of branches, field staff and sales territories since the beginning of their operation in

India. Explaining the reasons for such expansion, the companies cited several developments currently taking place in India as stated in Table 19.

Table 19. Reasons for the expansion of field sales organization

Reasons for the Expansion of Field Sales Organization	Number of Companies Reporting Out of 23
1. Rise in population and consequent expansion in market size	18
2. Growing industrialization	17
3. Impact of legislative measures (e.g., Central and State Sales Tax Acts)	9
4. Increasing number of motor vehicle registration	5
5. Change in the political boundaries of the Indian states	5
6. Other reasons	9
	63[a]

[a]The total does not coincide with the actual number of respondents because of multiple entry.

Among other reasons (item 6, Table 19) were included: growth in company's operation, increase in literacy, decimalization of Indian currency and an increase in emphasis given by government on a particular area of industrial activity.

Three companies answered in the negative to the question on change in the size and distribution of sales territories. One of them, a packaged food products manufacturer, reported that its market was confined to urban high income group families which were still very limited in number and scattered over a few metropolitan towns. The other two companies which manufactured industrial products reported that the volume of their business had suffered a heavy setback due to the government ban on the imports of equipment and their components and due to greater expansion opportunity being given by the government to local firms. One of these companies was in the process of reorganizing and consolidating its field sales organization which would result in a smaller number of sales territories than before.

A majority of firms (20 out of 26) expressed satisfaction with the performance of their present system of distribution, though a few admitted that there was room for improvement. At least three companies were apparently not satisfied. A marketing executive from a packaged food manufacturing company was dissatisfied with the continuance of a system of sole distributorship in his company for selling in certain parts of the country. A petroleum company executive blamed the infra-structure--the inadequacy of railroad and oil pipeline capacity. He also resented the fact that the Indian government was not allowing them to increase the number of retail outlets at the desired rate and had allotted a much larger share in the annual expansion of industry to a

competing firm in the public sector. An executive from a pharmaceutical company expressed dissatisfaction with the prevailing system of indirect marketing in his company and looked forward to gaining greater control on distribution channel by eliminating distributors and wholesale stockists.

Many companies expressed their dissatisfaction with the requirement by railroad that all shipments be packed in wooden boxes rather than paper cartons to which they were accustomed in the United States. A fertilizer company was especially concerned about the damage caused to fertilizer bags from the use of hooks by railroad porters in the loading and unloading process. It could very well be that some other companies too had similar experiences though they did not consider them as important to be mentioned during the course of the interview.

In spite of their keen interest in integrating the marketing channel, most companies selling consumer and semi-industrial goods did not go ahead in this direction. Some considered the volume of production in their plant inadequate to support a program of direct distribution. Others were afraid that if they took over the wholesaling function from the stockists, the latter might take on other competing brands and affect their market adversely for sometime. They seemed to recognize the influential and respectable position which many firms of distributors and wholesale stockists commanded in the Indian market place and did not want to bypass them without strengthening their own position in

India. They also considered the heavy capital outlay involved in any attempt to expand the range of marketing activities. It appeared that many companies did not want to increase their financial commitment in India and preferred a policy of "wait and see" in view of certain political and economic developments that had lately taken place in the country.[7]

Channel Cooperation and Control

In reply to the question if they experienced a lack of distributors'/dealers' support for pushing new products in the Indian market, 14 of the 20 companies using indirect distribution reported that they were satisfied with the support of their distributors/dealers. Three companies including 2 cosmetics and 1 proprietary drug manufacturers indicated that at times they had to use a "pull" strategy to get the dealers interested in new products. A fertilizer manufacturer attributed the lack of dealer cooperation to the system of government controlled prices prevalent in fertilizer trade. The remaining 2 companies did not know the answer to this question.

The fact that 3 companies indicated the use of "pulI" strategy reflected indirectly the dependence of a big

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[7]Many executives seemed perturbed by the leftist tendencies that were looming large in the political scene of India. The recent nationalization of major commercial banks produced fresh feelings of uncertainty among the American investors.

majority on the cooperation of distributors and other types of market middlemen. The lack of promotional infra-structure (literacy levels, media of advertising, etc.) and the concentration of discretionary income with a very small section of high income group people might be two important reasons for a wider use of "push" strategy in the Indian market. The policy of selective distribution was adopted by most of the firms which involved a careful selection of "company recognized" dealers, also known as "fair price shops." A few firms indicated that they had designed "key" dealer development programs to improve the efficiency and serviceability of their dealers. The very fact that a dealer was selected from among many prospective candidates gave him a feeling of distinctiveness and caused him to extend full cooperation to his manufacturer.

Sales Under Private Brands

This study revealed a very limited volume of sales under private brands by American companies operating in India. Only 2 companies (1 in consumer non-durable line and the other in industrial goods line) sold under private brands in India. However, a majority of companies within the sample did not sell under private brands in the United States either. None of the pharmaceutical companies and only 1 of the 7 consumer goods companies sold under private brands in the U.S. market. Two large tire manufacturers and 1 auto parts manufacturer sold under private brands in the

U.S. market but not in India. According to these 3 companies the main incentive to sell under private brands comes when it enables a manufacturer to use the idle capacity of its plant. The economic conditions in India, on the other hand, are characterized by shortages, sellers' market and highly regulated expansion of plants. There is thus a little scope in India for the use of private brands. In the U.S. market, moreover, there are large-scale retail organizations which act as "channel captain" and are strong enough to dictate their terms on a manufacturer. The absence of such large scale market institutions in India is another reason why private branding is uncommon in that country.

Cooperative Advertising

Information was also sought on the extent of cooperative advertising programs sponsored jointly by the American firms and their dealers or distributors. A majority of answers were of the "yes, but" type. The companies shared the advertising expenditure of their dealers or distributors but not on any regular basis and only for selected types of products. The reasons cited above to explain the lack of private branding in India can also explain the limited use of cooperative advertising in this country. Regulated production, inadequate supplies and a general shortage of goods and services give little inducement to manufacturers to share advertising expenses with market middlemen. The market power of most wholesalers and retailers is rather

insignificant compared to that of manufacturers due mainly to these economic factors. One of the main reasons why cooperative advertising is more common in the United States is the strength of large-scale retailers. The disparity between advertising rates charged to local and national advertisers by local media is another important factor encouraging cooperative advertising in the United States which is rather uncommon in India.

In the pharmaceutical industry, cooperative advertising seemed to have gained ground recently in the proprietary drug line. Six of the 7 consumer goods manufacturers reported the use of cooperative advertising with 2 of them "casually" or at the time of special advertising campaigns. Two tire manufacturing companies entered into cooperative advertising agreements with their dealers for the advertising of miscellaneous industrial products and not for their main product line--tires and tubes--which, as it was pointed out earlier, were sold by tire dealers along with other competing brands. Two auto parts manufacturers also reported that they shared advertising expenditure with their distributors.

On the whole, it appeared that the American firms made limited use of this selling technique for winning the cooperation of Indian market middlemen. There were in all 15 companies (out of 20 companies making use of market middlemen) indicating the use of cooperative advertising plans in India, which is quite significant.

Role of Parent Company

The interviews with parent companies in this country indicated that they were least interested in regulating or controlling the decisions pertaining to the physical distribution of goods and selection of market intermediaries in India. The involvement of parent company was relatively more pronounced in the areas of product and promotion which offered a greater scope for the application of American techniques. As far as the area of market distribution was concerned, it was different in the sense that an efficient distribution of goods called for not only a suitable infrastructure but also effective media of communication through market institutions. The parent companies had little to offer in either of these two sub-areas.

The process of renovating a distribution system would be an extremely slow process especially in an old and conservative society like that of India, where trading activity has been in the hands of a distinct class for more than a century and where the consumer is heavily dependent on this class for occasional counselling, credit and service. Only in recent years, some signs of inter-class movements have been witnessed. This may be an important consideration for a parent company in determining its attitude towards the distribution policies of its Indian subsidiary.

With the exception of two, none of the executives interviewed in India reported any direct or indirect

interference from the parent company insofar as the distribution policies were concerned. The two executives expressed dissatisfaction with the sole selling agency or distributorship arrangements in effect in their respective companies. They held the view that the sales department had little control over the distribution channels used by a sole distributor with the result that the system gave rise to conflicts and hindered the process of long range market planning. The parent companies apparently did not want to disappoint their past Indian importers when the manufacturing activity started in India, and offered them the sole responsibility of internal distribution of goods manufactured within India.

Conclusion

To conclude, a majority of American firms interviewed, made attempts to and were successful in adapting their distribution policies to the needs of the Indian market. They demonstrated a strong inclination to adapt in this area due to three main reasons: First, it was not possible for firms to modify or add to the infra-structure existing in the country of operation at least in the short-run. Second, the conventional market institutions even though they might not be as efficient as one would expect, had created a niche in the economy of underdeveloped countries and it was difficult for a firm to bypass them without losing a part of the market. The transplanting of a distribution system abroad was not considered by firms as easy to

accomplish as a production system. Third, adaptation in market distribution policies to an individual country environment scarcely affected the worldwide corporate image of the firms which were more sensitive to changes in product specifications and promotional programs. This was probably an important reason why the Indian subsidiaries enjoyed relatively more autonomy in the formulation of their distribution policies.

The Indian environment offered the American firms a limited choice as far as the types of distribution outlets were concerned. The specialized food, drug and toiletry wholesalers were uncommon in India. The channels of distribution used by American firms were somewhat longer than those in the United States, particularly in consumer goods and pharmaceutical lines. The institutions of large scale retailing, such as chains and department stores, with which the manufacturers established direct contacts in the United States, had not yet emerged in India. A widely used middleman in the marketing of consumer goods and pharmaceuticals was the "stockist" who functioned as a consignment agent and undertook to maintain certain minimum level of stocks for feeding the distribution pipelines within his limited territory. The traditional importers of products now manufactured in India were still being used by some companies either as sole distributor or one of the regional distributors. Their continued operation, however, was being questioned by

marketing executives in some companies. The marketing of industrial goods was relatively more simple in both countries and called for little adaptation on the part of American manufacturers.

The distribution policy of firms was generally that of cooperation rather than control. The efforts of distributors, wholesalers or stockists were backed by the company field personnel who were assigned to different territories and offered a variety of services to both wholesalers and retailers. Though still limited in scope, a number of firms reported the use of cooperative advertising with their distributors or dealers. Even those firms which did a substantial business through their own retail outlets in the United States, sold through distributors and dealers in India because the Indian buyers were still not as brand insistent as their American counterparts and were accustomed to making a thorough study of competing brands before finalizing a transaction.

CHAPTER VI

PATTERNS OF ADAPTATION IN PRICING POLICY AND TERMS OF SALE

An American firm which participates in the industrial development of an underdeveloped economy through direct investment, often does so at the cost of losing some freedom in setting its pricing policy. In most underdeveloped nations where essential consumer and industrial products are in short supply, the government regulates or controls the price level to ensure an equitable distribution of these products and to keep inflationary trends within reasonable limits. India is one such underdeveloped country. The government has been playing an active role in this country in regulating the prices of essential commodities which are considered vital to its economic growth. To many American firms operating in India, the pricing policy is not as controllable an element of marketing strategy as are other elements such as product, promotion and distribution. Even in the United States, the area of price determination and administration is relatively more sensitive marketing area in large corporations, accounting for many historic legislative hearings and laws.

This chapter is the last of the four chapters which were designed to examine the patterns of marketing adaptation of American firms operating in India. It brings the area of pricing policy and terms of sale into sharp focus. Adjustments are needed in this area not only for their own sake but also to implement the adjustments in other areas--product, promotion and distribution. It is not proposed to discuss here the micro-economic models of price theory which might be relevant to this study because the assumptions behind these models do not hold in an environment of government regulation and control. This chapter rather concentrates on current policies and practices in the realm of price and terms of sale including policies related to credit, discount, warranty and after-sale service.

The primary interest of this chapter is to examine how the American firms adapt their pricing policies in an economy which is characterized by excess demand, limited manufacturing capacity and government regulation. As in the preceding three chapters, the discussion has been divided into two main parts--(1) patterns of mandatory adaptation and (2) patterns of voluntary adaptation. It will be seen that the government action has dominated largely the area of price determination, making it mandatory upon most of the firms to follow a government-directed pricing policy. On the other hand, the firms enjoyed considerable freedom in designing policies related to terms of sale. The chapter will be

concluded with a brief discussion of the involvement of a parent company in the formulation of pricing policies of its subsidiary.

