



IMPACT OF CULTURE ON NEW PRODUCT DEVELOPMENT PROCESS: EXAMPLES FROM INDIAN AND CHINESE MARKET

Mr. Anuj Kumar¹ Dr. Anoop Pandey²

¹Assistant Professor, Bharati Vidyapeeth Institute of Management and Research, New Delhi

²Assistant Professor, Bharati Vidyapeeth Institute of Management and Research, New Delhi

ABSTRACT

The main aim of writing this paper is to check whether the local culture of the country made significant impact on the new product development of the company. In the 21st century many Western organizations have chosen Asian market for manufacturing and selling their products because their own market is saturating. Western organizations are customizing their products as per needs of customers in the Asian countries. The authors will check the impact of local culture on various stages of new product development process. The authors have also included the examples from Indian and Chinese market to understand the influence of culture.

Keywords: Globalization, New product development, Culture, McDonalds', Starbucks

Introduction

In this paper the authors will discuss the impact of national culture on new product development process. As per Hofstede cultural dimension model there is huge difference in Western and Asian culture. Those five cultural dimensions also impact the overall process of product development including initial stage of idea generation. In this essay the author will use different theoretical models and framework to understand the impact of national culture on new product development process. Mainly the focus country for this essay will be China. According to Hofstede model, China has high score for power distance, masculinity and long

term orientation (Itim, 2015) and the country has high context communication culture . The author will also discuss few example from India. China and India both are emerging Asian countries and their culture is impacting the product development process of different service and manufacturing industries.

Literature Review

A product is categorized as new product if it opens entirely new market. A new product replaces the old product by satisfying the needs and wants of the customers. Twenty first century can be seen as a century of globalization (Adekola & Sergi, 2007). Though globalization is not a new process, but 21st century globalization helped developing countries in improving their image at global platform. The economic power is shifting from developed countries towards developing countries (Cox, 2012). The competition level between different firms is increasing. The old strategies and products are not enough to retain old customers and attract new customers. All the big multinational companies have recognized the need to innovate new products and services. The new product lines allow the firm to enter in new market and increase their financial gains. Sometimes new products also made the entries possible for companies in foreign market. The new products provide competitive advantage to the companies and those products can be seen as a source to provide quality, frequency, speed of response and customization(Bessant & Francis, 1997). It is not mandatory that new product will provide financial gains to the company. The success and failure of new product depends upon the customer's acceptance. According to some leading market research firm 75% of consumer packaged goods and retails products fail to earn even \$7.5 million during first years(Schneider & Hall, 2011). Some researchers often argued that 80% of new products fail. It can be said that new product development is not always favourable for the companies.

There are different stages in product development process. The figure below is showing all the stages of new product development process.

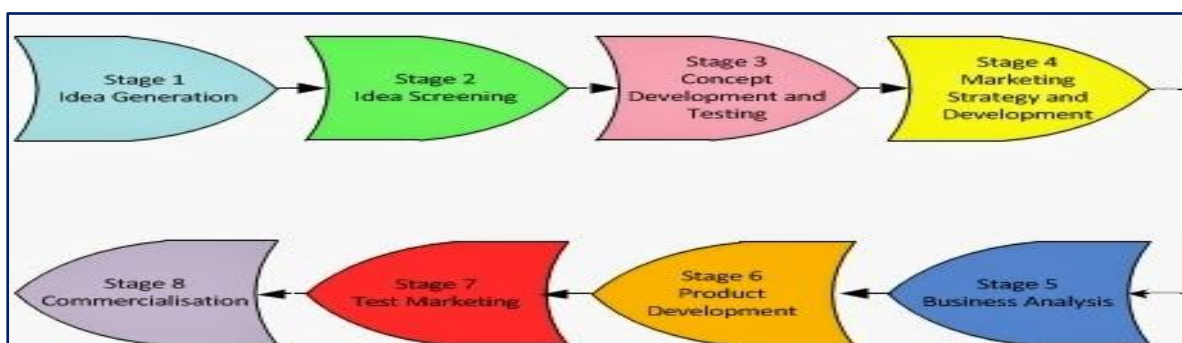


Figure 1(Mathur, 2013)

