MARKET DEVELOPMENT BY MULTINATIONAL BRANDS: EMPIRICAL EVIDENCE FROM INDIAN FAST FOOD RETAILING BUSINESS

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ABSTRACT
One of the major dilemmas faced by the multinational marketer is to decide on opening up new markets. This study develops a framework for market development activity by multinational brands based on literature. In the framework, Expected Customer demand (ECD) is dependent on Acceptance of Global Brand (AGB), Image of the Parent Brand (IPB) and Quality Perception (QP) about the product. The framework is empirically tested in urban Indian fast food market. The results demonstrate that each of these variables have significant impact on ECD. The priority of marketing budgets allocation should be in order of improving the AGB and IPB and then on QP, so as to have the highest impact on the demand.

Keywords: Market development, expected customer demand, food retailing in emerging market, marketing budget allocation

INTRODUCTION

Emergence of fast food culture dates back to the 19th century, driven by the societal changes brought about by the Industrial Revolution. The work force then, worked for extended hours and easy quick lunch was a good option.

Post-independence, India saw fast food culture setting in around 1950s. The fast food Industry in India has had a favorable growth owing to rising disposable income, young workforce, increase of women in work force, exposure to global culture, rise in nuclear families etc. According to a National Restaurant Association of India (NRAI) 2010 report, the fast food industry in India is currently estimated at 1.6 - 1.8 billion US $, growing at a CAGR of 35-40 per cent annually. A major chunk of this market is ruled by global players like McDonald's, Yum! Brands, Dominos, Subway, Taco Bell, Barista, etc.

Traditionally in India, eating out from road side stalls and eateries formed the major chunk of the unorganized sector. With revolution in Indian economy and corporate culture finding its way in, the organized eating out sector has emerged successfully. World is seeing India emerge as one of the quickest growing markets for fast food. Most of the key global brands of fast food have introduced their offerings in India and are running good business.

Yet, the potential needs to be tapped as the current penetration of the global chains is in metro cities and good business lie in tier 2 & 3 cities too. Fast food players have understood well, this existing potential of small cities and are adopting various strategies to reach out. However, the challenges are manifold;

i. Food is a matter of habit and culture specific behaviour; the consumers are likely to take time to change their food habits from the traditional to fast food.

ii. The urban markets are very diverse demographically and hence would require customized marketing plan, making it quite resource intensive.
iii. There may be significant early mover advantage while the adoption rate is also likely to be slow. Hence there is premium on having an understanding of the variables which are likely to impact the demand.

Thus the marketers would be immensely benefitted if they have validated frameworks for taking their marketing decisions.

CONCEPTUALIZATION OF THE PROBLEM

Entering new markets with existing products is called market development (Baker and Becker 1997). Every new product rollout, the managers need to plan which markets to enter first as all markets are not equally attractive or effective in generating spillover effects (Bonnenberg and Mela 2004). Physical distance from the home market is one of the factors that prevents or disturbs the flow of information between potential suppliers and customers. These factors are based on country based diversities and can be classified under cultural, administrative and political, geographic and economical heads. Psychic distance is the distance between the home market and a foreign market, based on the understanding of differences in the culture and business realities (Srivastava 2011). Hence, the market development plans require the conceptual soundness and contextual relevance.

This study develops a framework of deriving the expected consumer demand of products from global brands and empirically tests the same in urban Indian fast food market. The study also finds out the different determinants of demand and their relative importance in impacting the demand. The results could be used many marketing decisions like selecting the target markets, developing appropriate marketing tools and allocating marketing budgets for market development activities.

LITERATURE REVIEW FOR DEVELOPING A CONCEPTUAL FRAMEWORK OF MARKET DEVELOPMENT

The context of the research is related to introduction of a product into new market, introduction of new brand and geographical expansion. Conceptually, entering new markets with existing products is called market development (Baker and Becker 1997). For effectively achieve market development, there is a need to study the way the consumers form their perception about global brands and make the purchase decision regarding their product offers. The new users brand acceptance is based on explanatory variables like brand loyalty, product class usage, deal coverage, deal size and brand identity (Aaker 1972). The consumer response to foreign brands in terms of attitude and behavior depend on the perception of product quality, brand and word of mouth (Ergin and Akbay 2010).