Patterns of Mandatory Adaptation

As indicated earlier, the American firms operating in India experienced a considerable amount of government interference in the formulation of their pricing policies. Generally, the private foreign investment was invited in industries which were considered "basic" to the country's economic growth. The products manufactured by most American firms, whether consumer products or industrial products, were in wide demand and occupied a respectable place in the Indian market. The general scarcity conditions made it obligatory on the Government of India to regulate the prices of all essential products manufactured by local or foreign firms. The Essential Commodities Act, 1955, gave the government necessary power to regulate and control the distribution and prices of such commodities which it declared "essential" from time to time. A statutory body known as the Tariff Commission examined usually the cost structure of affected industries and made recommendations of "fair" ex-factory and resale prices.

A large majority of firms covered in this study indicated that the area of pricing policy was one in which government interference was most pronounced. The manufacturers of soap, ethical and non-ethical drugs, tires and

tubes, oil and fertilizers experienced more direct government regulation because these products came within the purview of the Essential Commodities Act, 1955. Other manufacturers, in consumer and industrial product lines, were also affected inasmuch as they were expected to consult with the government in case they proposed to depart from existing price levels.

The nature of mandatory adaptation which the American firms were forced to make in the area of pricing policy can be explained better by reviewing briefly the government regulation of drug prices in India. Disturbed by soaring drug prices in 1963, the government issued an order under the Essential Commodities Act by which no manufacturer was allowed to increase the prices above the level prevailing on April 1, 1963, except with the permission of the government. This order was relaxed in 1966 when the government offered to consider requests for price revision with respect to individual products if the affected firms furnished necessary cost data to support their pleas for price increase. To safeguard the interest of the Indian consumer, the government also decided to relax its 1963 order in favor of those companies which indicated the generic or pharmacopoeial names of drugs along with their commercial brand names on labels and packages.

In May, 1970, the government issued another Drugs Price Control Order under the Essential Commodities Act by which the retail prices of certain essential drugs were

fixed and the firms were asked to use a price formula to arrive at the retail price for other drugs.[1] A total mark-up of 75 percent was fixed by the government to be added by each firm to the manufacturing cost of a drug in order to calculate its retail price. Higher mark-ups up to 150 percent were allowed for limited periods for such new products which were evolved as a result of special product development or original research. The order went further to specify the minimum mark-up for retailers and other market intermediaries (distributors, stockists, etc.). This was fixed at 20 percent of the retail price (as obtained from using the recommended price formula) for ethical drugs and at 15 percent of retail price for non-ethical drugs. Of these trade mark-ups, the mark-up for the retailer was fixed at not less than 12 percent and 10 percent, respectively. The balance represented the mark-up for wholesale middlemen such as distributors and stockists, engaged in the marketing of drugs and pharmaceuticals. The use of a price formula including these mark-up limits applied to only those drugs, the prices of which were not fixed by the government.

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[1]The price formula recommended by the government was:

$$RP = (MC + CC + PC) \times (1 + mu/100)$$

where RP is retail price, MC is material cost, CC is conversion or formulation cost, PC is packing cost and mu is the total mark-up. For detail, please refer to The Economic Times, Bombay, May 1 and May 17, 1970.

This description throws light on the magnitude of government interference which an American firm has to bear while continuing its operation in a planned economy. The pharmaceutical firms interviewed in India expressed difficulty in adapting to a system of price control which, according to them, was incomplete and unrealistic in the absence of a corresponding control on the prices of raw-materials used by the industry. The computation of manufacturing cost of thousands of individual formulations, according to the government formula, was considered to be an extremely complicated task for a large pharmaceutical firm.

In spite of these problems, the American companies manufacturing pharmaceuticals and other essential products were noted for adjusting well to the price restraints imposed upon them by the government. The tire manufacturers faced similar price control up to December, 1963. The ex-factory prices of tires used to be fixed by them according to a formula recommended by the Tariff Commission. Later in 1964, the tire industry was set free from adhering to rigid formula pricing, though the industry was still subject to informal price control and continued to seek government approval for any price increase. The manufacturers of soap, fertilizers, machine tools and petroleum products were also subject to a formal or informal regulation by government in their pricing policy. There was no evidence, however, of

any government regulation as far as the general terms of sale were concerned. In this area, all the firms interviewed indicated an appreciable degree of voluntary adaptation to local conditions, as will be shown in subsequent discussion.

Patterns of Voluntary Adaptation

Pricing Policy

Voluntary adaptation of pricing policy may be considered as a deliberate move on the part of an American firm to design its pricing policy in a way which enables it to achieve necessary adaptation in other marketing areas such as product, promotion and market distribution. To illustrate this point, if the marketing strategy of a firm aims at offering a simplified semi-automatic machine-tool to cost-sensitive small engineering firms, and it decides to use personal selling and demonstration as the main selling tools, it will have to modify its pricing policy also to achieve this aim. The objective of this firm's pricing policy will be twofold: realizing a certain minimum return on investment and contributing to the industrial development of the host country by offering a low price machine tool to small engineering firms operating in that country. Thus, the voluntary adaptation of a firm's marketing effort is reflected in its pricing policy.

The political and legal environment in which the American firms operated in India did not prevent them from offering low priced and simplified versions of their international product brands. However, they seemed to be less interested in changing their universal product lines--a point already made in Chapter III. Most of them concentrated on the production of technologically sophisticated high priced product lines, leaving the production of simplified less expensive product lines to the local firms. When asked to spell out what they considered to be the major objectives of their pricing policy, the firms responded as indicated in Table 20.

Table 20. Objectives of pricing policy

	Objectives of Pricing Policy	Number of Firms Responding
1.	Meeting competition	14
2.	Realizing a target return on investment	11
3.	Expanding market share	7
4.	Achieving price stability	6
5.	Maximizing profits	6
6.	Maintaining world-wide price leadership	1
		45[a]

[a]The total does not coincide with the actual number of respondents because of multiple entry.

It can be inferred from the set of responses presented in Table 20 that a majority of firms interviewed were interested in maintaining their market share at a target return on investment, rather than expanding the share. They seemed to confine their operations within narrow market segments which could absorb the high priced quality products. Within these narrow segments, they competed with other foreign-affiliated firms as well as large Indian firms in public and private sectors. Few firms considered profit maximization as one of the pricing objectives. Most of them held the view that in the wake of almost ubiquitous price control, the question of profit maximization hardly arose in India. For the same reason, they did not consider price stability as a matter of concern to an individual firm.

Terms of Sale

The freedom of action which most American firms miss in India in the area of pricing policy is present in that of the terms of sale. In designing their policies pertaining to credit, discount, guarantee, etc., the firms rarely experience any government restriction or control in India. Rather, they enjoy relatively greater freedom of operation since they do not encounter such legislation as the Robinson-Patman Act and the Miller-Tydings Act (fair trade laws) which seek to protect the small independent retail dealer in the United States. How far was such freedom exploitable in India is another question. There would be little room for

persuasive selling, liberal credit and discount terms in this country as long as the economy remained afflicted with scarcity of goods, lack of purchasing power and an acute population problem. Other conditions in India such as the absence of a large middle class and lack of specialized institutions offering credit rating service did not encourage American firms to offer their Indian customers as attractive terms of sale and payment as they did in the United States and many West European countries.

Credit.--When asked if they experienced a lack of credit information in India, 14 of the 26 firms interviewed responded affirmatively. Nine firms gave a negative response and 3 offered no comments. Those firms which denied having any such problem had either a very well organized field sales force which kept track of the creditworthiness of market stockists or they relied on a system of sole distributorship whereby the entire credit risk was transferred to one or more distributors located at strategic points in the market. Also included in this category were the industrial goods manufacturers who had direct dealings with commercial or industrial firms, which used their products.

The information on the availability of credit information to American firms explained why these firms which were accustomed to granting liberal credit terms in the U.S. market took on local market customs such as C.O.D. (cash on delivery) or shipping documents through a bank.

The latter custom came close to SD-BL terms (bill of lading with Sight Draft attached) no longer used extensively in the United States.[2] The marketing of most consumer and semi-industrial products covered in this study required extensive market coverage and involved business dealings with hundreds of small merchants and stockists all over the country. While the field sales personnel and market distributors were in constant touch with these middlemen, most manufacturers preferred to follow the prevailing market custom. The merchants or stockists operating in towns where the manufacturers had set up their branch offices or depots were able to obtain two to four weeks' credit because of a common location. Insistence on cash terms by manufacturers had a hidden virtue in the scarcity-ridden economy of India, as one managing director pointed out. It exercised some restraint on demand stimulation and discouraged merchants from overtrading.

The manufacturers of consumer durables and industrial goods who sold directly or indirectly to households or industrial firms, adopted a more liberal credit policy. The home appliance manufacturers offered installment credit arrangements to customers through company-owned retail outlets and a network of dealerships all over the country. They ran into much less risk, thanks to the nature of their

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[2]Robert H. Cole and Robert S. Hancock, Consumer and Commercial Credit Management (Homewood, Illinois: Richard D. Irwin, Inc., 1964, p. 337.

products which were durable and could be reclaimed if the customer broke the agreement. The industrial buyers, moreover, generally had a stronger financial standing than that of small merchants or stockists with whom the manufacturers of consumer goods and pharmaceuticals had to deal. Furthermore, the government was a significant customer of most of the industrial goods manufacturers, accounting for from 25 percent to 60 percent of the total annual sales of a firm. All sales to the government were on credit, and it often took many months and rather cumbersome official procedures to collect payments. Still the opportunity to serve bulk orders and the absence of credit risks were two main attractions to dealing with the government as a customer. The companies offered annual rate contracts to the government to take advantage of bulk orders.

Some manufacturers of heavy industrial and construction equipment, however, required their customers (non-government) to deposit cash advance with the order to cover part of the payment, and the balance on receipt of the shipping document or installation.

Cash discount.--Table 21 summarizes the details of terms of payment offered by American firms in selected product groups in the United States and India. A glance at the contents of this table will indicate the preponderance of credit terms accompanied by cash discount incentives in the U.S. market and a preponderance of cash terms in the Indian market. Only one out of 26 firms interviewed in the

Table 21. A comparative view of terms of payment offered in United States and India

Product Groups Covered in This Study	United States		India	
	Terms of Payment	Rate of Cash Discount with Time Limit	Terms of Payment	Rate of Cash Discount with Time Limit
Consumer:				
Packaged food products	C.O.D. or net 7 days	Nil	Cash, shipping documents through bank, 30 days to selective customers	Nil
Soft drinks	C.O.D. or net 10 and net 30 days	Nil	C.O.D.	Nil
Cosmetics, perfumery and toiletry	Net 30 days	1-2% 30 days	Cash, shipping documents through bank	Nil
Household appliances	Net 30 days	1-2%--10th prox.	30 to 45 days	1%
Semi-Industrial:				
Pharmaceuticals	Net 30 to 90 days	2% 10th or 15th prox.	Cash, shipping documents through bank for out-of-depot stockist 15 to 30 days credit for in-depot stockist	Nil
Tires and tubes	Net 30 days	2% 10th prox.	Cash, documents through bank	Nil
Industrial:				
Auto parts and accessories	Net 30 days	2% 10th prox.	Cash, documents through bank	Nil
Medical, surgical equipment	Net 30 days	2%--10 or 10th prox.	30 to 45 days credit	Nil
Industrial machinery (small)	Net 30 days	½ to 2% 10 net 30	30 to 45 days credit	Nil
Heavy industrial and construction machinery	Contract basis--with a percentage down with order, a percentage when completed and the remainder 30 to 90 days after delivery		Contract basis--with a percentage down with order and the balance on receipt of goods or shipping documents	

course of this study reported the offering of cash discounts to its distributors and dealers. It was a home appliance manufacturer which offered cash discounts in respect of only one of the several items sold by it in India. Two factors explain the absence of the offer of cash discount terms by manufacturers in India: (1) credit transactions in most of the trades were conspicuous by their absence and (2) even where some transactions used credit, the enforcement of price control by the government on formal or informal basis deterred the manufacturers from indulging in such trade practices which might be considered violations of a price control order.

Quantity discount.--The custom of allowing a quantity discount to market intermediaries or direct users was rather uncommon in India. In western countries, especially in the United States, two important forces occur which motivate the manufacturers to allow quantity discount: competition and an abundant supply of goods. Such forces were nonexistent in India. Only 6 out of 26 firms indicated the use of quantity discount as a marketing tool. Only one firm, a manufacturer of business machines, had a clear-cut schedule of quantity discounts comparable to what its parent company had for the U.S. market. Other firms followed a system of allowing an additional percentage of trade margin to distributors or dealers on the latter's attaining the annual quota. The rate of such "indirect" quantity discount varied from 1½ percent to 3 percent. There was another form

in which a quantity discount was given indirectly. Two firms producing cosmetics and proprietary drugs based their quotations on a quantity basis and allowed customers to avail themselves of the lower rate if they bought a minimum quantity specified in the price list.