The first stage of new product development process is idea generation. During this stage the company search for new product ideas and formulate strategy to make new product. The idea generation is completely based on internal and external resources of the company. The internal resources include company' own formal research and development, opinions of top management and other staff members (Kotler & Armstrong, 2015). The external resources refer to the outside resources such as feedback from customers. discussion with suppliers and distributors and competitors' product etc. The second stage of product development process is idea screening. During screen the product development team works on the feasibility of idea whether the new idea is worth doing and real. The product development team also see various advantages related to the new idea. Third stage is concept development and testing. The concept development is detailed version of idea generation and to look for gains of customer from new idea. Later on product is tested on the groups of targeted customers. The next stage market strategy and development. In this stage the company forms the initial marketing strategy for the product based on the value proposition of the product, description of target market and the sales goals of the company. During business analysis process the company review the sales, cost and profit projection of the company on the basis of long term objectives of the company. The next stage is product development. During this stage the company develop the physical version of the product and checks whether it is feasible as per market needs. During test marketing stage the company test the product in market with huge investment. The research and development department collects customers' feedback and look for further scope of improvement in product. Commercialization involves the full fledge introduction of product in the market to the targeted group of customers. Prior to this stage the top management decides when to launch a product, where to launch and planned market rollout.

National Culture and New Product Development

The main argument in this paper is whether national culture play any role in new product development. In author's opinion the culture of any country play an important role in new product development. There can be different measures for new product success. Some of the measures are financial success, profitability, pay-back period, domestic market share, foreign market share, relative sales and relative profits. The success and failure of new products depend on certain factors which are societal forces, business environment and marketplace (Kong, 1998). Societal forces include rules, regulation and value of a particular community or society. The communities can have the global influence, cultural influence, social and national influence. The business environment includes the presence of competitors,

availability of suppliers and distributors and other stakeholders of the company. National culture is certain values and beliefs which defines the behaviour of people of the country. The values and beliefs are imbibed in the people of country in their childhood and later on these values and beliefs distinguish one group of people from another. Hofstede has talked about five dimensions of national culture. These five dimensions are power distance, individualism, uncertainty avoidance, masculinity and long-term orientation(Hofstede, 2011). Power distance can be seen as the distance between seniors and junior members of the society. In Asian countries like India and China the power distance is much because all the important decisions have been taken by the bosses of the company and juniors can't interrupt the seniors in their decision making. Individualism and collectivism is the degree to which individuals are integrated into the groups. The Western countries have highly individualistic culture because an individual is entirely responsible for his decision making while in Asian countries decisions are taken on the valuable suggestions of friends, families and communities. Uncertainty avoidance is the degree of intolerance for ambiguity and uncertainty. The decision making of a particular section of the society depends upon the long-term and short-term orientation of the people of that country. Chinese people are long-term oriented because they take time in developing trust and confidence on foreigners. Chinese took lot of time in business negotiations(Buttery & Leung, 1997). They value more to relationship building than anything else. In Western countries people are short-term oriented and fast in decision making. The fifth and final dimension of decision making is masculinity and femininity. It is the degree of assertiveness and competitiveness versus modesty and caring nature of people of society.

New product development should fulfil the expectation of particular country of people. The work units which are managed with the national culture expectations are bound to perform better in comparison to other units which are not aligned with cultural values of the nation(Pan & Chen, 2010). As discussed above there is big cultural difference between Asian countries and Western countries. The taste and preferences of the people also vary from one continent to another. Now-a-days many companies are shifting their base location from developed countries to developing countries. China and India are big emerging market for the western organizations because the companies found more number of sellers there(Ali & Guo, 2005). It is mandatory for the foreign companies to access the needs of Chinese and Indian people before entering in that market otherwise they will face tough time in Asian subcontinent. Nakata and Sivakumar (1996) has developed a research framework which shown the direct linkage between national culture and different stages of new product

development process. The first postulate of that model is that corporate culture or organizational culture has been influenced by national culture of the country(Wang, et al., 2014). Secondly the corporate culture plays a mediator role between the national culture of corporate and task-team subculture during new product development process. The third finding of this model shows the impact of national culture on different stages of the product development process. The figure below is showing the research model between national culture and new product development process

