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<sup>1</sup> This paper results from the joined work of the authors. Nevertheless, for sections attribution purposes, Donatella Fortuna wrote sections 2.2, 2.3, 4.2, 4.3, 4.4 and 5, Michela Matarazzo wrote sections 2.1 and 4.1, Riccardo Resciniti wrote sections 1, 3, 6.

# **International marketing and competitive strategies of “Made in Italy”: an empirical investigation on medium sized firms**

## **Abstract**

Medium-sized firms can play a leading role in the Italian industrial system, provided they invest in intangibles and internationalization. These two conditions are interrelated: the international orientation of medium-sized firms – that cannot rely on market power and scale economies – is linked to the will to operate in specific market segments, in compliance with focus and differentiation strategies, that require the extension of managerial activities across national borders to sustain growth.

This paper analyses the international marketing strategies of medium-sized firms, identifying the decisions whether to standardize or adapt the marketing mix from the domestic to the international market and the relationship with the international performances.

Methodology is based on a survey on the manufacturing medium-sized firms in Campania (Italy), with a final sample of 50 companies and a response rate of 32,5%.

Results show that medium-sized Made in Italy firms mainly tend to standardize the product and communication policies. The prevailing tendency is a gradual growth according to an internationalization path in which the product offering becomes established in the national market and then opens up to the international ones, mainly without adjustments. When any adaptation occurs, it mainly regards the extended product – above all communication aspects – rather than the core product.

Therefore, our research brings out a “marketing intensive” adaptation model of the offering system – rather than a “manufacturing intensive” one – which mainly occurs out of the farmer.

Contrary to the main tendency, the higher international performances are associated to a product standardization strategy, based on a born-global offering.

## **Keywords**

Standardization versus adaptation, international marketing strategies, medium-sized firms.

## **1. Introduction and objectives**

Paper deals with a traditional theme of International Business – the offering system standardization or adaptation across different foreign markets –, but with a particular focus on a specific function and on a specific firm's category: the marketing function and the medium-sized firms.

For several years medium-sized firms have been recognized as autonomous category, different from the small and the large ones (Tunisini and Dalli, 2007), and are worthy of particular attention for the relevance they have acquired in the Italian industrial system (Mediobanca and Unioncamere, 2009; Confindustria, 2010). Because of their liveliness and good economic performances they are considered the pillar of the Italian manufacturing system, able to revitalize our industry (Alzona, 2007; Iacobucci and Spigarelli, 2007; Varaldo et al, 2009).

Besides, it was demonstrated a greater propensity to internationalization by the medium-sized firms compared to the small and large ones (Mariotti, Mutinelli, 2008). This category of firms is now considered the standard-bearer of Made in Italy in the global markets, and the researchers' attention is focusing on the search for the main competitive factors. The synergistic relationship between internationalization and focalization is worthy of particular attention (Mattiacci, 2008; Resciniti and Tunisini, 2009; Resciniti, 2010). Focalization is a typical competitive strategy of the medium-sized firms, which can rely on specialization, to fill up international niches, and on internationalization, to increase their market opportunities beyond national boundaries.

Internationalization issues have been analysed regarding the financial and managerial constraints that limit the international growth. Two ways have been mainly indicated: the implementation of a niche strategy, which allows to obtain positive results in terms of speed, intensity and geographic scope of the internationalization and the role of international alliances and networks (Majocchi and Zucchella, 2003; Zucchella and Palamara, 2007).

Furthermore, some Italian researches underline that European medium-sized firms have in most cases directed their internationalization efforts to other countries from the same area, as it happens for the broader category of small and medium-sized firms (SMEs) (Iacobucci and Spigarelli, 2007). Regarding Italian SMEs, an empirical study (Majocchi and Zucchella, 2003) examined whether firms mainly focused on the European market show different profitability levels than firms with a broader geographic scope (mainly USA), finding that firms which export beyond European markets are more profitable. In this study we then verify how international marketing strategies of medium-sized firms vary depending on the

geographic scope, distinguishing between firms that focus only on the European market and firms that operate in the extra-EU ones too, subdividing the geographic areas in Italy, EU and “Rest of the World”.

The basic thesis of the paper is that marketing is fundamental in the choice of international standardization versus adaptation of the medium-sized firms, because it can have the role of implementing the adjustments that market requires, without losing the production standardization advantages, even if within the limits of a “soft” adaptation.

The aim of this research is to analyze the international marketing strategies of the Made in Italy medium-sized firms, identifying the decision whether to standardize or adapt the offering system in the transition from the domestic to the international market. In other words, we try to understand *how* firms differentiate their offering system from the national to foreign market, *what* potential adjustments occur and *why*, in order to underline the marketing role.

The main research questions are:

1. What are the competitive strategies of the medium-sized firms? What competitive drivers do they use in the different foreign markets? How are the focus strategies set up?
2. How do the marketing programs vary from the domestic to foreign market? What elements are more standardized or adapted to different markets? Why? How do export performances vary in relation to these choices?
3. How do the standardization/adaptation choices of the marketing mix are related to each other?
4. What is the relation between these strategic decisions and the geographic scope of firms?

The research is based on a survey on 154 Campanian medium-sized firms, with a final sample of 50 firms and a response rate of 32,5%.

After a literature review on the concepts of “Country-of-Origin Effect”, “Made in Italy” and “Standardization versus Adaptation” (section 2), section 3 illustrates the paper methodology. Findings are presented in section 4 according to three themes (entry strategies on foreign markets, competitive strategies, standardization vs. adaptation of the marketing mix, standardization vs. adaptation and international performances) and discussed in section 5. Section 6 draws the conclusions of the study and highlights some managerial implications.

## **2. Literature review**

### **2.1. The Country-of-Origin Effect**

The positive or negative customers perceptions and evaluations of the products manufactured in a specific country is commonly called in management literature Country-of-Origin Effect (COE). It is one of the most examined topic among studies on International Business and, more specifically, on International Marketing (Al Sulaiti and Baker, 1997; Verlegh and Steenkamp, 1999; Pharr, 2005; Usunier, 2006, De Nisco, 2006, Marino and Mainolfi, 2010).