Differential pricing policy.--All firms but three indicated that they submitted special rates to the government on bids for bulk supplies. The special rates were usually 5 percent less than the normal wholesale rates. It was pointed out earlier that the government was a significant customer of many firms included in this study. The three firms which did not give a special rate to the government manufactured products which were either not purchased by the government on regular basis or which were designed primarily for use by government organizations.

Special rates, lower than regular wholesale rates, were also offered by pharmaceutical companies to charitable private and mission hospitals. The makers of auto parts, including tires and tubes, had set special rates for the O.E.M. market somewhere between those offered to the government and the replacement market. A manufacturer of office equipment prepared its price list for three different categories of customers besides the government. Commercial firms including banks and insurance companies paid according to the list prices. Educational institutions, cooperative societies, teachers of schools and colleges,

registered typewriting institutions, etc., were given a deduction of 12 percent to 15 percent from the list price. A home appliance manufacturer, similarly, offered lower rates to social welfare agencies and sewing schools. The differential pricing policy reflected to some extent the adaptation of American firms to the economic and social environment of India.

Terms of guarantee/warranty.--The companies within the sample were requested to indicate the terms of guarantee or warranty offered by them in the United States and India. The question was relevant mainly to the manufacturers of consumer durables and industrial goods. With few exceptions, the product warranties were designed to suit the local conditions. For example, the period of warranty was shorter in India than in the United States with respect to certain consumer durables, business machines and auto parts. The shorter length was attributed to two factors: (1) the manner of using the product differed in the two countries. The users in India were not as sophisticated machine operators as those in the United States. (2) The physical environment in which the products were used differed in the two countries. The warranty given by a tire manufacturing company did not specify any mileage and excepted road hazards from the terms of warranty for obvious reasons. The same company guaranteed for the lifetime of original tread design and insured against road hazards in the home country. Some

companies offered a uniform international warranty, normally of one year duration, in both the countries. The warranty provided for 90 days of free maintenance and replacement of defective parts, free of charge, during the period of coverage. One executive considered the quality control standards enforced in the two countries as a factor affecting the period of warranty. According to him, the frequent labor troubles experienced in their Indian plant did not permit the exercise of a rigorous quality control and prevented their offering better warranty terms.

After-sale service.--The manufacturers of consumer durables and industrial goods, accessories, etc., entered into service contracts with their customers on the expiration of the warranty period. The period of these contracts differed in the two countries. A business machine manufacturer offered monthly and quarterly service contracts in India whereas it offered one year and three years' service contracts in the United States. The same reasons which explained the difference in the warranty period could also explain why servicing was necessary more frequently in India than in the United States. An elevator company quoted two different sets of prices for installing its elevator in a commercial or residential building. One set of quotations was inclusive of three months of free maintenance, the other higher set was inclusive of twelve months of free maintenance. At home, this company offered a maintenance plan to its customers on a flat monthly charge. When a company

leased equipment, it took upon itself the responsibility of maintenance for no extra charge. The manufacturers of heavy equipment including data processing machines, construction equipment, elevators, etc. offered free installation service and training facility to operators.

The pharmaceutical and consumer non-durable goods manufacturers helped the retail chemists and general merchants in inventory planning, retail merchandising and in arranging the point-of-sale displays. The retail dealers in most underdeveloped countries were found to be deficient in these marketing techniques. The pharmaceutical companies provided use guidance and technical servicing to farmers who bought animal feed supplements and antibiotics. A fertilizer manufacturer emphasized the need of pre-sale services, rather than after-sale services, which included educating the farmers in farm management, soil testing and controlled demonstration of the effect of fertilizer use on agricultural productivity. Though similar services were also offered in the United States, their value in a predominantly agricultural country like India was considered to be enormous.

The tire companies had set up a unique arrangement for replacing defective tires in India which they did not have in the United States. According to this arrangement, the leading tire manufacturers formed a committee which met periodically to consider the tire claims and expedite the

replacement of defective tires.[3] Besides, the service personnel of these companies constantly visited the consuming centers to check the tire performance, service conditions and to offer on-the-spot advice to the users for reducing their tire expense. The government and private fleet owners and other major users were offered this service regularly and profited through proper tire selection, better maintenance and consequent lower cost.

The above description relates to after-sale services which the manufacturers offered directly to industrial users. Some after-sale services were provided by them to their distributors and dealers as well. The manufacturers of business machines and home appliances reported that they helped train the mechanics or technicians employed by their dealers for extending routine after-sale services to the ultimate user.

Role of Parent Company

Normally, a parent company having a controlling interest in an overseas subsidiary should be most concerned about the subsidiary's pricing policy because all budgetary estimates of sales and profits are based on a given price structure. Practically all the parent companies interviewed

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[3]The committee, known as Tire Adjustment Committee, has been working successfully since 1933. It consists of mainly branch managers from all leading tire companies.

in the course of this study emphasized the need for their approval of a subsidiary's annual budget which itself was evidence of their keen interest in all decisions on price changes taken by a subsidiary.

The parent companies expressed their interest in the pricing policy of subsidiaries in different ways. Some of them would want to know about and approve even the slightest alteration in price, whatever may be the environmental justification of such change in the eyes of a subsidiary manager. They had prepared special forms to be used by subsidiaries for supplying relevant data and justifying a price change. There were others who allowed a latitude from 5 percent to 10 percent within which a suggested minimum price could be altered by a subsidiary with due advice to the parent company.

In written communications which the subsidiaries were required to send to parent companies on the subject of price changes, the former usually included price information on competitors' products and general market trends. The subsidiaries were asked to report on price changes at least once a year with the annual budget and whenever a particular price change was proposed in the middle of a financial year. Brief comments in this regard were also included in the monthly/quarterly management reports and financial statements. A few parent companies in the sample adopted a more liberal attitude. They followed the principle of "management by exception" allowing their subsidiaries to make

tactical short-term pricing adjustments without any formal permission. However, a majority of companies insisted on reviewing all proposals of price change and required their subsidiaries to obtain consent from the regional office or the international division headquarters.

Earlier in this chapter, it was noted that the wholesale and retail prices of many products (e.g., pharmaceuticals, soap, tires and petroleum) manufactured by American firms in India were subject to a direct or indirect regulation by the government. The parent companies, in this situation, had no other recourse but to accept the government regulated prices as long as the subsidiaries were able to make an expected return on sales and profit. If the government controlled or suggested prices did not leave an expected return, the parent company could exercise its control through other channels. It could, for example, let the subsidiary drop unprofitable product lines or curtail promotion expenditure in order to improve the financial picture. As a last resort, it could close down the overseas plant rather than allow the subsidiary to run unprofitably.[4]

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[4]This actually happened recently in India. The pharmaceutical companies located in Bombay decided to withdraw all advertising contracts with press and time media, following the announcement by the government of a price formula which according to these companies, left no margin for such expenses. See Statesman, Calcutta, India, May 14, 1970.

A majority of subsidiary managers interviewed in India did not consider pricing as an area where the parent company involvement was extraordinary in view of existing government regulations. At the same time, those who were not affected by such regulations, expressed satisfaction with the reporting procedures laid down by parent companies to get a price change approved. They viewed the various requirements of review and consent as useful communication media of great mutual advantage. In one instance, a managing director expressed dissatisfaction with the attitude taken by the parent company toward its Indian operation. The managing director was asked by the parent company to raise all company prices, immediately after the devaluation of Indian rupee in 1966, to the extent that annual dollar sales and profit figures were unaffected. With great difficulty, he was able to convince the international divisions about the infeasibility of such an action.

Conclusion

To conclude, the firms interviewed displayed more voluntary adaptation in the area of terms of sale than in that of pricing policy. The reason for this was fairly obvious. Adaptation in the area of terms of sale was necessary to ensure the financial integrity of enterprise in a country where credit risks were relatively high and specialized credit rating institutions were few. Most firms

insisted on cash terms and did not offer any quantity discount. The terms of guarantee/warranty and after-sale service with respect to mainly industrial products were adjusted to a variety of environmental factors including people's indifference to proper maintenance, general lack of aptitude for mechanical work and unsatisfactory road conditions.

The limited adaptation in the area of pricing policy may be considered to be the result of limited adaptation in product strategy as seen in an earlier chapter. Most of the companies with extensive international operations, were found to be very particular about maintaining worldwide product standards and specifications. Implementation of this policy had its effect on the pricing policy. The products of most American firms were priced much higher than comparable products manufactured by local firms. Emphasizing quality and service, these firms had no difficulty differentiating their products from competing products and carving a place for themselves in the Indian market.

In certain directions, this international product and pricing policy of American firms conflicted with the national goals of the Indian economy, and the government had to interfere and regulate the prices. The industry which experienced such interference most was the pharmaceutical industry. The government action taken in 1963 to freeze all drug prices sought to control the widening gap in the general price level of indigenous and foreign-affiliated

pharmaceutical firms. Other government measures which followed included a mandatory fixing of retail drug prices and minimum gross margins for retailers and other market intermediaries. Other industries, such as tire, fertilizer and petroleum, also felt the pinch of government price control.

Efforts made by many American firms to apply non-price competitive strategies to Indian conditions were not always in the interest of Indian customers, though in the American economy non-price competition is more significant to manufacturers.[5] Price is still a matter of prime consideration to a vast majority of the population in India which lives below the subsistence level. Though the government regulatory measures might have suffered from several flaws, an important achievement of these measures was that they forced foreign firms to adapt their pricing policy to the needs of the Indian people.

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[5]According to one research study, the non-price facets of competitive strategy specially the product facet and sales effort facet, were found to be most important to 485 U.S. manufacturers who participated in the study. See Jon G. Udell, "The Perceived Importance of the Element of Strategy," Journal of Marketing, January, 1968, p. 39.

CHAPTER VII

CONCLUSION

It is proposed to recall here the main findings of this research and see how far these findings answer the problem statements and substantiate the hypotheses set forth in Chapter I. Each problem statement and related hypothesis are restated and examined in the light of results obtained. A scoring technique is introduced to determine the relative position of individual firms in the matter of marketing adaptation. The technique provides an additional support to the final conclusions of this study which are essentially based on judgment and speculation. Areas of further research are also indicated in the end.

P-1 Have the U.S. business firms operating in India adapted their marketing strategy to the Indian environment?
If so, how have they modified their product, promotion, distribution and pricing strategies to implement this adaptation?

H-1 There are identifiable patterns of adaptation in the marketing strategy of U.S. firms operating in India.

As is evident from the preceding analysis of the survey results, the U.S. business firms operating in India have made efforts to adapt their marketing strategy to the

Indian environment. The extent of these efforts, however, varies with different facets of strategy. It is also affected by the nature of the industry involved. The research helped in the identification of important patterns of marketing adaptation as follows.

Product

In general, the area of product is noted for a minimal degree of adaptation. Most firms seem unwilling to compromise by lowering their international product standards for a wider market coverage, the opportunities for which exist in India. They do not undertake any substantial research and development activity in India. The products are modified to the extent it is essential to maintain an established market share. Minimal changes are made to meet the government requirements regarding quality standards, use of locally available ingredients and exports. The climatic and economic factors have their impact on the package make and size. The product design is modified to suit different electrical, monetary and weight and measure systems in India.

Very few firms have in their product-mix the items that are specially designed to serve the needs of the Indian market. Operating within several legal constraints, limiting expansion of industrial capacity and product diversification, most firms prefer to manufacture those product lines which allow a maximum use of parent company technology and knowhow. When support from the parent company is not available, they are unable to add a new product line or modify an

existing line even though such a step is in the interest of the Indian market.

Promotion

In the area of promotion, the extent of adaptation appears relatively greater. The promotion-mix in most firms is adapted to the available infra-structure, regional languages and literacy standards. The consumer and semi-industrial goods manufacturers make relatively greater use of personal selling in India than in the United States. Greater emphasis is given to audio-visual publicity and mass contacts through outdoor and cinema advertising. The multiplicity of spoken languages oblige these manufacturers to adopt a regional copy approach under which the same message is prepared in different regional languages. Basically, the same appeals are used in consumer goods advertising in both the countries but there is a marked difference in the design of copy. It is less sophisticated, less competitive, less frequently changed and relatively more simple and straightforward in India.

