1

Global marketing in the firm

Contents

Learning objectives

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

- **Characterize and compare the management style in SMEs (small and medium-sized enterprises) and LSEs (large-scale enterprises).**
- **Identify drivers for 'global integration' and 'market responsiveness'.**
- **Explain the role of global marketing in the firm from a holistic perspective.**
- **Describe and understand the concept of the value chain.**
- **Identify and discuss different ways of internationalizing the value chain.**

1.1 The process of developing the global marketing plan

As the book has a clear decision-oriented approach, it is structured according to the five main decisions that marketing people in companies face in connection with the global marketing process. The 14 chapters are divided into five parts.

Part 1: The decision to internationalize (Chapters 1–4)
Part 2: Deciding which markets to enter (Chapters 5–7)
Part 3: Market entry strategies (Chapters 8–10)
Part 4: Designing the global marketing programme (Chapters 11–12)
Part 5: Implementing and coordinating the global marketing programme (Chapters 13–14).

In the end, the firm's global competitiveness is mainly dependent on the end-result of the global marketing stages: *the global marketing plan* (see Figure 1.1). The purpose of the marketing plan is to create sustainable competitive advantages in the global marketplace. Generally, firms go through some kind of mental process in developing global marketing plans. In SMEs this process is normally informal; in larger organizations it is often more systematized. Figure 1.1 offers a systematized approach to developing a global marketing plan – the stages are illustrated by the most important models and concepts that are explained and discussed throughout the chapters. It is advisable to return to this figure throughout the book.

1.2 Introduction to globalization

Globalization
Reflects the trend of firms buying, developing producing and selling products and services in most countries and regions of the world.

Internationalization
Doing business in many countries of the world, but often limited to a certain region (e.g. Europe).

In the face of **globalization** and an increasingly interconnected world many firms attempt to expand their sales into foreign markets. International expansion provides new and potentially more profitable markets; helps increase the firm's competitiveness; and facilitates access to new product ideas, manufacturing innovations and the latest technology. However, **internationalization** is unlikely to be successful unless the firm prepares in advance. Advance planning has often been regarded as important to the success of new international ventures (Knight, 2000).

Solberg (1997) discusses the conditions under which the company should 'stay at home' or further 'strengthen the global position' as two extremes (see Figure 1.2). The framework in Figure 1.2 is based on the following two dimensions:

Industry globalism

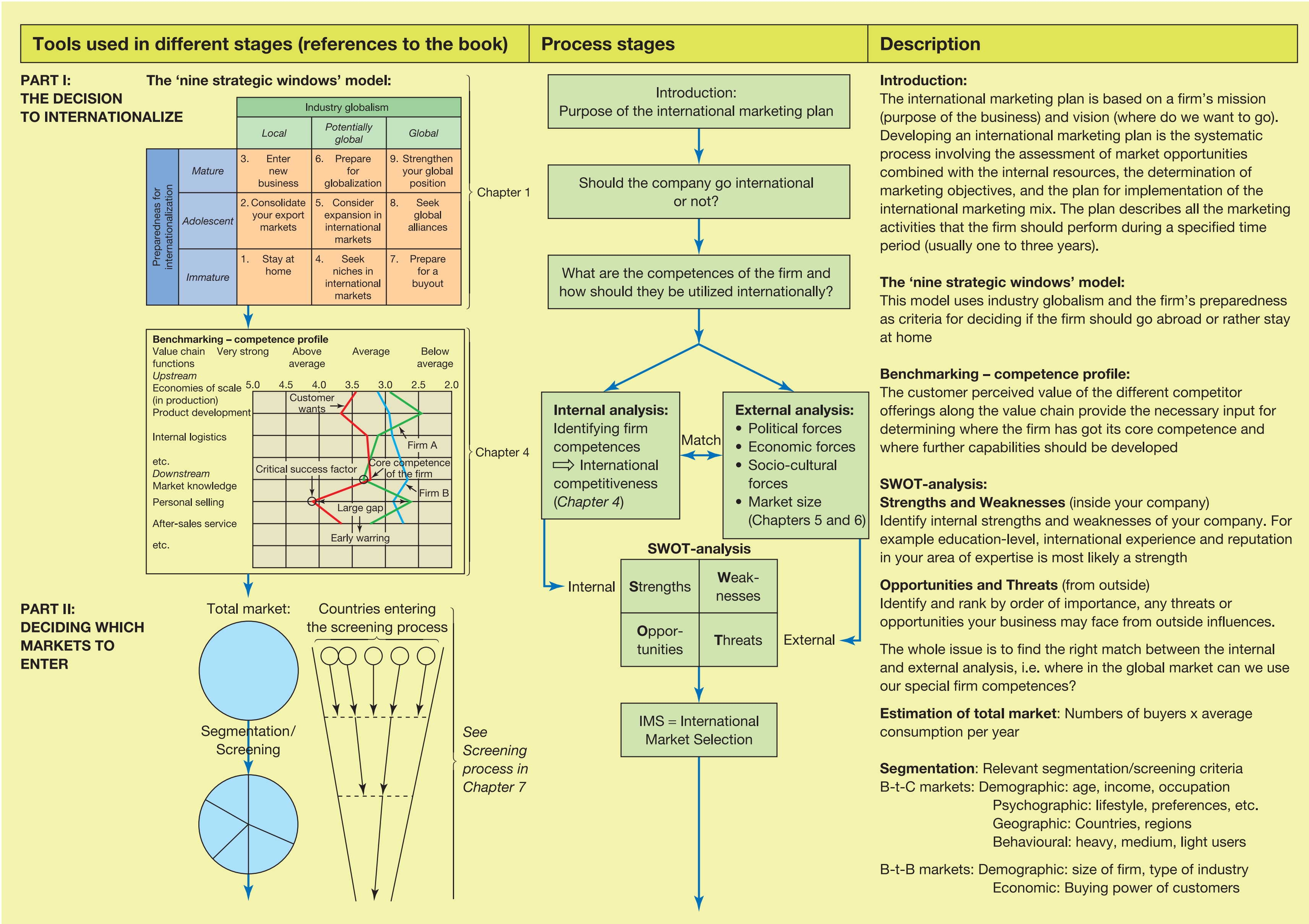
In principle, the firm cannot influence the degree of industry globalism, as it is mainly determined by the international marketing environment. Here the strategic behaviour of firms depends on the international competitive structure within an industry. In the case of a high degree of industry globalism there are many interdependencies between markets, customers and suppliers, and the industry is dominated by a few large powerful players (*global*), whereas the other end *(local*) represents a multidomestic market environment, where markets exist independently from one another. Examples of very global industries are PCs, IT (software), records (CDs), movies and aircrafts (the two dominant players being Boeing and Airbus). Examples of more local industries are the more culture-bounded industries, like hairdressing, foods and dairies (e.g. brown cheese in Norway).

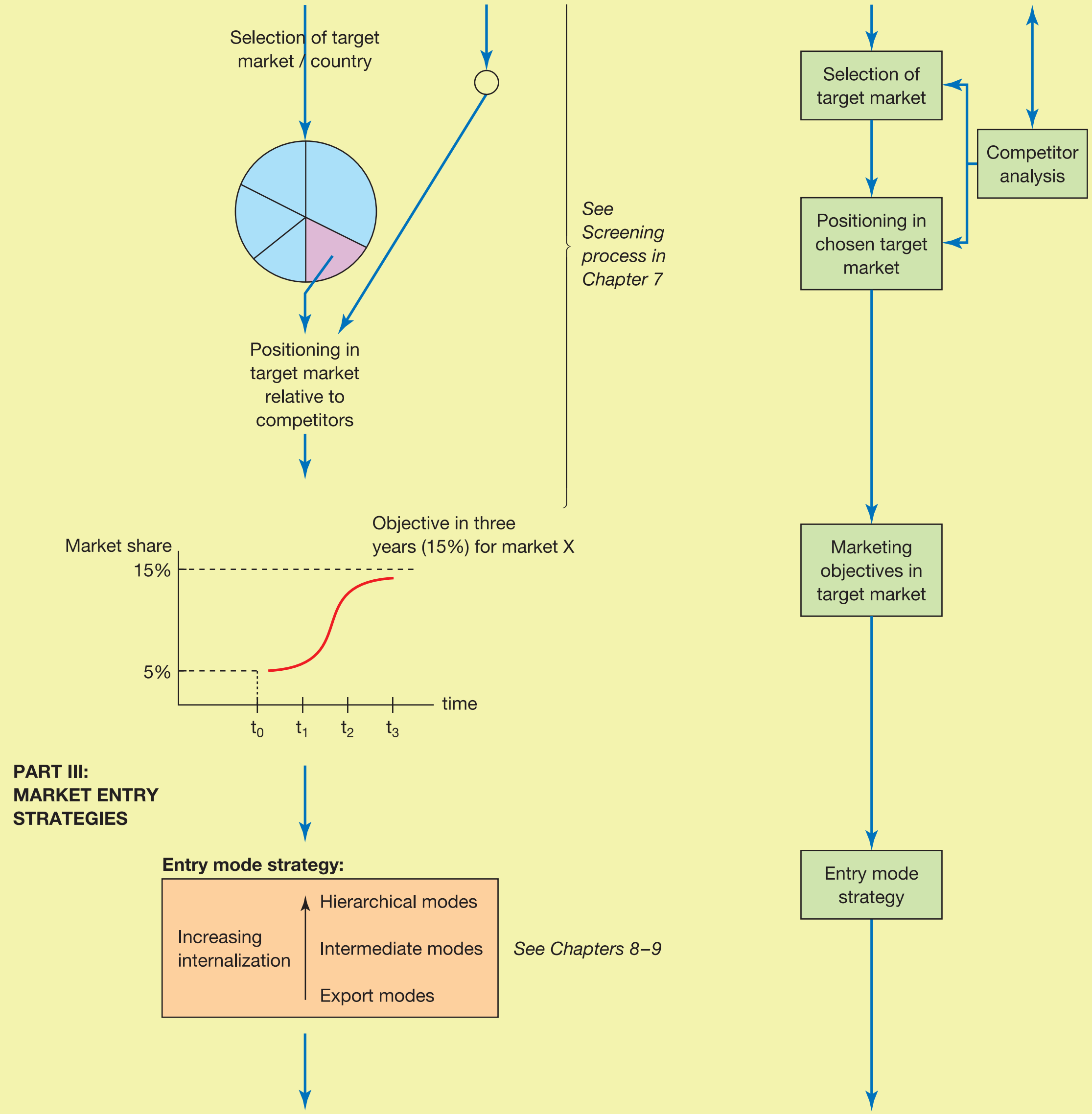
Preparedness for internationalization

This dimension is mainly determined by the firm. The degree of preparedness is dependent on the firm's ability to carry out strategies in the international marketplace, i.e. the actual skills in international business operations. These skills or organizational capabilities may consist of personal skills (e.g. language, cultural sensitivity), the managers' international experience or financial resources. The well-prepared company (*mature*) has a good basis for dominating the international markets and consequently it would gain higher market shares.