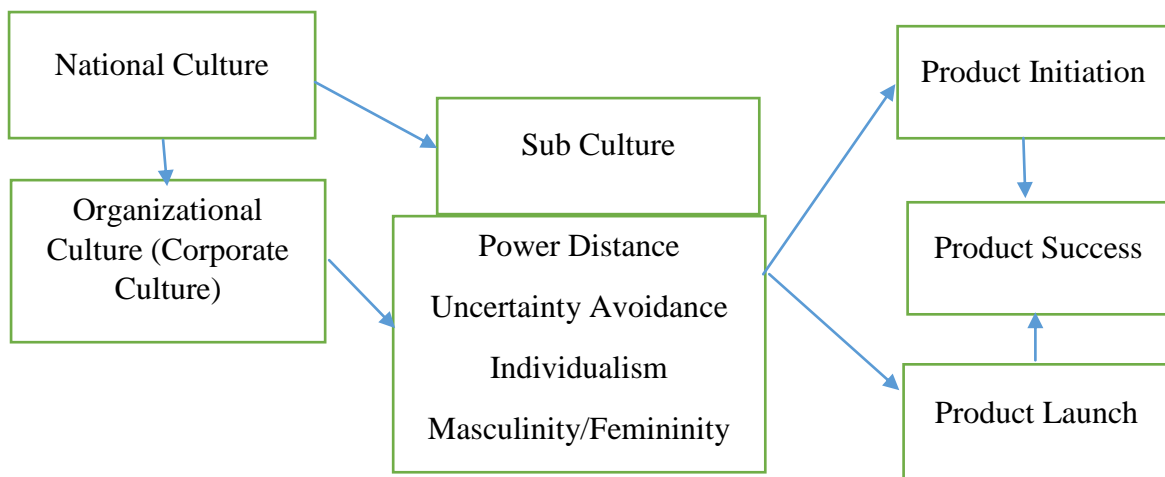


Figure 2(Nakata & Sivakumar, 1996)

The first cultural dimension of national culture is individualism and collectivism. Western countries like USA and UK have individualistic culture while the Asian countries like China, Japan and India has collectivistic culture(Wang, et al., 2014). During the initial stage of product development process if the internal management has a collectivistic and high power distance culture than none of the junior employee will question the senior management. Even if the idea is not up-to the mark the lower management will accept it gracefully without any objection. While if the organization is based at some developed countries where the cultural values have been defined as individualistic and low power distance. The low power distance will allow the employees to discuss the idea during initiation stage but individualistic culture will create a barrier. The shared vision and collectivistic team behaviour is very fruitful for product development teams. The collective behaviour of multicultural teams help in improving the efficiency of new product development teams. The shared vision of the teams is helpful in recognizing the products, technological and market opportunities(Braet, 2009). A team approach is more helpful in accessing the market opportunities in comparison to an individualized approach. In collectivistic culture the firm has the opportunity to select from

various individual ideas while in an individualistic culture the multiple ideas are not available.

Examples from Indian Market

McDonald's entered in Indian fast food industry in 1996. The company opened its first outlet at Vasant Vihar, Delhi. India was very challenging market for McDonald fast food outlets because there were more than five thousand ethnic communities are present in India(Dash, 2005). India has a diverse population and each population segment has its own taste and preferences. McDonald's achieved good success in Western countries with their non-vegetarian fast food. The company faced challenges in the Indian market because 20% of Indian population is completely vegetarian and those non-vegetarian fast foods were not appropriate for them. Again India follow a collectivistic culture and youngsters often visit fast-food restaurants in group rather than going alone. The 20% vegetarian population was also influencing the decision making of non-vegetarians. The company did a thorough market research and introduced new fast food products like veggie burger, McAloo Tikki and veg puffs in Indian market(Kannan, 2014). The strategy to introduce vegetarian fast food products worked for McDonald's and the company got huge success in the Indian market. The national culture of India has affected the new products development strategy of McDonald.