It is believed that most firms in the sample rely heavily on promotion to get their quality products and services acceptable to the Indian market. They operate within a limited market segment consisting of high income and middle income groups. A few firms promote their products actively in semi-urban and rural markets. In promoting the sale of industrial goods, the firms mostly use identical

methods in both the countries though there is relatively greater emphasis on technical assistance and demonstration in India.

Distribution

Most firms in the sample demonstrate good adaptation in the area of market distribution. Again, the dominating force is the infra-structure--the facilities of transportation and communication and the institutional set-up in the Indian market. The channel of distribution used by firms is somewhat longer in India than that in the United States, particularly in the marketing of consumer and semi-industrial goods. In the absence of large scale retailing institutions in India, indirect channels consisting of a variety of market middlemen are common. The old importer-distributor is still being used by some firms though important marketing functions are gradually being taken over by the sales department in many firms. The specialized food and drug wholesalers are absent in India. The American firms use the wholesale stockist or town stockist to reach the interior parts of the country. The manufacturers of heavy industrial goods face little adaptation problem in this area because as in the United States, they make direct contact with the government buying units or private industrial users.

Pricing

In the area of pricing, most American firms along with their local competitors, come under formal or informal

government control. As part of its economic policy, the Indian government regulates and controls the prices of many essential commodities including some of those covered in this study. It is, therefore, obligatory on the part of firms to follow the government directions and/or comply with price control orders promulgated from time to time. For products not affected by government control, the firms fix their prices with two frequently stated objectives: meeting competition and realizing a target return on investment.

Policies related to terms of sale are modified in accord with the Indian market customs. Contrary to the policy of liberal credit followed by manufacturers in the United States, strict cash terms are enforced by them in the Indian market. One of the purposes of dealing through a sole distributor or wholesale stockist is to get rid of credit risks inherent in trading directly with thousands of small retail establishments whose credit rating is hard to determine. The U.S. firms rarely allow quantity discounts to their customers in India. The industrial goods manufacturers offer terms related to warranty and after-sale services though these terms are less liberal in India than in the United States.

Thus, the American firms adapt their marketing strategy to the Indian environment, though the extent of adaptation varies with different facets of marketing strategy. The research substantiates the hypothesis that there

are identifiable patterns of adaptation in the marketing strategy of U.S. firms operating in India.

P-2 What social, cultural, economic, political and legal aspects of the Indian environment motivate these firms to adapt their marketing strategy in India?

H-2 There are unique social, cultural, economic, political and legal conditions in the Indian environment that motivate American business firms to adapt their marketing strategy.

The research presents sufficient evidence to believe that there are unique social, cultural, economic, political and legal conditions in the Indian environment which motivate the American firms to adapt their marketing strategy.

The product strategy of these firms is influenced by the environmental factors such as: diversity of language, level of education, dietetic habits of people, low per capita income, health and housing condition, small size of farms, presence of surplus human resource, economic infrastructure, balance of payment situation and the government industrial policy.

The promotional strategy is influenced by factors such as: diversity of custom and tradition, language and ethnic groups, level of education, low per capita income, presence of surplus human resource, low agricultural and industrial productivity, general shortage of essential goods, government regulation of quality standards and foreign trade and government policy on taxation.

The strategy of market distribution is influenced by factors such as: diversity of custom and tradition, language and ethnic group, level of education, presence of surplus human resource, inadequate commercial warehousing, general shortage of essential goods, absence of specialized credit rating institutions, the increasing role of public sector in the Indian economy and government regulation in the area of market distribution.

The strategy related to price and terms of sale is influenced by factors such as: level of education, absence of a large middle income group, economic infra-structure, general shortage of essential goods, absence of specialized credit rating institutions, the increasing role of the public sector in the Indian economy and government regulation of retail prices and distributors' profit margins with respect to essential commodities.

Exhibit IV lists the various environmental factors which have, directly or indirectly, influenced the marketing strategy of U.S. business firms operating in India. The specific areas of marketing strategy affected by each factor are also indicated.

P-3 Do firms producing consumer goods present a different pattern of marketing adaptation from those producing semi-industrial and industrial goods?

H-3 The patterns of adaptation noted in consumer goods manufacturing firms differ from those in semi-industrial and industrial goods manufacturing firms.

PART I

Environment	Product	Promotion	Distribution	Pricing (Including Terms of Sale)
Social & Cultural				
1. Diversity of custom and tradition		Selection of advertising themes or appeals	Training of sales and marketing research staff	
2. Diversity of language	Designing of products (typewriters, accounting machines, etc.)	Production of advertising copy, package inserts and sales material in different languages	Fixing the limits of sales territories	
3. Ethnic groups		Designing of advertising theme, messages and illustration directed at different ethnic groups	Use of distributive outlets owned and operated by certain ethnic groups	
4. Level of education	Product design	Promotional-mix leaning more toward audio-visual publicity and direct consumer contacts. More emphasis on demonstration and technical servicing. Designing of advertising messages, less sophisticated, simple and straightforward	Use of "push" rather than "pull" strategy	Length of warranty period shorter than in United States
5. Dietetic habits	Product ingredients (food products adjusted to suit the preferences of vegetarians)			

Exhibit IV. The Indian environment and patterns of marketing adaptation of U.S. firms operating in India.

PART II

Environment	Product	Promotion	Distribution	Pricing (Including Terms of Sale)
Economic				
1. Low per capita income (disposable and discretionary)	Selling in small package sizes	Less reliance on "pull" strategy		
2. Absence of large middle income group				Absence of liberal credit and discount terms
3. Housing conditions	Designing of electrical appliances			
4. Health conditions	Package size for drugs based on dosage requirements. Greater emphasis on nutritional supplements in the product-mix of pharmaceutical companies			
5. Surplus human resource	Relatively large package size for semi-industrial goods like fertilizers, production of hand-operated semi-automatic tools, applicances and hospital equipment.	Relatively greater use of personal selling by consumer and semi-industrial goods manufacturers. Ineffectiveness of do-it-yourself type appeals	Use of indirect channels	
6. Small size of farms	Sale of dry complex fertilizers in place of liquid fertilizers			
7. Low agricultural and industrial productivity		Cost and benefit oriented advertising appeals (industrial goods)		
8. Inadequate commercial warehousing			Use of sole distributors and wholesale stockists (consumer goods)	

9. Poor road conditions					Terms of warranty (truck or passenger car tires not guaranteed for road hazards)
10. Modes of transportation (animal drawn vehicles, scooters, jeeps, etc.)	Designing of tires and tubes, shockabsorbers and other parts				
11. Electrical system (220 v. 50 cycles)	Product design				
12. Metric weights and measures	Product design				
13. Monetary system	Product design				
14. General shortage of essential goods (sellers' market)		Advertising copy need not be price oriented	Limited use of cooperative advertising. Less inclination of manufacturers to sell under private brands.		Insistence on cash terms, no cash and quantity discounts
15. Unfavorable balance of payment	Designing products for export markets; use of locally available ingredients, parts or components				
16. Absence of specialized credit rating institutions			Use of indirect channels including sole distributors and wholesale stockists		Insistence on cash terms, shipping documents through banks

Exhibit IV--Continued

Environment	Product	Promotion	Distribution	Pricing (Including Terms of Sale)
Political & Legal				
1. Government attitude in relation to gradual Indianization of capital	Wholly owned subsidiaries and branches not being issued new industrial licenses for the expansion of product line	Public relation becomes important aspect of promotion		
2. Increasing role of public sector in economic activity	Bulk supplies in large packages to public sector undertakings		Government as major buyer for most of the industrial goods manufacturers. Special sales and servicing staff assigned to government buying units	Annual rate contracts with government on bids
3. Govt. regulation of production	Product-mix adjustments, new product introduction			
4. Govt. regulation of quality standards	Product specifications	Specification of information to be printed on labels of food and drug items		
5. Govt. regulation of prices & distribution of essential goods			Mark-ups for wholesalers and retailers, fixed by government. Use of selected retail outlets such as consumer cooperative stores	Government fixed retail prices
6. Govt. regulation of foreign trade	Product specifications for internal and export markets	Different brand policy for exportable products		
7. Govt. policy on business taxation		Limits on advertising expenditure as allowable business expense for tax purpose		

Exhibit IV--Continued

The research findings answer this problem statement in the negative. The patterns of adaptation noted in the course of this study are not neatly identifiable in terms of product groups. In most instances, similar patterns are witnessed across the board. All firms respond to various social, cultural, economic, political and legal conditions in more or less the same fashion, regardless of industry or product group.

Firms in all product groups are interested in maintaining the international brand image of their products and therefore modify them to a minimum possible extent. A few firms which reported making product line or product-mix adjustments represent all major product groups covered in this study. Similarly, firms in all industry groups are obliged to follow the government directives on the use of locally available ingredients or materials, apply labor intensive techniques and design products specially for export markets. The economic factors lead the manufacturers of consumer and pharmaceutical products to adapt the package size to the needs of low income groups. For industrial goods manufacturers, such adaptation is not needed.

In the areas of promotion and distribution, there is no remarkable difference in the patterns of adaptation among manufacturers in different product groups. All firms adjust themselves to the promotional infra-structure and market institutions available in India. The industrial goods manufacturers who depend primarily on personal selling have to

adapt to the quality of sales personnel found in India. In view of the fact that most industrial products covered in this study are sold directly through company sales personnel, the manufacturers in this product line face less problem in adapting their promotion and distribution strategy to the Indian environment. For example, they are not required to enter into the interior parts of the country as some consumer products and pharmaceutical companies are required to, for selling their products in small towns. The industrial goods manufacturers are therefore less worried about changes in the social and cultural scene than other manufacturers.

In the area of pricing, all firms are subject to a formal or informal government regulation. Adjustments in the terms of sale are of the same pattern. All firms, regardless of the products they manufacture, enforce cash terms (shipping documents through bank) or allow credit for a limited period to local distributors or stockists. Rarely is a cash or quantity discount allowed.

The available research evidence does not, therefore, support the hypothesis that the patterns of adaptation noted in consumer goods manufacturing firms differe from those in semi-industrial and industrial goods manufacturing firms.

P-4 Is there any relationship between the size of a firm and the extent of its marketing adaptation?

H-4 The larger the size of a firm, the greater is the extent of its marketing adaptation to the Indian environment.

This question is a little difficult to answer; in the absence of such research tools which could give a precise measurement of the extent of marketing adaptation. Marketing adaptation is a complex of many variables which fall under four major sub-divisions--product adaptation, promotional adaptation, adaptation of market distribution and adaptation of pricing and terms of sale. The research methodology used in this study made it possible to draw information from firms on how and why they made changes in various elements of marketing strategy since they started business operations in India. The collected evidence does not, however, show any regularity in the adaptation performance of firms; i.e., a firm does not move in the same direction with respect to all elements of strategy. This presents problems in designating a firm with one single estimate indicating the overall level of its adaptation.

An analysis of data collected in the course of field interviewing reveals that firms in general, do not make an appreciable amount of adaptation in the product area. They are comparatively more active in the areas of promotion and distribution. In the pricing area, most of them are under direct or indirect control of the government. The size appears to be no advantage or barrier in their performance because even in this small sample there are some relatively large size firms (with annual world sales exceeding $2,000 million) which appear to be not as far ahead in this direction as some small firms (with annual world sales below

$500 million) and medium size firms (with annual world sales between $500 and $2,000 million). Among the firms which are found to be actively engaged in new product development, advertising and marketing research, and which have built up a strong sales base and made concrete plans for reaching gradually the semi-urban and rural population, there are all types of firms, regardless of size. It is therefore difficult to relate size to the extent of marketing adaptation.