In the global/international marketing literature the 'staying at home' alternative is not discussed thoroughly. However, Solberg (1997) argues that with limited international experience and a weak position in the home market there is little reason for a

Figure 1.1 Development of an international marketing plan





- Geographical market: region (Western Europe, Eastern Europe, Far East, North America etc.) country or area in a country
- Customer type: end-customer, middlemen, OEMs, Global Accounts (GAs)

Competitor analysis:
You'll discover your company's competitive advantage – the reason customers do business with you instead of your competition. By observing the actions of your competitors, you might learn more about your market. For example, does a successful competitor offer reduced prices in a specific market? If so, what might that tell you about the market's spending habits. If you find that your market is saturated with capable competitors ('red ocean'), you can avoid the costly mistake of selecting a target market without adequate demand for your offer. You can then redirect your efforts toward something that will generate more profit with the existing resources base in your company ('blue ocean strategy').

Marketing objectives:

Meeting marketing objectives should lead to sales. (If not, you need to set different marketing objectives). They should be clear, measurable, and have a stated time frame for achievement.

With other words the objectives should follow the SMART-concept: **S**pecific, **M**easurable, **A**chievable, **R**ealistic. **T**imeable

Setting your marketing objectives and finalizing the remaining components of your marketing plan may serve as a reality check: Do you have the resources and competences necessary to accomplish your objectives?

Example: Increase market share in target market from now (t_0) 5% to 15% in three years (t_3) – Is that realistic?

Entry mode strategy:
Once the firm has set its target objectives in target markets the next step is to choose the best way to enter the market. The chosen entry mode can be regarded as the first decision level in the vertical chain that will provide distribution to the next actors in the vertical chain at the national level.

Following characteristics are connected to the three types of entry modes (seen from the manufacturer's perspective):

- Export Modes (agent, distributor): Low control, low risk, high flexibility
- Intermediate mode (joint venture, strategic alliance): shared control and risk, split ownership
- Hierarchical modes (Own subsidiary): High control, high risk, low flexibility

Figure 1.1 continued

PART IV: DESIGNING THE GLOBAL MARKETING PROGRAMME

Marketing mix plan (per country and overall)

Marketing mix (activities)	Year 1 (t_1)	Year 2 (t_2)	Year 3 (t_3)
Product Features, quality, name, guarantees, packaging, support services	New variant	New product line and services	Develop new tech-nology / product
Price List price, additional services prices, credit facilities, terms/conditions, allowances	Keep skimming price	Lower price	Stabilize price
Place Distributors, wholesalers, retailers, locations, transport	Selective dist.	Expand distr. with new partners	New int. Markets
Promotion Advertising, direct mail, e-mail, publicity, sales promotion, personal selling, company literature, Internet	Keep current advertising Media	Development of e-mail campaign	Personal selling

See Chapters 11–12

Developing the international marketing mix (the 4 Ps)

PART V: IMPLEMENTING AND COORDINATING THE GLOBAL MARKETING PROGRAMME

Implementation of marketing activities	Year 1				Year 2				Year 3				Responsible
(Q = Quarter)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Advertising													XX
E-mails													XY
Demonstrations													YX
Personal selling													YY
. . .													

See Chapter 13

Implementation and Cross-border negotiation

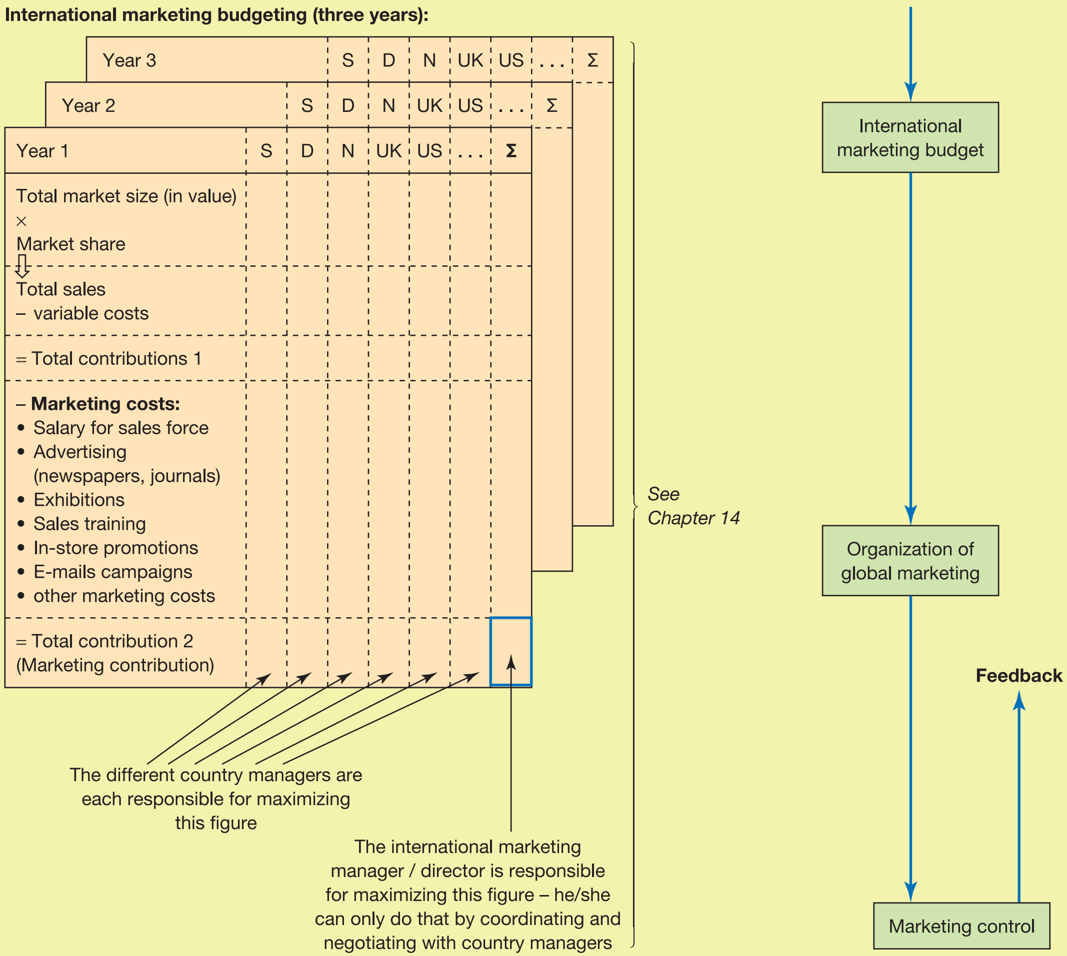
Development of the marketing mix:
The international marketing mix section of your plan (the 4 Ps or alternatively the 7 Ps) outlines your game plan to achieve your marketing objectives internationally. It is, essentially, the heart of the marketing plan. The marketing mix section should include information about:

- Product – your offering: product(s) and services
- Price – what you'll charge customers for regarding delivered products and services
- Promotion – how you will promote or create awareness and interest for your product in the marketplace
- Place (distribution) – how you will bring your product(s)/services together with your customers? How can you create extra value by developing relationships with your customer?

Implementation:
To translate the strategy into action (organizing):

- Assemble the 4P-mix for each product/service (SBU)
- Organize the marketing effort
- *Who* is responsible for the implementation of the activities?
- *When* will the activities take place?
- Internal marketing plan: Sell the the marketing plan inside the organization before going outside. Are there any internal barriers that should be considered?

Cross-border negotiation:
The most fundamental gap influencing the negotiation climate between buyer and seller is the *cultural distance*, represented by differences in communication and negotiation behaviour, the concepts of time, space and work patterns, and the nature of social norms. The cultural distance can be reduced by cultural training and market research.



Marketing budget:
A marketing budget derived from a tactical marketing strategy must have adequate resources allocated to meet the performance objectives of the strategic market plan. An estimate of market and profit performance is made for each year of a 3 year strategic market planning horizon.

Concerning the figure at the left, the international marketing manager / director is responsible for maximizing the total 'Marketing contribution' for the whole world (**Σ**). In order to optimize this total marketing contribution (**Σ**), this person has the right to coordinate and transfer marketing resources across borders, by cooperation and negotiation with country managers, who are responsible for maximizing the 'Marketing contribution' for their single countries.

Organization of global marketing activities:
Different options for organizing these activities:

- Ad hoc exporting
- Functional structure
- International division structure
- Product structure
- Geographical (customer) structure
- Matrix structure
- Global Account Management (GAM)

Marketing control:
Planning and budgeting are the main formal control methods. The budget spells out the objectives and necessary marketing costs to achieve these objectives. Control consists of measuring actual figures against budget figures. If there is tolerable variance then no action is usually taken.

Performance is evaluated by measuring actual against planned performance. The problem is setting a performance standard. Usually it is based on historical performance with some kind of industry average.

Problems of international comparison inevitably occur like how budgets in different countries are affected by currency fluctuations during the budget period.