Expected customer demand is the key variable which we would like to measure. This depends on many factors like the brand image enjoyed by the marketer, as well as perception of quality of the product. The literature review aimed at exploring the relevant variables which adequately explains the consumer demand, and is organized in sections which reflect the conceptual underpinnings of this research. Since the model is conceptual in nature and hence should be applicable in any product – market situation.

EXPECTED CUSTOMER DEMAND

High equity brands which have higher price and quality perceptions tend to gain better than others in case new feature introduction. The brands performance may be improved by changing the price, promotion and distribution (Nowlis and Simonson 1996).

Brand equity is driven by perceived quality, brand loyalty and brand awareness. More is the value of the brand; the more is the likelihood of purchase. There is positive relationship between brand equity and the perceived quality (Villarejo-Ramos and Sánchez-Franco 2005).

After accounting for order of entry and time in market, the stage in the life cycle in which a brand enters has a significant impact on the brand growth, market response and eventually sales There is a greater response to the pioneer’s marketing spends and that enables them to spend less and achieve greater sales than later entrants (Shankar, Carpenter and Krishnamurthi 1999).

Thus we can conclude that there is research evidence on how the expected consumer demand is likely to be dependent on the consumer’s perception of the tangible product as well as the intangible value of the product through the brand image.

PERCEPTION OF BRAND

Even though the product is not used by the consumers, there are many instances; the consumers have perception about the products, brands and the marketers. Hence, the brand perception could be important element in adoption of a new product. Hence the literature was explored in the area of brand image and acceptance of new products being launched by multinational companies.

The parent brand quality thought drove the evaluation of pioneer brand extension (Oakley et.al. 2008). Consumers fit perceptions; knowledge about parent brand / extension category and external information influences the attitude towards brand extension (Mollahosseini, Kermani and Abassi 2011).

Psychic distance is a factor which has an impact on the acceptance of global brand and explains significant portion of the difference in the marketing program adaptation towards brands. Global experience helps companies which are launching brands in international markets that are economically distant (Srivastava 2011).

When predicting the impact of a new product feature on the expected sales, the image of the parent brand also need to be considered. Normally the high equity brands gain more from the introduction of new product features as compared to low equity brands (Nowlis and Simonson1996).

The premise of extending a brand is that the consumers use their belief about parent brand to draw conclusion about the extended brand. A positive interaction is expected between fit and the quality of the parent brand. Marketing support, retailer support, parent brand conviction and parent brand experience as well as history of previous extensions, specific product attributes drive the success of the parent brand extension (Volckner and Sattler 2006).

Word of mouth is more effective than media communication as they are perceived to be more reliable, come with social support and possibility of clarification. Though, advertising was found to play a very important role in the acceptance of the established brand of the convenience food product, word of mouth helped provide a satisfactory usage experience (Day 1972).

Though consumers "own' a brand in terms of expectations, perceptions and attitudes they hold about it, marketers can and should actively manage the consumer's brand knowledge structure (Keller and Sood 2003).

The literature demonstrates that there are essentially two concerns related to the global brands and need to be studied separately, one is contextual and collective, the other is individual. Hence, one of the concerns can be classified as acceptance of the global brand which is a contextual aspect. There is also a customer specific aspect, about the image enjoyed by a specific brand in the mind of the specific consumer.

PERCEPTION OF QUALITY

The new product evokes uncertainty and anxiety in the minds of the consumer and they are concerned about the quality of the same. In a lot of cases, in case of new products and new marketers, the consumer does not have any past experience to fall back on and takes decisions based on the perceptions about the products or other surrogates. A few of such measures given in the literature are:

Pioneer evaluation is driven by parent brand quality thoughts (Oakley et.al. 2008).

Purchase intention is influenced by the perceived value. High priced introductory strategy may be useful in increasing the perceived quality (Taylor and Bearden 2002).

There is direct effect of perceived quality of the product on purchase intention and indirect effect on purchase intention through satisfaction. Thus product quality has a dominant role in product purchase intention (Tsiotsou 2006).

Thus we can conclude that consumers are likely to take into consideration the product and its quality. Quality may be very difficult for the consumers and they have to use surrogate measures for making the decision.