Scoring Technique

A more scientific way of testing this hypothesis will be to identify different stages of adaptation under main action areas, place them in logical order and evaluate them with respect to each firm using a scoring technique. This technique has been elaborated upon in Appendix C. While no perfection is claimed, the technique helps in designating a firm with single index of its overall performance (called the Marketing Adaptation Index or MAI) and in determining its relative position in the matter of marketing adaptation. Table 22 in Appendix C presents the final scores (MAIs) received by 26 firms within the sample. By arranging these scores in consecutive order, three separate clusters of firms are discovered:

	MAI Range	Number of Firms
	Between	
A. Poor adapters	.38 and .52	9
B. Medium adapters	.56 and .66	10
C. Good adapters	.72 and .80	7
		26

It may be now possible to see the relationship between size and extent of marketing adaptation as indicated by the MAI of individual firms. The distribution of sample firms according to major size categories and adaptation levels is presented below:

Annual World Sales (1968) (in million dollars)	No. of Poor Adapters	No. of Medium Adapters	No. of Good Adapters	Total
Small size (below $500)	3	5	1	9
Medium size ($500-$2,000)	5	3	2	10
Large size (above $2,000)	1	2	4	7
	9	10	7	26

The distribution of firms in the above order does not indicate a clear relationship between size and the level of marketing adaptation. Some relationship is indicated by the observation that only 1 out of 9 small size firms is a good adapter and only 1 out of 7 large size firms is a poor adapter. The picture gets blurred, however, when it is observed that as many as 3 out of 7 large size firms (43%) are not good adapters and as many as 6 out of 9 small size firms (67%) are not poor adapters. Furthermore, half of the medium size firms are poor adapters and about the same proportion of small size firms are medium adapters.

Thus, no discernible relationship is indicated between the size of a firm and the extent of its marketing adaptation. The related hypothesis is therefore rejected.

P-5 Is there any relationship between the length of time for which a firm has operated in India and the extent of its marketing adaptation?

H-5 The longer the time period for which a firm has operated in India, the greater is the extent of its marketing adaptation to the Indian environment.

The testing of this hypothesis presented more or less the same problem of measurement--estimating the overall adaptation of firm to the Indian environment. It became, therefore, necessary to make use of the Marketing Adaptation Indices calculated for each firm for proving the earlier hypothesis.

Data on the time period for which a firm operated in India were collected in the course of field interviews. The year 1968 was taken to be the final year for this purpose. Firms were distributed in three broad categories:

1. Relatively new firms (operating for less than a decade)	9
2. Old firms (operating for 10 to 19 years)	11
3. Very old firms (operating for 20 years or more)	6
	26

When the MAI figures are viewed in relation to time periods for which American firms had been operating in India, it becomes obvious that there hardly exists any relationship between these two sets of variables. Some of the firms which had been in India for over two decades are noted for a very low level of adaptation. Others with as old operations accounted for a much higher adaptation. The category of "very old firms" thus includes extreme cases of the lowest as well as the highest adaptation scores. The situation is equally as diversified with respect to "relatively new" and "old" firms. This is indicated by the classification of sample firms in the following order:

Period of Operation / Level of Adaptation	Poor Adapters	Medium Adapters	Good Adapters	Total
Relatively new (less than 10 yrs.)	3	2	4	9
Old (10-19 yrs.)	4	6	1	11
Very old (20 yrs. and more)	2	2	2	6
	9	10	7	26

This research therefore rejects the hypothesis that the longer the time period for which a firm has operated in India, the greater is the extent of its marketing adaptation to the Indian environment. There was found to be no relationship between these two variables.

P-6 Is a firm's ability to adapt its marketing effort in India affected by the managerial control exercised over it by its parent company?

H-6 The nature of managerial control exercised by the parent company on its Indian branch or subsidiary is a factor in the latter's ability to adapt to the Indian environment.

On the basis of empirical evidence, it can be speculated that the ability of American firms to adapt is affected by the managerial control exercised over it by the parent company, though the intensity of this effect may vary in different areas of marketing adaptation.

The effect is most pronounced in the area of product. As observed in Chapter III, decisions on change in product specification or commercialization of new products are finally approved by the parent company because these normally involve some capital expenditure. This affects the ability of Indian subsidiaries to adjust their product offering with changing needs of the Indian market. A few cases were brought to the notice of this researcher where the Indian subsidiaries could not follow up encouraging test marketing results due to the indifference of the parent company. While no generalization is possible on the basis of few instances, the interviews provide a fairly good indication that the area of product policy is one with which the parent company is most concerned. Most of the companies interviewed have worldwide operations and follow the policy of maintaining the international product standards. This policy often gets in the way of meeting the peculiar needs

of an individual country. The absence of research and development facilities in India is also attributable to the control exercised by the parent company. A sizable group of executives in India (10 out of 26) expressed the belief that the absence of R & D at the Indian subsidiary made the process of product planning and introduction rather slow.

In the area of promotion, most parent companies exercised an indirect budgetary control, leaving policy decisions such as those pertaining to media-mix, media schedule, agency appointment, etc., to be made by the Indian subsidiary. In a few cases, however, the parent company was noted for exercising tight control in this area. The pharmaceutical companies, for example, are found to be very careful in keeping the consistency of advertising claims all over the world and therefore watch closely the promotional activity of their subsidiaries. New promotional programs have to be approved by the parent company in many instances. While most subsidiaries are under no obligation to use the promotion material received periodically from the United States and other subsidiaries, they are expected to explore fully the possibility of its use and satisfy the parent company with reasons in case they are unable to use it due to different local conditions.

The area of market distribution is one where the Indian subsidiary enjoys relatively greater freedom of action due to parent company's inability to visualize and appreciate the environmental differences from such a distance.

The Indian subsidiaries make important decisions in such matters as selection of modes of transportation, location of warehouses, appointment of distributors, wholesale stockists and fair price shops, etc.

Normally, a parent company would consider the area of pricing and terms of sale as the most critical area from the standpoint of managerial control. Not all parent companies, however, are able to exercise control on prices due to the presence of government regulation and control in this area. Most of the semi-industrial and industrial products covered in this study come within the purview of the Essential Commodities Act which empowers the Indian government to set retail prices and dealers' mark-ups in the interest of consumer or industrial user. Manufacturers of products not affected by this Act experience tight control in this area from their parent company. The degree of this control varies from company to company. Some companies would want to approve of the slightest alteration in price whatever may be the environmental justification for it. Others would set a range within which the prices could fluctuate without any formal approval from the parent company. Decisions on terms of sale are guided largely by prevailing market customs and therefore, left to the discretion of the Indian subsidiary.

The commonly used control instrument is the annual sales or marketing budget in the preparation of which top executives from both the parent and subsidiary companies are involved. The annual budget is usually made in the context

of a long range marketing plan. Once approved, the subsidiary managing director has very limited freedom to deviate from the budgetary direction. Besides the budget, an elaborate procedure is laid down for the filing in of management reports and financial statements periodically by the Indian subsidiary. Through these reports and the exchange of visits periodically by executives, the parent company keeps in constant touch with new market developments, not anticipated at the time of budgetary meetings. It also makes sure that the subsidiary efforts in the areas of product, promotion and distribution are moving along the direction set by the annual budget.

Having to operate under these constraints, the Indian subsidiaries are at times unable to move as quickly in adjusting their marketing effots as they would like to, given greater freedom of action. Relatively speaking, they work under greater control in the areas of product and pricing than in those of promotion and distribution. But the control is there and it affects the ability of Indian subsidiary to adapt to the Indian environment.

The research evidence therefore supports the hypothesis that the nature of managerial control exercised by a parent company on its Indian branch or subsidiary is a factor in the latter's ability to adapt to the Indian environment.

Summary of Conclusions

The main conclusions of this study may now be summarized as follows:

1. The U.S. business firms operating in India adapt their marketing effort to a limited extent. More often than not, they adapt under great external pressure from either the government or competitive firms from other countries operating in India. Using the terminology introduced in Chapter III, the nature of adaptation made by a majority of the firms in the areas of product and pricing is mainly mandatory or involuntary.

2. Relatively speaking, the firms make greater voluntary adaptation in the areas of distribution and promotion than in those of product and pricing. Most of them are interested in maintaining their international product standards, yielding only to unavoidable mandatory changes in product design and packaging. This results in a marked difference in the quality and price level of products made in India by the U.S. affiliated and local companies. The national interests often oblige the Indian government to keep this difference to a minimum. The firms are persuaded as well as forced to modify their marketing effort in the national interest of the host country in several ways. They are asked to make greater use of locally available material and tools, adopt simpler labor-intensive technology, sell at government-approved prices, and devote greater effort to the promotion of the Indian export trade.

3. The level of marketing adaptation varies from firm to firm and in different facets of marketing strategy. It is not possible to measure it for each firm in absolute terms, though a relative assessment is possible with the help of a scoring technique. This technique is explained in Appendix C. Using this technique, it is found that the consumer goods manufacturers (manufacturers of packaged food products, cosmetics and toiletries, soft drinks and home appliances) adapt more than the manufacturers of semi-industrial products (pharmaceuticals and chemicals, petroleum products and rubber tires) and industrial products (business machines including data processing equipment, medical equipment, auto parts, machine tools and heavy industrial equipment). The manufacturers of semi-industrial products adapt only slightly more than the manufacturers of industrial products.

4. Most consumer and semi-industrial goods manufacturers show greater interest in adapting the promotion and distribution facets of strategy, and experience less interference from the parent company in doing so. This is understandable because it is through promotion and distribution that the firms communicate with the target market. The firms use the conventional promotional media and channels of distribution in India for two main reasons. First, it is hard, at least in the short run, to alter the existing infrastructure outlined in Chapters IV and V, and second, the

social and cultural gaps need to be taken into account to ensure effective communicating with the target market.

5. All major forces in the Indian environment--social, cultural, economic, political and legal--influence the marketing policies of American firms designed for India. Firms respond to these forces in almost similar fashion regardless of the products they manufacture. The nature of the product-group, however, enables the industrial goods manufacturers to survive with relatively little adaptation in the areas of promotion and distribution.

6. Firms in consumer and semi-industrial lines try to escape these environmental forces by confining their operations to the urban sector of the economy and by not moving down the socioeconomic scale to cover the semi-urban and rural sectors of the Indian economy.

7. On the basis of empirical evidence collected in this study, it can be said that there exists no discernible relationship between the size of a firm and the level of its marketing adaptation. Secondly, there seems to be no relationship at all between the length of time a firm has operated in India and the level of its marketing adaptation.

8. The international marketing policy of the parent company and the degree of control exercised by it are important factors affecting the ability of a firm to adapt its marketing effort in a new environment.

Areas of Further Research

In this concluding section, it is proposed to indicate such areas where additional research effort can be devoted to expand the existing knowledge in the field of international marketing.

The present study has made a beginning in two directions: (1) it has introduced the concept of marketing adaptation with special reference to an underdeveloped economy and (2) it has provided a measuring tool to estimate the relative position of a business firm with respect to marketing adaptation. There is considerable room for additional research effort in both of these directions. A further refinement of the concept of marketing adaptation should enable a researcher to improve upon the scoring technique elaborated upon in Appendix C. It might be useful if the research design of this study were replicated in other underdeveloped countries, especially those with a larger number of U.S. subsidiaries than in India.

Additional hypotheses may be tested if the same study is repeated in other economies. For example, it may be useful to find out which of the two organization types--wholly-owned or majority-owned subsidiaries--account for a higher level of marketing adaptation. It may also be an interesting research topic to examine the extent to which the American parent companies influence the marketing policies of their foreign affiliates in which they hold only a minority interest.

There is another research area which emerges from a study such as this. It should be useful to examine the role of foreign business firms in promoting the economic growth of underdeveloped countries. There is little doubt that foreign firms have promoted economic development in many underdeveloped regions of the world. A critical estimate of this contribution can be the subject-matter of further research.

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APPENDICES

APPENDIX A

LETTER AND QUESTIONNAIRE USED FOR INTERVIEWING THE PARENT COMPANIES IN THE UNITED STATES

MICHIGAN STATE UNIVERSITY EAST LANSING • MICHIGAN 48825

GRADUATE SCHOOL OF BUSINESS ADMINISTRATION

DEPARTMENT OF MARKETING AND TRANSPORTATION ADMINISTRATION • EPPLEY CENTER

October 24, 1969

Dear Mr.

I am a doctoral student in marketing at Michigan State University working on my dissertation. Dr. Reed Moyer, Professor of Marketing, is the chairman of my dissertation committee.

I am studying the marketing adaptations of U.S. business firms and their affiliates operating in India. The study will examine four major aspects of the marketing adaptation of these firms--product adaptation, promotion adaptation, distribution adaptation, and pricing adaptation. An interesting side objective is to identify the political, economic and legal factors that prevent American companies from adapting their market strategies to serve overseas customers.

In order to undertake this research, I need to interview executives from selected companies which have been operating in India for some time. The interview should provide insights into various managerial and marketing problems encountered by an American company in a foreign environment.

I would like to have an interview with you to discuss your Indian operations. I shall be in New York from November 10 to 21. Will you be able to see me sometime during this period? If you have any particular date in mind, please write me at the above address or call me at (517) 355-7998. If not, I can arrange to set up the specific date and time of meeting on reaching New York.