It essentially refers to the perceived nationality/nationalities of a product and is based on two key concepts: the country where the product has been manufactured and/or the country associated with the branding.

The diffusion of the manufacturing processes standardization, the growing market globalization, and the consequent need to explore new sources of sustained competitive advantage based on intangibles, has led many firms to highlight and enforce the product-country images linkage in the marketing strategy across national borders.

In spite of the relative newness of the field, the research is substantial, involves large numbers of scholars and has made significant strides towards a fuller understanding of the COE phenomenon. In a recent review, Papadopoulos and Heslop (2002) assessed a number of 800 contributions divided into journals articles, books or sections of books, papers presented at international conferences, and other reports written in the 1952-2001 period. These studies seem to agree that country of origin of a product, such as price or brand, can affect positively or negatively customer behavior and attitudes toward the product.

While many COE studies have been conducted in the US, it is important to investigate the practices and the performances related to the Italian products and firms, also taking into account the multidimensional nature of the construct. The COE, in fact, includes many aspects (country-of-origin-facets):

- Made-in Country Image, MCI
- Product Country Image, PCI (Jaffe and Nebenzahl, 2006)
- Country of brand, COB
- Country of Corporate Ownership, CCO (Pharr, 2005);
- Country of e-commerce, COe .

In addition, a meta-analysis (Verlegh and Steenkamp, 1999) has identified three dimensions of the COE: cognitive, affective, and normative. Studies in the first category use country of origin as the cue for product quality; the second set of studies considers it as an affective mechanism that links the product to symbolic and emotional benefit including social status; the third category relates to personal norms.

The analysis of country-of-origin and, specifically, of country image in a multidimensional perspective emphasizes different ways through which the country of origin can play an incremental and significant role in influencing and orienting customers choices of consumption across national borders.

## **2.2. Made in Italy and the medium-sized firms**

Made in Italy provides a typical case showing the multidimensionality of the country-of-origin construct.

Made in Italy can be considered the symbol of the industrialization model that Italy was able to carry out in the last decade, differentiating itself from the other advanced economies (Fortis, 1998; Varaldo, 2001, pp. 24-35).

“Made in Italy” expression originates from the joining of a wide set of industries and the specific Italian territorial background, so that it synthesizes “the specific quality that manufacturing acquires in the particular Italian context (Rullani, 2000, pp. 159-176). Therefore, Made in Italy unites all the Italian manufacturing excellences, which represent significant expressions of the national taste and traditions, and the symbols of Italy’s world image (Albert, 2000).

Moreover, Made in Italy is gradually changing its traditional image linked to manufacturing and tangible attributes, to emphasize the intangible ones (design, style, fashion) (Varaldo, 2001).

The different Made in Italy definition criteria can be synthesized as follows.

- Traditional industry criterion: *core* of Made in Italy (Clothing-Fashion, Furniture, Food) and related mechanics (equipments and machineries designed for Made in Italy industries) (Varaldo, 2001; Fortis, 2005 a; 2005 b).
- Expanded industry criterion: refers to other mechanics industries, such as luxury cars, cruise liners, bicycles and motorcycles.
- Criterion based on intangible variables, like culture, link with the territory and Italian life style.

Therefore, what seems to better distinguish the Made in Italy does not only lie in manufacturing but in a set of factors and values referable to the country image and the artistic, cultural and territorial heritage, able to facilitate the identification of the Italian productions origins. Such enlargement of the Made in Italy values is due to the changes brought by the international competition, which induces Italian enterprises to use more sophisticated levers to avoid the pure price competition.

Made in Italy typical industries are indeed exposed to the international competition threats. The most worrying signals of the loss of competitiveness mainly regard the drop of the international trade share, the scarcity of leader companies able to compete on international markets and the growing difficulties of SMEs to face the global market.

The various studies analysing strengths and weaknesses of Italian industrial system facing the globalization challenges propose some solutions to relaunch competition, both at macro and micro level<sup>2</sup>.

At the firm level, one of the solutions refers to the “intelligent valorisation” (Varaldo, 2001) of Made in Italy – instead of neglecting it – based on firms size growth, internationalization, more investments in research and development and in the downstream stages of the value chain (first of all, in marketing). This should enable the specialisation on the intangible processes of value creation – in addition to the specialisation on the tangible-intensive, product-oriented ones – and the repositioning on products with higher medium unit value (Varaldo, 2001, 2004; Bettiol and Micelli, 2005).

The above solutions are linked to each other: firms size growth appears fundamental to carry out investments in marketing resources and competences, able to enhance Made in Italy on international markets. On this matter, as we have stated in section 1, researchers and operators consider the medium-sized firms growth as a new season of economic and industrial development, and a possible way to close the gap of Made in Italy competitiveness.

In Italy, medium-sized firms theme is involving a growing number of researches, according to which they can be the pillar of competitiveness of industrial system (Coltorti, 2004; Mediobanca and Unioncamere, 2008; Varaldo et al, 2009), on condition they invest in intangibles and internationalisation (Corbetta, 2000; Alzona, 2007; Iacobucci and Spigarelli, 2007).

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<sup>2</sup> See, among the others : Varaldo, 2001; Fortis and Quadro Curzio, 2003; Varaldo, 2004; Busacca, 2004; Bettiol and Micelli, 2005; Fortis, 2005a, 2005 b.

International literature mainly focuses on small and medium-sized firms, but in the last years it has begun to analyse the medium-sized firm as autonomous category. Definitions are quite variable and not all researchers agree on how to establish them (see table 1). Yet, they seem to agree that these firms are playing a leading role for the economic system development.

