4

Development of the firm's international competitiveness

Contents

Learning objectives

After studying this chapter you should be able to do the following:

- **Define the concept 'international competitiveness' in a broader perspective from a macro level to a micro level.**
- **Discuss the factors influencing the firm's international competitiveness.**
- **Explain how Porter's traditional competitive-based five forces model can be extended to a collaborative (five sources) model.**
- **Explore the idea behind the 'competitive triangle'.**
- **Analyse the basic sources of competitive advantage.**
- **Explain the steps in competitive benchmarking.**

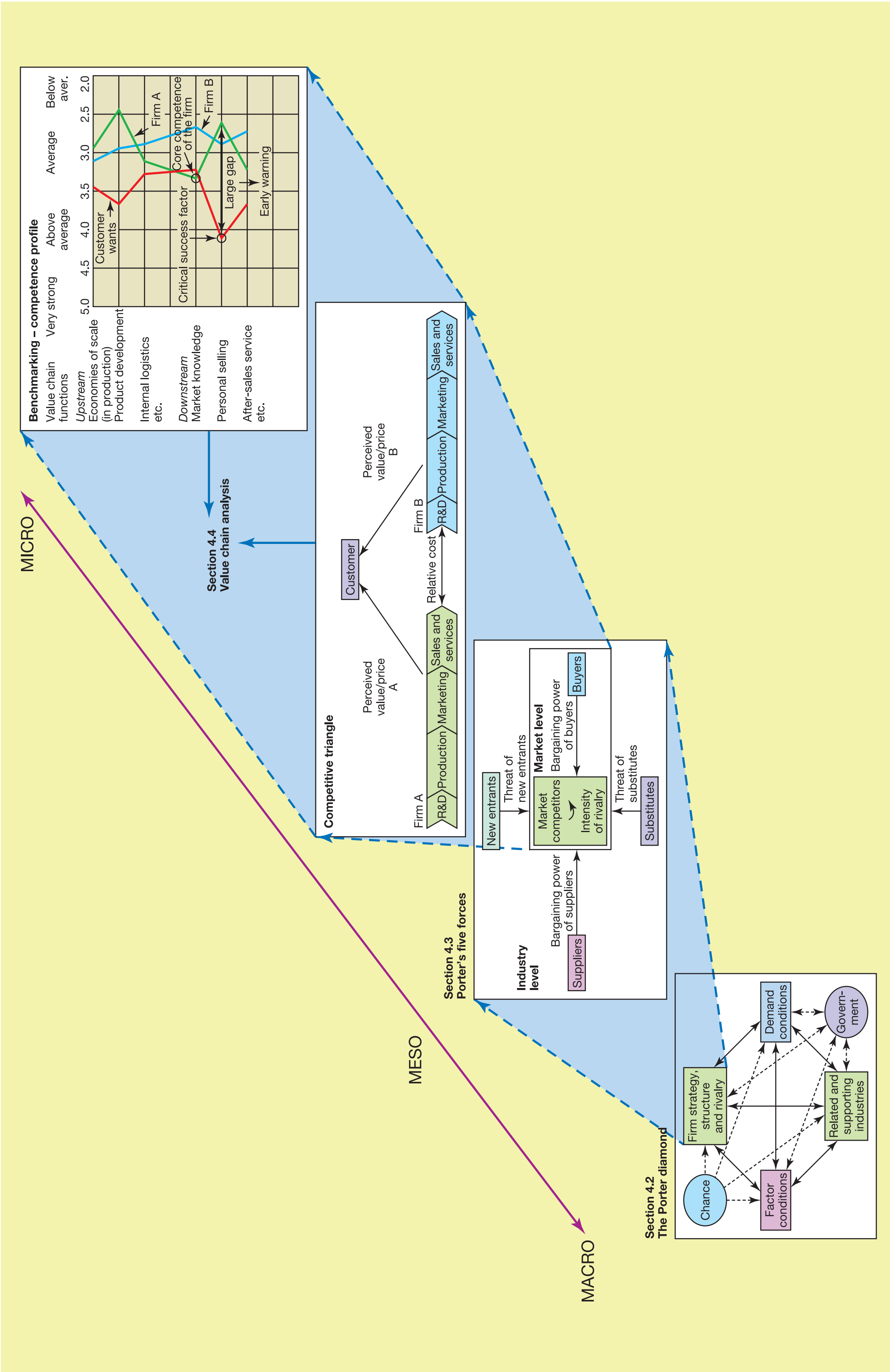
4.1 Introduction

The topic of this chapter is how the firm creates and develops competitive advantages in the international market. Development of a firm's international competitiveness takes place interactively with the environment. The firm must be able to adjust to customers, competitors and public authorities. To be able to participate in the international competitive arena the firm must have established a competitive basis consisting of resources, competences and relations to others in the international arena.

To enable an understanding of the development of a firm's international competitiveness in a broader perspective, a model in three stages (see Figure 4.1) will be presented:

1 analysis of national competitiveness (the Porter diamond) – macro level;
2 competition analysis in an industry (Porter's five forces) – meso level;

Figure 4.1 Development of a firm's international competitiveness



3 value chain analysis – micro level:
(a) competitive triangle;
(b) benchmarking.

The analysis starts at the macro level and then moves into the firm's competitive arena through Porter's five forces framework. Based on the firm's value chain, the analysis is concluded with a discussion of which activities/functions in the value chain are the firm's core competences (and must be developed internally in the firm) and which competences must be placed with others through alliances and market relations.

The graphical system used in Figure 4.1 (which will be referred to throughout this chapter) places the models after each other in a hierarchical windows logic, where you get from stage 1 to stage 2 by clicking on the icon box: 'Firm strategy, structure and rivalry'. Here Porter's five forces model appears. From stage 2 to 3 we click the middle box labelled 'Market competitors/Intensity of rivalry' and the model for a value chain analysis/competitive triangle appears.

Individual competitiveness and time-based competition

In this chapter the analysis ends at the firm level but it is possible to go a step further by analysing individual competitiveness (Veliyath and Zahra, 2000). The factors influencing the capacity of an individual to become competitive would include intrinsic abilities, skills, motivation levels and the amount of effort involved. Traditional decision-making perspectives maintain that uncertainty leads executives to search for more additional information with which to increase certainty. However Kedia *et al.* (2002) showed that some executives increase competitiveness by using tactics to accelerate analysis of information and alternatives during the decision-making process. For example, these executives examine several alternatives simultaneously. The comparison process speeds their analysis of the strengths and weaknesses of options.

4.2 Analysis of national competitiveness (the Porter diamond)

Analysis of national competitiveness represents the highest level in the entire model (Figure 4.1). Michael E. Porter called his work *The Competitive Advantage of Nations* (1990), but as a starting point it is important to say that it is firms which are competing in the international arena, not nations. Yet the characteristics of the home nation play a central role in a firm's international success. The home base shapes a company's capacity to innovate rapidly in technology and methods, and to do so in the proper directions. It is the place from which competitive advantage ultimately emanates and from which it must be sustained. Competitive advantage ultimately results from an effective combination of national circumstances and company strategy. Conditions in a nation may create an environment in which firms can attain international competitive advantage, but it is up to a company to seize the opportunity. The national diamond becomes central to choosing the industries to compete with, as well as the appropriate strategy. The home base is an important determinant of a firm's strengths and weaknesses relative to foreign rivals.

Understanding the home base of foreign competitors is essential in analysing them. Their home nation yields them advantages and disadvantages. It also shapes their likely future strategies.

Porter (1990) describes a concentration of firms within a certain industry as industrial clusters. Within such industrial clusters firms have a network of relations to other firms in the industry: customers (including firms that work on semi-manufactured goods), suppliers and competitors. These industrial clusters may go worldwide, but they will usually have their starting point and location in a certain country or region of a country.

A firm gains important competitive advantages from the presence in its home nation of world-class buyers, suppliers and related industries. They provide insight into future market needs and technological developments. They contribute to a climate for change and improvement, and become partners and allies in the innovation process. Having a strong cluster at home unblocks the flow of information and allows deeper and more open contact than is possible when dealing with foreign firms. Being part of a cluster localized in a small geographic area can be even more valuable, so the central question we can ask is: what accounts for the national location of a particular global industry? The answer begins, as does all classical trade theory, with the match between the factor endowments of the country and the needs of the industry.

Porter's diamond
The characteristics of the 'home base' play a central role in explaining the international competitiveness of the firm – the explaining elements consist of factor conditions, demand conditions, related and supporting industries, firm strategy – structure and rivalry, chance and government.

Let us now take a closer look at the different elements in **Porter's diamond**. Throughout the analysis the Indian IT/software industry (especially illustrated by the Bangalore area) will be used as an example (Nair *et al.*, 2007).

Factor conditions

We can make a distinction between 'basic and advanced' factors. Basic factors include natural resources (climate, minerals, oil) where the mobility of the factors is low. These factors can also create the ground for international competitiveness, but they can never turn into real value creation without the advanced factors, like sophisticated human resources (skills) and research capabilities. Such advanced factors also tend to be specific to the industry.

In the Indian software industry, Bangalore has several engineering- and science-oriented educational institutions. Also the Indian Institute of Science (a research-oriented graduate school) can be identified as essential in the development of the software industry in the region. The presence of the public-sector engineering firms and the private engineering colleges has attracted young people from the country to Bangalore and it has created a diverse, multilingual, tolerant and cosmopolitan culture. One of the most critical success factors of the industry was the availability of advanced- and higher-educated people, but with generalized skills. These generalists (rather than specialists in software or programming) could be trained into problem solvers in specific areas based on industry needs.

Demand conditions

These factors are represented in the right-hand box of Porter's diamond (Figure 4.1). The characteristics of this element that drive industry success include the presence of early home demand, market size, its rate of growth and sophistication.

There is an interaction between scale economies, transportation costs and the size of the home market. Given sufficiently strong economies of scale, each producer wants to serve a geographically extensive market from a single location. To minimize transportation costs the producer chooses a location with large local demand. When scale economies limit the number of production locations the size of a market will be an important determinant of its attractiveness. Large home markets will also ensure that firms located at that site develop a cost advantage based on scale and often on experience as well.

An interesting pattern is that an early large home market that has become saturated forces efficient firms to look abroad for new business. For example, the Japanese motorcycle industry with its large home market used its scale advantages in the global marketplace after an early start in Japan. The composition of demand also plays an important role.

A product's fundamental or core design nearly always reflects home market needs. In electrical transmission equipment, for example, Sweden dominates the world in the high-voltage distribution market. In Sweden there is a relatively large demand for transporting high voltage over long distances, as a consequence of the location of population and industry clusters. Here the needs of the home market shaped the industry that was later able to respond to global markets (with ABB as one of the leading producers in the world market).

The sophistication of the buyer is also important. The US government was the first buyer of chips and remained the only customer for many years. The price inelasticity of government encouraged firms to develop technically advanced products without worrying too much about costs. Under these conditions the technological frontier was clearly pushed much further and much faster than it would have been had the buyer been either less sophisticated or more price sensitive.

The Indian software industry was kicked off as a result of the Y2K problem (a problem caused due to a coding convention in older systems that assigned only two digits for the year count, thereby creating a potential disruption as the calendar year turned 2000) because US firms contracted with Indian software firms that had employees who were skilled in older programming languages such as Cobol and Fortran. As their experience with US firms increased and the Y2K problems were solved, Indian-based software firms began diversifying and offering more value-added products and service. Serving demanding US customers forced the Indian software firms to develop high-quality products and services. Later on this experience helped to address the needs of IT customers in Germany, Japan and other markets.

Related and supporting industries

The success of an industry is associated with the presence of suppliers and related industries within a region. In many cases competitive advantages come from being able to use labour that is attracted to an area to serve the core industry, but which is available and skilled enough to support this industry. Coordination of technology is also eased by geographic proximity. Porter argues that Italian world leadership in gold and silver jewellery has been sustained in part by the local presence of manufacturers of jewellery-making machinery. Here the advantage of clustering is not so much transportation cost reductions but technical and marketing cooperation. In the semiconductor industry, the strength of the electronics industry in Japan (which buys the semiconductors) is a strong incentive to the location of semiconductors in the same area. It should be noted that clustering is not independent of scale economies. If there were no scale economies in the production of intermediate inputs, then the small-scale centres of production could rival the large-scale centres. It is the fact that there are scale economies in both semiconductors and electronics, coupled with the technological and marketing connections between the two, that give rise to clustering advantages.

In the beginning, Bangalore's lack of reliable supporting industries, like telecommunications and power supplies, was a problem, but many software firms installed their own generators and satellite communication equipment. Recently, firms that provide venture capital, recruitment assistance, network, hardware maintenance and marketing/accounting support have emerged in the Bangalore area to support the software firms. Also the presence of consulting firms like KPMG, PricewaterhouseCoopers and

Ernst & Young assist incoming multinational companies to enter the Indian market, by solving problems linked to currency, location, etc. Consequently, a whole system of support has now evolved around the software industry.

Firm strategy, structure and rivalry

This fairly broad element includes how companies are organized and managed, their objectives, and the nature of domestic rivalry.

One of the most compelling results of Porter's study of successful industries in ten different nations is the powerful and positive effect that domestic competition has on the ability to compete in the global marketplace. In Germany, the fierce domestic rivalry among BASF, Hoechst and Bayer in the pharmaceutical industry is well known. Furthermore, the process of competition weeds out inferior technologies, products and management practices, and leaves as survivors only the most efficient firms. When domestic competition is vigorous firms are forced to become more efficient, adopt new cost-saving technologies, reduce product development time, and learn to motivate and control workers more effectively. Domestic rivalry is especially important in stimulating technological developments among global firms.

The small country of Denmark has three producers of hearing-aids (William Demant, Widex and GN Resound/Danavox), which are all among the top ten of the world's largest producers of hearing-aids. In 1996 Oticon (the earlier William Demant) and Widex fought a violent technological battle to be the first in the world to launch a 100 per cent digitalized hearing-aid. Widex (the smaller of the two producers) won, but forced Oticon at the same time to keep a leading edge in technological development.

In relation to the Indian software industry, most firms in the Bangalore area experience fierce competition. The competition about future customers is not just with local firms, but also with firms outside Bangalore and multinational companies such as IBM and Accenture. Competition has resulted in a pressure on firms to deliver quality products and services, but also to be cost-effective. It has also encouraged firms to seek international certifications, with a rating in software development. Today the Bangalore area has the world's highest concentration of companies with the so-called CMM-SEI (Carnegie Mellon University's Software Engineering Institute) Level 5 certification (the highest quality rating).

Government

According to Porter's diamond-model, governments can influence and be influenced by each of the four main factors. Governments can play a powerful role in encouraging the development of industries within their own borders that will assume global positions. Governments finance and construct infrastructure, providing roads, airports, education and health care, and can support use of alternative energy (e.g. wind turbines) or other environmental systems that affect factors of production.