Figure 1.2 The nine strategic windows

Preparedness for internationalization		Industry globalism: Local	Industry globalism: Potentially global	Industry globalism: Global
	Mature	3. Enter new business	6. Prepare for globalization	9. Strengthen your global position
	Adolescent	2. Consolidate your export markets	5. Consider expansion in international markets	8. Seek global alliances
	Immature	1. Stay at home	4. Seek niches in international markets	7. Prepare for a buyout

Source: Solberg, 1997, p. 11. Reprinted with kind permission. In the original article Solberg has used the concept 'globality' instead of 'globalism'.

SMEs
SME occurs commonly in the EU and in international organizations. The EU categorizes companies with fewer than 50 employees as 'small', and those with fewer than 250 as 'medium'. In the EU, SMEs (250 employees and less) comprise approximately 99 per cent of all firms.

firm to engage in international markets. Instead the firm should try to improve its performance in its home market. This alternative is window number 1 in Figure 1.2.

If the firm finds itself in a global industry as a dwarf among large multinational firms, then Solberg (1997) argues that it may seek ways to increase its net worth so as to attract partners for a future buyout bid. This alternative (window number 7 in Figure 1.2) may be relevant to **SMEs** selling advanced high-tech components (as subsuppliers) to large industrial companies with a global network. In situations with fluctuations in the global demand the SME (with limited financial resources) will often be financially vulnerable. If the firm has already acquired some competence in international business operations it can overcome some of its competitive disadvantages by going into alliances with firms representing complementary competences (window number 8). The other windows in Figure 1.2 are further discussed by Solberg (1997).

1.3 Development of the 'global marketing' concept

Basically 'global marketing' consists of finding and satisfying global customer needs better than the competition, and of coordinating marketing activities within the constraints of the global environment. The form of the firm's response to global market opportunities depends greatly on the management's assumptions or beliefs, both conscious and unconscious, about the nature of doing business around the world. This worldview of a firm's business activities can be described as the EPRG framework (Perlmutter, 1969; Chakravarthy and Perlmutter, 1985): its four orientations are summarized as follows:

1 E*thnocentric*: the home country is superior and the needs of the home country are most relevant. Essentially headquarters extends ways of doing business to its foreign affiliates. Controls are highly centralized and the organization and technology implemented in foreign locations will essentially be the same as in the home country.

2 **P***olycentric* (multidomestic): each country is unique and therefore should be targeted in a different way. The polycentric enterprise recognizes that there are different conditions of production and marketing in different locations and tries to adapt to those different conditions in order to maximize profits in each location. The control with affiliates is highly decentralized and communication between headquarters and affiliates is limited.
3 **R***egiocentric*: the world consists of regions (e.g. Europe, Asia, the Middle East). The firm tries to integrate and coordinate its marketing programme within regions, but not across them.
4 **G***eocentric* (global): the world is getting smaller and smaller. The firm may offer global product concepts but with local adaptation ('think global, act local').

The regio- and geocentric firm (in contrast to the ethnocentric and polycentric) seeks to organize and integrate production and marketing on a regional or global scale. Each international unit is an essential part of the overall multinational network, and communications and controls between headquarters and affiliates are less top-down than in the case of the ethnocentric firm.

This leads us to a definition of global marketing:

Global marketing is defined as the firm's commitment to coordinate its marketing activities across national boundaries in order to find and satisfy global customer needs better than the competition. This implies that the firm is able to:

- develop a global marketing strategy, based on similarities and differences between markets;
- exploit the knowledge of the headquarters (home organization) through worldwide diffusion (learning) and adaptations;
- transfer knowledge and 'best practices' from any of its markets and use them in other international markets.

There follows an explanation of some key terms:

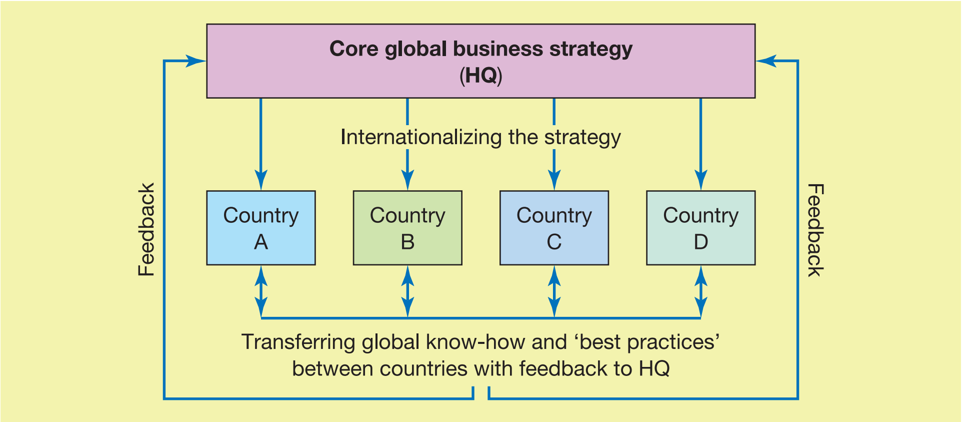
- *Coordinate its marketing activities*: coordinating and integrating marketing strategies and implementing them across global markets, which involves centralization, delegation, standardization and local responsiveness.
- *Find global customer needs*: this involves carrying out international marketing research and analysing market segments, as well as seeking to understand similarities and differences in customer groups across countries.
- *Satisfy global customers*: adapting products, services and elements of the marketing mix to satisfy different customer needs across countries and regions.
- *Being better than the competition*: assessing, monitoring and responding to global competition by offering better value, low prices, high quality, superior distribution, great advertising strategies or superior brand image.

The second part of the global marketing definition is also illustrated in Figure 1.3 and further commented on below.

This global marketing strategy strives to achieve the slogan, 'think globally but act locally' (the so-called '**glocalization**' framework), through dynamic interdependence between headquarters and subsidiaries. Organizations following such a strategy coordinate their efforts, ensuring local flexibility while exploiting the benefits of global integration and efficiencies, as well as ensuring worldwide diffusion of innovation. A key element in knowledge management is the continuous learning from experiences. In practical terms, the aim of knowledge management as a learning-focused activity across borders is to keep track of valuable capabilities used in one market that could

Glocalization
The development and selling of products or services intended for the global market, but adapted to suit local culture and behaviour. (Think globally, act locally.)

Figure 1.3 The principle of transferring knowledge and learning across borders



be used elsewhere (in other geographic markets), so that firms can continually update their knowledge. This is also illustrated in Figure 1.3 with the transfer of knowledge and 'best practices' from market to market. However, knowledge developed and used in one cultural context is not always easily transferred to another. The lack of personal relationships, the absence of trust and 'cultural distance', all conspire to create resistance, frictions and misunderstandings in cross-cultural knowledge management.

With globalization becoming a centrepiece in the business strategy of many firms – be they engaged in product development or providing services – the ability to manage the 'global knowledge engine' to achieve a competitive edge in today's knowledge-intensive economy is one of the keys to sustainable competitiveness. But in the context of global marketing the management of knowledge is *de facto* a cross-cultural activity, whose key task is to foster and continually upgrade collaborative cross-cultural learning (this will be further discussed in Chapter 14). Of course, the kind and/or type of knowledge that is strategic for an organization and which needs to be managed for competitiveness varies depending on the business context and the value of different types of knowledge associated with it.

1.4 Forces for 'global integration' and 'market responsiveness'

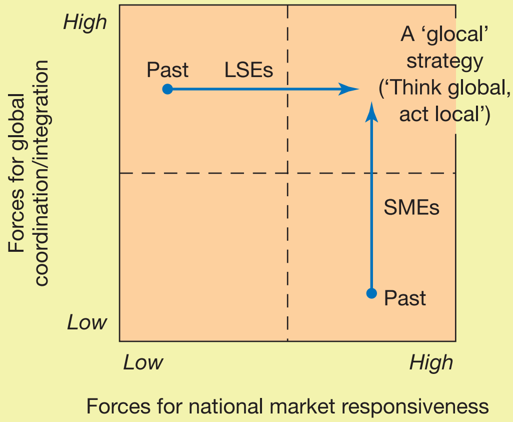
In Figure 1.4 it is assumed that SMEs (small and medium-sized enterprises) and LSEs (large-scale enterprises) are learning from each other.

The consequence of both movements may be an action-oriented approach, where firms use the strengths of both orientations. The following section will discuss the differences in the starting points of LSEs and SMEs in Figure 1.4. The result of the convergence movement of LSEs and SMEs into the upper-right corner can be illustrated by Figure 1.4.

An example of a LSEs movement from 'left' to 'right' is given in Figure 1.4, where McDonalds has adapted its menus to the local food cultures. SMEs have traditionally been strong on 'high degree of responsiveness', but their tendency to decentralization and local decision making has made them more vulnerable to a low degree of coordination across borders (which on the contrary is the strength of LSEs).

The terms 'glocal strategy' and 'glocalization' have been introduced to reflect and combine the two dimensions in Figure 1.4: 'Globalization' (y-axis) and 'Localization' (x-axis).

Figure 1.4 The global integration/market responsiveness grid: the future orientation of LSEs and SMEs



The glocal strategy approach reflects the aspirations of a global integrated strategy, while recognizing the importance of local adaptations/market responsiveness. In this way 'glocalization' tries to optimize the 'balance' between standardization and adaptation of the firm's international marketing activities (Svensson, 2001; Svensson, 2002).

First let us try to explain the underlying forces for global coordination/**global integration** and **market responsiveness** in Figure 1.4:

Global integration
Recognizing the similarities between international markets and integrating them into the overall global strategy.

Market responsiveness
Responding to each market's needs and wants.