*Table 1 – Some size standards for the medium-sized firm definition*

<b>AUTHORS</b>	<b>STANDARDS</b>
Barnes B.R., Morris D.S, 2000	Employees: 100-499
Brooksbank R., Kirby D.A., Taylor D., Jones-Evans D., 1999	Employees: 100 – 500; Turnover: 2,5 – 20 billion pounds
Butera, 1998	Employees: 100 – 499; Capital stock: 5 – 10 billion liras
Colli, 2005	Employees < 500 ; Turnover < 2,5 million euro
European Commission	Employees: 50 – 249; Turnover: 10 – 50 million euro
Corbetta, 2000	Employees : 250 – 1000; Turnover: 50 – 1000 billion liras
Iacobucci, Spigarelli F., 2007	Employees: 250 – 2500; Turnover: 50 – 500 million euro
Larsen P., Tonge R., Ito M., 2000; Tonge R., Larsen P.C., Ito M., 1998	Turnover: 15 – 150 million pounds
Mediobanca-Unioncamere, 2008	Employees: 50 – 499; Turnover: 13 – 290 million euro
Roth K., 1992	Turnover: 25 – 500 million dollars
Small Business Administration	Employees < 500
Tonge R., Larsen P., Roberts M., 2000	Turnover: 5-200 million pounds

Our research focuses on firms having 50 to 1000 employees and 13 to 290 millions euro turnover.

### **2.3. Standardization versus adaptation in international strategies**

Decisions regarding the standardization/adaptation trade-off are of crucial importance for internationalization strategies, in order to answer to opposite pressure towards (1) cost reduction or (2) responsiveness to local features. The first drives towards the minimization of unit costs through a standardized supply across different markets, the second drives towards a better demand satisfaction through the differentiation of products and services.

Generally, it can be stated that standardization (of products, processes and distribution channels) approach is based on the convergence of consumer preferences across international



markets, and it is made possible by the modern technologies. Such approach, underlined by the famous work of Levitt (1983), allows to achieve significant scale and learning economies and to reduce the managerial complexity. Instead, adaptation depends on cross country differences in such dimensions as demand preferences, culture and traditions, business and consumption practices, local facilities, commercial channels, legal and political systems, so that firms are needed to adjust product and marketing strategies to the idiosyncratic circumstances of each foreign market<sup>3</sup>.

Like every business decision, also that of standardization or adaptation varies from case to case and depends on both internal and external variables. The internal variables basically concern the production capacity of firm (size, break-even point, product differentiation capacity, production flexibility) and its market power (capacity to influence the demand, strength of the brand, knowledge of the market and integration in the local environment). Among the external variables there are the environmental conditions, features of industry and competition, purchasing behaviours, government requests.

Therefore, it is quite difficult to generalize and suggest prescriptive models to support such decisions (Valdani and Bertoli, 2003, p. 235). From a contingency perspective standardization or adaptation are situation specific and should be seen as the two ends of the same continuum, in which firm's choices should be evaluated on the basis of their impact on the performance in international markets (Quelch and Hoff, 1986; Onkvits and Shaw, 1987; Jain, 1989; Cavusgil and Zou, 1994).

In the standardization versus adaptation choice, the marketing function has a double relevance. On the one hand, firms must decide whether or not to adjust the marketing programs to the local market specificities, at the same time keeping the coherence inside the marketing mix. Literature is quite rich of contributions dealing with strategy differentiation across different international markets (Szymansky et al, 1993; Cavusgil et al, 1993; Zou and Cavusgil, 2002; Ryans et al, 2003; Theodosiu and Leonidou, 2003), distinguishing between firms which standardize their marketing programs from firms which adapt them to foreign markets, using different competitive weapons. On the other hand, the marketing function may be an instrument to adapt standard products to local specificities, leveraging on intangibles attributes, which are more and more important in the current competitive scenarios.

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<sup>3</sup> For a review of the studies on standardization/adaptation of international marketing programs, see Theodosiu and Leonidou (2003).

### **3. The empirical investigation: scope and methodology**

This work discusses the findings of an empirical research on a sample of Campanian medium-sized industrial firms, based on a quali-quantitative methodology.

In the first explorative stage, four in-depth interviews were conducted to some medium-sized firms in Campania, chosen according to the following criteria: turnover between 13 and 290 millions euro, to be increasing in the three-year period 2005-2007, employees between 50 and 1000, belonging to the Made in Italy industries (Food, Furniture, Clothing-fashion, Automation-Mechanics-Plastics), strategic autonomy (not controlled enterprises), having marketing competences (indicated by the existence of a marketing function), medium-high degree of internationalization (export rate higher than 30%).

In-depth interviews analysis, together with the literature review, has allowed the drafting of a questionnaire made up of 25 mainly closed questions, which was initially tested through personal interviews to four firms belonging to the population.

The first part of the questionnaire relates to market and competitive strategies: kind of customers and final users, number of strategic business areas and related turnover, positioning, marketing channels, type of focus strategies (if applicable).

The second part of the questionnaire explores the international strategies in terms of: geographic areas and related export rate on total turnover, international configuration of the value chain activities (if and which of these activities are carried out in Italy, abroad or both), entry mode strategies for each country, main competitive factors for each country.

The third part analyses the international marketing strategies by exploring: the differences between national and international customers; product, promotion and price adaptations to foreign markets; kind and motivations of any adjustments.

The fourth part asks some company information: last three years annual turnover, export rate, number of employees, number of employees abroad, percentage of foreign capital asset, if company belongs to a firms group.

Table 2 summarizes the basic constructs and the questionnaire items which operationalize them.

Firms population (N = 161) was extracted from the AIDA database according to the criteria already used in the first stage (in-depth interviews), with the exception of strategic autonomy, existence of a marketing function and degree of internationalization. Nevertheless, 7 firms were excluded from the dataset because they were in liquidation, or because, from the first telephone contact, they had not the requisites set up for the research. The definitive population was composed by 154 units.

The questionnaire was sent by e-mail, after a telephone call, to entrepreneurs or managers (above all marketing or export managers), obtaining a final convenience sample of 50 respondent firms (response rate 32,5%).