In relation to the Indian software industry, the federal government in Delhi had already in the 1970s targeted software as a growth area, because of its high skill requirements and labour intensity. Through the 1970s and 1980s the industry was mainly dominated by public-sector companies like CMC. In 1984 the government started liberalizing industrial and investment policies, which gave access to IT-companies from abroad (e.g. Texas Instruments). One of the new initiatives was also setting up 'technology parks', for example, the Software Technology Park (STP) in Bangalore. The liberation policy continued throughout the 1980s and 1990s. In 1988 NASSCOM (the National Association of Software and Service Companies) was formed. NASSCOM is an association of IT-firms, which acts as a catalyst for industry growth by supporting

IT research and education in India. In 1999 the Ministry of Information Technology was set up to coordinate the IT-initiatives at government, academic and business levels. Thus Bangalore's success in becoming a software hub was contributed to by the state government's active role in the early and later stages of the industry's evolution.

Chance

According to Porter's diamond, national/regional competitiveness may also be triggered by random events.

When we look at the history of most industries we also see the role played by chance. Perhaps the most important instance of chance involves the question of who comes up with a major new idea first. For reasons having little to do with economics, entrepreneurs will typically start their new operations in their home countries. Once the industry begins in a given country scale and clustering effects can cement the industry's position in that country.

In relation to the development of competitiveness of the Indian software industry (especially in Bangalore) two essential events can be identified:

1. The Y2K problems (described earlier), which created an increased demand for services of Indian software firms.
2. The collapse of the dotcom boom in 2001 in the United States and Europe, resulting in a search for ways to cut costs by outsourcing software functions to India.

From the firm's point of view the last two variables, chance and government, can be regarded as exogenous variables that the firm must adjust to. Alternatively, the government may be considered susceptible through lobbying, interest organizations and mass media.

Summary

In summary, we have identified six factors that influence the location of global industries: factors of production, home demand, the location of supporting industries, the internal structure of the domestic industry, chance and government. We have also suggested that these factors are interconnected. As industries evolve their dependence on particular locations may also change. For example, the shift in users of semiconductors from the military to the electronics industry has had a profound effect on the shape of the national diamond in that industry. To the extent that governments and firms recognize the source of any locational advantages that they have, they will be better able to both exploit those differences and anticipate their shifts.

In relation to the software industry in India (Bangalore), which was used throughout the diamond model, the following conclusions may be arrived at (Nair *et al.*, 2007):

- The software industry in Bangalore started off by serving not only its domestic customers but the demanding North American customers. Also the rivals for software firms tend not to be so much local but global.
- The support needed for software services is much less sophisticated than for manufacturing. For the manufacturing sector it is also important to have access to a well-functioning physical infrastructure (transport, logistics, etc.), which is not necessary for the software industry where most of the logistic can be done over the Internet. That is one of the reasons why Bangalore's software industry created international competitiveness, but the manufacturing sector did not.
- The software industry is very much dependent on advanced and well-educated human resources as the key factor input.

While the Bangalore-based firms started off at the low end of the value chain (performing coding work for the Y2K problem) they have continuously moved in the direction of delivering more value-added services in emerging areas.

4.3 Competition analysis in an industry

The next step in understanding the firm's competitiveness is to look at the competitive arena in an industry, which is the top box in the diamond model (see Figure 4.1).

One of the most useful frameworks for analysing the competitive structure has been developed by Porter. Porter (1980) suggests that competition in an industry is rooted in its underlying economic structure and goes beyond the behaviour of current competitors. The state of competition depends upon five basic competitive forces, as shown in Figure 4.1. Together these factors determine the ultimate profit potential in an industry, where profit is measured in terms of long-run return on invested capital. The profit potential will differ from industry to industry.

To make things clearer we need to define a number of key terms. An *industry* is a group of firms that offer a product or class of products which are close substitutes for each other. Examples are the car industry and the pharmaceutical industry (Kotler, 1997, p. 230). A *market* is a set of actual and potential buyers of a product and sellers. A distinction will be made between industry and market level, as we assume that the industry may contain several different markets. This is why the outer box in Figure 4.1 is designated 'industry level' and the inner box 'market level'.

Porter's five-forces model
The state of competition and profit potential in an industry depends on five basic competitive forces: new entrants, suppliers, buyers, substitutes, buyers and market competitors.

Thus the *industry level* (**Porter's five-forces model**) consists of all types of actors (new entrants, suppliers, substitutes, buyers and market competitors) that have a potential or current interest in the industry.

The *market level* consists of actors with a current interest in the market: that is, buyers and sellers (market competitors). In section 4.4 (value chain analysis) this market level will be further elaborated on as the buyers' perceived value of different competitor offerings will be discussed.

Although division into the above-mentioned two levels is appropriate for this approach, Levitt (1960) pointed out the danger of 'marketing myopia', where the seller defines the competition field (i.e. the market) too narrowly. For example, European luxury car manufacturers showed this myopia with their focus on each other rather than on the Japanese mass manufacturers, who were new entrants into the luxury car market.

The goal of competition analysis is to find a position in industry where the company can best defend itself against the five forces, or can influence them in its favour. Knowledge of these underlying pressures highlights the critical strengths and weaknesses of the company, shows its position in the industry, and clarifies areas where strategy changes yield the greatest pay-off. Structure analysis is fundamental for formulating competitive strategy.

Each of the five forces in the Porter model in turn comprises a number of elements that combine to determine the strength of each force, and its effect on the degree of competition. Each force is now discussed.

Market competitors

The intensity of rivalry between existing competitors in the market depends on a number of factors:

- *The concentration of the industry*. Numerous competitors of equal size will lead to more intense rivalry. There will be less rivalry when a clear leader (at least 50 per cent larger than the second) exists with a large cost advantage.
- *Rate of market growth*. Slow growth will tend towards greater rivalry.
- *Structure of costs*. High fixed costs encourage price cutting to fill capacity.
- *Degree of differentiation*. Commodity products encourage rivalry, while highly differentiated products, which are hard to copy, are associated with less intense rivalry.
- *Switching costs*. When switching costs are high because the product is specialized, the customer has invested a lot of resources in learning how to use the product or has made tailor-made investments that are worthless with other products and suppliers (high asset specificity), rivalry is reduced.
- *Exit barriers*. When barriers to leaving a market are high due to such factors as lack of opportunities elsewhere, high vertical integration, emotional barriers or the high cost of closing down plant, rivalry will be more intense than when exit barriers are low.

Firms need to be careful not to spoil a situation of competitive stability. They need to balance their own position against the well-being of the industry as a whole. For example, an intense price or promotional war may gain a few percentage points in market share, but lead to an overall fall in long-run industry profitability as competitors respond to these moves. It is sometimes better to protect industry structure than to follow short-term self-interest.

Suppliers

The cost of raw materials and components can have a major bearing on a firm's profitability. The higher the bargaining power of suppliers, the higher the costs. The bargaining power of suppliers will be higher in the following circumstances:

- Supply is dominated by few companies and they are more concentrated than the industry they sell to.
- Their products are unique or differentiated, or they have built up switching costs.
- They are not obliged to contend with other products for sale to the industry.
- They pose a credible threat of integrating forwards into the industry's business.
- Buyers do not threaten to integrate backwards into supply.
- The market is not an important customer to the supplier group.

A firm can reduce the bargaining power of suppliers by seeking new sources of supply, threatening to integrate backwards into supply, and designing standardized components so that many suppliers are capable of producing them.

Buyers

The bargaining power of buyers is higher in the following circumstances:

- Buyers are concentrated and/or purchase in large volumes.
- Buyers pose a credible threat of integrating backwards to manufacture the industry's product.
- Products they purchase are standard or undifferentiated.
- There are many suppliers (sellers) of the product.
- Buyers earn low profits, which create a great incentive to lower purchasing costs.
- The industry's product is unimportant to the quality of the buyer's products, but price is very important.

Firms in the industry can attempt to lower buyer power by increasing the number of buyers they sell to, threatening to integrate forward into the buyer's industry, and producing highly valued, differentiated products. In supermarket retailing, the brand leader normally achieves the highest profitability, partially because being number one means that supermarkets need to stock the brand, thereby reducing buyer power in price negotiations.

Customers who purchase the product but are not the end user (such as OEMs or distributors) can be analysed in the same way as other buyers. Non end-customers can gain significant bargaining power when they can influence the purchasing decision of customers downstream (Porter, 2008). Over the years ingredient supplier, DuPont, has created enormous clout by advertising its 'Teflon' brand not only to the manufacturers of cooking equipment, but also to downstream end-customers (households). See also section 11.4 about ingredient branding.

Substitutes

The presence of substitute products can reduce industry attractiveness and profitability because they put a constraint on price levels.

If the industry is successful and earning high profits it is more likely that competitors will enter the market via substitute products in order to obtain a share of the potential profits available. The threat of substitute products depends on the following factors:

- the buyer's willingness to substitute;
- the relative price and performance of substitutes;
- the costs of switching to substitutes.

The threat of substitute products can be lowered by building up switching costs. These costs may be psychological. Examples are the creation of strong, distinctive brand personalities, and maintaining a price differential commensurate with perceived customer values.

New entrants

New entrants can serve to increase the degree of competition in an industry. In turn, the threat of new entrants is largely a function of the extent to which barriers to entry exist in the market. Some key factors affecting these entry barriers include the following:

- economies of scale;
- product differentiation and brand identity, which give existing firms customer loyalty;
- capital requirements in production;
- switching costs – the cost of switching from one supplier to another;
- access to distribution channels.

Because high barriers to entry can make even a potentially lucrative market unattractive (or even impossible) to enter for new competitors, the marketing planner should not take a passive approach but should actively pursue ways of raising barriers to new competitors.

High promotional and R&D expenditures and clearly communicated retaliatory actions to entry are some methods of raising barriers. Some managerial actions can unwittingly lower barriers. For example, new product designs that dramatically lower manufacturing costs can make entry by newcomers easier.

The collaborative 'five-sources' model

Porter's original model is based on the hypothesis that the competitive advantage of the firm is best developed in a very competitive market with intense rivalry relations.

The five-forces framework thus provides an analysis for considering how to squeeze the maximum competitive gain out of the context in which the business is located – or how to minimize the prospect of being squeezed by it – on the five competitive dimensions that it confronts.

Over the past decade, however, an alternative school (e.g. Reve, 1990; Kanter, 1994; Burton, 1995) has emerged which emphasises the positive role of cooperative (rather than competitive) arrangements between industry participants, and the consequent importance of what Kanter (1994) has termed 'collaborative advantage' as a foundation of superior business performance.

An all-or-nothing choice between a single-minded striving for either competitive or collaborative advantage would, however, be a false one. The real strategic choice problem that all businesses face is where (and how much) to collaborate, and where (and how intensely) to act competitively.

Put another way, the basic questions that firms must deal with in respect of these matters are as follows:

- choosing the combination of competitive and collaborative strategies that are appropriate in the various dimensions of the industry environment of the firm;
- blending the two elements together so that they interact in a mutually consistent and reinforcing, and not counterproductive, manner;
- in this way, optimizing the firm's overall position, drawing upon the foundation and utilization of both collaborative and competitive advantage.

This points to the imperative in the contemporary context of complementing the competitive strategy model with a sister framework that focuses on the assessment of collaborative advantage and strategy. Such a complementary analysis, which is called the *five-sources framework* (Burton, 1995), is outlined below.

Corresponding to the array of five competitive forces that surround a company – as elaborated in Porter's treatment – there are also five potential sources for the building of collaborative advantage in the industrial environments of the firm (the **five-sources model**). These sources are listed in Table 4.1.

Five sources model
Corresponding to Porter's five competitive forces there are also five potential sources for building collaborative advantages together with the firm's surrounding actors.

In order to forge an effective and coherent business strategy, a firm must evaluate and formulate its collaborative and competitive policies side by side. It should do this for two purposes:

1 to achieve the appropriate balance between collaboration and competition in each dimension of its industry environment (e.g. relations with suppliers, policies towards customers/channels);
2 to integrate them in a way that avoids potential clashes and possibly destructive inconsistencies between them.

This is the terrain of composite strategy, which concerns the bringing together of competitive and collaborative endeavours.

Table 4.1 The five sources model and the corresponding five forces in the Porter model

Porter's five-forces model	The five-sources model
Market competitors	Horizontal collaborations with other enterprises operating at the same stage of the production process/producing the same group of closely related products (e.g. contemporary global partnering arrangements among car manufacturers).
Suppliers	Vertical collaborations with suppliers of components or services to the firm – sometimes termed vertical quasi-integration arrangements (e.g. the *keiretsu* formations between suppliers and assemblers that typify the car, electronics and other industries in Japan).
Buyers	Selective partnering arrangements with specific channels or customers (e.g. lead users) that involve collaboration extending beyond standard, purely transactional relationships.
Substitutes	Related diversification alliances with producers of both complements and substitutes. Producers of substitutes are not 'natural allies', but such alliances are not inconceivable (e.g. collaborations between fixed-wire and mobile telephone firms in order to grow their joint network size).
New entrants	Diversification alliances with firms based in previously unrelated sectors, but between which a 'blurring' of industry borders is potentially occurring, or a process (commonly due to new technological possibilities) that opens up the prospect of cross-industry fertilization of technologies/business that did not exist before (e.g. the collaborations in the emerging multimedia field).

Source: Burton, 1995. Reproduced with permission from The Braybrooke Press Ltd.

4.4 Value chain analysis

Until now we have discussed the firm's international competitiveness from a strategic point of view. To get closer to the firm's core competences we will now look at the market-level box in Porter's five-forces model, which treats buyers and sellers (market competitors). Here we will look more closely at what creates a competitive advantage among market competitors towards customers at the same competitive level.

The competitive triangle

Success in the marketplace is dependent not only upon identifying and responding to customer needs, but also upon our ability to ensure that our response is judged by customers to be superior to that of competitors (i.e. high perceived value). Several writers (e.g. Porter, 1980; Day and Wensley, 1988) have argued that causes of difference in performance within a market can be analysed at various levels. The immediate causes of differences in the performance of different firms, these writers argue, can be reduced to two basic factors (D'Aveni, 2007):

1 The *perceived value* of the product/services offered, compared to the perceived sacrifice. The *perceived sacrifice* includes all the 'costs' the buyer faces when making a purchase, primarily the *purchase price*, but also acquisition costs, transportation,

Figure 4.2 Perceived value, relative costs and competitive advantage

		Perceived value (compared to the purchase price)	
		Higher for A	*Higher for B*
Relative costs	*Lower for A*	I	II
	Lower for B	III	IV

installation, handling, repairs and maintenance (Ravald and Grönroos, 1996). In the models presented the (purchase) price will be used as a representative of the perceived sacrifice. D'Aveni (2007) presents a strategic tool for evaluating how much a customer is willing to pay for a perceived benefit of a product/service.