FRAMEWORK FOR MARKET DEVELOPMENT

Based on the literature review, it could be derived that existing product, which was being taken to a new geography was essentially a market development activity. In case of market development, the Expected Customer demand (ECD) is dependent on brand perception and Quality Perception (QP) about the product. However, for a multinational firm brand perception had two components, one was the Acceptance of Global Brand (AGB) and the other was Image of the Parent Brand (IPB).The same could be represented as Figure1:

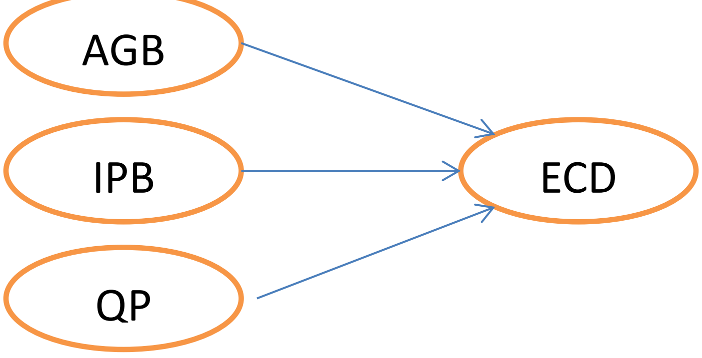

Figure 1: Conceptual framework for market development

The framework could be also represented as:

ECD = Function of (AGB, IPB, QP)

This conceptualization could be valid in many product market contexts and hence used in solving managerial decision making problems. However, the practical utility of the construct is likely to me product - market specific. Hence the model needs to be validated in specific contexts and marketing implications and decisions derived based on the same. The objective of the research is to empirically validate this conceptualization. In case the framework is supported by empirical evidence, then the multinational marketers could use it as a toolkit to plan their market development initiatives. Also, if this conceptualization is empirically validated, then it would be also interesting to find out the relative importance of the different variables in impacting the ECD. The finding would have many managerial applications in its specific context.

METHODOLOGY

Selection of Indian Market: Contextual relevance of the research
Liberalization of the Indian economy 1991 had led to influx of many multinational retail chains in foods, like Mc Donald's, Domino's, KFC, Pizza Hut etc and now form part of the INR 70 billion restaurant Industry. They initially concentrated on the Metro markets and customized their offerings to suit the Indian taste & traditions (like more vegetarian options, non-vegetarian option does not include beef & pork). Fast food has gained acceptance, outlets have mushroomed in metro cities[1] in India and have a wide presence through malls, shopping complexes, Cineplex's etc. and achieved considerable penetration.

The organized restaurant business is likely to increase from INR 70 Billion in 2010 to INR 280 Billion by 2015. Urban Indian markets are going to be the growth drivers' in future in India as significant population (Financial Chronicle), and is likely to be and most of multinational retail chains are in the process of making significant investments in these markets. There are many urban markets in Tier1 & Tier 2[2] cities where the potential exists (Economic Times), and the marketers would like to cherry pick their markets which offer them easier access, more market size and profit potential (Bonnenberg and Mela 2004).

Geographical and cultural diversity of India is reflected in its food diversity. Traditionally home cooked meals were a preference, but with changing times, globalization and influence of western culture, there has been a modification in patterns of food consumption in urban India. At the same time, urban markets are likely to be significantly different from the metro markets. The consumer in urban markets have psychographic and demographic profiles which are distinctly different from metro and hence the marketing initiatives need to be recalibrated to the needs these markets (Srivastava 2011).

Sample characteristics
Convenience sampling was used as respondents were intercepted in markets as well as their homes. Data was collected from respondents by administering the questionnaire as most respondents were not comfortable in English, the language of the questionnaire. The respondents were from 29 tier 1and tier 2 cities in India. Refer to exhibit 1 for the list of urban centers

[1] The top six markets which have metropolitan consumer base
[2] The next level of cities where the population is more regional and less cosmopolitan

covered. A total of 558 completely filled in questionnaire were received and data was entered for analysis in the SPSS 10 software. There were 403 male and 155 female respondents. The annual household income were well distributed, less than 0.3 million INR were 157, 0.3 to 0.6 million INR were 220, 0.6 to 0.9 million INR were 105, 0.9 to 1.2 million INR were 33 and 41 respondents were above 1.2 million INR. 134 respondents were within 15 - 20 years of age, 356 were from 20-30 years, 53 from 40 years and 15 were above 40 years of age.