The sample is mainly made up of medium-small firms: 65,3% belong to the interval 13-49 millions Euros and 82% have a number of employees between 50 and 249. A synthetic profile of the sampled firms is provided in table 3.

*Table 2 – constructs and variables*

<b>Constructs</b>	<b>Questionnaire items</b>
Standardization vs. adaptation of the marketing mix	<p>Is the product offered in the foreign markets different from the product sold in Italy?</p> <p>a) no, it was designed for the national market and then sold abroad without any adjustments  b) no, it was designed for different countries from the beginning  c) no, but it was modified during the years  d) yes, it is adjusted to foreign markets</p> <p>Is the communication modified for the foreign markets?  a) yes      b) no</p> <p>What are the pricing strategies on international markets?  a) standard price  b) price adjustments depending on local market  c) price adjustments depending on costs  d) price adjustments depending on product changes</p>
Competitive strategies	<p>Indicate, for each geographic area (Italy, European Union, other European Countries, North-Africa, other African Countries, North-America, Central-Southern America, Middle East, Central Asia, Eastern Asia, Oceania), what are the main factors of competitive advantage (to be chosen among: competitive price, quality, supply customization, product uniqueness/patents, other)</p>
Drivers of the standardization/adaptation choices	<p>In relation to the company's products, what are the differences between Italian and foreign customers?</p> <p>a) no differences  b) use and consumption modalities  c) symbolic meaning  d) other (specify)</p>
Implementation method of the offering standardization/adaptation to foreign markets	<p>What are the product adjustments carried out to sell abroad?</p> <p>a) tangible features adjustments  b) increase/decrease of product models  c) complementary services adjustments  d) branding adjustments  e) packaging adjustments</p> <p>What are the communication elements adapted to the foreign markets?  a) advertising message  b) advertising channels  c) selling promotions  d) public relations</p>
Internationalization performances	<p>What is the export rate on total turnover?</p>
Geographic scope	<p>Indicate in what geographic areas do you sell your products (Italy, EU, USA, etc.)</p>

Table 3 – Profile of the sample

Variables	Parameters	Frequency (%)
Turnover 2008 (millions of euro)	13 – 49	65,31
	50 – 99	10,28
	100 – 290	24,49
Full time employees	50 – 249	82
	250 – 499	10
	500 – 1000	8
Product kinds	consumer goods	48
	industrial goods	24
	both consumer and industrial goods	28
Export rate on total turnover	0-20%	44
	21%-50%	28
	51%-100%	28
Number of employees abroad	50-249	82
	250-499	10
	500-1000	8
Geographic areas	Italy	12
	European Union	4
	Europe	8
	Europe and Rest of the World <sup>4</sup> (except USA)	20
	World	40
	European Union, USA, Rest of the World	8
	Europe, USA, Rest of the World	8
	European Union, Rest of the World	4
	Rest of the World	2

## 4. Findings

### 4.1. Entry strategies on foreign markets

The 48% of respondent firms declare to work only in the consumer market, the 24% only on business markets, the remaining firms in both consumer and business ones.

On average the sample has a foreign turnover on total turnover of about 35%, a percentage which is consistent with the last researches of Mediobanca and Unioncamere on the population of Italian medium-sized industrial firms. Only 12% do not internationalize their business and have the whole turnover in Italy, while the rest have a positive export rate:

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<sup>4</sup> The expression “Rest of the World” refers to the following areas: extra-UE countries, Africa, Central and South America, Middle East, Asia, Oceania and other countries.

26% have an export rate lower than 30%, 62% higher than 30% (28% of the sample higher than 50).

Regarding the geographic areas, 84% sell both in EU and Rest of the World. But if we consider the export rate too, firms exporting more than 10% of total turnover beyond EU decrease to 54%.

As regards the entry modes, foreign direct investments (FDI) and strategic agreements (including licensing and franchising) are less used. In fact, only 16% of the firms use these strategies (only 9% carry out FDI).

The most used entry modes are the direct exportations (84%), i.e. direct selling to final customer, exportations through brokers/distributors and exportation through foreign offices (branches/subsidiaries).

Respondent firms often use indirect exportations too<sup>5</sup>.

The 32% use more than one entry mode, *while most of firms take the same behaviour despite the foreign markets specificities*. However, only 21% associate FDIs to other entry strategies.

#### **4.2. Competitive strategies**

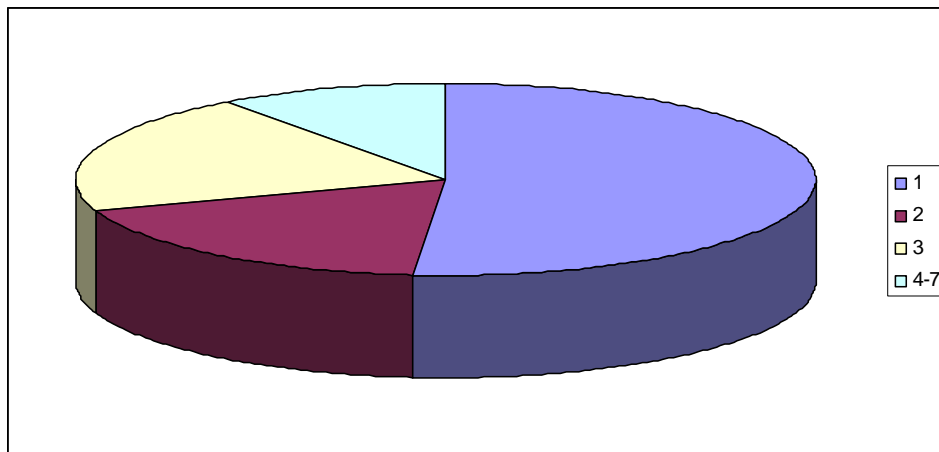
*Respondent firms are characterized by production specialization and the product represents the central element of the competitive strategy.* Consistent with other studies (Simon and Zatta, 2007; Mediobanca and Unioncamere, 2009; Varaldo et al, 2009), product quality is the major critical success factor: for most part of the firms the main criteria of supply positioning are product lines (32%) and quality level (30%). Thus the aspects linked to the product and its qualitative features prevail.