2 The firm-related *costs* incurred in creating this perceived value.

These two basic factors will be further discussed later in this section.

The more value customers perceive in a market offering relative to competing offerings, and the lower the costs in producing the value relative to competing producers, the higher the performance of the business. Hence firms producing offerings with a higher perceived value and/or lower relative costs than competing firms are said to have a competitive advantage in that market.

Competitive triangle
Consists of a customer, the firm and a competitor (the 'triangle'). The firm or competitor 'winning' the customer's favour depends on perceived value offered to the customer compared to the relative costs between the firm and the competitor.

Perceived value
The customer's overall evaluation of the product/service offered by a firm.

This can be illustrated by the '**competitive triangle**' (see Figure 4.1, earlier). There is no one-dimensional measure of competitive advantage, and **perceived value** (compared to the price) and relative costs have to be assessed simultaneously. Given this two-dimensional nature of competitive advantage it will not always be clear which of the two businesses will have a competitive advantage over the other.

Looking at Figure 4.2, firm A will clearly have an advantage over firm B in case I, and clearly have a disadvantage in case IV, while cases II and III do not immediately allow such a conclusion. Firm B may have an advantage in case II, if customers in the market are highly quality conscious and have differentiated needs and low price elasticity, while firm A may have a similar advantage in case II when customers have homogeneous needs and high price elasticity. The opposite will take place in case III.

Even if firm A has a clear competitive advantage over firm B, this may not necessarily result in a higher return on investment for A, if A has a growth and B a hold policy. Thus performance would have to be measured by a combination of return on investment and capacity expansion, which can be regarded as postponed return on investment.

While the relationship between perceived value, relative costs and performance is rather intricate, we can retain the basic statement that these two variables are the cornerstone of competitive advantage. Let us take a closer look at these two fundamental sources of competitive advantage.

Perceived value advantage

We have already observed that customers do not buy products, they buy benefits. Put another way, the product is purchased not for itself but for the promise of what it will 'deliver'. These benefits may be intangible: that is, they may relate not to specific product features but rather to such things as image or reputation. Alternatively, the delivered offering may be seen to outperform its rivals in some functional aspect.

Perceived value is the customer's overall evaluation of the product/service offered. So, establishing what value the customer is actually seeking from the firm's offering (value chain) is the starting point for being able to deliver the correct mix of value-providing activities. It may be some combination of physical attributes, service attributes and technical support available in relation to the particular use of the product. This also requires an understanding of the activities that constitute the customer's value chain.

Unless the product or service we offer can be distinguished in some way from its competitors there is a strong likelihood that the marketplace will view it as a 'commodity', and so the sale will tend to go to the cheapest supplier. Hence the importance of seeking to attach additional values to our offering to mark it out from the competition.

What are the means by which such value differentiation may be gained?

If we start in the value chain perspective (see section 1.6), we can say that each activity in the business system adds perceived value to the product or service. Value, for the customer, is the perceived stream of benefits that accrue from obtaining the product or service. Price is what the customer is willing to pay for that stream of benefits. If the price of a good or service is high it must provide high value, otherwise it is driven out of the market. If the value of a good or service is low its price must be low, otherwise it is also driven out of the market. Hence, in a competitive situation, and over a period of time, the price that customers are willing to pay for a good or service is a good proxy measure of its value.

If we look especially at the downstream functions of the value chain, a differential advantage can be created with any aspect of the traditional 4-P marketing mix: product, distribution, promotion and price are all capable of creating added customer perceived value. The key to whether improving an aspect of marketing is worthwhile is to know if the potential benefit provides value to the customer.

If we extend this model particular emphasis must be placed upon the following (see Booms and Bitner, 1981; Magrath, 1986; Rafiq and Ahmed, 1995):

- *People*. These include both consumers, who must be educated to participate in the service, and employees (personnel), who must be motivated and well trained in order to ensure that high standards of service are maintained. Customers identify and associate the traits of service personnel with the firms they work for.
- *Physical aspects*. These include the appearance of the delivery location and the elements provided to make the service more tangible. For example, visitors experience Disneyland by what they see, but the hidden, below-ground support machinery is essential for the park's fantasy fulfilment.
- *Process*. The service is dependent on a well-designed method of delivery. Process management assures service availability and consistent quality in the face of simultaneous consumption and production of the service offered. Without sound process management balancing service demand with service supply is extremely difficult.

Of these three additional Ps, the firm's *personnel* occupy a key position in influencing customer perception of product quality. As a consequence the *image* of the firm is very much influenced by the personnel. It is therefore important to pay particular attention to the quality of employees and to monitor their performance. Marketing managers need to manage not only the service provider – customer interface – but also the actions of other customers; for example, the number, type and behaviour of other people will influence a meal at a restaurant.

Relative cost advantage

Each activity in the value chain is performed at a cost. Getting the stream of benefits that accrue from the good or service to the customer is thus done at a certain 'delivered cost', which sets a lower limit to the price of the good or service if the business system is to remain profitable. Decreasing the price will thus imply that the delivered cost be first decreased by adjusting the business system. As mentioned earlier, the rules of the game may be described as *providing the highest possible perceived value to the final customer, at the lowest possible delivered cost*.

A firm's cost position depends on the configuration of the activities in its value chain versus that of competitors and its relative location on the cost drivers of each activity. A cost advantage is gained when the cumulative cost of performing all the activities is lower than competitors' costs. This evaluation of the relative cost position requires an identification of each important competitor's value chain. In practice, this step is extremely difficult because the firm does not have direct information on the costs of competitors' value activities. However, some costs can be estimated from public data or interviews with suppliers and distributors.

Relative cost advantage
A firm's cost position depends on the configuration of the activities in its value chain versus that of the competitors.

Creating a **relative cost advantage** requires an understanding of the factors that affect costs. It is often said that 'big is beautiful'. This is partly due to economies of scale, which enable fixed costs to be spread over a greater output, but more particularly it is due to the impact of the *experience curve*.

The experience curve is a phenomenon that has its roots in the earlier notion of the learning curve. The effects of learning on costs were seen in the manufacture of fighter planes for the Second World War. The time taken to produce each plane gradually fell as learning took place. The combined effect of economies of scale and learning on cumulative output has been termed the experience curve. The Boston Consulting Group estimated that costs reduced on average by approximately 15–20 per cent each time cumulative output doubled.

Subsequent work by Bruce Henderson, founder of the Boston Consulting Group, extended this concept by demonstrating that all costs, not just production costs, would decline at a given rate as volume increased. In fact, to be precise, the relationship that the experience curve describes is between real unit costs and cumulative volume.

This suggests that firms with greater market share will have a cost advantage through the experience curve effect, assuming that all companies are operating on the same curve. However, a move towards a new manufacturing technology can lower the experience curve for adopting companies, allowing them to leapfrog over more traditional firms and thereby gain a cost advantage even though cumulative output may be lower.

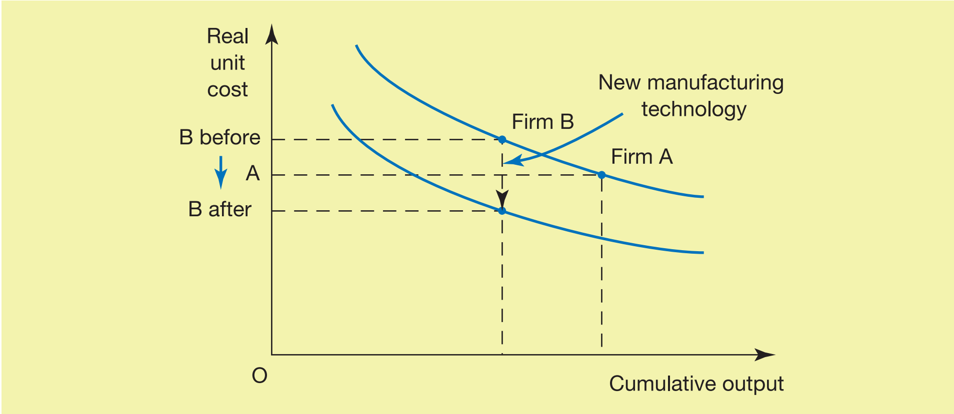
The general form of the experience curve and the above-mentioned leapfrogging to another curve are shown in Figure 4.3.

Leapfrogging the experience curve by investing in new technology is a special opportunity for SMEs and newcomers to a market, since they will (as a starting point) have only a small market share and thereby a small cumulative output.

The implications of the experience curve for the pricing strategy will be discussed further in Chapter 16. According to Porter (1980) there are other cost drivers that determine the costs in value chains:

- *Capacity utilization*. Underutilization incurs costs.
- *Linkages*. Costs of activities are affected by how other activities are performed. For example, improving quality assurance can reduce after-sales service costs.
- *Interrelationships*. For example, different SBUs' sharing of R&D, purchasing and marketing will lower costs.
- *Integration*. For example, deintegration (outsourcing) of activities to subsuppliers can lower costs and raise flexibility.

Figure 4.3 Leapfrogging the experience curve



- *Timing*. For example, first movers in a market can gain cost advantage. It is cheaper to establish a brand name in the minds of the customers if there are no competitors.
- *Policy decisions*. Product width, level of service and channel decisions are examples of policy decisions that affect costs.
- *Location*. Locating near suppliers reduces in-bound distribution costs. Locating near customers can lower out-bound distribution costs. Some producers locate their production activities in eastern Europe or the Far East to take advantage of low wage costs.
- *Institutional factors*. Government regulations, tariffs, local content rules, etc., will affect costs.

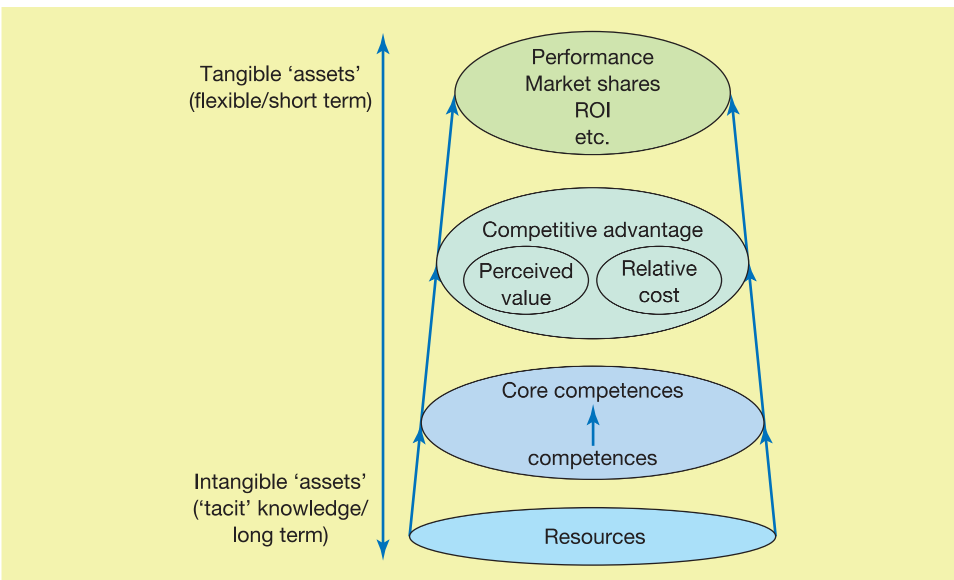
The basic sources of competitive advantage

Resources
Basic units of analysis – financial, technological, human and organizational resources – found in the firm's different departments.

Competences
Combination of different resources into capabilities and later competences – being something that the firm is really good at.

The perceived value created and the costs incurred will depend on the firm's **resources** and its **competences** (see Figure 4.4).

Figure 4.4 The roots of performance and competitive advantage



Source: Adapted from Jüttner and Wehrli, 1994.

Resources

Resources are the basic units of analysis. They include all inputs into the business processes – that is, financial, technological, human and organizational resources. Although resources provide the basis for competence building, on their own they are barely productive.

Resources are necessary in order to participate in the market. The competitors in a market will thus not usually be very different with regard to these skills and resources, and the latter will not explain differences in created perceived value, relative costs and the resulting performance. They are failure preventers, but not success producers. They may, however, act as barriers to entry for potential new competitors, and hence raise the average level of performance in the market.

CSR (corporate social responsibility)

The traditional corporate paradigm has always supported a strong external customer relationship, because customers buy the firm's product and ultimately deliver profits to the stockholders. The concept of corporate social responsibility (CSR) has become a relatively visible phenomenon in the marketing literature, shifting the narrow notion of customer-based marketing to a broader corporate-level marketing concept.

A prevailing understanding of CSR is based on the notion of stakeholders' expectations, which are of important concern to corporate marketing. This means that an organization operates within a network of different stakeholders who can influence it directly or indirectly. Therefore, the scope of CSR should focus on the organization's commitment to avoid harm and improve stakeholders' and society's well-being.

Definitions of CSR, and the very actions of CSR, vary among countries, regions, societies and communities. One very broad definition of CSR may be what a business puts back in to the local or state economy in return for what it takes out. Many definitions of CSR include management practices, linking the inner circle of management with the outer circle of community-at-large. Managers have a direct impact on companies' abilities to manage the business processes in a way that produces an overall positive impact on society.

Thus the concept of CSR refers to the belief that modern businesses have a responsibility to society that extends beyond delivering profits to the stockholders or investors in the firm. These other societal stakeholders typically include consumers, employees, the community at large, government and the natural environment. The CSR concept applies to organizations of all sizes, but discussions have tended to focus on large organizations because they tend to be more visible and have more power. And, as many have observed, with power comes responsibility.

CSR must be rooted deep in the company's resource base (see also Figure 4.4), which means that short-term gain must take a clear second place to long-term thinking. Exhibit 4.1 shows a company (Chiquita), which managed to integrate this long-term view into its resource base and improve its international competitiveness as a result.

Exhibit 4.1 Chiquita – integrating CSR in the resource base

The time it can take to embed successfully CSR into a brand, then see a return on that investment, is illustrated by US-based fruit and vegetable producer Chiquita Brands Inc., one of the world's biggest importers of bananas that oversees a maze of local labour partnerships. Anticipating that its European business was going to be threatened by lower-priced competitors, Chiquita began overhauling its entire sourcing infrastructure around ethical credentials. This process, which cost the firm $20 million, began in 1992, and culminated with certification by the Rainforest Alliance in 2000. However, it only began actively to communicate a sustainability and responsibility message to consumers in 2005.

Exhibit 4.1 continued

Many strategies suffer from a failure in perhaps one of the most critical aspects of their deployment – making the resource base visible and tangible to the external stakeholders. CSR is no different. Adopting CSR is one thing, but like all business tools, in order to bring success it must be adequately monitored. As for Chiquita, this ongoing assessment process is a vital part of the chain.