Forces for 'global coordination/integration'

In the shift towards integrated global marketing, greater importance will be attached to transnational similarities for target markets across national borders and less on cross-national differences. The major drivers for this shift are as follows (Sheth and Parvatiyar, 2001; Segal-Horn, 2002):

- *Removal of trade barriers (deregulation)*. Removal of historic barriers, both tariff (such as import taxes) and non-tariff (such as safety regulations), which have constituted barriers to trade across national boundaries. Deregulation has occurred at all levels: national, regional (within national trading blocs) and international. Thus deregulation has an impact on globalization since it reduces the time, costs and complexity involved in trading across boundaries.
- *Global accounts/customers*. As customers become global and rationalize their procurement activities they demand suppliers provide them with global services to meet their unique global needs. Often this may consist of global delivery of products, assured supply and service systems, uniform characteristics and global pricing. Several LSEs such as IBM, Boeing, IKEA, Siemens and ABB make such 'global' demands on their smaller suppliers, typical SMEs. For these SMEs managing such global accounts requires cross-functional customer teams, in order to deploy quality consistency across all functional units.
- *Relationship management/network organization*. As we move towards global markets it is becoming increasingly necessary to rely on a network of relationships with external organizations, for example, customer and supplier relationships to pre-empt competition. The firm may also have to work with internal units (e.g. sales subsidiaries) located in many and various parts of the world. Business alliances and network relationships help to reduce market uncertainties, particularly in the

context of rapidly converging technologies and the need for higher amounts of resources to cover global markets. However, networked organizations need more coordination and communication.

- *Standardized worldwide technology*. Earlier differences in world market demand were due to the fact that advanced technological products were primarily developed for the defence and government sectors before being scaled down for consumer applications. However, today the desire for gaining scale and scope in production is so high that worldwide availability of products and services should escalate. As a consequence we may witness more homogeneity in the demand and usage of consumer electronics across nations.
- *Worldwide markets*. The concept of 'diffusions of innovations' from the home country to the rest of the world tend to be replaced by the concept of worldwide markets. Worldwide markets are likely to develop because they can rely on world demographics. For example, if a marketer targets its products or services to the teenagers of the world, it is relatively easy to develop a worldwide strategy for that segment and draw up operational plans to provide target market coverage on a global basis. This is becoming increasingly evident in soft drinks, clothing and sports shoes, especially in the Internet economy.
- *'Global village'*. The term 'global village' refers to the phenomenon in which the world's population shares commonly recognized cultural symbols. The business consequence of this is that similar products and similar services can be sold to similar groups of customers in almost any country in the world. Cultural homogenization therefore implies the potential for the worldwide convergence of markets and the emergence of a global marketplace, in which brands such as Coke, Nike and Levi's are universally aspired to.
- *Worldwide communication*. New Internet-based 'low-cost' communication methods (e-mailing, e-commerce, etc.) ease communication and trade across different parts of the world. As a result customers within national markets are able to buy similar products and similar services across parts of the world.
- *Global cost drivers*. These are categorized as 'economies of scale' and 'economies of scope'.

Forces for 'market responsiveness'

These are as follows:

- *Cultural differences*. Despite the 'global village' cultural diversity clearly continues. Cultural differences often pose major difficulties in international negotiations and marketing management. These cultural differences reflect differences in personal values and in the assumptions people make about how business is organized. Every culture has its opposing values. Markets are people, not products. There may be global products, but there are not global people.
- *Regionalism/protectionism*. Regionalism is the grouping of countries into regional clusters based on geographic proximity. These regional clusters (such as the European Union or NAFTA) have formed regional trading blocs, which may represent a significant blockage to globalization, since regional trade is often seen as incompatible with global trade. In this case, trade barriers that are removed from individual countries are simply reproduced for a region and a set of countries. Thus all trading blocs create outsiders as well as insiders. Therefore one may argue that regionalism results in a situation where protectionism reappears around regions rather than individual countries.

Deglobalization
Moving away from the globalization trends and regarding each market as special, with its own economy, culture and religion.

- **Deglobalization** *trend*. More than 2,500 years ago the Greek historian Herodotus (based on observations) claimed that everyone believes their native customs and religion are the best. Current movements in Arab countries, the big demonstrations accompanying conferences such as the World Economic Forum in Davos, or the World Trade Organization (WTO) meetings show that there could be a return to old values, promoting barriers to the further success of globalization. Rhetorical words such as 'McDonaldization' and 'Coca-Colonization' describe in a simple way fears of US cultural imperialism.

Exhibit 2.3 (p. 47) shows an example of British Telecommunications' (BTs) experience with de-internationalization of their American and Asian strategy (Gardiner and Turner, 2007).

Whether or not 11 September 2001 means that globalization will continue is debatable. Quelch (2002) argues that it will, because 11 September is motivating greater cross-border cooperation among national governments on security matters, and this cooperation will reinforce interaction in other areas.

Exhibit 1.1 McDonald's is moving towards a higher degree of market responsiveness

McDonald's (**www.mcdonalds.com**) has now expanded to about 30,000 restaurants in over 100 countries. Executives at the headquarters of the McDonald's Corp. in Oak Brook, Illinois, have learned that despite the cost/savings inherent in standardization, success is often about being able to adapt to the local environment. Here are some examples.

Japan

McDonald's first restaurant in Japan opened during 1971. At that time fast-food here was either a bowl of noodles or miso soup.

With its first mover advantage, McDonald's kept its lead in Japan. By 1997 McDonald's had over 1,000 outlets across that nation, and these sold more food in Japan than any other restaurant company. This includes 500 million burgers per annum.

Among the offerings of McDonald's Co. (Japan) Ltd are chicken tatsuta, teriyaki chicken, and the Teriyaki McBurger. Burgers are garnished with a fried egg. Beverages include iced coffee and corn soup.

McDonald's in Japan imports about 70 per cent of its food needs, including pickles from the United States and beef patties from Australia. High volumes facilitate bargaining with suppliers, in order to guarantee sourcing at a low cost.

Japan Tamago Burger

India

McDonald's, which now has seven restaurants in India, was launched there in 1996. It has had to deal with a market that is 40 per cent vegetarian; with an aversion to either beef or pork among meateaters; with a hostility to frozen meat and fish; and with the general Indian fondness for spice with everything.

The Big Mac was replaced by the Maharaja Mac, made from mutton, and also on offer were vegetarian rice-patties flavoured with vegetables and spice.

Rice Burger

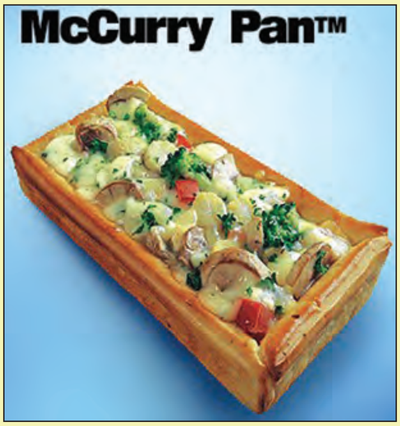
Other countries

In tropical markets, guava juice was added to the McDonald's product line. In Germany, McDonald's did well selling beer as well as

Exhibit 1.1 continued

McCroissants. Bananafruit pies became popular in Latin America and McSpaghetti noodles became a favourite in the Philippines. In Thailand, McDonald's introduced the Samurai Pork Burger with sweet sauce. Meanwhile, McDonald's in New Zealand launched the Kiwiburger served with beetroot sauce and optional apricot pie.

In Singapore, where fries came to be served with chilli sauce, the Kiasuburger chicken breakfast became a bestseller. Singapore was among the first markets in which McDonald's introduced delivery service.



VegiMcCurry

As indicated, McDonald's has achieved 'economies of scale' and cost savings through standardization and in its packaging. In 2003, McDonald's announced that all its restaurants – 30,000 in over 100 countries – would soon be adopting the same brand packaging for menu items. According to a company press release, the new packaging would feature photographs of real people doing things they enjoy, such as listening to music, playing soccer and reading to their children. McDonald's global chief marketing officer was quoted as saying, 'It is the first time in our history that a single set of brand packaging, with a single brand message, will be used concurrently around the world.' Two years later, in 2005, the company had to pull back when it announced plans to ***localize*** its packages (Frost, 2006).

Source: Adapted from a variety of public media. Images reprinted by permission of McDonald's Corporation.

1.5 The value chain as a framework for identifying international competitive advantage

The concept of the value chain

Value chain
A categorization of the firm's activities providing value for the customers and profit for the company.

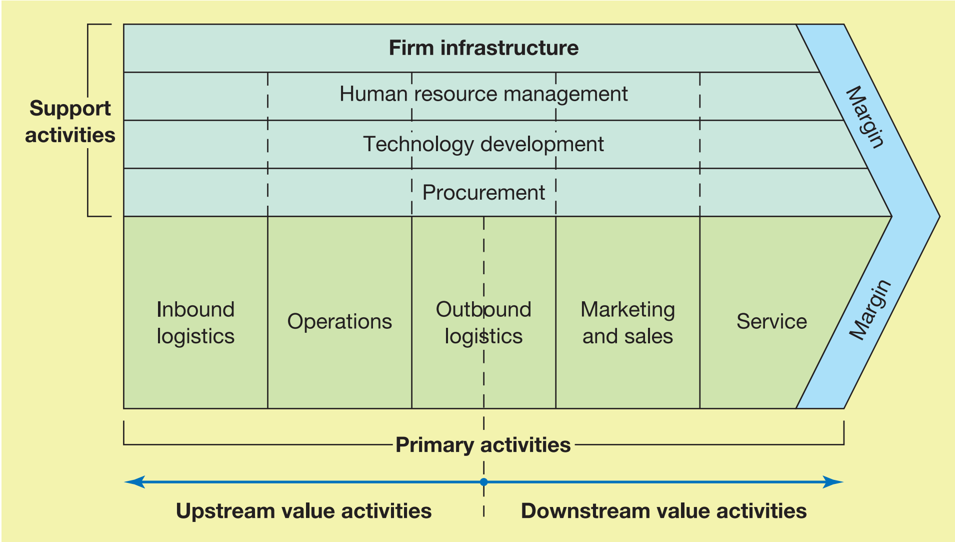
The **value chain** shown in Figure 1.5 provides a systematic means of displaying and categorizing activities. The activities performed by a firm in any industry can be grouped into the eight generic categories shown.

At each stage of the value chain there exists an opportunity to contribute positively to the firm's competitive strategy by performing some activity or process in a way that is better and/or different than the competitors' offer, and so provide some uniqueness or advantage. If a firm attains such a competitive advantage, which is sustainable, defensible, profitable and valued by the market, then it may earn high rates of return, even though the industry structure may be unfavourable and the average profitability of the industry modest.