*Besides, most part of the sampled firms are focused on one or few businesses.* 51% work only in one business area, while the 39% are almost equitably distributed between firms working in two business areas and firms working in three ones. Thus the percentage of firms operating in more than three areas is quite minor (figure 1).

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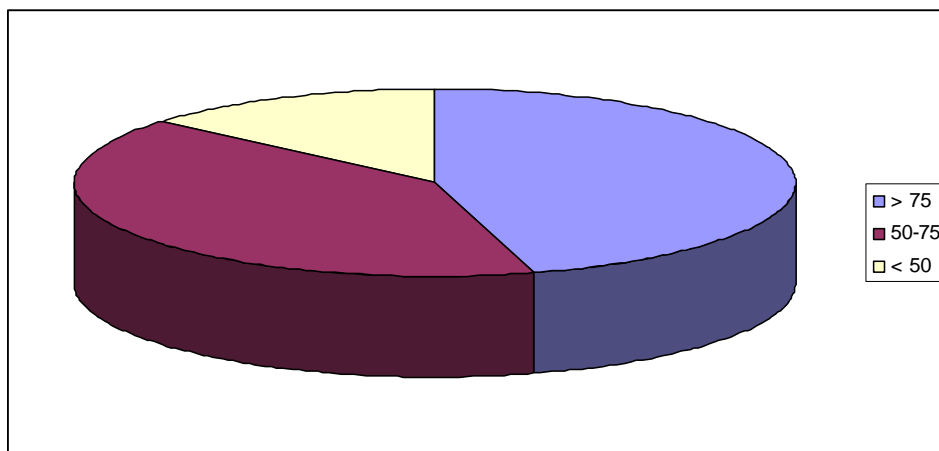
<sup>5</sup> The relative frequency of indirect exportation is 36%. But we must specify that some of the respondent firms have indicated more than one entry mode.

Figure 1 – Firms distribution by number of business areas



The turnover distribution among the different business areas confirms the importance of focus strategies: considering only those firms working in at least two business areas, in most cases the main business produces the greatest turnover share (according to 45% of firms the main business produces more than 75% of total turnover) (figure 2).

Figure 2 – Firms distribution by percentage of turnover produced by the main business



Furthermore, if we analyze the answers from a qualitative point of view, “pluri-focalization” strategies (Resciniti, 2009) emerge, that is, in the cases of multi-businesses firms, these businesses are correlated to each other: interiors solutions aeronautics, railway and shipbuilding industry; wine, oil and grappa; sweet liqueur and occasions cakes; footwear and accessories; male clothing, licensing for children clothing, footwear, lifestyle (café) (table 4).

*Table 4 – Some examples of correlated business of the sampled firms*

<b>Made in Italy industry</b>	<b>Firm business areas</b>
Furniture	Interiors solutions aeronautics, railway and shipbuilding industry
Food	Wine, oil and grappa
Food	Sweet and salted froze oven products
Food	Sweet liqueur and occasions cakes
Clothing	Footwear and accessories
Clothing	Male clothing, licensing for children clothing, footwear, lifestyle (café)
Clothing	Underwear and sea clothing, beauty, clothing and accessories
Automation-mechanics-plastic	Protective devices for metals and plastic laminates
Automation-mechanics-plastic	Safety metallic barriers; acoustic metallic barriers; traffic signs
Automation-mechanics-plastic	Building-site equipment; stands and tribunes
Automation-mechanics-plastic	Road safety barriers; complementary products (viaduct protective device, etc.); structural elements of corrugated iron
Automation-mechanics-plastic	Plastic container for ecological, industrial and agriculture industry
Automation-mechanics-plastic	Extendible film for pallets
Automation-mechanics-plastic	Food and non-food flexible packing; paper industry applications for food contact

Among the focus strategies, differentiation ones prevail, as most part of the sampled firms aim at offering high value-added solutions, which are specific and difficult to replace.

Most firms consider their supply different from that of competitors, even if we found variegated differentiation profiles: 32% distinguish their supply both through technical-functional features and intangible aspects of the product; the rest, instead, only through intangible elements. In particular, the 24% focus on design, brand image and symbolic value of the product, while the 10% on complementary services (for example, support and maintenance services). Finally, 34% of firms define their offering as similar to that of competitors (table 5).

*Table 5 – Firms positioning compared to competitors*

Supply similar to that of competitors	34%
Differentiation through complementary services	10%
Differentiation through intangible features	24%
Differentiation through both technical-functional and intangible features	32%

As regards factors of competitive advantage abroad, *price scarcely ever represents the only competitive variable, but is frequently associated to differentiation factors*. Both in Italy and abroad, the 48% of firms combine price and offering differentiation competition (quality, performance, customization, product uniqueness, patents), while the 46% focus only on differentiation variables. Therefore in half cases cost reduction is complementary to differentiation choices. In fact, cost leadership is a strategic option difficult to pursue on international markets, given the low size of the sample firms, mainly belonging to the lower interval of the medium-size (13-49 millions euro of turnover).

Crossing results on competitive factors in the different countries (that is, responses of the firms leveraging on price factors with that of firms leveraging on differentiation ones), we found that, basically, factors used in Italy are used abroad too. Only one firm competes on price in Italy and on differentiation abroad. About 11% compete on differentiation in Italy and on both differentiation and price abroad. This result is not surprising, but is consistent with the decision to offer a product without relevant adjustments for the international markets, as described in the following section.

#### **4.3. Standardization and adaptation of the marketing mix**

With reference to the described competitive strategies, this section examines if and how the marketing mix is adapted to foreign markets and what kind of relation exists between the standardization/adaptation decisions and the export power.

