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Case study- assignment

Country of origin and its impact on marketing

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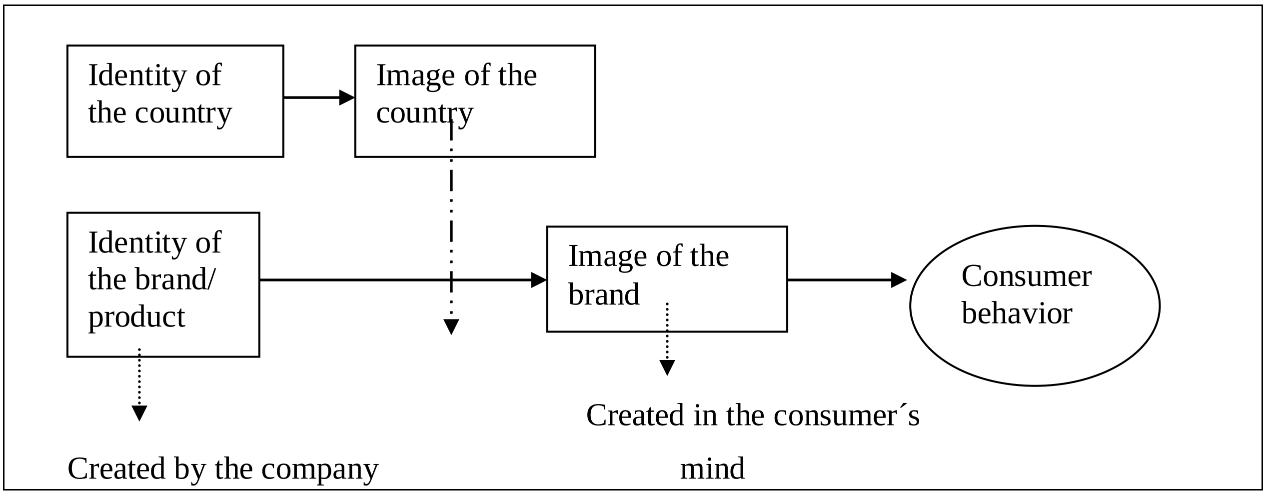
The impact of the country of origin (COO) has been in the center of interest of marketers and academics for several decades already. Companies from all around the world are impacted by the country of origin effect constantly when preparing their strategies for international markets as well as when serving their home markets. The COO can have a positive effect on a company´s marketing strategy (when the country is perceived positively) but could also be a big obstacle for market entries. This case study describes the impact of the country of origin on marketing strategies from several different angles. The first part describes the theoretical background of the COO effect and explains how the COO influences the marketing strategy. The second part provides practical business examples of companies whose strategy was influenced by the COO effect, and finally the third part takes the “macro-economic” perspective and explains the factors which influence the perception of a concrete country.

Theoretical background

The effect of the country of origin on consumers´ decisions has been studied by marketers and academics since the 1960s, and research conducted over that time in various countries around the world has confirmed that the COO played an important role in the perception of products and brands by consumers and therefore in their purchase decisions. The COO of the product influences the expected product´s benefits, quality and durability and as a result also the price that consumers are willing to pay for products.

This is true especially in situations when consumers are confronted with unknown products or brands. In such situations, the COO could be the main assessment criteria that consumers would use. When a consumer does not possess information and/or experience with a product or a brand from the past, the COO seems to be a criterion that helps to make the right choice. The perception of the concrete country is based on various factors, such as previous experience with products originating from that particular country or biases related to the country which are shared and learned from previous generations or mass-media. Those perceptions are relatively stable over time and influence the way consumers perceive products originating from a certain country. The following figure shows how the perception of a country influences the perceptions of brands and products and therefore the purchase decision.

Figure 1: Impact of COO on a consumer´s behavior



Source: Nagyova, J., Cech, P.: Country of origin and its possible impact on marketing strategies-case study, VSE Prague, 2004.

The figure clearly shows that, from a marketer’s perspective, the image of the country must be taken as an external factor which the marketer cannot influence while, on the other hand, the brand’s / product’s identity is fully in the marketer´s hands. The final purchase decision of the consumer is then based on both factors – the identity of the brand / product, and the image of the country from which the product / brand originates; together, they influence the image of the brand.