In competitive terms, value is the amount that buyers are willing to pay for what a firm provides them with (perceived value). A firm is profitable if the value it commands exceeds the costs involved in creating the product. Creating value for buyers that exceeds the cost of doing so is the goal of any generic strategy. Value, instead of cost, must be used in analysing competitive position, since firms often deliberately raise their costs in order to command a premium price via differentiation. The concept of buyers' perceived value will be discussed further in Chapter 4.

The value chain displays total value and consists of value activities and margin. Value activities are the physically and technologically distinct activities that a firm performs. These are the building blocks by which a firm creates a product valuable to its

Figure 1.5 The value chain



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buyers. Margin is the difference between total value (price) and the collective cost of performing the value activities.

Competitive advantage is a function of either providing comparable buyer value more efficiently than competitors (lower cost), or performing activities at comparable cost but in unique ways that create more customer value than the competitors are able to offer and, hence, command a premium price (differentiation). The firm might be able to identify elements of the value chain that are not worth the costs. These can then be unbundled and produced outside the firm (outsourced) at a lower price.

Value activities can be divided into two broad types, primary activities and support activities. *Primary activities*, listed along the bottom of Figure 1.5, are the activities involved in the physical creation of the product, its sale and transfer to the buyer, as well as after-sales assistance. In any firm, primary activities can be divided into the five generic categories shown in the figure. *Support activities* support the primary activities and each other by providing purchased inputs, technology, human resources and various firm-wide functions. The dotted lines reflect the fact that procurement, technology development and human resource management can be associated with specific primary activities as well as supporting the entire chain. Firm infrastructure is not associated with particular primary activities, but supports the entire chain.

Primary activities

The primary activities of the organization are grouped into five main areas: inbound logistics, operations, outbound logistics, marketing and sales, and service as follows:

1 *Inbound logistics*. The activities concerned with receiving, storing and distributing the inputs to the product/service. These include materials, handling, stock control, transport, etc.
2 *Operations*. The transformation of these various inputs into the final product or service: machining, packaging, assembly, testing, etc.
3 *Outbound logistics*. The collection, storage and distribution of the product to customers. For tangible products this would involve warehousing, material handling,

transport, etc.; in the case of services it may be more concerned with arrangements for bringing customers to the service if it is in a fixed location (e.g. sports events).

4 *Marketing and sales*. These provide the means whereby consumers/users are made aware of the product/service and are able to purchase it. This would include sales administration, advertising, selling, etc. In public services, communication networks that help users access a particular service are often important.
5 *Services*. These are all the activities that enhance or maintain the value of a product/service. Asugman *et al.* (1997) have defined after-sales service as 'those activities in which a firm engages after purchase of its product that minimize potential problems related to product use, and maximize the value of the consumption experience'. After-sales service consists of the following: the installation and start-up of the purchased product, the provision of spare parts for products, the provision of repair services, technical advice regarding the product, and the provision and support of warranties.

Each of these groups of primary activities is linked to support activities.

Support activities

These can be divided into four areas:

1 *Procurement*. This refers to the process of acquiring the various resource inputs to the primary activities (not to the resources themselves). As such, it occurs in many parts of the organization.
2 *Technology development*. All value activities have a 'technology', even if it is simply 'know-how'. The key technologies may be concerned directly with the product (e.g. R&D, product design) or with processes (e.g. process development) or with a particular resource (e.g. raw material improvements).
3 *Human resource management*. This is a particularly important area that transcends all primary activities. It is concerned with the activities involved in recruiting, training, developing and rewarding people within the organization.
4 *Infrastructure*. The systems of planning, finance, quality control, etc., are crucially important to an organization's strategic capability in all primary activities. Infrastructure also consists of the structures and routines of the organization that sustain its culture.

As indicated in Figure 1.5, a distinction is also made between the production-oriented, 'upstream' activities and the more marketing-oriented, 'downstream' activities.

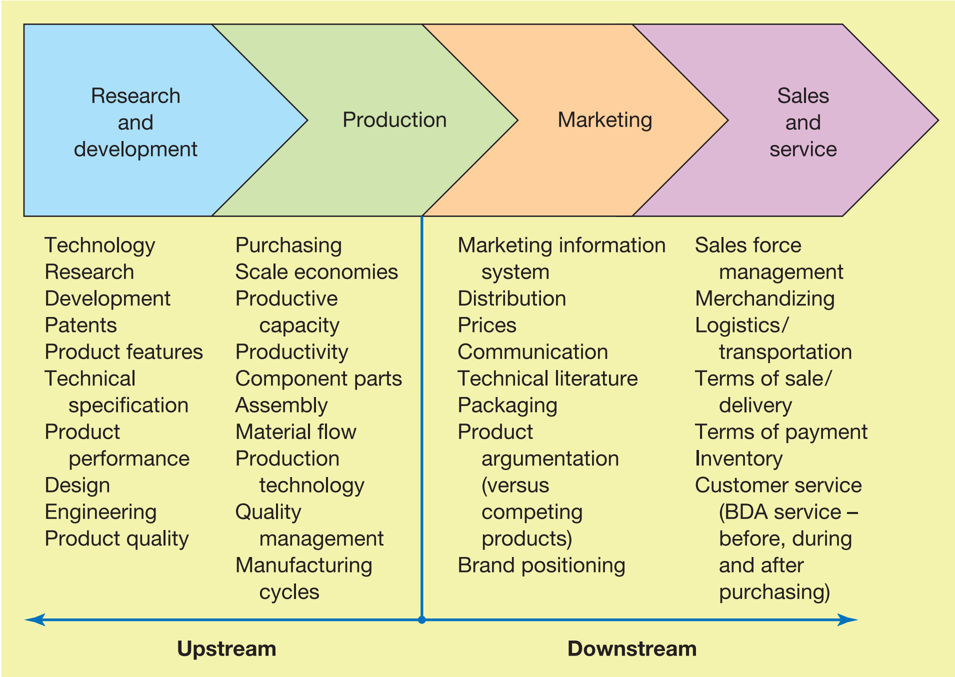
Having looked at Porter's original value chain model, a simplified version will be used in most parts of this book (Figure 1.6). This simplified version is characterized by the fact that it contains only the primary activities of the firm.

Although value activities are the building blocks of competitive advantage, the value chain is not a collection of independent activities, but a system of interdependent activities. Value activity is related by horizontal linkages within the value chain. Linkages are relationships between the way in which one value activity is dependent on the performance of another.

Furthermore, the chronological order of the activities in the value chain is not always as illustrated in Figure 1.6. In companies where orders are placed before production of the final product (build-to-order, e.g. seen at Dell) the sales and marketing function takes place before production.

In understanding the competitive advantage of an organization the strategic importance of the following types of linkage should be analysed in order to assess how they contribute to cost reduction or value added. There are two kinds of linkage:

Figure 1.6 A 'simplified' version of the value chain



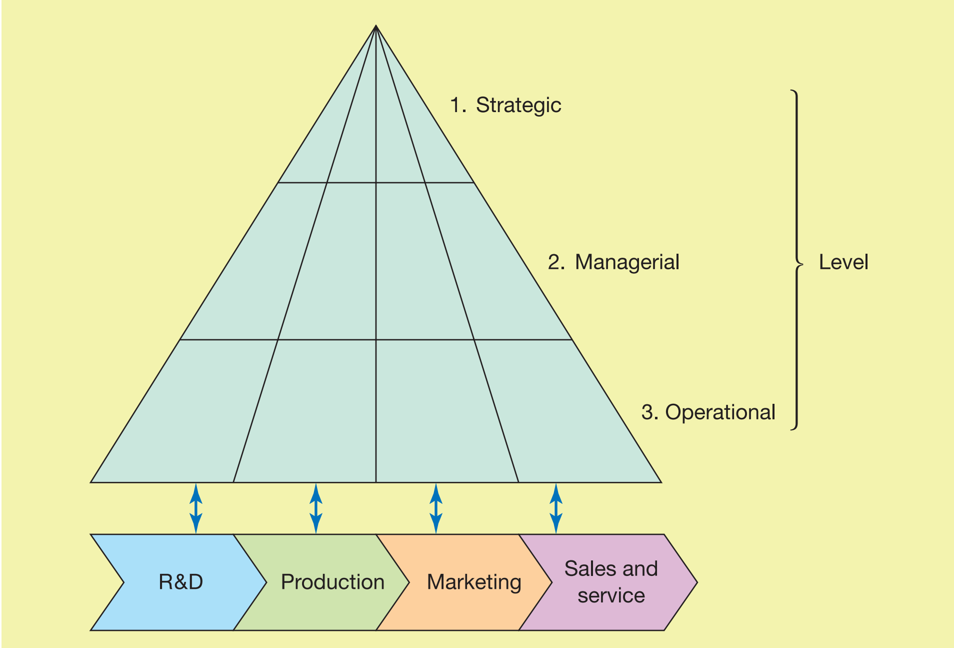
1 *internal linkages* between activities within the same value chain, but perhaps on different planning levels within the firm;
2 *external linkages* between different value chains 'owned' by the different actors in the total value system.

Internal linkages

There may be important links between the primary activities. In particular, choices will have been made about these relationships and how they influence value creation and strategic capability. For example, a decision to hold high levels of finished stock might ease production scheduling problems and provide a faster response time to the customer. However, it will probably add to the overall cost of operations. An assessment needs to be made of whether the added value of 'stocking' is greater than the added cost. Suboptimization of the single value chain activities should be avoided. It is easy to miss this point in an analysis if, for example, the marketing activities and operations are assessed separately. The operations may look good because they are geared to high-volume, low-variety, low-unit-cost production. However, at the same time the marketing team may be selling quickness, flexibility and variety to the customers. When put together these two potential strengths are weaknesses because they are not in harmony, which is what a value chain requires. The link between a primary activity and a support activity may be the basis of competitive advantage. For example, an organization may have a unique system for procuring materials. Many international hotels and travel companies use their computer systems to provide immediate 'real-time' quotations and bookings worldwide from local access points.

As a supplement to comments about the linkages between the different activities, it is also relevant to regard the value chain (illustrated in Figure 1.6 in a simplified form) as a thoroughgoing model on all three planning levels in the organization.