##### *Product and communication*

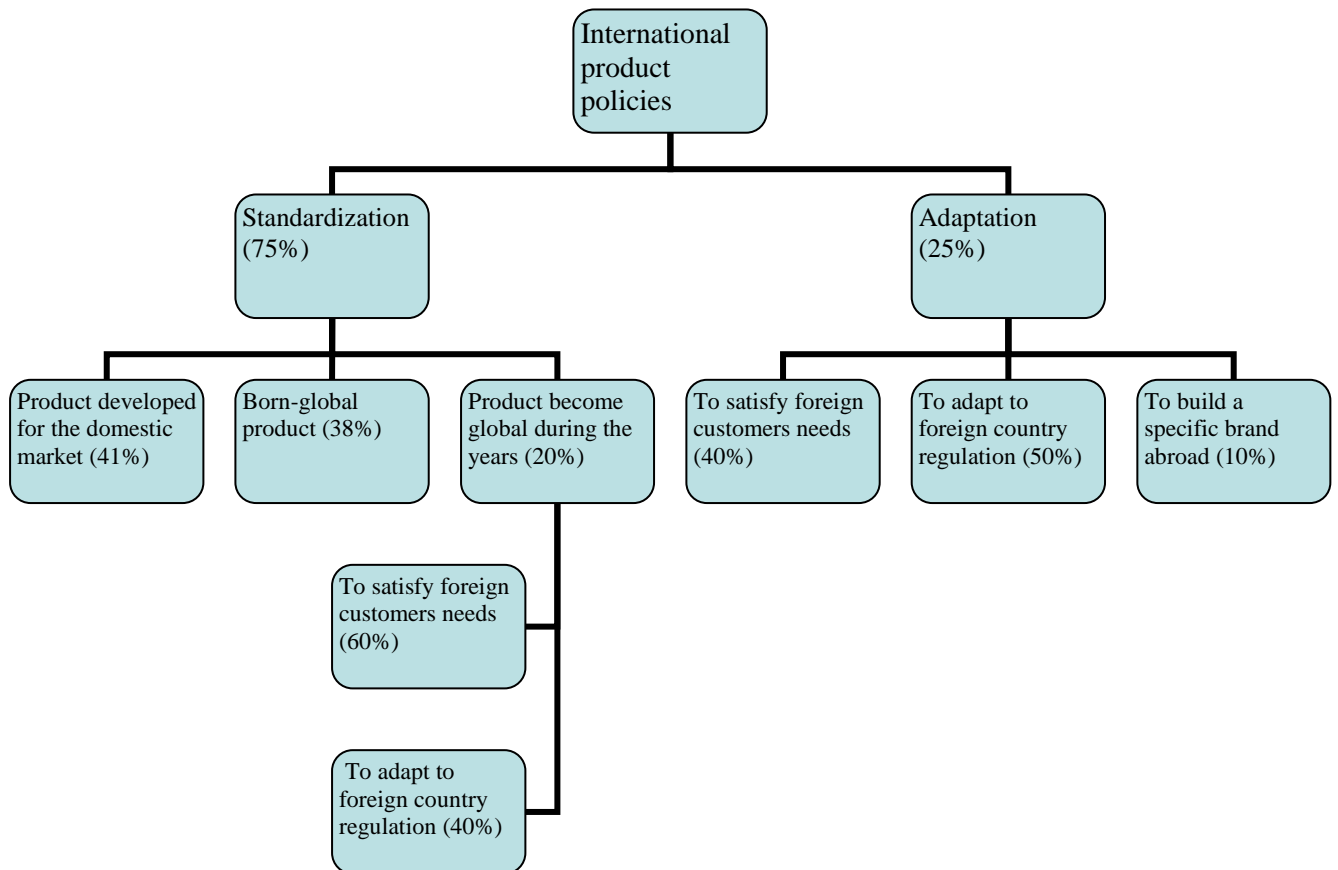
*Most part (76%) of the firms do not adjust the product*, that is they sell abroad the same product sold in the domestic market; in particular, firms products were mainly developed for the domestic market (and then exported without any adjustments) or generated from the beginning to serve more countries; to a lesser degree, the current product is the result of several adjustments during the years, made to adapt it to international markets.

Therefore, from domestic to foreign markets, only a quarter of the internationalized companies modified their product, mainly to satisfy the diverse customer preferences or to adapt to the foreign country regulation.

Figure 3 illustrates the firms' distribution among different international product policies.



**Figure 3 – International product policies**



Considering both “minor” and “major” offering adjustments, we found that the most frequent changes are the tangible features (21%), followed by complementary services (19%) and packaging (19%). But if we consider only “major” adjustments, packaging is the most changed variable (39%) followed by brand (22%)<sup>6</sup>. Then the communicative components of the offering system are subject to the major adjustments.

As regards communication, only 20% adjust it to foreign markets, mainly to adapt to customer features (87%), but in some cases as a consequence of the product/brand adjustments (13%).

Communications elements that are more frequently modified regard the media to transmit the advertising message (40%) and its content (27%)<sup>7</sup>.

<sup>6</sup> We must specify that the question “indicate what are the minor and the major adjustments carried out for the foreign markets” gave the possibility to choose up to three alternatives. So the relative frequency cited in the text does not represent the percentage of firms, but the percentage of responses.

<sup>7</sup> In this case too the questionnaire gave the chance to indicate up to two response options, so that the percentages in the text refer to the relative frequency according to which the different communication variables are modified by the respondent firms.

Crossing the results, we found that more than 50% of the internationalized firms do not modify either the product or the communication; among firms that modify – or have modified in the past – the product, the 16% adapt communication, while the 26% standardize it. Then, among firms which adapt marketing policies (except for price), most of them adapt the product, thus confirming its critical importance for the search of the international competitive advantage.

Anyway, we found that firms standardizing the product, standardize the communication too (table 6): 93% of firms offering a product developed for the domestic market and then sold abroad declare not to modify the communication too; the same happens for the 92% of firms offering a global standard product from the beginning.