Instrument

The standard method of measuring the construct was followed. Literature suggests that the dimensions and the latent variables that represent the concept to be measured, create indicators based on past theoretical positions, and show the relationship between the observed variables and the latent constructs (Villarejo-Ramos and Sánchez-Franco 2005).

Thus the latent constructs ECD, AGB, IPB and QP were measured using a scale derived from the existing literature (Refer Exhibit 2 for details). The conceptual validity was provided by literature. However, the instrument was adapted for the fast food retail context so as to provide the respondents a specific frame of reference to anchor their responses. The reliability of the instrument was tested by using chronbach’s alpha figures and which were in the acceptable range of 0.675 to 0 .741 (Please refer Exhibit 3 for the details).

RESULTS

The regression analysis results from the SPSS output was anaysed (are given in Exhibit 4).

The variables AGB, IPB, QP are indeed independent as their VIF scores are less than 10. They have significant impact on the variable ECD as their significance score is 0.000. The R value of .802 means that the three variables studied (AGB, IPB, QP) explained more than 80% of the dependent variable (ECD), and hence it seems to be a very good model which explains the data collected empirically. The standardized beta values of AGB, IPB, QP are 0.35, 0.34 and 0.20 respectively, which gives the relative importance of the different variables in impacting the observed variable.

DISCUSSION

One of the major dilemmas faced by the multinational marketer is to decide on opening up new markets. Literature suggests that the advantages that pioneer enjoys in market diversification are direct result of order of entry and indirect impact of marketing mix effectiveness. Later entrants also may enjoy certain advantages and outperform the pioneer (Shankar, Carpenter and Krishnamurthi 1999). So pioneering into new markets need not always be the most effective business decision. However, the effect of pioneering on brand retrieval, brand consideration and brand choice produce a remarkably robust pioneering advantage (Kardes et. al. 1993). Hence, from the commercial business manager’s point of view, it is important to pioneer as well as ensure that it succeeds, so as to derive long term advantages in the market.

The key issue is to have demand for the product. Many a times the decision making dilemma is resolved by doing market research. Typically the results indicate either evidence of adequate market opportunity even if a tiny part of the potential market adopts a new product or absence of potential. However, the practical problem is that even if there is a market potential, whether that would translate into actual demand? More specifically the focus is to achieve a specific budgeted demand figures in a timeframe.

If a marketer is able to generate adequate demand by using the various marketing mix elements, then the pioneering would be a preferred strategy. In fact the managerial success is measured where marketing initiatives are able to convert a no or low demand situation to acceptable or high demand situation. This research gives managers a parsimonious model based on empirical evidence from food retail business, which highlights the impact of the different marketing mix element that determine success in market development. Based on the beta values, we could arrive at the mathematical equation for the empirical relationship as follows:

ECD = .281 + 0.353 AGB + 0.369 IPB + 0.195 QP

The standardized beta values of AGB, IPB, QP give clear indication that AGB and IPB has greater impact on ECD as compared to QP. The results also demonstrates that each of these variables have significant impact on ECD and could be considered as important elements of marketing mix. The priority of marketing budgets allocation should be in order of improving the AGB and IPB and then on QP, so as to have the highest impact on the demand.

The data also assures practicing managers that three variables namely, AGB, IPB, QP are able to explain more than 80% of the expected consumer demand. Thus, the marketing managers would find it easy to focus on these variables in taking their marketing decisions in the initial stages of the market development activities, specially related to food retailing in India.

The above findings confirm that food is culture specific and a matter of habit. Acceptance of global food retailer and image of the specific brand are more important as compared to product specific issues. Thus, in markets which are not yet tapped, presence of a favorable image of the global brand and company specific brand image would be the first priority followed by the perception of product quality. Thus, it provides the priority order for marketing budget allocation criteria amongst the different marketing objectives. The marketers can create benchmark figures for the variables AGB, IPB, QP for making entry in these markets. Or, conversely, the marketers should focus on AGB, IPB, QP in the markets which they want to develop.