The scheme complies also with the findings of other researchers. Aaker (2000) suggested that country of origin is one of the key elements of the brand´s identity. Also Kapferer (1994) in his famous brand identity prism identified that the country of origin of the brand (and in particular the country´s culture) was one of the parts of the brand´s culture. Those two famous models of brand identity also lead us to another important conclusion, which has also been confirmed by various other research – and that is that the country of origin of the brand plays a more important role in consumers’ perceptions than the country of origin of the particular product. When consumers buy a new iPhone or iPad, they buy an American product with American quality and they are ready to pay a price for it which corresponds with the US as a COO, even though the products were manufactured in China. Also when buying an Audi car, the consumer buys a “German” car despite the concrete origin of the particular car / model. The same is true for thousands of other products being manufactured in developing countries around the world but bearing the popular and credible brands originating from positively perceived countries.

But the perception of a concrete country also varies from one country to another. The same country could therefore be perceived very differently around the globe (in some countries as a prestigious and trustworthy COO while at the same moment as an inferior COO somewhere else) and the perception of the country also changes over time. For example, political clashes often lead to avoidance of products with a certain country of origin (e.g. during WWII and shortly thereafter, when German products were boycotted in many countries not because of their quality but for political reasons) while hard times (such as the recent economic crisis) frequently lead to the preference of home-manufactured products (because consumers want to support the local economy and local jobs by purchasing local products). Sometimes even governments and public authorities support the purchase of local products by "buy national" or "buy local" campaigns.

But on the other hand, with the exception of these mentioned time periods, the image of the country remains relatively stable. From a marketer´s perspective, this clearly means that it is almost impossible to change the image of the country (or, at least, this change would be connected with high financial and time costs) and therefore it makes more sense for marketers to take the image of the country as given and manage the company's marketing strategy accordingly.

The impact of the COO effect also differs across product categories. Typically, for luxury and durable products, the COO plays a more important role in a consumer´s decisions while for FMCGs and cheaper products its role is rather limited. On the other hand, the same applies in general to the impact of brands on consumer decisions. The perception is also different in the B2B market (where in general the COO does not play that important of a role) and B2C market and for emotional (typically luxury) products and rational (typically high-tech) products. The same country could therefore be very well perceived in one industry and simultaneously as rather inferior in another industry.

Some authors even suggest that the country of origin could not only be an important element of the brand´s image but even a core part of the unique selling proposition for which the consumers would be ready to pay higher prices.

Despite the fact that the image of one particular country could vary in different markets, we can clearly identify a group of countries which are, in general, perceived positively all around the world. There are various rankings of the brands of countries and all of them bring slightly different results, but a group of countries which are generally perceived positively always consists of Switzerland, United States, Germany, France, Italy and frequently also Japan.

Companies originating in these countries therefore quite frequently work with a positively perceived country of origin in their branding and communication strategies, as shown in the following sub-chapter.

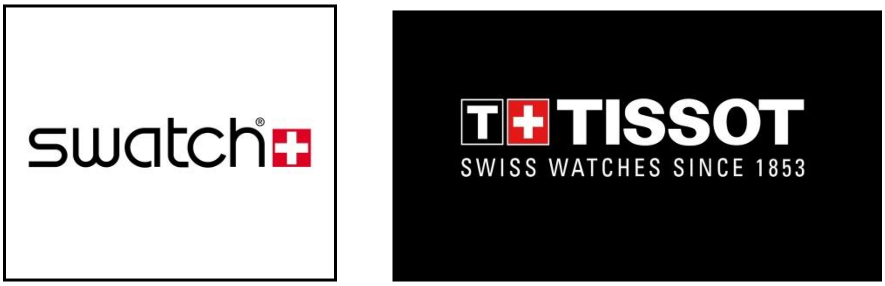
Country of origin as a part of marketing strategy

The previous part of this case study described the way that COO influences consumers´ perceptions and purchase decisions. Brand and marketing communication managers therefore frequently use the positive image of a certain country as an integral part of their marketing strategies.

We can clearly see this approach while looking at the marketing strategies of some Swiss brands. Many of them even bear names that suggest their Swiss origin – such as Swiss International Airlines (Swiss flag airline using the claim “our sign is our promise”), insurance companies SwisRe and Swiss Life or the telecommunication company Swisscomm. Also the brands that do not have the Swiss origin as a part of their brand´s name frequently use Swiss symbols (the Helvetic cross) as a part of their logo and thus suggest a certain level of quality and reliability typical for Switzerland.

The following figure portrays logos of two famous watch brands originating from Switzerland. Especially in the watch-manufacturing business, Switzerland as a country of origin plays a very important role, as most of the Top10 selling high-end watch brands originate from this country.

Figure 2: Logos of Swatch and Tissot using the Helvetic cross



Also other watch manufacturers originating from Switzerland (i.e. Tag Heuer and Longines) take advantage of the country of origin and mention the origin directly on the dial of the watch as “Swiss made.”