I will look forward to hearing from you.

Sincerely yours,

Madhav P. Kacker

P.S. If you have some printed materials dealing with your international operations, it might help me to review them before meeting with you. Could you please send all such materials to me?

AN EXPLORATORY STUDY OF THE MARKETING ADAPTATION OF UNITED STATES BUSINESS FIRMS OPERATING IN INDIA

Questionnaire/Interview Guide

Name of cooperating firm_____

Objectives of This Study:

1. To explore the nature and patterns of adaptations made by American business firms in their marketing efforts designed to serve the Indian market.

2. To identify such social, cultural, economic, legal and political factors in the Indian environment that affect the marketing operations of American firms in India.

PLEASE NOTE:

This questionnaire is a part of an academic research project being done at Michigan State University, Department of Marketing and Transportation Administration. Therefore, all data collected will be held strictly confidential and will be published in a general form without disclosing the name of any cooperating company.

Please return the completed questionnaire to:

Madhav P. Kacker
Department of Marketing
Michigan State University
Graduate School of Business
Eppley Center
East Lansing, Michigan 48823

Strictly Confidential

QUESTIONNAIRE

A. INTRODUCTORY

1. How is your company organized for international operations?

_____ Through a separate export division or corporation.
_____ Through a separate international division.
_____ Through an international company established as a wholly owned subsidiary.
_____ Other form (specify)_____

2. Have you divided your global market into smaller areas/regions? Yes___ No___. If yes, please list the names of these areas/regions:

1. 5.
2. 6.
3. 7.
4. 8.

3. Where is the area/regional headquarters for your Indian operations located? Name of city_____ country_____.

4. Before establishing a branch or subsidiary in India, did you export to India? Yes___ No___.

5. If yes, about when did you start exporting? Year_____.

6. Do you have your own manufacturing plant(s) in India? Yes___ No___.

If your answer to Question 6 is No, please go to Question 10.

7. When did the manufacturing operations begin in India? Year_____.

8. Where is/are your manufacturing plant(s) located in India?
(1) Name of town_____ State_____
(2) Name of town_____ State_____

9. What is the nature of parent-affiliate relationship:

_____ Wholly owned subsidiary incorporated in India.
_____ A majority share joint venture with an Indian firm.
_____ A 50-50 joint venture with an Indian firm.
_____ A minority share joint venture with an Indian firm.
_____ Other (specify)_____

10. Where is your sales branch/principal sales office located in India?
Name of town_____ State_____

11. About when was it established? Year_____

12. What main product lines are being presently manufactured in your plant(s) or sold through your sales branch in India?

Consumer products		Industrial products	
	A		X
	B		Y
	C		Z

13. Rank below your major customers in India, assigning them numbers 1, 2, 3, and so on, in order of their share in your annual dollar sales in India. Let 1 represent customer group accounting for highest share, 2 represent customer group accounting for next highest share, and so on.

Product line*			Consumer Products
A	B	C	
			a. Farmers, farm labor class, etc.
			b. Urban-low and middle income groups
			c. Urban-high income group
			d. Mass market-rural and urban
			e. Other_____

Product line*			Industrial Products
A	B	C	
			a. Government departments
			b. Industrial users
			c. Original equipment mfrs. O.E.M.
			d. Farms, other villages industries, etc.
			e. Other business firms
			f. Nontrading institutions
			g. Others_____

*As indicated in your answer to Question 12.

14. Approximately, what were your total dollar sales in India for the following years? (million dollars)
1960_____ 1964_____ 1968_____

15. Give an estimate of total employment in your Indian operations during 1968. Total_____
Administrative_____Blue collar_____

B. PRODUCT STRATEGY

1. Where do you do your product planning and designing for the Indian market? In U.S._____
In India_____ Both_____

2. Do you have R & D facilities in India? Yes___ No___

3. If not, does this place you at a disadvantage in competition with local Indian firms? Yes___ No___
If no, why not? _____

4. Have you made any changes in your product-mix in India since the beginning of your manufacturing/selling operations? Yes___ No___

5. If yes, indicate below the important changes effected thus far.

   a. Product lines added--give names and reason for adding_____
   _____

   b. Product lines deleted--give names and reason for deleting_____
   _____

   c. Increased or decreased the number of models (varieties of individual product items)--name of product and reason for doing so:_____
   _____

   d. Increased or decreased the number of items in a given product line--names of product line and reason for doing so_____
   _____

   e. Altered physical shape, design, components, ingredients or packaging of individual product items--names of product and reason for doing so
   _____
   _____

6. Are there certain product lines or product items which you manufacture and/or sell in the U.S. market but not in India? Yes___ No___. If yes, name them and indicate why is this so._____

_____

7. Are there certain product lines or product items which you manufacture and/or sell in India but not in the States? Yes___ No___. If yes, name them and indicate why is this so._____

_____

NOTE: To answer next three questions (8-10), please consider the product lines you are selling in both of the countries.

8. Does each of these product lines consist of larger number of product items in U.S. than in India? Yes___ Same/smaller_____. Why_____

_____

9. Do individual product items in a given product line have a larger assortment of models/varieties in U.S. than in India? Yes___ Same/Smaller_____ Why_____

10. How do important technical and nontechnical specifications of products (size, weight, power, degree of automation, components or ingredients used, color, flavor, etc.) vary in the two countries with respect to three or four of your best selling products?

	Name of product, its brand or trade mark	Specifications for sale in the U.S. market	Specifications for sale in the Indian market
1)	_____	_____	_____
2)	_____	_____	_____
3)	_____	_____	_____
4)	_____	_____	_____

Why do these specifications vary between the two countries?

_____

_____

11. In what respects is your packaging different in India from that in the U.S.?
_____ Packaging material used
_____ Shape and size of package
_____ Others

Why these differences:

12. Do the warranties or guarantees accompanying your products include the same terms and conditions in India as in the States? Yes___ No___. If not, why not?

13. What principal appeals do your major products have in the Indian market?

_____ High quality appeal
_____ High value appeal
_____ Low price appeal
_____ Brand appeal
_____ After-sale service appeal
_____ Other (specify)_____

C. PROMOTION STRATEGY

1. Roughly, what percentage of your sales is spent annually on advertising in India and the U.S.? ____% India ____% U.S. Has this percentage expenditure gone up or down since the beginning of your manufacturing/selling operations in India? Up___ Down___ About the same___ Why?

2. Roughly, what percentage of your sales is spent annually on sales promotion (other than advertising) in India and the U.S.? ____% India ____% U.S. Has this percentage expenditure gone up or down since the beginning of your manufacturing/selling operations in India? Up___ Down___ About the same___ Why?

3. Roughly, what percentage of your sales is spent annually on personal selling in India and the U.S.? ____% India ____% U.S. Has this percentage expenditure gone up or down since the beginning of your manufacturing/selling operations in India? Up___ Down___ About the same___ Why?

4. What percentage of your advertising budget is spent approximately on the following media each year in India and the U.S.?

Media	India %	U.S. %
Newspapers & magazines	_____	_____
Outdoor--bill boards, etc.	_____	_____
Trade journals, house organs, etc.	_____	_____
Direct mail, catalogs, etc.	_____	_____
Television	_____	_____
Radio	_____	_____
Other media	_____	_____

5. How will you explain the difference in the relative importance of different media in two countries if at all reflected in the above figures?

6. Has there been any change in the advertising media used by you in India since the beginning of your manufacturing/selling operations? Yes___ No___
If yes, please indicate the factors that caused the change.

7. What message or theme do you try to get across in your advertising in India and the U.S.?

India_____
_____

U.S. _____
_____

Has there been any change in your advertising message since you have been in India? Yes___ No___

8. Please indicate below the nature of important alteration made in your U.S. advertisements for using them in India.

_____ Translated and used as in the U.S.
_____ Copy and head rewritten, illustration and theme same.
_____ Copy and illustration changed, head and theme same.
_____ All changed except theme
_____ All changed
_____ Other alteration, if any_____

9. Do you give the same trade marks or brands to products sold in India as in the States? Yes___ No___
If not, why not?_____

10. Do you also sell under dealer or distributor brand?
In India: Yes___ No___ In U.S.: Yes___ No___
If your answers differ for the two countries, why so?

11. In what respects is the labelling on your products different in India from that in the States? Why is it different?

12. Do you use bi-lingual or multi-lingual advertising, branding and labelling in India? Yes___ No___
If yes, please give examples.

D. DISTRIBUTION STRATEGY

1. Which one(s) of the following channels of distribution come close to the channel(s) through which your products move to the final consumer/user in India and U.S.?

U.S.	India	
_____	_____	1. Mfr.-Company sales force-Consumer/ Industrial user.
_____	_____	2. Mfr.-Retailer-Consumer.
_____	_____	3. Mfr.-Agents/Brokers-Retailer-Consumer.
_____	_____	4. Mfr.-Merchant Wholesaler-Retailer-Consumer.
_____	_____	5. Mfr.-Agents/Brokers-Merchant Wholesaler-Retailer-Consumer
_____	_____	6. Mfr.-Industrial Distributor-Industrial User.
_____	_____	7. Mfr.-Agents/Brokers-Industrial Distributor-Industrial User.
_____	_____	8. Mfr.-Agents/Brokers-Industrial User.
_____	_____	9. Other (specify)_____

2. If you have checked, above, different channels for U.S. and India, how would you account for this difference?

3. Has there been any change in the types of middlemen used by you in India since you started your manufacturing/selling operations there? Yes___ No___. If yes, why?

4. Do you experience lack of distributors'/dealers' support for pushing newly introduced products through the Indian market? Yes___ No___.

   a. If yes, has this experience led you to put a heavier emphasis on direct consumer/trade advertising and/or other means of sales promotion? Yes___ No___

   b. If no, did you ever experience such lack of distributors'/dealers' support in the past and if so, how did you tackle it?

5. How does your field sales force in India compare with that in the United States?

   _____ More effective than in the U.S.
   _____ As effective as in the U.S.
   _____ Less effective than in the U.S.

   If less effective, how do you meet this situation?

6. Has there been any change in the size and distribution of your sales districts/territories in India since the beginning of your mfg/selling operations there? Yes___ No___

7. If yes, which among the following factors might have caused this change? (Check as many as you wish)

   _____ Rise in population and as a result, expansion in market size.
   _____ Growing industrialization in the country.
   _____ Change in the political boundary of Indian states.
   _____ Impact of changes in Indian laws. (For example, the sales tax laws in various Indian states)
   _____ Others (specify)_____

8. What are the principal modes of transportation used by you for moving the products towards the consumer/user?

Percentage of Total Volume of Goods Shipped		Mode of Transportation
India	U.S.	
_____	_____	Railroads
_____	_____	Motor vehicles, trucks, and other kinds of road transport
_____	_____	Cargo boats
_____	_____	Air cargo
_____	_____	Parcel post

9. If you use a particular mode of transportation in India which is not used significantly in the States or vice versa, please indicate your reasons. (Check as many as you wish)

_____ In India, good roads are not available in all parts of the country.
_____ In India, railroads are not as flexible as in the States. It is difficult to get a railroad siding (connection) near our plant or warehouse.
_____ Air transport is very expensive in India relative to the price our customers can afford to pay.
_____ Other reason (specify)_____

10. Do you make use of commercial and state-owned warehouses in India in addition to those provided by your wholesale distributors? Yes___ No___. If yes, are you satisfied with the storage facility provided by them? Yes___ No___.

11. Have you established any distribution center in India like those many manufacturers have established in the U.S.? Yes___ No___. If not, why?

12. Do some or all of your products require after-sale services to the final consumer/industrial user in India? Yes___ No___

a. If yes, are these services similar to those given to the U.S. customers? Yes___ No___

b. If not similar, please indicate what additional or different services are being offered by you to your Indian customers?

c. Why do these additional or different services become necessary there?

13. How do you help your Indian distributor/dealer fulfill this requirement?

_____ Financial assistance
_____ Free supply of equipment
_____ Supply of space, building, etc.
_____ Others (specify)_____

E. PRICING STRATEGY

1. Which one of the following will be considered by you as the major objective of your pricing policy in India?

_____ Meeting the competition
_____ Realizing a target return on investment
_____ Expanding the market share
_____ Achieving price stability
_____ Maximizing profits
_____ Other objective (specify)_____

2. Is this objective different from one you have laid down for your U.S. pricing policy? Yes___ No___
If yes, in what respects and why?