Figure 1.7 The value chain in relation to the strategic pyramid



In purely conceptual terms, a firm can be described as a pyramid as illustrated in Figure 1.7. It consists of an intricate conglomeration of decision and activity levels, having three distinct levels, but the main value chain activities are connected to all three strategic levels in the firm:

1 The *strategic level* is responsible for formulation of the firm's mission statement, determining objectives, identifying the resources that will be required if the firm is to attain its objectives, and selecting the most appropriate corporate strategy for the firm to pursue.
2 The *managerial level* has the task of translating corporate objectives into functional and/or unit objectives and ensuring that resources placed at its disposal (e.g. in the marketing department) are used effectively in the pursuit of those activities that will make the achievement of the firm's goals possible.
3 The *operational level* is responsible for the effective performance of the tasks that underlie the achievement of unit/functional objectives. The achievement of operational objectives is what enables the firm to achieve its managerial and strategic aims. All three levels are interdependent, and clarity of purpose from the top enables everybody in the firm to work in an integrated fashion towards a common aim.

External linkages

One of the key features of most industries is that a single organization rarely undertakes all value activities from product design to distribution to the final consumer. There is usually a specialization of roles, and any single organization usually participates in the wider value system that creates a product or service. In understanding how value is created it is not enough to look at the firm's internal value chain alone. Much of the value creation will occur in the supply and distribution chains, and this whole process needs to be analysed and understood.

Suppliers have value chains that create and deliver the purchased inputs used in a firm's chain (the upstream part of the value chain). Suppliers not only deliver a product, but can also influence a firm's performance in many other ways. For example Benetton, the Italian fashion company, managed to sustain an elaborate network of suppliers, agents and independent retail outlets as the basis of its rapid and successful international development during the 1970s and 1980s.

In addition, products pass through the value chain channels on their way to the buyer. Channels perform additional activities that affect the buyer and influence the firm's own activities. A firm's product eventually becomes part of its buyer's value chain. The ultimate basis for differentiation is a firm and its product's role in the buyer's value chain, which is determined by buyer needs. Gaining and sustaining competitive advantage depends on understanding not only a firm's value chain, but how the firm fits into the overall value system.

There are often circumstances where the overall cost can be reduced (or the value increased) by collaborative arrangements between different organizations in the value system. It will be seen in Chapter 9 that this is often the rationale behind downstream collaborative arrangements, such as joint ventures, subcontracting and outsourcing between different organizations (e.g. sharing technology in the international motor manufacture and electronics industries).

Exhibit 1.2 Pocoyo – upstream-downstream cooperation about globalization of an animated preschool series

One of the most successful TV-programmes for preschool kids, Pocoyo, was created by Zinkia Entertainment and sold worldwide by Granada Ventures. It is now a global brand and has been sold to 95 countries since it was launched in late 2005. Produced with bright blocks of colour against a stark white background, Pocoyo has been designed to hold the attention of young children.

Source: Pocoyo TM & © 2005 Zinkia Entertainment S.L. Licensed by Granada Ventures.

Pocoyo

Pocoyo is a young boy with an array of qualities ready to capture the imagination of children, inspiring them to watch, listen and interact. He is a curious enthusiastic little boy in blue. As he explores his world through each story, Pocoyo gets help and on occasion hindrance from his friends Loula, Pato, Elly and Sleepy Bird.

Pocoyo has at its core a fascinating concept – one of learning through laughter. Clinical studies have shown that laughter not only increases the enjoyment and engagement of children in the programme, but also is proven to increase learning by 15 per cent. By working closely with behavioural psychologists during programme development, Pocoyo uses simple and effective visual jokes that help children to discover magic and humour in the simplest of things. And far from painting an idealized version of childhood, Pocoyo is sometimes moody, noisy and miserable – just like a real pre-schooler.

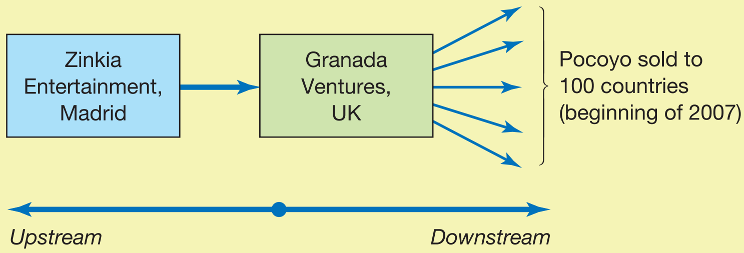
The value chain of Pocoyo

As illustrated in Pocoyo's value chain (see Figure 1.8) Zinkia Entertainment is taking care of the development and production of the Pocoyo series (upstream functions) whereas Granada Ventures takes care of global licensing and publishing rights (downstream functions).

Zinkia Entertainment is a company founded in 2001. Located in Madrid, Spain, its main focus is to create animated series for TV and games for mobile devices and for game platforms. The company has more than 100 employees and its series have been sold in more than 95 countries worldwide. It is a creative factory

Exhibit 1.2 continued

Figure 1.8 **The Pocoyo value chain**



producing audiovisual content, focusing on animation and cinematic documentaries as well as interactive content for online communities, consoles and multi-player mobile games. Since the company was established, Zinkia's projects include, among others, Pocoyo (52 × 7 minutes), a 3D animated pre-school series. In June 2006, Pocoyo was awarded the Cristal award for the 'Best TV Series in the world' at the 30th International Festival of Annecy.

Zinkia Entertainment's partner in the Pocoyo value chain is Granada Ventures, the merchandise, licensing and publishing division of the UK-based television channel ITV plc. Established in October 2003, following the merger of Granada and Carlton, the company's remit is to drive secondary revenue streams for the corporation by moving brands beyond broadcast by selling them worldwide on a licensing basis, mainly to other TV channels. The company currently owns worldwide licensing and publishing rights of almost 1,000 products and 3,000 DVD titles in television, film and sports. This includes brands such as Pocoyo and Hell's Kitchen as well as established brands such as 'I'm A Celebrity . . . Get Me Out Of Here!'

Cultural issues in the globalization of Pocoyo

Normally global branding is comprehensive and the cultural demands of the market are difficult to define. However it seems that the core themes of Pocoyo – learning, gentle humour, visual stimulus and play – cross all national borders.

Pocoyo was developed in Spain, with a great deal of input from the UK. In the original rushes, Pocoyo was often seen with a dummy in his mouth, which caused a few alarm bells to ring in Britain. The Madrid team had not even begun to consider that this might be the cause of any controversy, but in line with current cultural queries on the parental right and wrongs of using a 'pacifier' in other parts of the globe, the dummy had to go.

Worldwide brand extensions

Brand extensions into merchandise are equally important for ensuring Pocoyo's world success and longevity. Granada Ventures has been able to give Pocoyo a life off-screen with books, bath toys and clothing. Children can play with the character, along with their parents and peers, around the clock. This creates a virtuous brand circle, increasing loyalty and affection.

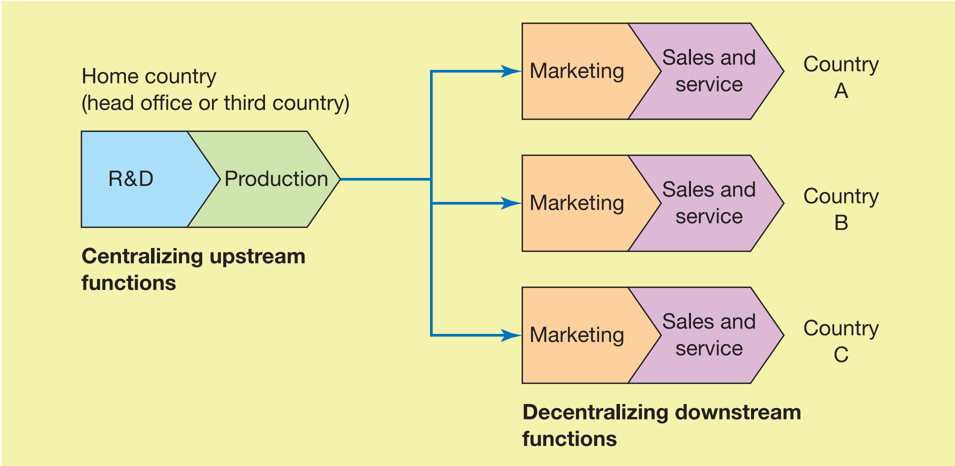
Sources: Donohoe, G. (2006) 'How to reach children in every nation', *Brand Strategy*, June, p. 10; www.zinkia.com/; www.granadaventures.co.uk/.

Internationalizing the value chain

International configuration and coordination of activities

All internationally oriented firms must consider an eventual internationalization of the value chain's functions. The firm must decide whether the responsibility for the single value chain function is to be moved to the export markets or is best handled centrally from head office. Principally, the value chain function should be carried out where there is the highest competence (and the most cost effectiveness), and this is not necessarily at head office.

Figure 1.9 Centralizing the upstream activities and decentralizing the downstream activities



A distinction immediately arises between the activities labelled downstream in Figure 1.6 and those labelled upstream activities. The location of downstream activities, those more related to the buyer, is usually tied to where the buyer is located. If a firm is going to sell in Australia, for example, it must usually provide service in Australia, and it must have salespeople stationed in Australia. In some industries it is possible to have a single sales force that travels to the buyer's country and back again; other specific downstream activities, such as the production of advertising copy, can sometimes also be performed centrally. More typically, however, the firm must locate the capability to perform downstream activities in each of the countries in which it operates. In contrast, upstream activities and support activities are more independent of where the buyer is located (Figure 1.9). However, if the export markets are culturally close to the home market, it may be relevant to control the entire value chain from head office (home market).

This distinction carries some interesting implications. First, downstream activities create competitive advantages that are largely country specific: a firm's reputation, brand name and service network in a country grow largely out of its activities and create entry/mobility barriers largely in that country alone. Competitive advantage in upstream and support activities often grows more out of the entire system of countries in which a firm competes than from its position in any single country.