On the contrary, as it is easy to imagine, there is a tendency of the firms adapting (or that have adapted during the years) their product to adapt the communication too.

*Table 6 – Standardization/adaptation of the communication in relation to the decisions to standardize or adapt the product*

<i>Product standardization/adaptation</i>	<i>Communication standardization/adaptation</i>		
	Adapted communication	Standard communication	Total
Product developed for the domestic market and then sold abroad	7%	93%	100%
Product planned from the beginning to be sold in different countries	8%	92%	100%
Standard product, but modified during the years	43%	57%	100%
Adapted product	36%	64%	100%

Therefore there is a relation between the decision to standardize or adapt the product and the decision to standardize or adapt the communication.

Consistent with the international product strategies mentioned above, most companies (63%) consider the Italian and foreign customers as similar; anyway, such perception does not influence the decisions on offering standardization or adaptation.

Indeed, considering companies that do not adjust the product to the international markets, *their percentage is not subject to relevant variations in relation to the perceived differences between domestic and foreign demand* (table 7). Thus there is not relation between the perceived demand differences and the decision whether to standardize or adapt the product to the foreign market circumstances. Many firms adjust it to adapt to foreign countries

regulation, not only to satisfy demand more suitably; besides, firms often assign more advantages to product/brand standardization, ignoring any local demand specificities<sup>8</sup>.

*Table 7 – Product standardization/adaptation in relation to the perceived differences between Italian and foreign customers*

<i>Differences between foreign and Italian customer</i>	<i>Product standardization/adaptation</i>				
	Product developed for the domestic market and then sold abroad	Product planned from the beginning to be sold in different countries	Standard product, but modified during the years	Adapted product	Total
No differences	31%	31%	14%	24%	100%
Different consumption modalities	50%	20%	10%	20%	100%
Different symbolic value of the product	0%	33%	33%	33%	100%
Other differences	31%	29%	16%	24%	100%

Considering the geographic scope of the internationalized firms, and distinguishing between firms operating only within the EU and those operating also in the rest of the world<sup>9</sup>, there is not a relation with the product standardization or adaptation. In fact, the percentage of firms carrying out different product international strategies does not considerably vary according the geographic scope variation (table 8).

*Table 8 – Standardizzazione e adattamento del prodotto in relazione alle aree geografiche*

<i>Geographic areas</i>	<i>Product standardization/adaptation</i>				
	Product developed for the domestic market and then sold abroad	Product planned from the beginning to be sold in different countries	Standard product, but modified during the years	Adapted product	Total
ITA-UE	33%	33%	13%	20%	100%
ITA-UE-REST OF	29%	29%	18%	25%	100%

<sup>8</sup> For example, this is the case of a company working in the building industry, producing building-site equipment, stands and tribunes, which declares to adapt the product strategy to create a specific brand, in order to increase its recognizability abroad.

<sup>9</sup> We consider for the analysis only firms with a extra-UE export major than 10% on total turnover.

THE WORLD					
Total	30%	30%	16%	23%	100%

### Pricing

The results for pricing overturn, as almost the 70% of firms adapt it to international markets (33% to better satisfy local demand needs, 31% because of the costs to bear abroad and 5% because of product variations).

In addition, there is a relation between the decision to standardize price and, on the one hand, to standardize the product (table 9), on the other hand, to standardize communication (table 10). Among firms that do not adapt the price, the greater percentage shows a tendency to standardize the product (in particular, to sell abroad without adjustments a product developed for the domestic market) and the communication. On the contrary, among firms adapting the price, there is a tendency to adapt the product – or to have adapted it in the past – and the communication to better serve foreign markets.

Then the decisions to standardize or adapt product and communication influence in the same direction the pricing.

*Table 9 – Price standardization/adaptation in relation to the decisions to standardize or adapt product*

<i>Product standardization/adaptation</i>	<i>Price standardization/adaptation</i>		
	Standard price	Adapted price	Total
Product developed for the domestic market and then sold abroad	57%	43%	100%
Product planned from the beginning to be sold in different countries	31%	69%	100%
Standard product, but modified during the years	29%	71%	100%
Adapted product	9%	91%	100%

*Table 10 – Price standardization/adaptation in relation to the decisions to standardize or adapt communication*

<i>Communication standardization/adaptation</i>	<i>Price standardization/adaptation</i>		
	Standard price	Adapted price	Total
Adapted communication	11%	89%	100%
Standard communication	39%	61%	100%

#### 4.4. Standardization vs. adaptation and international performance

Crossing results on product standardization/adaptation with the export rate (table 11), we found that the higher export rate is produced firstly by firms that standardize product – because they have designed it to serve international markets from the beginning –, and secondly by firms that sell a product become global during the years to adapt do foreign markets. Therefore, a global strategy is associated to a greater export.

*Table 11 – Export rate in relation to product standardization/adaptation*

<i>Product standardization/adaptation</i>	<i>Export rate (% on total turnover)</i>			
	<i>1-20</i>	<i>21-50</i>	<i>51-100</i>	<i>Total</i>
Product developed for the domestic market and then sold abroad	50%	36%	14%	100%
Product created from the beginning to be sold in different countries	15%	31%	54%	100%
Standard product, but modified during the years	29%	29%	43%	100%
Adapted product	40%	40%	20%	100%
Total	34%	34%	32%	100%

The best international performances (measured by export) are associated to a product standardization strategy. But it is necessary to underline that these performances are reached when the product is born global – that is, when it was developed from the beginning to serve more countries, or has become global during the time – rather than generated for the domestic market and then sold abroad without changes.

As regards communication, the percentage of firms generating the greater export does not vary according to the decisions on standardization/adaptation (table 12).

*Table 12 – Export in relation to communication standardization or adaptation*

<i>Communication standardization or adaptation</i>	<i>Export rate (% on total turnover)</i>			
	<i>1-20</i>	<i>21-50</i>	<i>51-100</i>	<i>total</i>
Adapted communication	25%	50%	25%	100%
Standard communication	36%	31%	33%	100%
Total	34%	34%	32%	100%

#### 5. Discussion

In this section, we discuss survey results trying to answer the research questions (§ 1).