In 1998, executives at Chiquita were horrified to see their company splashed all over the newspapers after an undercover investigation into 'dangerous and illegal business practices' throughout its Latin American operations. Chiquita had to make a dramatic review of its entire business.

Whilst it would be relatively easy for a CEO to declare commitment to CSR on a philosophical level, but take very little positive action, Chiquita has followed through on its promises and continues to raise the standards. For instance, official company assessments highlighted numerous challenges faced by the Guatemalan division. Chiquita responded by installing a new management team that introduced important policy changes and helped to improve workers' perceptions of the company. The CSR report also includes a section that plots the company's CSR objectives against a timescale of 'achieved', 'on target to achieve' and significantly 'unlikely to achieve by target date'. For Chiquita, transparency is a commendable part of its overall CSR strategy and demonstrates a very public commitment to performance assessment.

Chiquita's CEO declared his commitment to breaking new ground in responsible management and pledged that the company would do much more than merely repair the damage brought about by the media. Ten years after, and despite changes at the corporate management level, Chiquita's CSR policy is still in full flight and its long-term international competitiveness has been improved as a result.

'Our motto was "Create facts first",' says George Jaksch, Chiquita's senior director of corporate responsibility and public affairs. 'We were not going to promote an ethical message until we were absolutely sure we had built a solid foundation. In Europe it has been a highly effective strategy.'

Source: Curtis (2006).

Competences

Competences – being components of a higher level – result from a combination of the various resources. Their formation and quality depend on two factors. The first factor is the specific capabilities of the firm in integrating resources. These capabilities are developed and improved in a collective learning process. On the other hand, the basis for the quality of a competence is the resource assortment. This forms a potential for competences, which should be exploited to the maximum extent.

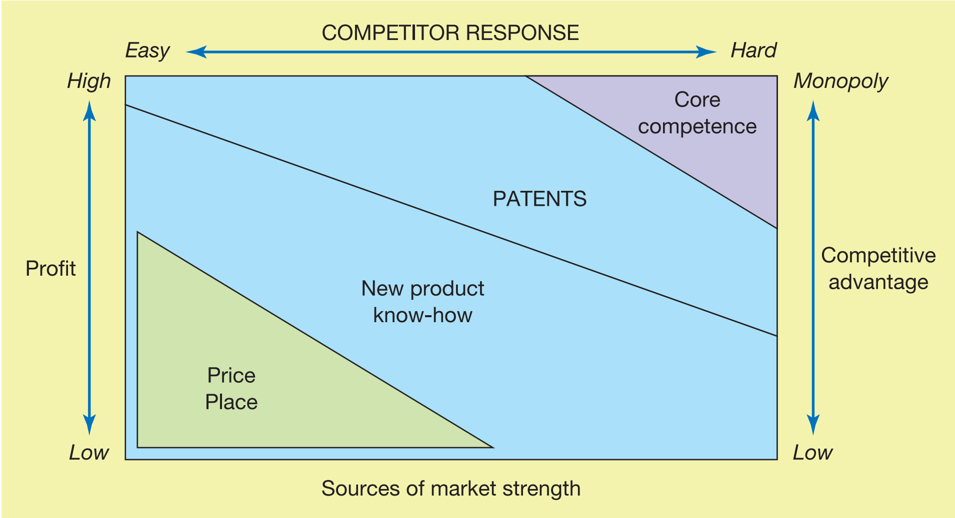
Cardy and Selvarajan (2006) classify competences into two broad categories: *personal* or *corporate*. Personal competences are possessed by individuals and include characteristics such as knowledge, skills, abilities, experience, and personality. Corporate competences belong to the organization and are embedded processes and structures that tend to reside within the organization, even when individuals leave. These two categories are not entirely independent. The collection of personal competences can form a way of doing things or a culture that becomes embedded in the organization. In addition, corporate characteristics can determine the type of personal competences that will best work or fit in the organization.

Core competences
Value chain activities in which the firm is regarded as better than its competitors.

A firm can have a lot of competences but only a few of them are **core competences**: that is, a value chain activity in which the firm is regarded as a better performer than any of its competitors (see Figure 4.5).

In Figure 4.5 a core competence is represented by a strategic resource (asset) that competitors cannot easily imitate and which has the potential to earn long-term profit. The objective of the firm will be to place products and services at the top-right corner. The top-left corner also represents profit possibilities, but the competitive advantage is easier to imitate, so the high profit will only be short term. The bottom-left corner represents the position of the price-sensitive commodity supplier. Here the profits are

Figure 4.5 Illustration of the core competence



Source: Reprinted from *Long Range Planning*, Vol. 27, No. 4, Tampoe, M. (1994) 'Exploiting the core competences of your organization', p. 74, Copyright 1994, with permission from Elsevier.

likely to be low because the product is primarily differentiated by place (distribution) and especially price.

Competitive benchmarking

The ultimate test of the efficiency of any marketing strategy has to be in terms of profit. Those companies that strive for market share, but measure market share in terms of volume sales, may be deluding themselves to the extent that volume is bought at the expense of profit.

Because market share is an 'after the event' measure, we need to utilize continuing indicators of competitive performance. This will highlight areas where improvements in the marketing mix can be made.

Competitive benchmarking
A technique for assessing relative marketplace performance compared with main competitors.

In recent years a number of companies have developed a technique for assessing relative marketplace performance, which has come to be known as **competitive benchmarking**. Originally the idea of competitive benchmarking was literally to take apart a competitor's product, component by component, and compare its performance in a value engineering sense with your own product. This approach has often been attributed to the Japanese, but many western companies have also found the value of such detailed comparisons.

The concept of competitive benchmarking is similar to what Porter (1996) calls operational effectiveness (OE), meaning performing similar activities better than competitors perform them. However, Porter (1996) also thinks that OE is a necessary but not a sufficient condition for outperforming rivals. Firms also have to consider strategic (or market) positioning, meaning the performance of *different* activities from rivals or performing similar activities in different ways. Only a few firms have competed successfully on the basis of OE over a long period. The main reason is the rapid diffusion of best practices. Competitors can rapidly imitate management techniques and new technologies with support from consultants.

However, the idea of benchmarking is capable of extension beyond this simple comparison of technology and cost effectiveness. Because the battle in the marketplace is for 'share of mind', it is customers' perceptions that we must measure.

The measures that can be used in this type of benchmarking programme include delivery reliability, ease of ordering, after-sales service, the quality of sales representation and the accuracy of invoices and other documentation. These measures are not chosen at random, but are selected because of their importance to the customer. Market research, often based on in-depth interviews, would typically be employed to identify what these 'key success factors' are. The elements that customers identify as being the most important (see Figure 4.6) then form the basis for the benchmark questionnaire. This questionnaire is administered to a sample of customers on a regular basis: for example, German Telecom carries out a daily telephone survey of a random sample of its domestic and business customers to measure customers' perceptions of service. For most companies an annual survey might suffice; in other cases, perhaps a quarterly survey, particularly if market conditions are dynamic. The output these surveys might typically be presented in the form of a competitive profile, as in the example in Figure 4.6.

Figure 4.6 Competitive benchmarking (example with only a few criteria)

Examples of value chain functions (mainly downstream functions)	**Customer** Importance to customer (key success factors)					**Own firm (Firm A)** How do customers rate performance of our firm?					**Key competitor (Firm B)** How do customers rate performance of key competitor?				
	High importance				*Low importance*	*Good*				*Bad*	*Good*				*Bad*
	5	4	3	2	1	5	4	3	2	1	5	4	3	2	1
Uses new technology															
High technical quality and competence															
Uses proven technology															
Easy to buy from															
Understands what customers want															
Low price															
Delivery on schedule															
Accessible for enquiries															
Takes full responsibility															
Flexible and quick															
Known contact person															
Provides customer training															
Take account of future requirements															
Courteous and helpful															
Specified invoices															
Gives guarantees															
ISO 9000 certified															
Right first time															
Can give references															
Environment conscious															

Most of the criteria mentioned above relate to downstream functions in the value chain. Concurrently with closer relations between buyers and suppliers, especially in the industrial market, there will be more focus on the supplier's competences in the upstream functions.

Development of a dynamic benchmarking model

On the basis of the value chain's functions, we will suggest a model for the development of a firm's competitiveness in a defined market. The model will be based on a specific market as the market demands are assumed to differ from market to market, and from country to country.

Before presenting the basic model for development of international competitiveness we will first define two key terms:

1. *Critical success factors*. Those value chain functions where the customer demands/expects the supplier (firm X) to have a strong competence.
2. *Core competences*. Those value chain functions where firm X has a strong competitive position.

The strategy process

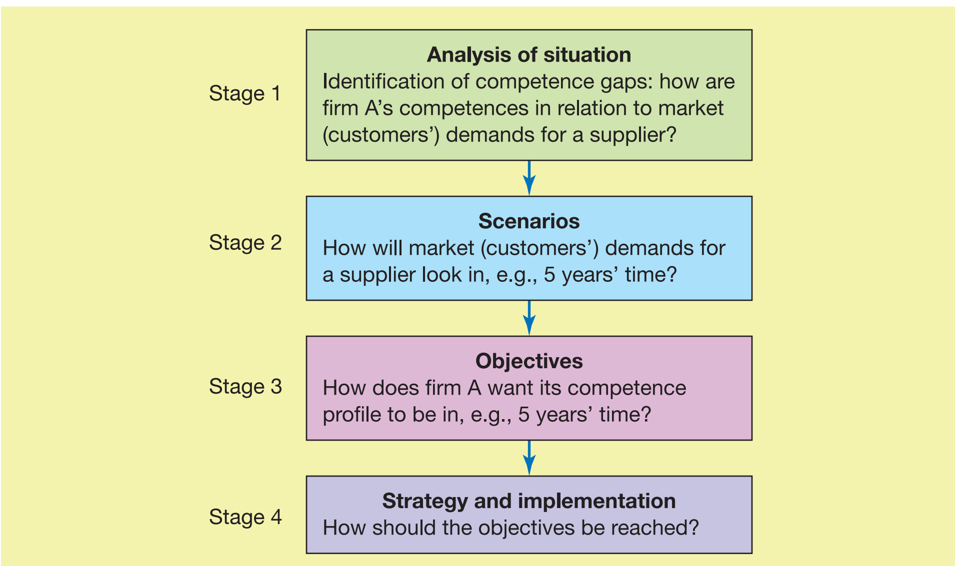
The model for the strategy process is shown in Figure 4.7.

Stage 1: Analysis of situation (identification of competence gaps)

We will not go into detail here about the problems there have been in measuring the value chain functions. The measurements cannot be objective in the traditional way of thinking, but must rely on internal assessments from firm representatives (interviews with relevant managers) supplemented by external experts ('key informants') who are able to judge the market's (customers') demand now and in the future.

The competence profile for firm A in Figure 4.1 (top-right diagram) is an example of how a firm is not in accordance with the market (= customer) demand. The company has its core competences in parts of the value chain's functions where customers place little importance (market knowledge in Figure 4.1).

Figure 4.7 Model for development of core competences



If there is a generally good match between the critical success factors and firm A's initial position, it is important to concentrate resources and improve this core competence to create sustainable competitive advantages.

If, on the other hand, there is a large gap between customers' demands and the firm's initial position in critical success factors in Figure 4.1 (as with the personal selling functions), it may give rise to the following alternatives:

- Improve the position of the critical success factor(s).
- Find business areas where firm A's competence profile better suits the market demand and expectations.

As a new business area involves risk, it is often important to identify an eventual gap in a critical success factor as early as possible. In other words, an 'early warning' system must be established that continuously monitors the critical competitive factors so that it is possible to start initiatives that limit an eventual gap as early as possible.

In Figure 4.1 the competence profile of firm B is also shown.

Stages 2 and 3: Scenarios and objectives

To be able to estimate future market demand different scenarios are made of the possible future development. These trends are first described generally, then the effect of the market's future demand/expectations on a supplier's value chain function is concretized.

By this procedure the described 'gap' between market expectations and firm A's initial position becomes more clear. At the same time the biggest gap for firm A may have moved from personal sales to, for example, product development. From knowledge of the market leader's strategy it is possible to complete scenarios of the market leader's future competence profile.

These scenarios may be the foundation for a discussion of objectives and of which competence profile the company wants in, say, five years' time. Objectives must be set realistically and with due consideration of the organization's resources (the scenarios are not shown in Figure 4.1).

Stage 4: Strategy and implementation

Depending on which of firm A's value chain functions are to be developed, a strategy is prepared. This results in implementation plans that include the adjustment of the organization's current competence level.

4.5 Blue ocean strategy and value innovation

Red oceans
Tough head-to-head competition in mature industries often results in nothing but a bloody red ocean of rivals fighting over a shrinking profit pool.

Blue oceans
The unserved market, where competitors are not yet structured and the market is relatively unknown. Here it is about avoiding head-to-head competition.

Kim and Mauborgne (2005a, b, c) use the ocean as a metaphor to describe the competitive space in which an organization chooses to swim. **Red oceans** refer to the frequently accessed marketspaces where the products are well-defined, competitors are known and competition is based on price, product quality and service. In other words, red oceans are an old paradigm that represents all the industries in existence today.

In contrast, the **blue oceans** denote an environment where products are not yet well-defined, competitors are not structured and the market is relatively unknown. Companies that sail in the blue oceans are those beating the competition by focusing on developing compelling value innovations that create uncontested marketspace. Adopters of blue ocean strategy believe that it is no longer valid for companies to engage in head-to-head competition in search of sustained, profitable growth.

In Michael Porter (1980, 1985) companies are fighting for competitive advantage, battling for market share and struggling for differentiation, blue ocean strategists argue that cut-throat competition results in nothing but a bloody red ocean of rivals fighting over a shrinking profit pool.

Blue ocean is a marketspace that is created by identifying an unserved set of customers, then delivering to them a compelling new value proposition. This is done by reconfiguring what is on offer to better balance customer needs with the economic costs of doing so. This is as opposed to a red ocean, where the market is well defined and heavily populated by the competition.

Blue-ocean strategy should not be a static process but a dynamic one. Consider The Body Shop. In the 1980s, The Body Shop was highly successful, and rather than compete head on with large cosmetics companies, it invented a whole new marketspace for natural beauty products. During the 1990s The Body Shop also struggled, but that does not diminish the excellence of its original strategic move. Its genius lay in creating a new marketspace in an intensely competitive industry that historically competed on glamour (Kim and Mauborgne, 2005b).

Kim and Mauborgne (2005a) is based on a study of 150 strategic moves that spanned more than 100 years (1880–2000) and 30 industries. Kim and Mauborgne's first point in distinguishing this strategy from the traditional strategic frameworks is that in the traditional business literature, the company forms the basic unit of analysis, and the industry analysis is the means of positioning the company. Their hypothesis is that since markets are constantly changing in their levels of attractiveness, and companies over time vary in their level of performance, it is the particular *strategic move of the company*, and not the company itself or the industry, which is the correct criterion for evaluating the difference between red and blue ocean strategies.