Examples from China

When Starbucks first entered in Chinese market the company faced lot of difficulties in attracting the Chinese customers (Lee, 2003). Chinese people often like to take tea and they have rejected the idea of Starbucks coffee. The top management of China have understood the fact that tea is the main beverage of China and they changed their strategy accordingly. Prior to Starbucks many other reputed beverage brands such as Krispy Kreme, Burger King and Dunkin Donuts were failed to live up to their own expectations. Starbucks introduced a green tea flavoured coffee to attract the Chinese customers (Rein, 2012). This strategy worked for Starbucks and Chinese customers accepted the company in their country.Culture plays and important role in the food taste preferences of the people of a country(Wright, et al., 2001). Starbucks was successful in recognizing the beverage culture of China while other companies were not able to do so. The impact of Chinese culture can also be studied on electronics industry. Apple achieved huge amount of success in Chinese market. The company has done lot of innovations in its colour, design and other features of product. Tim Cook the CEO of Apple has acknowledged the fact that gold phones and other designs were made with China in mind(Doland., 2015). Greater China has been second largest market for

Apple after USA(Macadangdang, 2015). Greater China includes Hong Kong and Taiwan. Both the territories are growing market for mobile phones. The major two reasons behind for releasing gold iPhone in Chinese market are to please the customers and regain top position in the market. Apple was facing tough competition from Xiaomi and Samsung in China. This gold iPhone strategy worked for Apple and company sold more number of iPhones in China in comparison to USA.

After 1990 the automobile sector has been grown up rapidly in China. One can easily see the effect of modernization and globalization on China(Tang, 2009). China is producing more number of vehicles in comparison to Japan, Korea, France and Germany. Though China is producing large number of vehicles still Honda and Volkswagen are leading market players in Chinese market. GM and Ford also achieved great success in Chinese market in comparison to other local domestic players(Young, 2013). Foreign companies have recognized the fact that income level of people are increasing in China and they customized their products as per needs of local citizens(Zhao, 2009). Honda and Ford captured the market with cheap price cars as they were looking to satisfy the needs of domestic customers. Still there is more opportunities in Chinese automobile market. The foreign companies are accessing the needs of local people and customizing their products accordingly. Ikea is also one of the most successful brand in the Chinese market. Ikea achieved more success in comparison to Home Depot or any other furniture company in China. The sales of the company have increased at very fast rate. Ikea also changed its products and layout of stores depending upon customer's needs. In China, people prefer more open spaces at stores and they often like balconies at shopping stores. Usually the Ikea shopping stores are located at suburbs, far from the city with no parking space. Ikea has a different approach in China(Miller, 2014). The stores are big in size with ample parking space located in the centre of cities. Ikea specially designed Hong Kong sized beds to achieve success in Chinese market. Those Hong Kong sized beds are smaller in comparison to regular beds of the company.

China has high power distance culture and the degree of centralization is more in compared to Western countries(Khairullah & Khairullah, 2013). The high power distance and centralized power indicates that upper management have the entire responsibility of new product development. There is high degree of collectivism found in Chinese culture which means the people are working in teams. The high degree of collectivism is fostering greater cooperation and communication which is needed during later stage of product development process. The high degree of collectivism is also helpful in improving communication with the

suppliers. The integration of suppliers in the product development process help in reducing cost and improving the overall product quality(Ragatz, et al., 1997). China has a long-term oriented future and long term oriented countries have better focus and persistence on all the stages of new product development process(Garrett & Buisson, 1999).

Conclusion

On the basis of overall discussion, it can be concluded that national culture of any culture has an impact over new product development process. National culture also defines the organizational culture or the corporate culture of the industry which indirectly affects the different stages of product development process. A handful of Western companies achieved success in Chinese market. All those companies have customized their product to suit local Chinese customers. For example- Starbucks introduced a green tea flavoured coffee especially in Chinese market. Similarly, Apple launched Gold iPhones to capture Chinese customers. The highly collectivistic culture of China is beneficial for smooth flow of information and transparent communication during later stages of product development process.

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