Provenance Paradox

Idea In Short

The provenance paradox describes the challenge for brands originating in a number of regions in the world failing to compete in the top tier markets. Their origin carries a stigma which places them at an inferior position to brands that originate in supposedly more developed and reputable regions. Certain geographies are perceived to produce better products than others, despite the essence being that the products are of the same quality.

In 2010, Harvard Business Review published an interest article 1by Rohit Deshpande, Sebastian S. Kresge Professor of Marketing at Harvard Business School. This phenomenon, called the Provenance Paradox, explains the challenges firms from developing economies firms face when competing with established incumbents from developed economies. This effect is largely because consumers associate certain geographies with the best products. Thus, developing-market firms can't command fair prices, even when the quality of their products is on par or superior to that of established players! Citing an example:

> El Rey also makes its own brand of excellent chocolate, which it's trying to sell globally. But so far, El Rey chocolate is relatively hard to find outside its home market, and people aren't willing to pay a price comparable with that of, say, Godiva or Lindt. That's because El Rey is from Venezuela, not Belgium or Switzerland, and consumers have been conditioned to believe that great chocolate comes from Europe, not South America.

The effect

Often times, a product's country of origin [provenance] establishes its authenticity. Therefore, a significant price difference exists between similar products manufactured by firms from developing and developed economies. As firms from developing economies are vying for global markets, the problem of establishing authenticity has become a significant

marketing challenge. Customers consider best chocolates to come from Switzerland or Belgium. However, cocoa bean - the basic ingredient that goes into making chocolates - does not grow in the cold climates of either of these countries. Yet, chocolates from Switzerland or Belgium command much higher prices compared to chocolates manufactured by firms in Africa, Central and South America or East Asia, where cocoa beans grow. Likewise, customers place a high premium on the French best wines, Cuban cigars, German cars, and so on.

Breaking the paradox

Emerging market firms should position themselves in the segment they intend to grow its market share. They should sharpen their value proposition around a few core differentiators that incumbents can't easily replicate. Furthermore, they should build strong associations in their customers' minds.

Case: Toyota

In 29189, Toyota wanted to break into the American market for luxury automobiles. The German automotive manufacturers, such as Mercedes Benz, Audi and BMW then dominated the US market for luxury cars. To compete in this landscape, Toyota launched Lexus and simultaneously adopted a multi-brand strategy. It positioned itself across different market segments, including the segment that wanted affordable luxury cars. To its customers, Lexus was a model that offered greater benefits for the same price as their German rivals. Subsequently, Toyota engaged in rigorous price benchmarking and aggressive advertising to gain competitive advantage over the incumbents. As a result, Toyota experienced tremendous success in differentiating its offerings and broke away from the provenance paradox that held it back from more profitable segments and customers for decades.

Counter-strategies

There are five strategies that can help combat the Provenance Paradox

1. Stick to colonial history — focus on pure-play commodities that made your country's economy successful in the colonial era. Continue to be a low-cost supplier by achieving scale

2. Build a brand for the long haul — follow Toyota's strategy that, over decades, created brand-building strategies to overcome stereotypes and misperceptions. Eventually move upmarket to command premiums. This approach requires a long-term strategic and financial commitment
3. Flaunt your country of origin — take an aggressive approach to change cultural perceptions. Colombian coffee built two brands - 100% Colombian coffee and Juan Valdez - to transform the country's image from negative (drugs & cartels) to positive (robust coffee). This strategy requires deeply engaged and integrated brand management
4. Downplay your country of origin — focus branding aspects of the product unrelated to provenance or invent a new position in the category. Corona positions itself as a lifestyle beer and under-emphasizes its Mexican roots. This strategy runs the risk of appearing inauthentic
5. Hide behind a front country — create a separate, local brand to avoid the market biases against the country of origin. Exposure could reinforce negative stereotypes about your brand's home country.

Summary

As brands compete to overcome provenance paradox, they should consider social media to tout positive consumer reviews and hence get their brands known globally. They should follow what the top brands are already doing. The brands seeking for acceptance have a long way to go as emerging markets are developing faster than the stereotypes are eroding. Hence, with the help of the strategies for combating the provenance paradox they will be able to get out there and be globally recognized with patience, and long standing perseverance.