Value innovation

Kim and Mauborgne (2005a) argue that tomorrow's leading companies will succeed not by battling competitors, but by making strategic moves, which they call *value innovation*.

The combination of value with innovation is not just marketing and taxonomic positioning. It has consequences. Value without innovation tends to focus on value creation on an incremental scale, and innovation without value tends to be technology driven, market pioneering, or futuristic, often overshooting what buyers are ready to accept and pay for. Conventional Porter logic (1980, 1985) leads companies only to compete at the margin for incremental share. The logic of value innovation starts with an ambition to dominate the market by offering a tremendous leap in value. Many companies seek growth by retaining and expanding their customer base. This often leads to finer segmentation and greater customization of offerings to meet specialized needs. Instead of focusing on the differences between customers, value innovators build on the powerful commonalities in the features that customers value (Kim and Mauborgne, 1997).

Value innovation is intensely customer focused, but not exclusively so. Like value chain analysis it balances costs of delivering the value proposition with what the buyer values are, and then resolves the trade-off dilemma between the value delivered and the costs involved. Instead of compromising the value wanted by the customer because of the high costs associated with delivering it, costs are eliminated or reduced if there is no or less value placed on the offering by the customer. This is a real win–win resolution that creates the compelling proposition. Customers get what they really want for less, and sellers get a higher rate of return on invested capital by reducing start-up and/or operational delivery costs. The combination of these two is the catalyst of blue ocean market creation. Exhibit 4.2 illustrates this by using the case of Formule 1.

The output of the value innovation analysis is the value curves of the different marketers in the industry (also called the 'strategy canvas' in Kim and Mauborgne (2005a) – see Exhibit 4.1). These different value curves raise four basic questions for the focal firm:

1 Which factors should be reduced well below the industry standard?
2 Which of the factors that the industry takes for granted should be eliminated?
3 Which factors should be raised well above the industry standard?
4 Which factors should be created that the industry has never offered?

The resulting new value curve should then determine if the firm is on its way into the 'blue ocean'.

Exhibit 4.2 Value innovation at Hotel Chain Formule 1

When Accor launched Formule 1 (a line of French budget hotels) in 1985, the budget hotel industry was suffering from stagnation and overcapacity. The top management urged the managers to forget everything they knew of the existing rules, practices and traditions of the industry. There were two distinct market segments in the industry. One segment consisted of no-star and one star (very cheap, around €20 per room per night) and the other segment was two-star hotels, with an average price €40 per room. These more expensive two-star hotels attracted customers by offering better sleeping facilities than the cheap segment. Accor's management undertook market research and found out what most customers of all budget hotels wanted: a good night's sleep at a low price. Then they asked themselves (and answered) the four fundamental questions:

1 Which of the factors that the budget hotel industry took for granted should be eliminated?

The Accor management eliminated such standard hotel features as costly restaurants and appealing lounges. Accor reckoned that they might lose some customers by this, but they also knew that most customers could live without these features.

Source: Tony Souter © Dorling Kindersley.

2 Which factors should be reduced well below the industry standard?

Accor also believed that budget hotels were overperforming along other dimensions. For example, at Formule 1 receptionists are on hand only during peak checkin and checkout hours. At all other times, customers use an automated teller. The rooms at Formule 1 are small and equipped only with a bed and bare necessities – no desks or decorations. Instead of closets there are a few shelves for clothing.

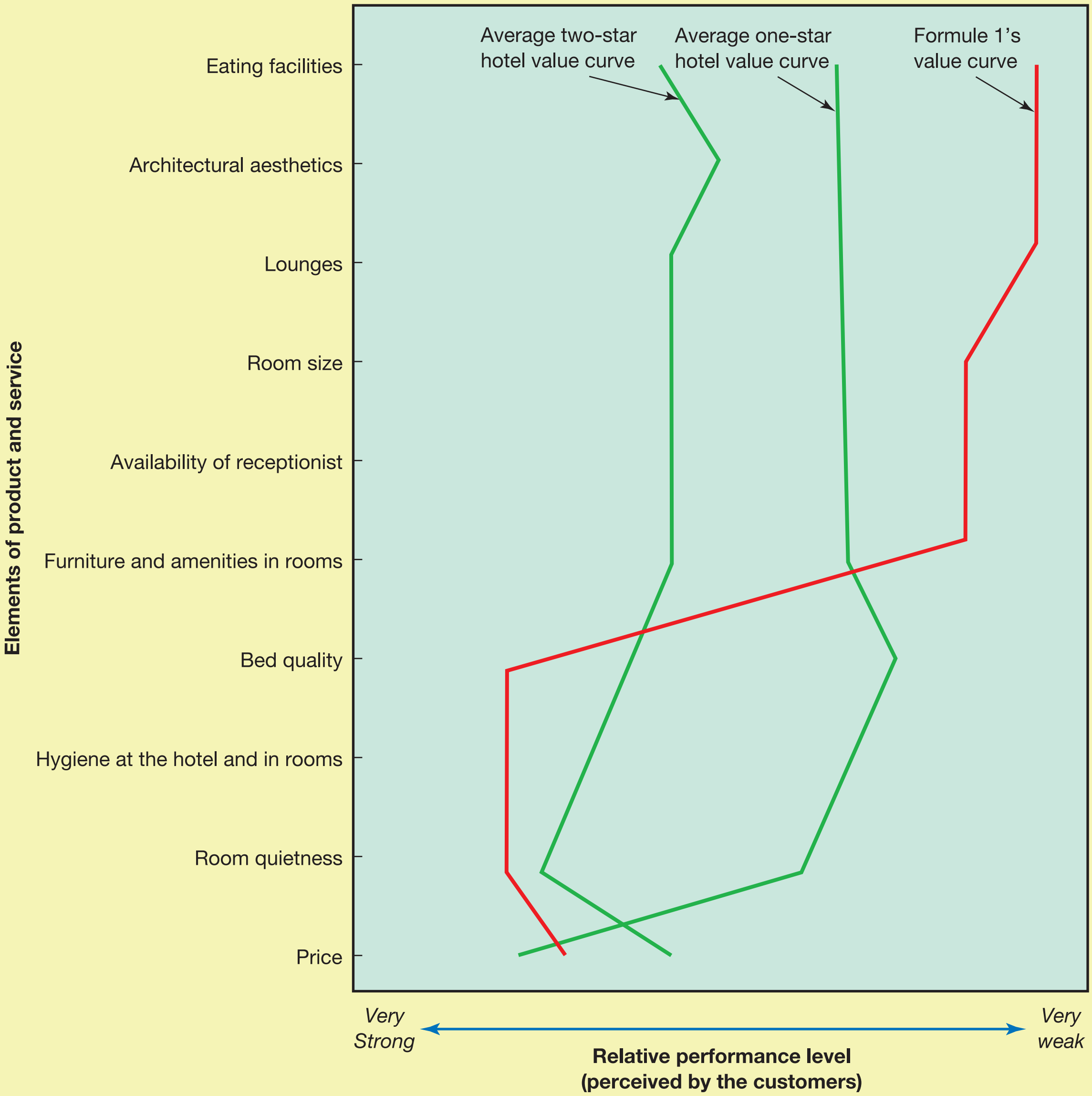
3 Which factors should be raised well above the industry standard?

As seen in Formule 1's value curve (Figure 4.8) the following factors:

- the bed quality,
- hygiene and
- room quietness,

were raised above the relative level of the low budget hotels (the one-star and two-star hotels). The price performance was perceived as being at the same level as the average one-star hotels.

Figure 4.8 Formule 1's value curve



Source: Adapted from Kim and Mauborgne (1997).

4 Which new factors (that the industry had never offered) should be developed?

These covered cost-minimizing factors such as the availability of room keys via an automated teller. The rooms themselves are modular blocks manufactured in a factory. That is a method which may not result in the nicest architectural aesthetics but give economies of scale in production and considerable cost advantages. Formule 1 has cut in half the average cost of building a room and its staff costs (in relation to total sales) dropped below the industry average (approximately 30 per cent) to between 20 per cent and 23 per cent. These cost savings have allowed Accor to improve the features, that customers value most ('a good night's sleep at a low price').

Note that in Figure 4.8 if the price is perceived as relatively low, it is regarded as a strong performance.

What has happened with Accor and Formule 1?

Today Accor is owner of several hotel chains (besides Formule 1), for example, Mercure, Sofitel, Novotel, Ibis and Motel 6. In 2005 the sales of Accor Group were €7.6 billion. As of 1 January 2006 Fomule 1 has the following number of hotels in the following regions of the world:

Exhibit 4.2 continued

Table 4.2 Number of Formule 1 hotels worldwide

Region	Number
France	284
Rest of Europe	44
North America	–
South America	5
Africa (South Africa)	24
Asia Pacific	20
Total	377

Formule 1 is represented in 12 countries: France, Germany, Sweden, the UK, the Netherlands, Switzerland, Spain, Belgium, South Africa, Japan, Australia and Brazil. In France, Formule 1's market share in the budget hotel segment is approximately 50 per cent.

Source: www.accor.com, www.hotelformule1.com; Kim and Mauborgne, 1997.

4.6 Summary

The main issue of this chapter is how the firm creates and develops competitive advantages in the international marketplace. A three-stage model allows us to understand the development of a firm's international competitiveness in a broader perspective:

1 analysis of national competitiveness (the Porter diamond);
2 competition analysis (Porter's five forces);
3 value chain analysis:
   (a) competitive triangle;
   (b) benchmarking.

Analysis of national competitiveness

The analysis starts at the macro level, where the Porter diamond indicates that the characteristics of the home nation play a central role in the firm's international success.

Competition analysis

The next stage is to move to the competitive arena where the firm is the unit of analysis. Porter's five-forces model suggests that competition in an industry is rooted in its underlying economic structure and goes beyond the behaviour of current competitors. The state of competition depends upon five basic competitive forces, which determine the profit potential in an industry.

Value chain analysis

Here we look at what creates a competitive advantage at the same competitive level (among industry competitors). According to the *competitive triangle*, it can be concluded that firms have a competitive advantage in a market if they offer products with the following:

- a higher perceived value to the customers;
- lower relative costs than competing firms.

A firm can find out its competitive advantages or core competences by using *competitive benchmarking*, which is a technique where customers measure marketplace performance of the firm compared to a 'first-class' competitor. The measures in the value chain that can be used include delivery reliability, ease of ordering, after-sales service and quality of sales representation. These value chain activities are chosen on the basis of their importance to the customer. As customers' perceptions change over time, it may be relevant to try and estimate customers' future demands on a supplier of particular products.

According to the blue ocean strategy, the red oceans represent all the industries in existence today. This is *known* marketspace. Blue oceans denote all the industries not in existence today. This is *unknown* marketspace.

In the red oceans, industry boundaries are defined and accepted, and the competitive rules of the game are known. Here companies try to outperform their rivals to grab a greater share of existing demand. As the marketspace gets more and more crowded, prospects for profits and growth are reduced. Products become commodities, and cut-throat competition turns the red ocean bloody.

Blue oceans, in contrast, are defined by untapped marketspace, demand creation and the opportunity for highly profitable growth. While blue oceans are occasionally created well beyond existing industry boundaries, most are created by expanding existing industry boundaries. In blue oceans, competition is irrelevant as the rules of the game are waiting to be set.

Once a company has created a blue ocean, it should prolong its profit and growth sanctuary by swimming as far as possible in the blue ocean, making itself a moving target, distancing itself from potential imitators, and discouraging them in the process. The aim here is to dominate the blue ocean over imitators for as long as possible. But, as other companies' strategies converge on your market, and the blue ocean turns red with intense competition, companies need to reach out to create a new blue ocean to break away from the competition yet again.

CASE STUDY 4.1

Wii: Nintendo's Wii takes first place on the world market – can it last?

A few years ago, very few analysts would have predicted that Nintendo's Wii would be market leader in the games console market against the established Playstation 3 (PS 3) and Xbox 360 brands. But analysts can be in error. In the week ending 23 August 20007 **www.Vgchartz.com** data, which are based on sample data from retailers all over the world, indicated that Nintendo's Wii (which was released in November 2006, one year after the Xbox 360), passed Xbox 360 lifetime units sales, making Nintendo the new world market leader in both the games console businesses. This will have a large impact on third-party publishers and will undoubtedly influence the decisions that the three major players (Microsft, Sony and Nintendo) will make in future.

One factor that has no doubt helped Nintendo's Wii to gain popularity so quickly is the console's broad appeal across all age groups, demographics and countries.

The Nintendo Wii

Source: Andrew Parsons/PA Archive/PA Photos.

Nintendo – key facts and financial data

Nintendo Co. was founded in 1889 as the Marufuku Company to make and sell 'hanafuda', Japanese game cards. It became the Nintendo Playing Card Company in 1951 and began making theme cards under a licensing agreement with Disney in 1959.

During the 1980s Nintendo sought new products, releasing Game Boy in 1989 and the Super Family Computer game system (Super NES in the United States) in 1991. The company broke with tradition in 1994 by making design alliances with companies like Silicon Graphics. After creating a 32-bit product in 1995, Nintendo launched the much-touted N64 game system in 1996. It also teamed with Microsoft and Nomura Research Institute on a satellite-delivered Internet system for Japan. Price wars between the top contenders continued in the US and Japan.

In 1998 Nintendo released Pokémon, which involves trading and training virtual monsters (it had been popular in Japan since 1996), in the United States. The company also launched the video game *The Legend of Zelda: Ocarina of Time*, which sold 2.5 million units in about six weeks. Nintendo issued 50 new games for 1998, compared to Sony's 131.

Nintendo announced in 1999 that its next-generation game system, Dolphin (later renamed GameCube), would use IBM's PowerPC microprocessor and Matsushita's DVD players.

In September 2001, Nintendo launched its long-awaited GameCube console system (which retailed at $100 less than its console rivals, Sony's PlayStation 2 and Microsoft's XBox). The system debuted in North America in November. In addition, the company came out with Game Boy Advance, its newest handheld model with a bigger screen and faster chip.

In 2003 Nintendo bought a stake (about 3 per cent) in game developer and toy maker Bandai, a move expected to solidify cooperation between the two companies in marketing game software.

Today Nintendo (www.nintendo.co.jp) is engaged in the creation of interactive entertainment products. It manufactures and markets hardware and software for its home video game systems. The company primarily operates in Japan, Europe and America. It is headquartered in Kyoto, Japan, and employs about 3,400 people.