Similar to Swiss companies, German firms also frequently address their origin in their marketing communication. The biggest European car maker Volkswagen introduced several years ago its global advertising claim “Volkswagen – Das Auto” which clearly reminds consumers around the world, including those who do not speak German, of its German origin. After the successful launch of this claim, Volkswagen’s German competitor Opel (European subsidiary of the American car maker General Motors) launched a similar claim for all European markets: “Opel – wir leben Autos.” The meaning of Opel´s claim is more complicated to understand. In German, the translation of the claim would be: “We live cars” but it also plays on similarity of the verbs “leben” and “lieben” whereas “lieben” means to love. No matter if Opel loves or lives cars, the message for non-German speaking countries remains clear – Opel is a German car.

Figure 3: Volkswagen and Opel using their country of origin in marketing communication

Germans are well-known for producing good cars but not that much for hospitality and services. Lufthansa (the German flag carrier) made use of biases towards Germans in France in its commercial “These Germans” (French passengers are known for preferring Air France for their trips because of the French cuisine on board). The commercial portrays a French businessman astonished with Lufthansa´s service – punctuality, reliability, perfectionism – who was surprised to get French wine and a selection of cheeses on board. Lufthansa communicated its message in a humorous way, making fun of itself and its perception as a German company with all the pros and cons associated with this origin. (The whole commercial can be viewed at: https://www.youtube.com/watch?v=iwSbJnmyURA).

A similar approach, but in the opposite direction, was used by the French car manufacturer Renault who promoted the new Megane model with a man who pretended of being surprised by the quality of the car. The man combined French and German language in the commercial which ends with the sentence “Ich bin ein Berliner, Berliner Renault Megane.” In this case, Renault reacted to biases towards French cars in Germany where their perception is rather negative compared to the German cars. (The whole commercial can be viewed at: https://www.youtube.com/watch?v=_56iOdbKVqs&spfreload=1).

Despite the above mentioned examples, France and Germany are countries which are mainly perceived positively. Another situation comes when the brand faces a local competitor which could use the home-country´s origin as one of the brand´s benefits. This is the position of Hyundai, a Korean car manufacturer, which challenges Škoda as a market leader in the Czech Republic. Even though Škoda does not use its Czech origin in its communication, it is clear that the brand benefits from the fact that it is the only personal car manufacturer originating in the Czech Republic.

Hyundai attacked Škoda´s position in several campaigns benefiting from the fact that it owns production facilities in the Czech Republic and could therefore communicate the Czech origin of its cars as well. In one campaign, Hyundai claimed its model Hyundai ix35 as the “Best Czech SUV.”

Hyundais´s Korean counterpart – the car manufacturer KIA Motors – which owns production facilities in Slovakia, also communicated the origin of its products (not of the brand) in several campaigns. The claim “SlovaKIA” clearly indicated that KIA is a home brand in the Slovak market. The supporting claim “Vyrobené na Slovensku” (“Produced in Slovakia”) supported the main claim. One of the examples of KIA´s advertising for the Slovak market is pictured in the following figure.

Figure 4: KIA´s campaign for Slovakia using the COO of the product

Source: www.kia.com

But the impact of the country of origin on marketing strategy is not always positive. As described in the first sub-chapter, political changes and disputes can have a very negative influence on a perception of the country, and in these situations, the image of the country could change relatively quickly. This was experienced by several American companies in the Middle-East after US troops invaded Iraq and Afghanistan.

Procter and Gamble experienced a boycott of its flagship product Ariel in Egypt after some radical groups accused the company of naming the detergent after Israeli Prime Minister Ariel Sharon; they also said that the product's logo was a disguised Star of David. Of course, P & G argued that the detergent had been around longer than the Israeli prime minister. The logo of Ariel is pictured at following figure.

Figure 5: Logo of Ariel

Source: Procter and Gamble

At the same time, other American giants Coca-Cola and Pepsi faced a boycott because of their American origins, despite the fact that Coca-Cola was the second largest investor and employer on the West Bank and both companies sponsored local charities and employed local people in the Middle East. While these two companies were losing market share, newly founded competitors (e.g. Mekka Cola and others) experienced rapid growth. Mekka Cola, as a company, was founded in France in 2002 (the headquarters were later moved to Dubai, UAE) and gained significant market share in some Muslim countries also thanks to its marketing concept, which presented the product as an alternative to Coke and Pepsi and which also stressed the social benefits the company provides (10 percent of the profit is donated to charities and another 10 percent to humanitarian activities in the Palestinian territories).