Second, in industries where downstream activities or other buyer-tied activities are vital to competitive advantage, there tends to be a more multidomestic pattern of international competition. In many service industries, for example, not only downstream activities but frequently upstream activities are tied to buyer location, and global strategies are comparatively less common. In industries where upstream and support activities such as technology development and operations are crucial to competitive advantage, global competition is more common. For example, there may be a large need in firms to centralize and coordinate the production function worldwide to be able to create rational production units that are able to exploit economies of scale. Today it is very popular among companies to outsource production to the Far East, e.g. China.

Furthermore, as customers increasingly join regional cooperative buying organizations, it is becoming more and more difficult to sustain a price differentiation across markets. This will put pressure on the firm to coordinate a European price policy. This will be discussed further in Chapter 11.

The distinctive issues of international strategies, in contrast to domestic, can be summarized in two key dimensions of how a firm competes internationally. The first is called the *configuration* of a firm's worldwide activities, or the location in the world where each activity in the value chain is performed, including the number of places. For example, a company can locate different parts of its value chain in different places – for instance, factories in China, call centres in India and retail shops in Europe. IBM is an example of a company that exploit wage differentials by increasing the number of employees in India from 9,000 in 2004 to 50,000 by mid-2007 and by planning for massive additional growth. Most of these employees are in IBM Global Services, the part of the company that is growing fastest but has the lowest margins – which the Indian employees are supposed to improve, by reducing (wage) costs rather than raising prices (Ghemawat, 2007).

The second dimension is called *coordination*, which refers to how identical or linked activities performed in different countries are coordinated with each other (Porter, 1986).

1.6 Value shop and the 'service value chain'

Michael Porter's value-chain model claims to identify the sequence of key generic activities that businesses perform in order to generate value for customers. Since its introduction in 1985, this model has dominated the thinking of business executives. Yet a growing number of services businesses, including banks, hospitals, insurance companies, business consulting services and telecommunications companies, have found that the traditional value-chain model does not fit the reality of their service industry sectors. Stabell and Fjeldstad (1998) identified two new models of value creation – **value shops** and **value networks**. Fjeldstad and Stabell argue that the value chain is a model for making products, while the value shop is a model for solving customer or client problems in a service environment. The value network is a model for mediating exchanges between customers. Each model utilizes a different set of core activities to create and deliver distinct forms of value to customers.

Value shops
A model for solving problems in a service environment. Similar to workshops. Value is created by mobilizing resources and deploying them to solve a specific customer problem.

Value networks
The formation of several firms' value chains into a network, where each company contributes a small part to the total value chain.

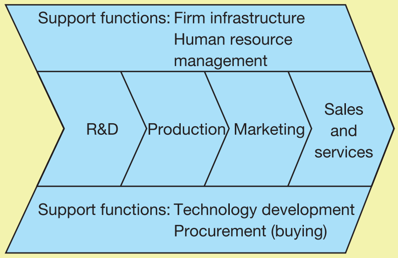
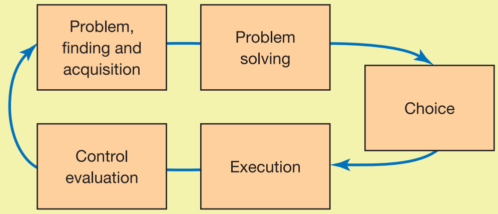
The main differences between the two types of value chains are illustrated in Table 1.1.

Value shops (as in workshops, not retail stores) create value by mobilizing resources (e.g. people, knowledge and skills) and deploying them to solve specific problems such as curing an illness, delivering airline services to the passengers or delivering a solution to a business problem. Shops are organized around making and executing decisions – identifying and assessing problems or opportunities, developing alternative solutions or approaches, choosing one, executing it and evaluating the results. This model applies to most service-oriented organizations such as building contractors, consultancies and legal organizations. However, it also applies to organizations that are primarily configured to identify and exploit specific market opportunities, such as developing a new drug, drilling a potential oilfield or designing a new aircraft.

Different parts of a typical business may exhibit characteristics of different configurations. For example, production and distribution may resemble a value chain; research and development a value shop.

Value shops make use of specialized knowledge-based systems to support the task of creating solutions to problems. However, the challenge is to provide an integrated set of applications that enable seamless execution across the entire problem-solving or opportunity-exploitation process. Several key technologies and applications are emerging in value shops – many focus on utilizing people and knowledge better.

Table 1.1 The traditional value chain versus the service value chain

<table>
<tr><th>Traditional value chain model</th><th>Service value chain ('value shop') model</th></tr>
<tr><td>Value creation through transformation of inputs (raw material and components) to products.</td><td>Value creation through customer problem solving. Value is created by mobilizing resources and activities to resolve a particular and unique customer problem. Customer value is not related to the solution itself but to the value of solving the problem.</td></tr>
<tr><td>Sequential process ('first we develop the product, then we produce it, and finally we sell it').

</td><td>Cyclical and iterative process.

</td></tr>
<tr><td>The traditional value chain consists of primary and support activities: Primary activities are directly involved in creating and bringing value to customers: Upstream (product development and production) and downstream activities (marketing and sales and service). Support activities that enable and improve the performance of the primary activities are procurement, technology development, human resource management and firm infrastructure.</td><td>The primary activities of a value shop are:
1 Problem finding: Activities associated with the recording, reviewing and formulating of the problem to be solved and choosing the overall approach to solving the problem.
2 Problem solving: Activities associated with generating and evaluating alternative solutions.
3 Choice: Activities associated with choosing among alternative problem solutions.
4 Execution: Activities associated with communicating, organizing, and implementing the chosen solution.
5 Control and evaluation: Activities associated with measuring and evaluating to what extent implementation has solved the initial statement.</td></tr>
<tr><td>Examples: Production and sales of furniture, consumer food products, electronic products and other mass products.</td><td>Examples: Banks, hospitals, insurance companies, business consulting services and telecommunications companies.</td></tr>
</table>

Source: Based on Stabell and Fjeldstad (1998).

Groupware, intranets, desktop videoconferencing and shared electronic workspaces enhance communication and collaboration between people, essential to mobilizing people and knowledge across value shops. Integrating project planning with execution is proving crucial, for example, in pharmaceutical development, where bringing a new drug through the long, complex approval process a few months early can mean millions of dollars in revenue. Technologies such as inference engines and neural networks can help to make knowledge about problems and the process for solving them explicit and accessible.

The term 'value network' is widely used but imprecisely defined. It often refers to a group of companies, each specializing in one piece of the value chain, and linked together in some virtual way to create and deliver products and services. Stabell and Fjelstad (1998) define value networks quite differently – not as networks of affiliated companies, but as a business model for a single company that mediates interactions and exchanges across a network of its customers. This model clearly applies best to telecommunications companies, but also to insurance companies and banks, whose business, essentially, is mediating between customers with different financial needs – some saving, some borrowing, for example. Key activities include operating the customer-connecting infrastructure, promoting the network, managing contracts and relationships, and providing services.

Some of the most IT-intensive businesses in the world are value networks – banks, airlines and telecommunications companies, for instance. Most of their technology provides the basic infrastructure of the 'network' to mediate exchanges between customers. But the competitive landscape is now shifting beyond automation and efficient transaction processing to monitoring and exploiting information about customer behaviour.

The aim is to add more value to customer exchanges through better understanding of usage patterns, exchange opportunities, shared interests and so on. Data mining and visualization tools, for example, can be used to identify both positive and negative connections between customers.

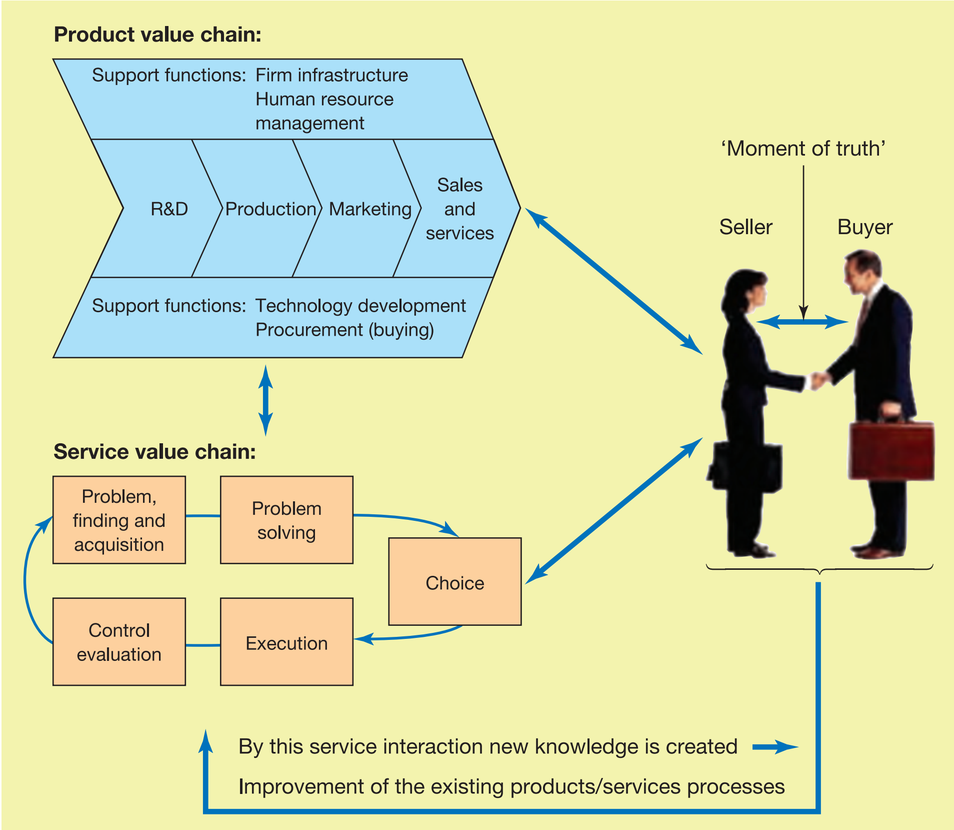
Competitive success often depends on more than simply performing your primary model well. It may also require the delivery of additional kinds of complementary value. Adopting attributes of a second value configuration model can be a powerful way to differentiate your value proposition or defend it against competitors pursuing a value model different to your own. It is essential, however, to pursue another model only in ways that leverage the primary model. For example, Harley-Davidson's primary model is the chain – it makes and sells products. Forming the Harley Owners Group (HOG) – a network of customers – added value to the primary model by reinforcing the brand identity, building loyalty, and providing valuable information and feedback about customers' behaviours and preferences. Amazon.com is a value chain like other book distributors, and initially used technology to make the process vastly more efficient. Now, with its book recommendations and special interest groups, it is adding the characteristics of a value network. Our research suggests that the value network in particular offers opportunities for many existing businesses to add more value to their customers, and for new entrants to capture market share from those who offer less value to their customers.