In the fiscal year 2007, Nintendo's recorded revenue was $8,189.4 million, an increase of 90 per cent over 2006. The operating profit of the company was $1,916.2 million during fiscal year 2007, compared to $773.7 million in 2006. Approximately 67 per cent of the company's revenue is generated from regions outside Japan. The net profit was $1,478.2 million in fiscal year 2007, an increase of 77.2 per cent over 2006. Nintendo has managed to achieve higher returns on its investments, assets and equity as compared to the industry average.

Nintendo has not raised any capital through debt in the past few years. The company's total debt to equity ratio at the beginning of 2007 is zero compared to the industry average of 12 per cent. Debt free status indicates the company's ability to finance its operations efficiently. Additionally, no debt obligation provides the company with significant liquidity and financial flexibility.

The video game console industry

The interactive entertainment software market is characterized by short product life cycles and frequent introductions of new products.

The game consoles are relatively expensive in the beginning of their product life cycles. Hard-core game freaks pay dearly to have a console early, but sales really jump in years two and three as Moore's law and economies of scale drive prices down and third-party developers release must-have games. By year four the buzz has begun about the next generation and then the games consoles can be found at the local grocery store at discount prices.

Nintendo has been operating in the video game console market since 1977 with colour television games, and is considered the oldest company in this market. It is one of the largest console manufacturers in the world, and a leader in the handheld console market.The company had released four generations of consoles over the past two decades, which include Nintendo Entertainment System, Super Nintendo Entertainment System, Nintendo 64 and GameCube. Nintendo has dominated the handheld games market since its release of the original Game Boy handheld system in 1989. In fiscal year 2007, Nintendo sold 79.5 millions units of Game Boy Advance (GBA). Nintendo DS, another handheld console of Nintendo, sold 40.3 millions units in fiscal 2007.

Nintendo launches Wii

The company's latest console Wii was launched in November 2006. Nintendo's arguments for using this brandname were:

- Wii sounds like 'we', which emphasizes this console is for everyone.
- Wii can easily be remembered by people around the world, no matter what language they speak.
- Wii has a distinctive 'ii' spelling that symbolizes both the unique controllers and the image of people gathering to play.

The Wii's success has done little to convince Microsoft executives they are on the wrong course. The company is positioning itself for a world where people play multiplayer games, download movies and control their TVs through one box. 'Nintendo has created a unique and innovative experience,' says Peter Moore, who runs Microsoft's Xbox business. 'I love the experience, the price point, and Nintendo content.' But Moore adds, 'Microsoft provides experiences that Nintendo cannot provide' (O'Brian, 2007).

Of course Microsoft has little more to lose than money, and there's plenty of that to go around. Sony is another matter. Gaming has been the company's profit centre for years. Suddenly, when everyone thought the PS3 would solidify Sony's dominance, along came the Wii. With an unheard-of price and few quality games to choose from, the PS3 has produced disappointing sales. The father of the PlayStation, Ken Kutaragi, was recently forced to resign his post as chairman of Sony Computer Entertainment (O'Brian, 2007).

But while he acknowledges a slow start, Jack Tretton, the president and CEO of Sony Computer Entertainment America, thinks it's too early to start talking winners. 'You have to give Nintendo credit for what they've accomplished,' says Tretton, who is quick to point out that Sony has come out with some innovative controllers too, 'but if you look at the industry, any industry, it doesn't typically go backwards technologically. The controller is innovative, but the Wii is basically a repurposed GameCube. If you've built your console on an innovative controller, you have to ask yourself, Is that long term?' (O'Brian, 2007).

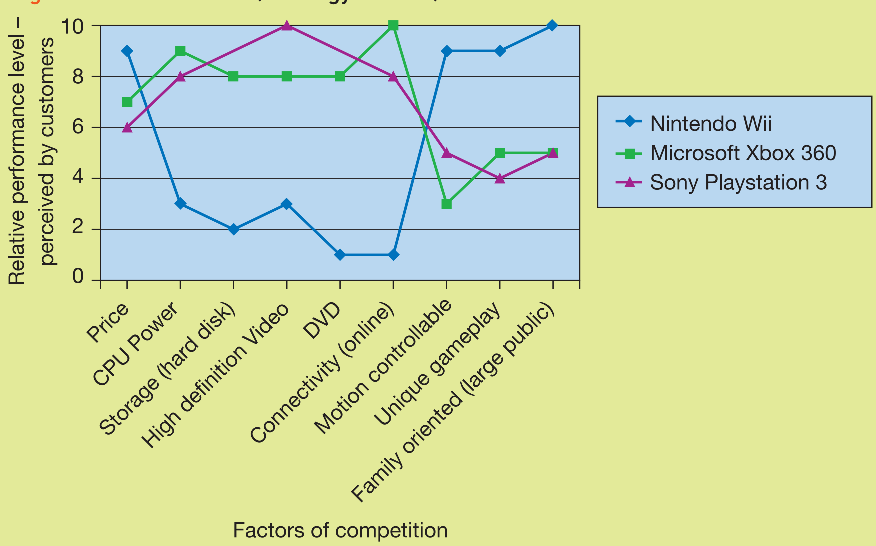
Wii's Blue Ocean Strategy

Nintendo is attempting to create a blue ocean by creating a unique gaming experience and keeping the cost of its system lower than Sony's and Microsoft's. In a recent Forbes.com interview, Perrin Kaplan, vice president of marketing and corporate affairs for Nintendo of America, discusses its implementation of Blue Ocean:

> *Inside Nintendo, we call our strategy 'Blue Ocean'. This is in contrast to a 'Red Ocean'. Seeing a Blue Ocean is the notion of creating a market where there initially was none – going out where nobody has yet gone. Red Ocean is what our competitors do – heated competition where sales are finite and the product is fairly predictable. We're making games that are expanding our base of consumers in Japan and America. Yes, those who've always played games are still playing, but we've got people who've never played to start loving it with titles like Nintendogs, Animal Crossing and Brain Games. These games are Blue Ocean in action.* (Forbes, 2006)

Part of blue ocean strategy involves creating a strategy canvas that depicts the current market space and relative offering level for major attributes that companies compete on. It helps visualize which offerings cost more to compete on. It also helps companies identify which values to eliminate, reduce and/or raise. And finally, it helps identify new values that are not currently competed on. Figure 1 shows a strategy canvas for the new Nintedo Wii when compared to Microsoft's Xbox 360 and Sony's PlayStation 3. Nintendo's value curve is in blue:

Figure 1 Value curves (strategy canvas) – Wii versus Xbox and SP3



Source: Compiled by the author

The bottom of the graph lists the primary sources of competitive advantages:

- *Price*: Wii is 20–30 per cent cheaper than Xbox 360 and Sony Playstation 3, therefore Wii is offering a higher perceived value to the consumer on this parameter, all other things being equal.
- *CPU power*: Wii has comparatively low processor speed, it has no Dolby 5.1 (sound system). Both PS3 and Xbox 360 have processors that are far more powerful than you will find in most PCs.
- *Storage (hard disk)*: In the basic model Wii has no hard disk.
- *High definition video*: Both PS3 and Xbox 360 use high-end graphics chips that support high-definition games and are prepared for high definition TV. Wii's graphics are marginally better than the PS2 and the original Xbox, but Wii pales next to the PS3 and Xbox 360.
- *DVD*: Both Sony and Microsoft provide the DVD opportunity. Sony even includes a Blu-Ray DVD drive.
- *Connectivity (online)*: The Xbox has positioned itself primarily as the online games console with multi-player functions
- *Motion controllable*: With its innovative motion control stick Wii adds new value to game playing. The stick integrates the movements of a player directly into the video game (tennis, golf, sword fights, etc.)
- *Unique gameplay*: The new Wii gaming console senses depth and motion from players thus adding a whole new element to the play experience.
- *Family oriented (large public)*: With the motion control stick Nintendo opens up the console world to a completely new public of untapped non-gamers from the age of about 30 onwards. Parents to teens and even grandparents are having fun on the Wii.

Wii's market share compared to Microsoft (Xbox) and Sony (SP3)

Table 1 shows the worldwide sales of games consoles from 2005 to 2007, together with their corresponding market share.

Current Wii sales are pretty evenly split between the three major markets – 30 per cent have been sold in Japan, the American market (including Canada and South America) accounts for 40 per cent and other markets (including Europe and Australia and a few niche markets) accounts for the remaining 30 per cent sold. The sales of Sony (PS2 and PS3) and Microsoft (Xbox and Xbox 360) has been more unequally distributed: Microsoft sells most Xbox and Xbox 360 products in North America, whereas Sony's biggest markets for PS2 and PS3 are Japan, China and the rest of Asia.

Nintendo's dependence on subsuppliers

Nintendo is highly dependent on subsuppliers. The company commissions a number of subsuppliers and contract manufacturers to produce the key components of game consoles or assemble finished products. The company is not able to meet the growing demand for its the new Wii console, which was

Table 1 World sales of games consoles (units)

	2005		2006		2007	
	Units (m)	%	Units (m)	%	Units (m)	%
Sony:						
PS2	16.8		11.7		8.6	
PS3	–		1.2		7.2	
Total	16.8	69%	12.9	53%	15.8	40%
Microsoft:						
Xbox	3.6		0.7		–	
Xbox 360	1.2		6.8		7.8	
Total	4.8	20%	7.5	31%	7.8	20%
Nintendo:						
GameCube	2.7		1.0		–	
Wii	–		3.0		15.5	
Total	2.7	11%	4.0	16%	15.5	40%
Total	24.3	100%	24.4	100%	39.1	100%

Source: Adapted from **http://www.vgchartz.com** data and other public media sources.

launched in November 2006, as its contract manufacturers have not been able to ramp up their production to meet the demand. A shortage of key components or the finished products could have a significant affect on the company's revenues.

Sources: **www.Vgchartz.com**; O'Brian, J.M. (2007) 'Wii will rock you', *Fortune*, 4 June 2007 **http://money.cnn.com/magazines/fortune/fortune_archive/2007/06/11/100083454/index.ht**; Forbes interview, 7 June 2006, **http://www.forbes.com/technology/cionetwork/2006/02/07/xbox-ps3-revolution-cx_rr_0207nintendo.html**); Gamespot (2006) 'Microsoft to ship 13–15 million 360s by June 2007', **www.gamespot.com**, 21 July; *Financial Times* (2000) 'Companies and Markets: Microsoft to take on video game leaders', 10 March; *New Media Age* (2000) 'Let the games begin', 8 March; BBC News (2002) 'Works starts on new Xbox', 26 June; BBC News (2002) 'Price cut boosts Xbox sales', 24 July; CNN News (2002) 'Console wars: Round two', 22 May.

Questions

1 What were Microsoft's motives in entering the games console market with Xbox?

2 What are the competitive advantages in the business model of Wii?

3 What do you think are Nintendo's chances of creating a long-term blue ocean with Wii?

For further exercises and cases, see this book's website at www.pearsoned.co.uk/hollensen

? Questions for discussion

1 How can analysis of national competitiveness explain the competitive advantage of the single firm?

2 Identify the major dimensions used to analyse a competitor's strengths and weaknesses profile. Do local, regional and global competitors need to be analysed separately?

3 How can a country with high labour costs improve its national competitiveness?

4 As the global marketing manager for Coca-Cola, how would you monitor reactions around the world to a major competitor such as Pepsi?

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CASE STUDY I.1

Manchester United:
Still trying to establish a global brand

Source: www.ManUtd.com. Manchester United Limited.

Manchester United (abbreviated as ManUtd, www.manutd.com) has developed into one of the most famous and financially successful football clubs in the world, being recognized in virtually every country, even those with little interest in the sport. Real Madrid has displaced ManUtd from the pole position in Deloitte's football money league. The list, which has been running for the last nine years, identifies the top 20 clubs by value.

The top five in 2006 were: Real Madrid with €275.7 million, Manchester United (€246.4 million), AC Milan (€234 million), Juventus (€229.4 million) and Chelsea (€220.8 million) (*Accountancy*, 2006). The most valuable US sport teams, the National Football League's Washington Redskins and Baseball's New York Yankees are both worth somewhat more, but more than any US sports team, ManUtd has built a global brand.

The intangible assets of ManUtd

ManUtd has developed a huge fan base. In 2005, its global fan base reached 75 million. Europe had 24 million, Asia (including Australia) had 40 million, Southern Africa had 6 million, and the Americas had 5 million. Expanding this base and developing lifelong allegiances is critical to ManUtd's long-term growth. And providing international fans with a taste of the excitement at a game, through TV and Internet coverage, is key to maintaining and building the brand.

Brand assets

ManUtd's brand assets includes (1) the physical aspects of logos, colours, names, and facilities, and (2) the intangible aspects of reputation, image, and perception. The official mascot of the team is the Red Devil. Although centrally featured in ManUtd's logo, the mascot doesn't play a prominent role in promotions. The team's nickname is the Reds, which seems logical enough, given the dominant colour of its home jerseys, but unfortunately, Liverpool, another top team in the Premier League, is also referred to as the Reds.

International brand evolution

For British fans of ManUtd, passions run deep. Although the brand is solidly entrenched in British soccer fans' psyches, it is in transition. ManUtd is no longer simply a British brand; it is a world brand. It boasts incredible number of fans in China. A survey of China's 12 largest markets shows that 42 per cent of fans are between 15 and 24, and that 26 per cent are between 25 and 34. The team is positioned to take advantage of China's growing middle class, with members who are anxious to enjoy the good life and associate themselves with successful Western brands. As an early entrant, ManUtd has the chance to establish itself as one of Asia's dominant brands (Olson *et al.*, 2006).

Although the absolute numbers are much smaller, the United States also represents fertile ground. Of course, international soccer must compete with established groups such as the Major League Baseball, National Football League, the National Basketball Association and the National Hockey League. But soccer has become a staple at schools across the country. A recent, unprompted awareness study of European soccer teams revealed that among North American fans, the most frequently mentioned team was ManUtd, at 10 per cent; Liverpool, Real Madrid, and Barcelona each generated 3 per cent, and Arsenal generated 2 per cent. The study also showed that awareness of ManUtd is strongest in the North-Eastern and Western parts of the United States.

In order to be successful in foreign markets, ManUtd must generate memberships, sell kits and other merchandise, have access to media markets (including TV, Internet, mobile phones, and publishing), set up soccer schools, form licensing agreements with strong local sponsors, and embark on tours to create halo effects.

The challenge ManUtd faces is accomplishing this transition without destroying what made it distinctly British and highly successful. Today's team is composed of players from around the globe. (Although ManUtd still has British players, the Premier League is no longer dominated by them.) And that raises another concern: strong teams employ strong players who become brands themselves. Most notable for ManUtd was the rise of David Beckham to the ranks of superstar, on the pitch and in the media, for example., through his marriage to Victoria, previously one of the Spice Girls. ManUtd considered that Beckham's market value was greater than they could afford, so they sold him to Real Madrid one year before the contract expired. But now the brand building of ManUtd depends on new and upcoming stars such as Wayne Rooney, Cristiano Ronaldo and Rio Ferdinand. At the same time as they are ManUtd brand builders, it also allows them to build their own personal brand.