As regards the research question n. 1, factors of competitive advantage remain almost unchanged abroad. Both in Italy and abroad, almost all companies adopt a differentiation

strategy based on quality, performance, customization and uniqueness. Half of them associate cost reduction to differentiation.

The strategy that seems to emerge is to focus on a narrow business area and then enlarge the geographic market boundaries, also because all the sampled firms work in mature markets. Firms developing a global product from the beginning are the minority. Generally, smaller firms are usually better positioned and able to meet similar niches in other countries than large firms, on the basis that the same niche that created high growth in the domestic market can be achieved repeatedly in many other countries (Hezar et al, 2006). In confirmation of this, most part of companies consider Italian and foreign customer needs as similar.

As regards the research question n. 2, marketing function plays an important role in the international competitive strategies of medium-sized firms.

Our research indicates that *medium-sized Made in Italy firms mainly tend to standardize product and communication policies* instead of adjusting them from the domestic to the international market. Besides, also in the cases of product adaptation, major adjustments mainly regard elements of the extended product – especially intangibles and communication aspects, first of all packaging and brand – rather than the core product. In these cases, also the communication is adapted, otherwise it is standard.

It is then clear the marketing importance to adapt the product offering to the diverse local needs, compared to the “manufacturing” adjustments.

In literature standardization is linked above all to the cost advantages typical of the large corporation. Instead, in the case of the medium-sized firms, standardization could be linked to the will to serve transnational market segments or niches, with differentiated needs, through a focused supply.

In other cases, the product standardization could be due to the scarcity of international experience (Cavusgil et al, 1993). In fact, our study shows that even when firms consider the Italian and foreign customers as different, they do not always adapt their offering.

On the contrary, most of the sampled medium-sized firms adapt the pricing to the diverse markets. Nevertheless, this choice is not always induced by the will to satisfy local market needs: half of them adapt price because of the greater cost to bear as a consequence of the internationalization.

As regards the research question n. 3, previous empirical research on standardization/adaptation underlined that while the product mix (manufacturing features and commercial ones, like brand, packaging etc.) is highly standardized, the other variables of the

marketing mix are often differentiated (Valdani and Bertoli, 2003, p. 357). The research is thus consistent with these previous studies.

There is also a positive relation among the international marketing policies, as regards the standardization or/and adaptation of the different marketing mix elements. Indeed results show a tendency of the firms which standardize the product, to standardize the communication too, and, on the contrary, a tendency to adapt communication by those firms that adapt their product. Besides, both the decisions to standardize/adapt the product and the communication influence pricing in the same direction.

As regards the research question n. 4, results of our research are consistent with the previous studies according to which the main options of international growth of small and medium-sized firms consist in gradually internationalizing in nearer markets (from the geographic and cultural point of view) or in serving global market niches, because in both cases the target markets are easier to understand and reach, as they are similar, or represent a global homogeneous segment (Majocchi, Zucchella, 2003).

On the contrary, considering the relation with the international performances (in our research measured by the export rate), the best results are associated to a global strategy, that is, the commercialization of an offering system planned from the beginning for the international market, or subject to gradual adjustment included in the current supply, to satisfy the foreign demand. Firms which offer a product designed as global, or which became global during the years, have gained a greater international experience, either because they have faced the international competition since the product design phase, or because they have modified the product/market choices in the course of time.

## **6. Conclusion and managerial implications**

Focalization, differentiation and internationalization are the pillars of the medium-sized firms winning strategies, and this paper confirms the results obtained by previous research. But this paper tried to go beyond, analyzing how this successful trinomial is implemented moving from the domestic to the international market. The results are worthy of remarks.

Our research confirmed that medium-sized firms mainly carry out focus and differentiation strategies. Besides, it demonstrates that product standardization logics prevail, but also that marketing enables some adjustments in various intangibles components. It thus emerges a “*marketing intensive*” adaptation model of the offering system, instead of a “*manufacturing intensive*” one, which occurs above all “out of the farmer”.

The research also examined how marketing programs vary from domestic to foreign market, in the choice between standardization and adaptation of different variables (product, price, promotion). Finally, relations between managerial choices and geographic scope were underlined too.

Three kinds of managerial implications can be pointed out. The first concerns the marketing potentialities as effective instrument of *sustainable adaptation*, which can be of primary importance for those firms that do not have the big size needed to carry out adjustments in the manufacturing processes at sustainable costs.

The second is that our research also demonstrates that the marketing potentialities are not always adequately exploited. Indeed, despite the recognition of cross-national demand differences, the respondent firms do not adapt the product offering, neither in the manufacturing nor in the marketing aspects.

Moreover, the prevailing tendency of the sampled firms is a gradual international growth, according to an internationalization path in which the offering becomes established in the national market and then opens up to international ones, mainly without adjustments. However, a minority of firms declare to have developed the product to serve more countries from the beginning. On the contrary, findings related to the relation with international performances (i. e. high export connected to a global strategy – from the beginning or during the time as a consequence of experience) (see section 4.4) underline a still immature and incomplete approach to the marketing policies by a minority of the sampled firms which adapt their product from domestic to foreign markets. Further analysis is needed to deepen the differences between firms adapting the marketing policies and firms that have adapted them in the past to reach a unique supply for all the markets.

As regards limits and future research directions, the small sample does not allow to generalize the results, but to identify some significant tendencies of the medium-sized Made in Italy firms, to be deepened through case studies. In particular, firms which show interesting strategic behaviours and results will be selected from the sample to conduct in-depth interviews.

Crossing case studies results with survey evidence answers to methodological triangulation criteria<sup>10</sup> which will allow reducing the research bias and increasing results reliability.

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<sup>10</sup> An example of methodological triangulation is shown in Fillis, 2004.



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