Country of origin as a brand

The relationship between the country of origin and products / brands works not only in the direction which was discussed above but also vice-versa. Famous brands and products influence the image of the country that they originate from. In some cases, brands even play the role of "ambassador" of countries and their culture abroad. For example, Coke or McDonald´s clearly represent the US culture, while IKEA represents Sweden around the world.

From a marketer´s perspective, the COO could be also perceived and managed as a brand with a certain image, heritage and values. The target groups for country brands are typically much more diverse and larger than target groups for product brands. They include not only potential customers for products manufactured in a country but also tourists, foreign investors, or foreign students who come and study in the country. The diversity of the target groups is then the real challenge as communication with all of them must be consistent and must deliver a similar message. Another obstacle for marketers responsible for a country´s branding is the fact that they cannot change "the product" that they offer but only the way they communicate and "sell" it on the global market. At the same time, they are confronted with stable biases towards their "product" as described above.

The perception of a country´s brand is influenced by several factors, which are usually referred to as a "national image hexagon." The hexagon consists of six groups of factors which influence the image of the country abroad. All of these factors are relevant for every country, but their importance obviously differs. The six groups of factors are: Tourism, Exports, Governance, Investment and immigration, Culture and cultural heritage and People.

Tourism represents the experience which foreign tourists gain when visiting the country. This factor is of a high importance especially for frequently visited countries. As it represents personal experience with the country, its culture and inhabitants, this factor is also very strong in influencing the perception of a concrete tourist.

Exports represent personal experience with products originating from a given country. This factor is typically strong for export-oriented nations such as Germany or China. A consumer gains experience (positive or negative) while using a certain product and unconsciously assigns the same benefits and quality level to other products which originate from this country.

Governance is influenced by internal politics and diplomacy. This factor typically plays an important role for bigger countries which are active in international politics, and their internal politics also has an international impact, such as Russia or the USA. In this case, the image of the country is not influenced directly by the personal experience of the consumer but rather indirectly by information provided by the mass-media.

Investment and immigration combine both personal and impersonal experience with the country. The impersonal experience is again mainly based on information provided by mass-media (such as rankings of most attractive locations for investment, rankings of most important source countries for investment inflow, or information about immigration and related issues). On a personal level, investment could influence people who work in factories or businesses owned by foreign investors who are confronted with a company´s national culture on a daily basis and usually also with managers coming from that country. Immigration is usually connected to personal experience with immigrants (as neighbors or just passers-by). This personal experience with one company or one person is then, in the consumer´s mind, extended to all people coming from the same country.

Culture and cultural heritage represent various factors for which the country is famous, starting from historical sights, typical habits or the way people dress, to all kinds of arts, such as music, dance or fine arts. Today also sports is a very important part of culture and even cultural heritage. This group of factors also includes the cultural proximity of the country and a consumer´s home country.

And finally **people** are the famous citizens of the country who play the role of a country´s ambassadors abroad, such as famous actors, singers, politicians, sportsmen or top models.

The national image hexagon could be a very useful tool not only for marketers managing the country´s brand but also for marketers managing commercial brands. The analysis of the hexagon helps them to understand the perceptions of their brand´s / product´s home country and the factors which form the opinions of their buyers and potential buyers. This understanding is the basis for finding the right approach to address these perceptions and use them to develop the brand (stress the positive factors and omit the negative ones).

Student tasks:

1. What might be the strategic measures that brand managers of brands originating from poorly perceived countries could use to succeed in international markets without decreasing the prices of the products they offer? Discuss the effectiveness of these strategies and the limitations of their use.
2. Which of the factors of the national image hexagon influence the perception of your home country and how?

Suggested additional reading on COO and branding:

Aaker, D. A., Joachimsthaler, E. (2000): Brand Leadership, New York: The Free Press

Kapferer, J.N. (1994): Strategic Brand Management, New York: Free Press.

Dinnie, K. (2003): Country- of- Origin 1965- 2004: A Literature Review, Version 2003, Accepted for Journal of Consumer Behaviour.

Han, M., Terpstra (1988), V.: Country-of-Origin Effects for Uni- National and Bi-National Products, In: Journal of International Business Studies, Vol. 19, No. 2 (Summer, 1988)

Koschate- Fischer, N., Diamantopoulos, A., Oldenkotte, K.: Are Consumers Really Willing to Pay More for a Favorable Country Image? A Study of Country- of- Origin Effects on Willingness to Pay, In: Journal of International Marketing, Vol. 20, No 1, 2012, American Marketing Association.

Verlegh, P. W. J., Steenkamp, J-B. E.M., Meulenberg, M.T.G. (2005): Country-of-origin effects in consumer processing of advertising claims, In: International Journal of Research in Marketing 22(2005).