Brand challenges

ManUtd is in the enviable position of market leader, during a time of dramatic media growth in the world's most popular game. But leaders can stumble and the team is not immune to the sensitive nature of sports fans. To address this concern, ManUtd has developed a customer relationship management (CRM) database of more than 2.5 million fans. Many of these database members are game-day customers.

A substantial group of US ManUtd fans are not loyal. They climb on the bandwagon of team, when it has success, only to climb off the instant it stumbles. With the number of US soccer players holding steady at 18 million, the market is relatively small.

Chinese fans don't possess the same level of experience with professional teams as US fans and might not be as fickle. Nevertheless, cultural and physical barriers exist between British and Chinese fans. To develop deeper loyalties in Chinese markets, ManUtd established a Mandarin website, started a soccer school in Hong Kong, and is constantly planning Asian tours while looking to add Asian players to the roster (e.g. Ji-Sung Park, who joined the ManUtd team in July 2005). Although these are sound moves to build brand loyalty, well-funded competitors such as Chelsea or Liverpool can copy ManUtd.

Even in England, ManUtd faces significant challenges. Especially after the Glazer invasion (see below) it generates a love-them-or-hate-them mentality. Fans of opposing teams were thrilled to see Chelsea, Arsenal and Liverpool secure the three major championships – leaving ManUtd without a major trophy in the last two years.

Then Glazer came . . .

In the late 1990s and early part of the 2000s, an increasing source of concern for many United supporters was the possibility of the club being taken over. The supporters' group IMUSA (Independent Manchester United Supporters' Association) were extremely active in opposing a proposed takeover by Rupert Murdoch in 1998. However, they could not do anything in May 2005 when the US sports tycoon Malcolm Glazer (who also owns the American Football team Tampa Bay Buccaneers) paid $1.4 billion for a 98 per cent stake in ManUtd, following a nearly year-long takeover battle. So is the ManUtd brand worth $1.5 billion? Glazer seemed to think so, as he paid roughly $200 million more than the team's open-market stock valuation.

It was a hostile takeover of the club which plunged the club into massive debt as his bid was heavily funded by borrowing on the assets owned already by ManUtd. The takeover was fiercely opposed by many fans of ManUtd. Many supporters were outraged and some formed a new club called F.C. United of Manchester. This club entered the second division of the North West Counties Football League and were confirmed as champions on 15 April 2006. They will play in the first division in the 2006–07 season.

After the takeover the Glazer family (Malcolm Glazer and his three sons) took big steps to shore up the club's finances. They cut more than 20 staff members, including some executives. They also plan to raise ticket prices and have been lending 23 players to other clubs, saving ManUtd more than $20 million in fees and salaries. In general, they have been cutting expenses everywhere they can.

The 2004–05 season was characterized by a failure to score goals, and ManUtd finished the season trophyless and in third place in the Premier League.

ManUtd made a poor start to the 2005–06 season, with midfielder Roy Keane leaving the club to join his boyhood heroes Celtic after publicly criticizing several of his teammates, and the club failed to qualify for the knock-out phase of the UEFA Champions League for the first time in over a decade after losing to Portuguese team Benfica Lissabon. ManUtd also ensured a second-place finish in the Premier League and automatic Champions League qualification.

Sponsorships

On 23 November 2005 Vodafone ended their £36 million, four-year shirt sponsorship deal with ManUtd. On

6 April 2006, ManUtd announced AIG as its new shirt sponsors ManUtd in a British record shirt sponsorship deal worth £56.5 million to be paid over four years (£14.1 million a year). ManUtd will have the largest sponsorship in the world ahead of Italian side Juventus, who have a £12.8 million a year sponsorship deal with Tamoil. The four-year agreement has been heralded as the largest sponsorship deal in British history, eclipsing Chelsea's deal with Samsung.

In 2006 ManUtd also finalized a four-year sponsorship deal with US-based financial services giant American International Group for a record $56 million. The deal replaces Vodafone, which had previously had its name emblazoned on ManUtd's famous red jerseys.

Besides these sponsorships there still exists a few others: the 13-year, £303 million ($527.2 million) deal with Nike also provides ManUtd with two vital advantages. First, it calls for Nike to pay the team a fixed fee for merchandise rights to its kits (shirts, shorts, and so on), generating a guaranteed revenue base for ManUtd while transferring product development and merchandising to a firm with proven international expertise. Second, the team links its brand with a market leader in a complementary industry (sporting goods apparel, shoes and equipment). In the first 22 months of the agreement, Nike sold 3.8 million replica shirts.

ManUtd retains eight second-tier sponsors: Pepsi, Budweiser, Audi, Wilkinson Sword, Dimension Data, Lycos.co.uk, Fuji and Century Radio. In 2004, as part of this relationship, the team invested £2 million ($3.5 million) in light-emitting diode digital-advertising boards around three sides of the pitch. Future plans call for a reduction in licensing agreements to two principals (Vodafone and Nike) and four platinum firms (to be determined). Under this arrangement, these six major sponsors will have expanded international opportunities and a stronger presence at Old Trafford. The team will then sell additional local licensing agreements with restricted rights for specific geographic markets.

Besides licensing, ManUtd generates revenues from additional secondary business lines, predominantly financial. Fans now can finance their houses or cars with a ManUtd mortgage or loan, buy tickets with a ManUtd credit card, insure their homes/cars/travel plans with ManUtd insurance, invest in ManUtd bonds, gamble in ManUtd Super Pool lotteries, or see a movie at the Red Cinema in Salford, Greater Manchester. Of course, other firms manage these lines; nevertheless, these businesses generate additional revenues while promoting the team and developing lifelong fans.

Financial situation

	2005	2004	2003
Revenues ($m)	286	308	230
Net profits ($m)	13	35	48
Employees (number)	480	504	493

In 2005, ManUtd blamed a drop in television revenues following the negotiation of a new UK broadcast rights deal, and a decline in the club's share of Champion's League media earnings as a result of its weaker performance in the tournament. The football club also incurred one-off costs in fees relating to its takeover by Glazer.

In a statement to the 2005 financial report, chief executive David Gill said, in a statement published on the club's website. 'Manchester United continues to be the world's biggest football club based on its global brand revenues and profits' (www.manutd.com).

Although current international revenues account for only 1–2 per cent of total revenues, this segment of the business holds tremendous potential.

Sources: Cohn, L. and Holmes, S. (2005) 'ManU Gets Kicked In the Head – Again', *Business Week*, 12 December, pp. 34–35; *Accountancy* (2006) 'Manchester United loses top spot in Deloitte football league', March, 137(1351), p. 16; Olson, E.M., Slater, S.F., Cooper R.D. and Reddy V. (2006) 'Good Sport: Manchester United is no longer just a British brand', *Marketing Management*, 15(1) (January/February), pp. 14–16.

Questions

1 How do you evaluate the international competitiveness of ManUtd after the takeover of Malcolm Glazer?

2 Discuss and explain how the different alliances can increase the competitiveness of ManUtd.

3 What are the main threats to retaining 'Manchester United' as a global brand?

CASE STUDY I.2

Cereal Partners Worldwide (CPW): The No. 2 world player is challenging the No. 1 – Kellogg

On a lovely spring morning in April 2007, while giving her kids some Cheerios, the CEO of Cereal Partners Worldwide S.A. (CPW), Carol Smith thinks about how CPW might expand international sales and/or capture further market shares in the saturated breakfast cereals market. Right now, CPW is the clear No. 2 in the world market for breakfast cereals, but it is a tough competition, primarily with the Kellogg Company, which is the world market leader.

Maybe there would be other ways of gaining new sales in this competitive market? Carol has just read the business bestseller *Blue Ocean Strategy* and she is fascinated by the thought of moving competition in the cereals breakfast market from the 'red ocean' to the 'blue ocean'. The question is just how?

Maybe it would be better just to take the 'head-on' battle with Kellogg Company. After all, CPW has managed to beat Kellogg in several minor international markets (e.g. in Middle and Far East).

The children have finished their Cheerios and it is time to drive them to the kindergarten in Lausanne, Switzerland where CPW has its HQ.

Later that day, Carol has to present the long-term global strategy for CPW, so she hurries to her office, and starts preparing the presentation. One of her marketing managers has prepared a background report about CPW and its position in the world breakfast cereals market. The following shows some important parts of the report.

History of breakfast cereals

Ready-to-eat cereals first appeared during the late 1800s. According to one account, John Kellogg, a doctor who belonged to a vegetarian group, developed wheat and corn flakes to extend the group's dietary choices. John's brother, Will Kellogg, saw potential in the innovative grain products and initiated commercial production and marketing. Patients at a Battle Creek, Michigan, sanitarium were among Kellogg's first customers.

Another cereal producer with roots in the nineteenth century was the Quaker Oats Company. In 1873, the North Star Oatmeal Mill built an oatmeal plant in Cedar Rapids, Iowa. North Star reorganized with other enterprises and together they formed Quaker Oats in 1901.

The Washburn Crosby Company, a predecessor to General Mills, entered the market during the 1920s. The company's first ready-to-eat cereal, Wheaties, was introduced to the American public in 1924. According to General Mills, Wheaties was developed when a Minneapolis clinician spilled a mixture of gruel that he was making for his patients on a hot stove.

Cereal Partners Worldwide (CPW)

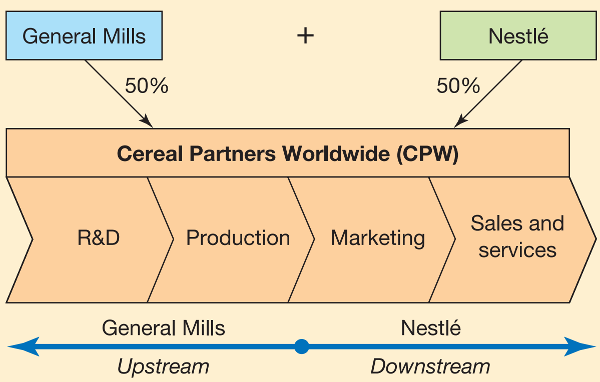
Cereal Partners Worldwide (CPW) was formed in 1990 as a 50:50 joint venture between Nestlé and General Mills (see Figure 1).

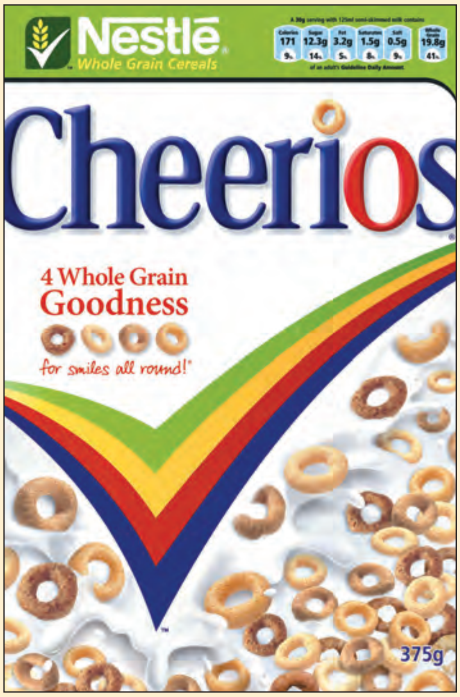
General Mills

General Mills, a leading global manufacturer of consumer food products, operates in more than 30 global markets and exports to over 100 countries. General Mills has 66 production facilities: 34 are located in the United States; 15 in the Asia/Pacific region; six in Canada; five in Europe; five in Latin America and Mexico; and one in South Africa. The company is headquartered in Minneapolis, Minnesota. In financial year 2006 the total net sales were US$11.6 of which 16 per cent came from outside the United States.

In October 2001 General Mills completed the largest acquisition in its history when it purchased The Pillsbury Company from Diageo. The US$10.4 billion deal almost doubled the size of the company, and consequently boosted General Mills's worldwide ranking, making General Mills one of the world's largest food companies. However, the company is heavily debt-laden

Figure 1 The CPW joint venture





following its Pillsbury acquisition, which will continue to eat into operating and net profits for the next few years.

The company now has more than 100 US consumer brands, including Betty Crocker, Cheerios, Yoplait, Pillsbury Doughboy, Green Giant and Old El Paso.

Integral to the successes of General Mills has been its ability to build and sustain huge brand names and maintain continued net growth. Betty Crocker, originally a pen name invented in 1921 by an employee in the consumer response department, has become an umbrella brand for products as diverse as cookie mixes to ready meals. The Cheerios cereal brand, which grew rapidly in the US post-war generation, remains one of the top cereal brands worldwide.

However, heavy domestic dependence leaves the company vulnerable to variations in that market, such as supermarket price-cutting or sluggish sales in prominent product types such as breakfast cereals.

Internationally, General Mills uses its 50 per cent stake in Cereal Partners Worldwide (CPW) to sell its breakfast cereals abroad. Cereal sales have faced tough competition recently leading to significant drops in sales, particularly tough competition from private labels.

Nestlé

Founded in 1866, Nestlé is the world's largest food and beverage company in terms of sales. The company began in the field of dairy-based products and later diversified to food and beverages in the 1930s. Nestlé is headquartered in Vevey, Switzerland and the company has 500 factories in 83 countries. It has about 406 subsidiaries located across the world. The company employs 247,000 people around the world, of which 131,000 employees work in factories, while the remaining employees work in administration and sales.

Nestlé's businesses are classified into six divisions based on product groups, which include Beverages; Milk Products, Nutrition and Ice Cream; Prepared Dishes and Cooking Aids; Chocolate, Confectionery and Biscuits; PetCare; and Pharmaceutical Products. Nestlé's global brands include Nescafé, Taster's Choice, Nestlé Pure Life, Perrier, Nestea, Nesquik, Milo, Carnation, Nido, Nestlé, Milkmaid, Sveltesse, Yoco, Mövenpick, Lactogen, Beba, Nestogen, Cerelac, Nestum, PowerBar, Pria, Nutren, Maggi, Buitoni, Toll House, Crunch, Kit-Kat, Polo, Chef, Purina, Alcon, and L'Oréal (equity stake).

Nestlé reported net sales of $83 billion for the fiscal year 2005.

CPW

CPW markets cereals in more than 130 countries, except for the United States and Canada, where the two companies market themselves seperately. The joint venture was established in 1990 and the agreement also extends to the production of private label cereals in the UK. Volume growth for CPW was 4 per cent in 2005. The company's cereals are sold under the Nestlé brand, although many originated from General Mills. Brand names manufactured (primarily by General Mills) under the Nestlé name under this agreement include Corn Flakes, Crunch, Fitness, Cheerios and Nesquik. Shredded Wheat and Shreddies were once made by Nabisco, but are now marketed by CPW.