3. Which among the following factors influence the determination of the price you charge your customers in India and the U.S.? (Check as many as you wish)

India	U.S.	
_____	_____	Cost structure
_____	_____	Competitive action
_____	_____	Income level and distribution
_____	_____	Economic outlook
_____	_____	Government pressure
_____	_____	Price-level of the products of your customers' industries
_____	_____	Other (specify)_____

4. Do you also rent or lease your products to customers in India? Yes___ No___. In U.S.? Yes___ No___.
If you do so in one country and not in the other, why?

5. For products requiring heavy initial investment in fixed cost and R & D, do you adopt a policy of setting a high introductory price in order to recoup your investments as soon as possible? In India: Yes___ No___. In U.S.: Yes___ No___. If your answers differ with respect to the two countries, would you explain why?

6. What is the customary form of price quotation you give your customers in India and U.S. (e.g., F.O.B., F.O.R., F.O.R. Destination, C. & F., C.I.F., etc.)
In India_____In U.S._____
If the form of quotation differs in two countries, why?

Was this policy ever different in the past in India? How?

7. What is your discount policy with respect to main product lines?

Rate of quantity discount allowed to customers in India: ____%; U.S.: ____%.
Rate of cash discount allowed to customers in India: ____%; U.S.: ____%.
Rate of trade discount allowed to customers in India: ____%; U.S.: ____%.

If there are different rates of discount for the same product line in two countries, why?

Did you adopt a different discount policy in India in the past? If so, how was it different?

8. Do you sell on credit? In India: Yes___ No___; in U.S.: Yes___ No. If yes, how long is the period within which payments can be made by customers without any interest charge? In India _____ days; in U.S. _____ days. Do you offer installment payment plans to your customers? India: Yes___ No___; U.S.: Yes___ No___. In case your credit policy differs in two countries, please explain why?

Has this policy ever changed in India since the beginning of your manufacturing/selling operations there? If so, what was your policy earlier?

9. Is it possible, under your present pricing policy, to charge different prices for similar quantities of a given product to similar customers in India? Yes___ No___. If it is not possible now, was it ever possible before? If so, how did it work?

10. Do you set wholesale and retail prices for your products in India and U.S.? In India: Yes___ No___. In U.S.: Yes___ No___. If you do it in one country and not in the other, please explain why?

If you do not do it now in India, did you ever do it in the past? Yes___ No___. If yes, how?

F. GOVERNMENT EFFECT ON MARKETING

1. Do you experience in India any government restriction or regulation in the following areas? (Check as many as you wish)

A. Product planning
_____ Adding new products
_____ Making modifications in existing products
_____ Deleting existing products

If checked above, please indicate the form of government action.

B. Promotion
_____ Limits on the amount of advertising expenditure: Amount_____
_____ Limits on the amount of sales promotion expenditure: Amount_____
_____ Restriction on certain sales promotion activities: sample distribution, contests, etc.
_____ Restriction on advertising media used, for example radio or T.V.

If checked above, please indicate the form of government action.

C. Pricing
_____ Setting price for new products
_____ Setting wholesale and retail prices or gross margins for distributors
_____ Revising prices for existing products

If checked above, please indicate the form of government action.

D. Distribution

_____ Movement of products by rail, trucks or air.

If checked, please indicate the form of government action.

2. Does the present government policy in relation to product standardization and simplification have any effect on your product strategy?
Yes___ No___ If yes, how?

3. Do the Indian Trade Marks Act and the Indian Patent Act contain certain provisions which have affected your operations in India? Yes___ No___. If yes, please give examples to show how?

4. Does the scarcity of certain basic materials, tools and equipment prevent you from adjusting your product offering to the needs of Indian market? If yes, give examples.

G. GENERAL

1. Do you undertake marketing research in India?
Yes___ No___. If yes, how do you do it? (Check as many as you wish)

_____ The Indian affiliate has been provided necessary staff for this purpose.
_____ The parent company staff is used in India.
_____ The Indian affiliate hires private research agencies or marketing consultants in India for this purpose.
_____ Other method (specify)_____

2. What geographical regions other than India are served by your Indian plant/sales branch? Name of countries_____
If so, what is the approximate dollar value of exports from India? $_____.

3. How do your Indian sales (dollars) compare with sales in Europe and Latin America? Please take your sales for the year 1968 to make this comparison.

Europe _____times sales in India.
Latin America _____times sales in India.

4. Can we request your Indian branch/subsidiary for any additional information if necessary? Yes___ No___. Name of the Managing Director of your Indian affiliate_____.

5. Are you interested in receiving a copy of the main findings of this study? Yes___ No___.

THANK YOU FOR YOUR TIME AND CONSIDERATION IN COMPLETING THIS QUESTIONNAIRE

APPENDIX B

LETTER AND QUESTIONNAIRE USED FOR INTERVIEWING THE U.S. BRANCHES AND SUBSIDIARIES IN INDIA

MICHIGAN STATE UNIVERSITY EAST LANSING • MICHIGAN 48825

GRADUATE SCHOOL OF BUSINESS ADMINISTRATION

DEPARTMENT OF MARKETING AND TRANSPORTATION ADMINISTRATION • EPPLEY CENTER

November 6, 1969

Dear Sir:

I am making a research study of the marketing adaptation of U.S. business firms operating in India, as part of my doctoral work in the department of Marketing at Michigan State University, with financial support from the Institute of International Business and Economic Development Studies.

The primary objective of this study is to explore the nature and patterns of marketing adaptation made by American business firms and their affiliates to the Indian environment. The study will examine four major aspects of marketing adaptation--product adaptation, promotion adaptation, distribution adaptation, and pricing adaptation. It is also proposed to identify various social, cultural, economic, political and legal factors that affect the marketing operations of these firms in India.

In order to undertake this study, I need to interview executives from selected parent companies in the U.S. and their respective subsidiary/affiliate companies in India. Presently, I am in the process of visiting with the international divisions of selected American companies including, of course, your parent company in this country.

I am planning a short visit to India in January 1970 to observe personally the marketing operations of Indian subsidiary/affiliate companies and the environmental conditions within which they have to operate in India. May I have an interview with you and your chief marketing executive in the course of this visit? I can plan to contact you on arrival in Bombay during the earlier half of January.

Sincerely yours,

Madhav P. Kacker

MPK/cs

AN EXPLORATORY STUDY OF THE MARKETING ADAPTATION OF U.S. FIRMS OPERATING IN INDIA

Questionnaire/Interview Guide

Name of Cooperating firm_____

Objectives of This Study:

1. To explore the nature and patterns of adaptations made by American business firms in their marketing efforts designed to serve the Indian market.

2. To identify such social, cultural, economic, legal and political factors in the Indian environment that affect the marketing operations of American firms in India.

PLEASE NOTE:

This questionnaire is a part of an academic research project being done at Michigan State University, Department of Marketing and Transportation Administration. Therefore, all data collected will be held strictly confidential and will be published in a general form without disclosing the name of any cooperating company.

Please return the completed questionnaire to:

Madhav P. Kacker
Department of Marketing
Michigan State University
Graduate School of Business
Eppley Center
East Lansing, Michigan 48823

1. When did you start the manufacturing operations in India? Year_____

2. Your main product lines with leading product items in each, in the initial stage of manufacturing/selling operations in India?

Product lines		Product items	
A.	_____	a.	_____
			_____
B.	_____	b.	_____
			_____

3. Why did you start with these product lines and not others that your parent company might be manufacturing at that time?

4. Name of product items that were subsequently added under each of the above product lines.

   Reasons for adding.

5. Did you add an entirely new product line in the course of your manufacturing/selling operations? Yes___ No___
   If yes, name of product line_____
   Reasons for adding.

6. Did you drop or discontinue any product line or product items since you started your manufacturing/selling operations in India? Yes___ No___. If yes, name of products:

   Reasons for doing so.

7. Does your product line in India consist of any item(s) that in your knowledge is/are not manufactured by your parent company in the U.S.? Yes___ No___. If yes, give examples and mention the reasons for this.

8. Do your products differ from similar products manufactured in the U.S. in one or more of the following areas? Please check.

Areas of Difference	Name of Product	Nature of Difference
_____ Technical specification		
_____ Ingredients used		
_____ Quality of basic materials used		
_____ Product packaging--size		
_____ Shipment packaging		
_____ Trade marks		
_____ Product labelling		
_____ Warranty or guarantee given to customers		
_____ Others		

9. If you have checked above any area of difference, please explain why these differences become necessary?

10. Do you have R & D facilities in India? Yes___ No___

11. If yes, please indicate below the nature of R & D being done in India:

_____ Basic or fundamental research
_____ Mainly development
_____ Mainly quality control

12. Who initiates the new product suggestions for the Indian market? ___ you or the parent company R & D? We in India___; Parent Company___; Both___. If you initiate, how many new product suggestions, on an average, do you send to parent R & D in a year? _____

13. If you do not have any substantial R & D in India, how does this affect the planning and designing of your products for the Indian market?

a. It makes no difference as we make use of R & D with our parent company and other subsidiaries.

b. It makes the process somewhat slow but not to the point of a competitive disadvantage because the Indian manufacturers too do not have any substantial R & D.

c. It makes the process slow and also amounts to slight/considerable competitive disadvantage.

14. Identify from below the major categories of your ultimate customers in India, both at present and at the time you began the manufacturing operations in India. Rank these categories, assigning them numbers 1, 2, 3 and so on, in decreasing order of their share in your annual dollar sales.

Consumer Products	Ranks (Initial Stage)	Ranks (Now)
a. Mass market--rural & urban		
b. Rural market--farms & others		
c. Urban market--low income		
d. " " --middle income		
e. " " --high income		
f. Other_____		

Industrial Products

a. Farmers, cooperative farms, etc.
b. Original Equipment Mfrs. (OEM)
c. Industrial processors
d. Other business firms--
   Chemists & druggists
   Transport companies
   Private building owners
   Others_____
e. Nontrading Institutions--
   Colleges & Universities
   Hospitals
   Others_____
f. Government organizations including public sector undertakings

15. How do you communicate with this market? Please rank the following media of communication in order of your total annual expenditure on each during last year:

Media	Rank
a. Sales representative or detail man.	
b. Newspapers.	
c. Magazines.	
d. House organs, trade letters & circulars.	
e. Direct mail.	
f. Bill boards, hoardings, neon lights, etc.	
g. Radio.	
h. Movies and cinema slides.	
i. Others_____	

16. What message or theme do you try to get across in this market?

17. Has this message or theme changed in the course of your business operations? Yes___ No___. If yes, how?

18. Do you adapt the advertising material received from the parent company (copy, radio commercials, etc.) to suit the local needs? Yes___ No___. If yes, please check below the nature of adaptation made by you:

_____ Translated and used as in the U.S.
_____ Theme changed, head, copy and illustration being the same.
_____ Theme and illustration changed, head and copy being the same.
_____ Other alteration, if any_____

Why do you make these changes?

19. Has there been any change in your promotion policies since the beginning of your operations in India such as:

_____ Spending greater/smaller percentage of total sales budget on advertising and personal selling, than in the beginning.
_____ Spending greater/smaller percentage of total advertising budget on newspapers, than in the beginning.
_____ Spending greater/smaller percentage of total advertising budget on magazines, than in the beginning.
_____ Spending greater/smaller percentage of total advertising budget on direct mail than in the beginning.
_____ Spending greater/smaller percentage of total advertising budget on personal selling than in the beginning.
_____ Doing more bi-lingual and multi-lingual advertising than in the beginning.
_____ Doing more of colored advertising than in the beginning.
_____ Spending greater/smaller percentage of total advertising budget on cooperative advertising with wholesalers and retailers than in the beginning.
_____ Hiring of an advertising agency.

20. How do your products move within the Indian market? Please indicate the various channels of distribution used by your products to reach the ultimate consumer/ user.

21. Do your competitors sell through similar channels? Yes___ No___? If not, what are the channels used by them? Why should you use different channels?

22. Are you satisfied with the performance of your present system of distribution? Yes___ No___. If not, why not?

23. Has in your opinion the system of distribution improved in the course of past few years? Yes___ No___. Is it now more/less integrated than before? Why?

24. Has there been any change in the size and distribution of your sales districts/territories in India since the beginning? Yes___ No___.

25. If yes, which among the following factors might have caused this change?

    a. Rise in population and consequent expansion in market size.
    b. Growing industrialization within the country.
    c. Increasing number of motor vehicle registrations in country.
    d. Change in the political boundary of Indian states.
    e. Impact of changes in some Indian legislation.
    f. Others, please specify_____.