LIMITATIONS OF THIS RESEARCH

This research had a few limitations regarding the sample and completeness of the construct. This research was conducted in diverse markets in the northern part of India and hence may not represent the all India market. Also, the sample selection was convenience sampling technique, while a stratified random sampling would have represented the population more accurately. Only three variables AGB, IPB and QP were used as predictor of ECD, other variables like first mover advantage, social status associated with the consumption, competitive brand image etc. could have improved the prediction.

SCOPE FOR FUTURE RESEARCH

The findings of study need to be re-validated with an all India sample and the sampling techniques could be improved. Also, more constructs could be studied like first mover advantage, social status and competitive variables.

This research indicates that AGB and IPB has greater impact on ECD as compared to QP. However, this research does not throw any light on why the AGB and IPB has greater impact on the ECD and could be a question for further research.

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Exhibit 1(List of urban centers from where the samples were collected)

Agra	Ghaziabad	Lucknow
Ajmer	Gurgaon	Mathura
Allahabad	Hissar	Moradabad
Bahadurgarh	Jaipur	Muzzaffarnagar
Ballabgarh	Jind	Palwal
Bareilly	Jhodhpur	Rewari
Bhiwani	Kanpur	Rohtak
Dehradun	Karnal	Saharanpur
Faizabad	Kota	Sirsa
Varanasi	Sonepat	

Exhibit 2 (Operationalization of Variables in Questionnaire)

Construct and Questions	Adapted From (Source)
Image of Parent Brand (IPB)	Keller K.L. & Sood S. (2003), "Brand Equity dilution", MIT Sloan Management Review, Sept 2003
I only try out new products in fast food where the brand name of the outlet can be trusted	
I experiment with dishes from new brands of fast food outlets	
I trust food that comes from big brands	
I am guided by brand names when I make fast food purchase decisions	
My past experiences with a food chain is important when I buy fast food	
Quality Perception (QP)	Nowlis S.M., Simonson I. (1996),"The Effect of New Product Features on brand Choice",Journal of Marketing Research, Vol. 33, No. 1, pp. 36-46.
The brand name of the fast food chain is a good indicator of the quality of the food served	
The more is the price I pay, the better is the quality of food	
The ingredients used in the preparation, determine the quality of the fast food	
The processes followed in preparation determine the quality of fast food	
Expected customer demand(ECD)	Wieseke J., Homburg C., Lee N (2007), "Understanding the adoption of new brands through salespeople: a multilevel framework", Academy of Marketing Science 2007
I try out new food that are popular abroad	
My family is willing to go to a new brand of fast food outlet	
I am ready to pay extra for rare foods served by good brands of fast foods	
I stick to my tried and tested menu from my trusted fast food brand	
Acceptance of Global Brand (AGB)	Oakley J.L., Duhachek A., Balachander S., Sriram S. (2008), "Order of entry and the moderating role of comparison brands in brand extension decisions", Journal of Consumer Research, Vol. 34, pp. 706-712.
Global brands are acceptable to me.	
I think global brands deliver on their promises.	
I think global brands are reliable.	
I feel comfortable while using international brands.	
I would like to buy products of global brands.	

Exhibit 3: Reliability Results

Chronbach's Alpha Figures

ECD	0.6749
AGB	0.7416
IPB	0.7113
QP	0.6795

Exhibit 4: Regression Results

Variables Entered/Removed[b]

Model	Variables Entered	Variables Removed	Method
1	AGB, QP, IPB[a]	.	Enter

a. All requested variables entered.

b. Dependent Variable: ECD

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.802[a]	.643	.641	.4524

a. Predictors: (Constant), AGB, QP, IPB

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	204.187	3	68.062	332.583	.000[a]
	Residual	113.375	554	.205		
	Total	317.561	557			

a. Predictors: (Constant), AGB, QP, IPB

b. Dependent Variable: ECD

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	.281	.118		2.393	.017		
	IPB	.369	.047	.339	7.795	.000	.341	2.936
	QP	.195	.038	.195	5.077	.000	.436	2.294
	AGB	.353	.041	.349	8.534	.000	.386	2.589

a. Dependent Variable: ECD