The CPW turnover in 2005 was a little less than US$2 billion.

When CPW was established in 1990 each partner was bringing distinctive competences into the joint venture:

General Mills:

- proven cereal marketing expertise;
- technical excellence in products and production processes;
- broad portfolio of successful brand.

Nestlé:

- world's largest food company;
- strong worldwide organization;
- deep marketing and distribution knowledge.

CPW is No. 2 in most international markets, but it is also market leader in some of the smaller breakfast cereal markets like China (80 per cent market share), Poland (70 per cent market share), Turkey (70 per cent market share), East/Central Europe (50 per cent market share) and South East Asia (50 per cent market share).

The world market for breakfast cereals

In the early 2000s breakfast cereal makers were facing stagnant, if not declining, sales. Gone are the days of the family breakfast, of which a bowl of cereal was standard fare. The fast-paced American lifestyle has more and more consumers eating breakfast on the go. Quick-serve restaurants like McDonald's, ready-to-eat breakfast bars, bagels and muffins offer consumers less labour-intensive alternatives to cereal. Although the value of product shipped by cereal manufacturers has grown in absolute figures, increased revenues came primarily from price hikes rather than market growth.

English-speaking nations represented the largest cereal markets. Consumption in non-English markets was estimated at only one-fourth the amount consumed by English speakers (see Table 1), where the breakfast cereal consumption per capita is 6 kg in UK, but only 1.5 kg in South-west Europe (France, Spain and Portugal). On the European continent, consumption per capita averaged 1.5 kg per year.

Growth in the cereal industry has been slow to non-existent in this century. The question at hand for the industry is how to remake cereal's image in light of the

Table 1 Breakfast cereal consumption per capita per year – 2005

Region	Per capita consumption per year (kg)
Sweden	9.0
Canada	7.0
UK	6.0
Australia	6.0
USA	5.0
South West Europe (France, Spain)	1.5
South East Asia	0.1
Russia	0.1

Table 2 World market for breakfast cereals by region – 2005

Region	Billion US$	%
North America	10	50
Europe	6	30
Rest of the World	4	20
Total	20	100

new culture. Tinkering with flavourings and offerings, such as the recent trend toward the addition of dried fresh fruit, proves some relief, but with over 150 different choices on store shelves and 20 new offerings added annually, variety has done more to overwhelm than excite consumers. In addition, cereal companies are committing fewer dollars to their marketing budgets.

Development in geographical regions

As seen in Table 2, the United States is by far the largest breakfast cereals market in the world. In total North America accounts for 50 per cent of the global sales of $20 billion in 2005. The United States accounts for about 90 per cent of the North American market.

The European region accounts for 30 per cent of global sales, at US$6 billion in 2005. By far the largest market is the UK, contributing nearly 40 per cent of the regional total, with France and Germany other key, if notably smaller, players. Eastern Europe is a minor breakfast cereal market, reflecting the product's generally new status in the region. It contributed just 3 per cent of world sales in 2005. However, the market is vibrant as new lifestyles born from growing urbanization and westernization – key themes in emerging market development – have fuelled steady sales growth. Despite its low level of per capita spending, Russia is the largest market in Eastern Europe, accounting for over 40 per cent of regional sales in 2005. The continued steady growth of this market underpinned overall regional development over the review period. Cereals remain a niche market in Russia, as they do across the region, with the product benefiting from a perception of novelty. A key target for manufacturers has been children and young women, at which advertising has been aimed.

The Australasian breakfast cereals sector, like Western Europe and North America, dominated by a single nation, Australia, is becoming increasingly polarized. In common with the key US and UK markets, breakfast cereals in Australia are suffering from a high degree of maturity, with annual growth at a low single-digit level.

The Latin American breakfast cereals sector is the third largest in the world, but at US$2 billion in 2005, it is notably overshadowed by the vastly larger North American and Western European markets. However, in common with these developed regions, one country plays a dominant role in the regional make-up, Mexico, accounting for nearly 60 per cent of the overall breakfast cereal markets in Latin America.

In common with Eastern Europe, breakfast cereal sales, whilst small in Africa and the Middle East, have displayed marked growth in recent years as a direct result of greater urbanization and a growing trend (in some areas) towards westernization. Given the overriding influence of this factor on market development, sales are largely concentrated in the more developed regional markets, such as Israel and South Africa, where the investment by multinationals has been at its highest.

In Asia the concept of breakfast cereals is relatively new, with the growing influence of Western culture fostering a notable increase in consumption in major urban cities. Market development has been rapid in China, reflecting the overall rate of industry expansion in the country, with breakfast cereals sales rising by 19 per cent in 2005. In the region's developed markets, in particular Japan, market performance is broadly similar, although the key growth driver is different, in that it is health. Overall, in both developed and developing markets, breakfast cereals are in their infancy.

Health trend

With regards to health, breakfast cereals have been hurt by the rise of fad diets such as Atkins and South Beach, which have heaped much scorn on carbohydrate-based products. The influence of these diets is on the wane but their footprint remains highly visible on national eating trends. In addition, the high sugar content of children's cereals has come under intense scrutiny, which caused a downturn in this sector, although the industry is now coming back with a range of 'better for you' variants.

Regarding convenience, this trend, once a growth driver for breakfast cereals, has now become a threat, with an increasing number of consumers opting to skip breakfast. Portability has become a key facet of convenience, a development that has fed the emergence and expansion of breakfast bars at the expense of traditional foods, such as breakfast cereals. In an increasingly cash-rich, time-poor society, consumers are opting to abandon a formal breakfast meal and instead are relying on an 'on-the-go' solution, such as breakfast bars or pastries. These latter products, in particular breakfast bars, are taking share from cereals, a trend that looks set to gather pace in the short term.

Trends in product development

Consumer awareness of health and nutrition also played a major part in shaping the industry in recent years. Cereal manufacturers began to tout the benefits of eating breakfast cereal right on the package – vitamin-fortified, low in fat, and a good source of fibre. Another trend, begun in the 1990s and picking up steam in the 2000s, is adding dehydrated whole fruits to cereal, which provides colour, flavour, and nutritional value. Yet touting health benefits to adults and marketing film characters to children have not been sufficient to reinvigorate this mature industry.

Under the difficult market conditions, cereal packaging is receiving new attention. Packaging was a secondary consideration, other than throwing in special offers to tempt kids. But these days, with meal occasions boiled down to their bare essentials, packaging and delivery have emerged as key weapons in the cereal marketer's arsenal. New ideas circulating in the industry usually include doing away with the traditional cereal box, which has undergone little change in its lifetime. Alternatives range from clear plastic containers to a return of the small variety six-packs.

Trends in distribution

Supermarkets tend to be the dominant distribution format for breakfast cereals. The discounter format is dominated by mass merchandisers, the most famous example of which is Wal-Mart in the United States. This discounter format tends to favour shelf-stable, packaged products and as a result they are increasingly viewed as direct competitors to supermarkets.

Independent food stores have suffered a decline during the past years. They have been at a competitive disadvantage compared to their larger and better resourced chained competitors.

Trends in advertising

Advertising expenditures of most cereal companies were down in recent years due to decreases in consumer spending. However there are still a lot of marketing activities going on.

General Mills has a comprehensive marketing programme for each of its core brands, from traditional television and print advertisements to in-store promotions, coupons and free gifts. In 2002, the company teamed up with US publisher Simon & Schuster to include books or audio CDs with the purchase of its Oatmeal Crisp Raisin and Basic 4 cereals.

Other promotions have included free Hasbro computer games included in boxes, promotion of new millennium pennies and golden dollars in 2000, and the inclusion of scale models of the Cheerios-sponsored NASCAR.

In response to Kellogg's 2001 launch of Special K Red Berries, General Mills countered with the introduction of freeze dried fruit in Cheerios, with Berry Burst and Triple Berry Burst product extensions from February 2003. The introduction is a response to the need for the packaging to communicate the inclusion of real berries in the box and not just flavouring. Consequently, the chosen designs consisted of vibrant red and purple boxes, each featuring a spoonful of Cheerios and fruit splashing in milk. Since freeze-dried fruit tends to absorb moisture, the company was also compelled to develop a more moisture-resistant package liner.

The introduction of Berry Burst Cheerios was supported by a US$40 million advertising and promotional campaign that included TV advertising, consumer couponing, outdoor advertising, in-store sampling and merchandising.

Celebrity glamour

Celebrity endorsements continue to play a critical part of General Mills's marketing strategies, in particular its association with sporting personalities dating back to the 1930s with baseball sponsorship. One of the main lines of celebrity endorsement involves Wheaties boxes and a long line of sports people have appeared on the box since the 1930s. In 2001, Tiger Woods, spokesman for the Wheaties brand, appeared on special edition packaging for Wheaties to commemorate his victory of four Grand Slam golf titles.

Distribution

General Mills distributes the majority of its products directly through its own sales organization to retailers, cooperatives and wholesalers. In Europe and Asia-Pacific the company licenses products for local production, but it also exports to over 100 different countries.

New products, new channels

New products and new product innovations have helped create new distribution channels for General Mills recently. The success of General Mills's snack products has helped create a large demand for products in convenience stores and the company has actively developed products to meet the demands of the convenience store consumer such as its healthy Chex Mex range. A new chocolate-flavoured Chex Mex was added to the product line in 2005.

The development of cereal-in-a-bowl range has helped create new outlets for General Mills's products in college cafeterias and hotel restaurants. This may see the development of additional products to compliment these channels.

Traditional channels

Traditional retailers such as supermarkets continue to play a major role in the distribution of General Mills's products, and the company has an extensive number of

Table 3 The world market for breakfast cereals, by company – 2005

Manufacturer	Germany % market share	UK % market share	USA % market share	World % market share
Kellogg Company	27	30	30	30
CPW (General Mills + Nestlé)	12	15	30[1]	20
PepsiCo (Quaker)	–	6	14	10
Weetabix	–	10	–	5
Private label	35	15	10	15
Others	26	24	16	20
Total	100	100	100	100

[1] In the United States General Mills and Nestlé market each of their breakfast cereal products independently, because the CPW only covers international markets outside the United States.

cereal, snack, meal and yoghurt brands to maintain shelf space in major retail outlets.

Private label competition intensifies

Across many categories, rising costs have led to price increases in branded products which have not been matched by any pricing actions taken in private labels. As a result, the price gaps between branded and private label products have increased dramatically and in some cases can be as much as 30 per cent.

This creates intense competitive environments for branded products, particularly in categories such as cereals which is one of General Mills's biggest markets, as consumers have started to focus more on price than brand identity. This shift in focus is partly the result of private labels' increased quality as they compete for consumer loyalty and confidence in their label products.

Competitors

Kellogg's

The company that makes breakfast foods and snacks for millions began with only 25 employees in Battle Creek in 1906. Today, Kellogg Company employs more than 25,000 people, manufactures in 17 countries and sells its products in more than 180 countries.

Kellogg was the first American company to enter the foreign market for ready-to-eat breakfast cereals. Company founder Will Keith (W.K.) Kellogg was an early believer in the potential of international growth and began establishing Kellogg's as a global brand with the introduction of *Kellogg's Corn Flakes®* in Canada in 1914. As success followed and demand grew, Kellogg Company continued to build manufacturing facilities around the world, including Sydney, Australia (1924), Manchester, England (1938), Queretaro, Mexico (1951), Takasaki, Japan (1963), Bombay, India (1994) and Toluca, Mexico (2004).

Kellogg Company is the leader among global breakfast cereal manufacturers with 2005 sales revenue of \$10.2 billion (net earnings were \$980 million). Wal-Mart Stores, Inc. and its affiliates, accounted for approximately 17 per cent of consolidated net sales during 2005.

Established in 1906, Kellogg Company was the world's market leader in ready-to-eat cereals throughout most of the twentieth century. In 2005, Kellogg had 30 per cent of the world market share for breakfast cereals (see Table 3). Canada, the United Kingdom, and Australia represented Kellogg's three largest overseas markets.

A few well-known Kellogg products are Corn Flakes, Frosted Mini-Wheats, Corn Pops, and Fruit Loops.

PepsiCo

In August 2001, PepsiCo merged with Quaker Foods, thereby expanding its existing portfolio. Quaker's family of brands includes Quaker Oatmeal, Cap'n Crunch and Life cereals, Rice-A-Roni and Near East side dishes, and Aunt Jemima pancake mixes and syrups.

The Quaker Food's first puffed product, 'Puffed Rice', was introduced in 1905. In 1992, Quaker Oats held an 8.9 per cent share of the ready-to-eat cereal market, and its principal product was Cap'n Crunch. Within the smaller hot cereal segment, however, the company held approximately 60 per cent of the market. In addition to cereal products, Quaker Oats produced Aunt Jemima Pancake mix and Gatorade sports drinks.

The PepsiCo brands in the breakfast cereal sector include Cap'n Crunch, Puffed Wheat, Crunchy Bran, Frosted Mini Wheats and Quaker.

Despite recent moves to extend its presence into new markets, PepsiCo tends to focus on its North American operations.

Weetabix

Weetabix is an UK manufacturer, with a relatively high market share (10 per cent) in United Kingdom. The company is owned by a private investment group – Lion Capital. The company sells its cereals in over 80 countries and has a product line that includes Weetabix, Weetos, and Alpen. Weetabix is headquartered in Northamptonshire, UK. In 2005 Weetabix has an estimated turnover of US\$1 billion.

Sources: www.cerealpartners.co.uk; www.generalmills.com; www.nestle.com; www.euromonitor.com; www.datamonitor.com; www.marketwatch.com; Bowery, J. (2006) 'Kellogg broadens healthy cereals portfolio', *Marketing*, 8 February, p. 5; Sanders, T. (2006) 'Cereals spark debate', *Food Manufacture*; August, 81(8), p. 4; Reyes, S. (2006) 'Saving Private Label', *Brandweek*, 5 August, 47(19), pp. 30–34; Hanson, P. (2005) 'Market focus breakfast cereals', *Brand Strategy*, March, 190, p. 50; Pehanich, M. (2003) 'Cereals Run Sweet and Healthy', *Prepared Foods*, March, pp. 75–76; Vignali, C. (2001) 'Kellogg's – internationalisation versus globalisation of the marketing mix', *British Food Journal*, 103(2), pp. 112–130.

Questions

Carol has heard that you are the new global marketing specialist so you are called in as a 'last-minute' consultant before the presentation to the board of directors. You are confronted with the following questions, which you are supposed to answer as best you can.

1 How can General Mills and Nestlé create international competitiveness by joining forces in CPW?
2 Evaluate the international competitiveness of CPW compared to the Kellogg Company.
3 Suggest how CPW can create a blue ocean strategy.
4 Where and how can CPW create further international sales growth?