26. Do your products require after-sale services to the final consumer or user? Yes___ No___. If yes, please elaborate on the types of services that are being offered.

27. How do you assist your distributor/dealer in providing this service efficiently to your customers?

    a. Financial assistance.
    b. Free supply of some equipments necessary for service.
    c. Leasing or renting of space, building, etc.
    d. Others (specify)_____

28. What is the customary form of price quotation you give your customers in India? (e.g., F.O.R., F.O.R. Destination, C.& F., C.I.F., etc.)_____
Was this policy ever changed in the past? Why?

29. What discount policy is followed by you with respect to your main product lines:

Name of Product-Line	Cash Dis. (%)	Trade Dis. (%)	Quantity Dis. (%)
_____	____	_____	_____
_____	____	_____	_____
_____	____	_____	_____

Were these discount rates ever different in the past? If so, why?

30. Do you allow credit to your customers? Yes___ No___

If yes, how long is the period of credit usually allowed? _____days

31. Do you offer installment payment plans to your customers or help your dealers offer such plans? Yes___ No___
If yes, please indicate:

a. Minimum down payment you insist on.
b. Maximum period over which payments can be spread over.
c. Effective rate of interest.

32. Do you also lease or rent your products? Yes___ No___
If yes, what are the main terms and conditions governing the lease agreement?

33. Do you experience lack of availability of credit information in India? Yes___ No___. If yes, how does this affect the terms of sale on which you sell in the Indian market?

a. Length of credit period is made shorter.
b. More attractive cash terms are offered.
c. Customers insisting on a longer period of credit are charged a higher product price.
d. Others (specify)_____

34. Do you recommend to your distributors/dealers fair wholesale and retail prices for your products? Yes___ No___. If yes, please name the products for which this policy is followed.

35. Do you, under your present pricing policy, sell similar quantities of a given product at different prices to government, institutions, and other customers?

GENERAL

36. Do the existing government laws and regulations enforced in India affect your product planning and designing? Yes___ No___. If yes, how?

37. Is your pricing policy influenced by the Government of India? Yes___ No___. If yes, which government ministry or department exercises control on or regulates your pricing policy?_____
How effective is this control or regulation?

38. Which other government organization(s) exercise any direct or indirect influence on your marketing activities? How?

a. Government central buying departments.
b. Ministry of Defense,
c. Ministry of Health, Office of Drug Controller,
d. Ministry of Industry,
e. Ministry of Petroleum and Chemicals.
f. Indian Standards Institution.
g. Other ministries_____

39. Does you Indian plant export to other countries? Yes___ No___. If yes, name the products exported during 1968 and 1969._____
Name of countries which imported your products.

40. Do you undertake marketing research in India? Yes___ No___. If yes, how is this done:

a. We use our sales personnel for this purpose.
b. We have our own marketing research staff.
c. The parent company provides us with trained marketing research personnel when needed.
d. We make use of private research agencies when needed.
e. Others.

If the conduct of marketing research is not considered necessary, why?

41. Is there in your view any major competitive advantage that is enjoyed by local manufacturing firms but not by you? Yes___ No___. If yes, describe it briefly. How do you meet this situation?

42. Discuss in detail the nature of involvement of your parent company in various marketing decisions pertaining to Indian operations. Let this discussion cover each of the four important marketing areas: product planning, promotion, distribution and pricing.

43. Are you satisfied with your present performance in India? What do you think you ought to be doing here, given greater freedom of action from (a) parent company in U.S. and (b) governmental agencies in India?

APPENDIX C

COMPUTATION OF MARKETING ADAPTATION INDEX (MAI) FOR INDIVIDUAL FIRMS WITHIN THE SAMPLE

APPENDIX C

COMPUTATION OF MARKETING ADAPTATION INDEX (MAI) FOR INDIVIDUAL FIRMS WITHIN THE SAMPLE

The Marketing Adaptation Index (MAI) for each individual firm will indicate the level of its voluntary adaptation to the Indian environment. The computation of this Index should help in the testing of some of the hypotheses spelled out in Chapter I. It is based on a scoring technique which is explained in this appendix. It may be emphasized that the proposed technique is intended to give a rough measure to verify the qualitative judgments made in the course of this study. Though not very precise and accurate, it is believed to be adequate for making inter-firm and inter-industry comparisons ordinally. It should also be helpful in indicating the relative importance of various marketing areas to American firms from the standpoint of adaptation to a foreign environment.

Marketing adaptation was considered in Chapter I as a function of a firm's adaptation in four major areas--product, promotion, distribution and pricing. The computation of MAI should therefore take into account these four factors. However, the area of pricing has been ignored on two grounds. First, adaptation in the areas of product, promotion and distribution are ultimately reflected in the

price set by a firm for its various products. Considering the price separately would therefore amount to scoring the same factors twice. Second, the pricing area is generally beset with government regulations and control in most underdeveloped countries, leaving little opportunity for individual firms to take major decisions. For these reasons, the computation of MAI will not take into account a firm's adaptation in the area of pricing, which is predominantly mandatory in nature. The major components of MAI will be the degree of adaptation in the areas of product, promotion and distribution.

In addition, two other factors are also taken into account in this computation--status of R & D and marketing research efforts of individual firms. These efforts provide an essential input to a firm's move in the direction of adaptation. Apparently, the MAI should be indicative of only output rather than both output and input. However, the inclusion of these two inputs takes care of the time lag between input and output and eliminates partly the limitation of a one-shot study such as this. It also recognizes the adaptation efforts of firms which might still be in the experimental stage--such as product and market testing, various types of advertising research, studies on the selection of stockist and location of warehouses and service organizations, etc. The main justification for including these two factors in the MAI computation therefore lies in the

fact that this step gives recognition to the research orientation of firms operating in an underdeveloped economy.

Thus, the following factors are taken into account in the computation of MAI for an individual firm:

1. Product adaptation.
2. Promotional adaptation.
3. Adaptation in market distribution.
4. Status of R & D effort.
5. Status of marketing research effort.

Each firm within the sample is rated separately for each of the above factors on a scale from one to five. Three important exceptions are, however, made to this rule. Since industrial products are usually sold direct to users in both the countries, little adaptation is required in the area of market distribution by firms manufacturing/selling industrial products. These firms are, therefore, not rated for the factor of market distribution. Second, U.S. branches which are essentially sales offices of American firms located in India are not rated for R & D effort in view of the nature of their organization. Third, the industrial goods manufacturers are rated for promotional adaptation on a scale from one to three instead of one to five. The reason for this change will be made clear when the scoring procedure for promotional adaptation is described.

Scoring Procedure

The scoring procedure for placing a firm on the scale from one to five is now elaborated upon with respect to each of the five factors: (1) product adaptation, (2) promotional adaptation, (3) adaptation in market distribution, (4) status of R & D effort, and (5) status of marketing research effort.

Product Adaptation

In Chapter III, an attempt was made to dichotomize voluntary product adaptation into minor and major types. Based essentially on this dichotomy, the degree of product adaptation of a firm is estimated according to the following scale:

Stages of Product Adaptation	Score
1. Minor product adaptation (includes minimal changes in color, components or ingredients, packaging, etc.)	1
2. Minor product adaptation with <u>either</u> of the following types of major adaptation: (a) technological adjustment in product design, or (2) adjustments in product-mix	2
3. Minor product adaptation with <u>both</u> of these types of major adaptation	3

In addition to the score received by a firm according to the above scale, it is also given a score of "1" each, for the following activities:

4. Designing products specially for export markets.

5. Introducing new products absorbing surplus human or material resources of the host country.

Promotional Adaptation

The degree of promotional adaptation of a firm is estimated according to the following scale:

Stages of Promotional Adaptation	Score
1. Promotion material, plans and programs prepared at the international division or regional headquarters and strictly regulated. Only minimal changes in copy design or media mix allowed.	1
2. Promotion material, plans and programs prepared at both places, i.e., international division and host country. Indian subsidiary or branch is given sufficient freedom to adapt copy design or media mix to the local needs.	2
3. Promotion material, plans and programs prepared in host country only, with Indian subsidiary or branch having sufficient freedom to design copy and media mix according to local needs.	3

The industrial goods manufacturers are rated on a scale of one to three as above. The consumer and semi-industrial goods manufacturers are given a score of "1" each for the following efforts in addition to the score received by them on the above scale:

4. Printing of advertising copy and sales literature in regional languages.

5. Reaching rural population through publicity vans.

Adaptation in Market Distribution

The degree of adaptation in the area of market distribution is estimated for each firm according to the following scale:

	Stages of Adaptation	Score
1.	No direct contact with market. Past importer-distributor(s) still being used for selling locally manufactured products.	1
2.	A combination pattern--use of importer-distributors in some parts of country and selling through company owned sales department in other parts.	2
3.	Selling through company-owned sales department only.	3

In addition to the above, a firm is given a score of "1" each for efforts in the following direction:

4. Creating a network of company recognized wholesalers (stockists) and retailers, organizing dealer development programs and similar other activities.

5. Building a network of customer service organizations

Status of R & D Effort

The status of R & D effort of an American firm in India is rated according to the following scale:

Stages of R & D Effort	Score
1. Mainly quality control.	1
2. Quality control and limited new product development.	2
3. Quality control, new product development and some amount of basic/applied research.	3

In addition to the above, a firm is given a score of "1" each for its efforts in the following direction:

4. Development of locally available ingredients/parts to save foreign exchange.

5. New product development specially designed for export markets.

Status of Marketing Research Effort

The status of marketing research effort of each individual firm will be rated according to the following scale:

Stages of Marketing Research Effort	Score
1. No special effort--market information gained through distributors or stockists.	1
2. Use of a specialized marketing research staff on regular basis or relying on company's field sales organization,	2

In addition to the above, a firm is given a score from one to three for its efforts in the following direction. Item number 4 will be rated "1" or "2" depending on the extent of diversification.

	Score
3. Use of private research agencies for the collection of required market data or for holding special surveys.	1
4. Conduct of marketing research in diversified areas: advertising, location of warehouse or retail stores, selection of stockists, consumer surveys, etc.	1 or 2

MAI for Individual Firm

The scores received by all firms for each of the above five factors are shown in the following table. The last column in the table gives the average score (total score/assigned score) for each firm. This is called the Marketing Adaptation Index or MAI. The MAI for an individual firm indicates the level of its marketing adaptation to the Indian environment.

Table 22. Company Marketing Adaptation Index scores

Code No.	Product Adaptation	Promotion Adaptation[d]	Distribution Adaptation	R & D	MR	Total Score	MAI (Total Score/25)
Consumer Goods[a]							
CP-1	3	3	3	2	2	13	0.52
CP-2	3	4	4	1	2	14	0.56
CP-3	4	4	4	2	2	16	0.64
CP-4	4	4	5	2	3	18	0.72
CP-5	4	4	4	3	4	19	0.76
CP-6	4	5	5	3	3	20	0.80
CP-7	3	3	3	1	2	12	0.48
	25	27	28	14	18	112	4.48
Semi-Industrial Goods[b]							
SI-1	2	2	4	3	2	13	0.52
SI-2	2	2	3	4	3	14	0.56
SI-3	1	3	3	1	4	12	0.48
SI-4	2	2	1	2	3	10	0.40
SI-5	2	3	3	3	3	14	0.56
SI-6	4	4	4	3	4	19	0.76
SI-7	3	5	1	2	2	13	0.52
SI-8	4	3	4	2	3	16	0.64
SI-9	5	4	5	2	2	18	0.72
SI-10	5	4	5	2	2	18	0.72
	30	32	33	24	28	147	5.88
Industrial Goods[c]							MAI (Total Score/18)
IP-1	4	3	..	2	3	12	0.66
IP-2	4	3	..	2	3	12	0.66
IP-3	2	2	..	N.A.	1	5	0.38[e]
IP-4	5	3	..	3	3	14	0.78
IP-5	4	3	..	2	2	11	0.61
IP-6	3	2	..	2	2	9	0.50
IP-7	3	2	..	N.A.	1	6	0.46[e]
IP-8	5	3	..	1	2	11	0.61
IP-9	4	2	..	2	2	10	0.56
	34	23	..	14	19	90	5.22

[a]Average MAI for consumer goods firms: 4.48/7 = 0.64.

[b]Average MAI for semi-industrial goods firms: 5.88/10 = 0.59.

[c]Average MAI for industrial goods firms: 5.22/9 = 0.58.

[d]Scored out of 3 points for each of the industrial goods firms.

[e]Since R & D score is not applicable (N.A.), the MAI has been calculated by dividing the total score by 13 instead of 18.

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