Combining the 'product value chain' and the 'service value chain'

Blomstermo *et al.* (2006) make a distinction between *hard* and *soft services*. Hard services are those where production and consumption can be decoupled. For example software services can be transferred into a CD or some other tangible medium, which can be mass-produced, making standardization possible. With soft services, where production and consumption occur simultaneously, the customer acts as a coproducer, and decoupling is not viable. The soft-service provider must be present abroad from its first day of foreign operations. Figure 1.10 is mainly valid for soft services, but at the same time in more and more industries we see that physical products and services are combined (see Figure 1.10).

Most product companies offer services to protect or enhance the value of their product businesses. Cisco, for instance, built its installation, maintenance and network-design service business to ensure high-quality product support and to strengthen relationships with enterprise and telecom customers. A company may also find itself drawn into services when it realizes that competitors use its products to offer services of value. If it does nothing, it risks not only the commoditization of its own products – something that is occurring in most product markets, irrespective of the services on offer – but also the loss of customer relationships. To make existing service groups

Figure 1.10 Combining the 'product value chain' and the 'service value chain'



profitable – or to succeed in launching a new embedded service business – executives of product companies must decide whether the primary focus of service units should be to support existing product businesses or to grow as a new and independent platform.

When a company chooses a business design for delivering embedded *services* to customers, it should remember that its strategic intent affects which elements of the delivery life cycle are most important. If the aim is to protect or enhance the *value* of a product, the company should integrate the system for delivering it and the associated *services* in order to promote the development of product designs that simplify the task of *service* (e.g. by using fewer subsystems or integrating diagnostic software). This approach involves minimizing the footprint of *service* delivery and incorporating support into the product whenever possible. If the company wants the *service* business to be an independent growth platform, however, it should focus most of its delivery efforts on constantly reducing unit costs and making the *services* more productive (Auguste *et al.*, 2006).

In the 'moment of truth' (e.g. in a consultancy service situation), the seller represents all the functions of the focal company's 'product' and 'service' value chain – at the same time. The seller (the product and service provider) and the buyer create a service in an interaction process: 'The service is being created and consumed as it is produced.' Good representatives on the seller's side are vital to service brands' successes, being ultimately responsible for delivering the seller's promise. As such a shared understanding of the service brand's values needs to be anchored in their minds and hearts to encourage brand-supporting behaviour. This internal brand-building process becomes more challenging as service brands expand internationally drawing on workers from different global domains.

Figure 1.10 also shows the cyclic nature of the service interaction ('moment of truth') where the post-evaluation of the service value chain gives input for the possible re-design of the 'product value chain'. The interaction shown in Figure 1.10 could also be an illustration or a snapshot of a negotiation process between seller and buyer, where the seller represents a branded company, which is selling its projects as a combination of 'hardware' (physical products) and 'software' (services).

One of the purposes of the 'learning nature' of the overall decision cycle in Figure 1.10 is to pick up the 'best practices' among different kinds of international buyer–seller interactions. This would lead to a better set-up of:

- the 'service value chain' (value shop);
- the 'product value chain';
- the combination of the service and product value chain.

1.7 Information business and the virtual value chain

Most business managers would agree that we have recently entered a new era, 'the information age', which differs markedly from the industrial age. What have been the driving forces for these changes?

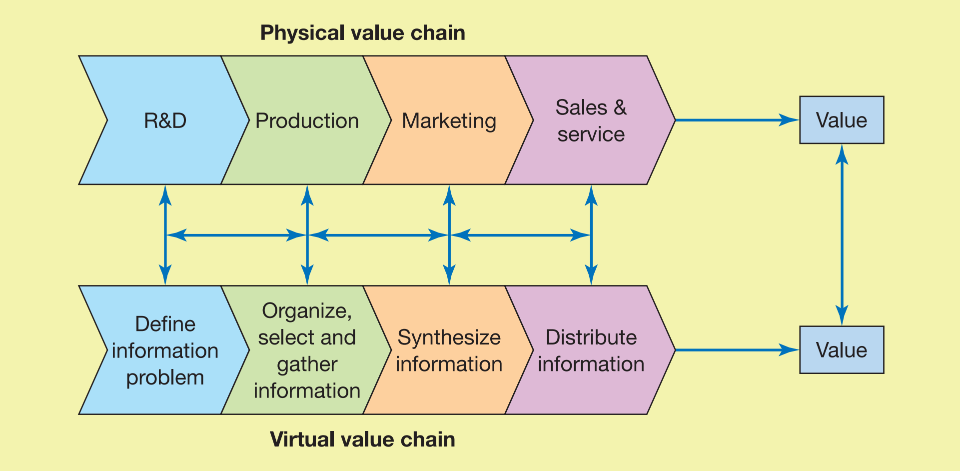
The consensus has shifted over time. To begin with it was thought to be the automation power of computers and computation; then it was the ability to collapse time and space through telecommunications. More recently it has been seen as the value-creating power of information, a resource that can be reused, shared, distributed or exchanged without any inevitable loss of value; indeed value is sometimes multiplied. Today's fascination with competing on invisible assets means that people now see knowledge and its relationship with intellectual capital as the critical resource, because it underpins innovation and renewal.

Virtual value chain
An extension of the conventional value chain, where the information processing itself can create value for customers.

One way of understanding the strategic opportunities and threats of information is to consider the **virtual value chain** as a supplement to the physical value chain (Figure 1.11).

By introducing the *virtual value chain* Rayport and Sviokla (1996) have made an extension to the conventional value chain model, which treats information as a

Figure 1.11 The virtual value chain as a supplement to the physical value chain



supporting element in the value-adding process. Rayport and Sviokla (1996) show how information in itself can be used to create value.

Fundamentally, there are four ways of using information to create business value (Marchand, 1999):

1 *Managing risks*. In the twentieth century the evolution of risk management stimulated the growth of functions and professions such as finance, accounting, auditing and controlling. These information-intensive functions tend to be major consumers of IT resources and people's time.
2 *Reducing costs*. Here the focus is on using information as efficiently as possible to achieve the outputs required from business processes and transactions. This process view of information management is closely linked with the re-engineering and continuous improvement movements of the 1990s. The common elements are focused on eliminating unnecessary and wasteful steps and activities, especially paperwork and information movements, and then simplifying and, if possible, automating the remaining processes.
3 *Offering products and services*. Here the focus is on knowing one's customers, and sharing information with partners and suppliers to enhance customer satisfaction. Many service and manufacturing companies focus on building relationships with customers and on demand management as ways of using information. Such strategies have led companies to invest in point-of-sale systems, account management, customer profiling and service management systems.
4 *Inventing new products*. Finally, companies can use information to innovate – to invent new products, provide different services and use emerging technologies. Companies such as Intel and Microsoft are learning to operate in 'continuous discovery mode', inventing new products more quickly and using market intelligence to retain a competitive edge. Here, information management is about mobilizing people and collaborative work processes to share information and promote discovery throughout the company.

Every company pursues some combination of the above strategies.

In relation to Figure 1.11 each of the physical value-chain activities might make use of one or all four information-processing stages of the virtual value chain, in order to create extra value for the customer. That is the reason for the horizontal double arrows (in Figure 1.11) between the different physical and virtual value-chain activities. In this way information can be captured at all stages of the physical value chain. Obviously such information can be used to improve performance at each stage of the physical value chain and to coordinate elements across it. However, it can also be analysed and repackaged to build content-based products or to create new lines of businesses.

A company can use its information to reach out to other companies' customers or operations, thereby rearranging the value system of an industry. The result might be that traditional industry sector boundaries disappear. The CEO of Amazon.com, Bezos, clearly sees his business as not in the book-selling business but in the information-broker business.

1.8 Summary

Global marketing is defined as the firm's commitment to coordinate its marketing activities across national boundaries in order to find and satisfy global customer needs better than the competition does. This implies that the firm is able to:

- develop a global marketing strategy based on similarities and differences between markets;
- exploit the knowledge of the headquarters (home organization) through worldwide diffusion (learning) and adaptations;
- transfer knowledge and 'best practices' from any of its markets and use them in other international markets.

SMEs are often characterized by an entrepreneurial and action-oriented decision-making model, where drastic changes in strategy are possible because decision making is intuitive, sporadic and unstructured. On the other hand SMEs are more flexible than LSEs and are able to react more quickly to sudden changes in the international environment.

However, as a consequence of LSEs often acting as a confederation of SMEs, there seems to be a convergence of the marketing behaviour in SMEs and LSEs towards a market-responsiveness approach.

Porter's original value chain model was introduced as a framework model for major parts of this book. In understanding how value is created it is not enough to look at the firm's internal value chain alone. In most cases the supply and distribution value chains are interconnected, and this whole process needs to be analysed and understood before considering an eventual internationalization of value chain activities. This also involves decisions about configuration and coordination of the worldwide value-chain activities.

As a supplement to the traditional (Porter) value chain, the service value chain (based on the so-called 'value shop' concept) has been introduced. Value shops create value by mobilizing resources (people, knowledge and skills,) and deploying them to solve specific problems. Value shops are organized around making and executing decisions in the specific service interaction situation with a customer – identifying and assessing service problems or opportunities, developing alternative solutions or approaches, choosing one, executing it and evaluating the results. This model applies to most service-oriented organizations.

Many product companies want to succeed with embedded services: as competitive pressures increasingly commoditize product markets, services will become the main differentiator of *value* creation in coming years. However, companies will need a clearer understanding of the strategic rules of this new game – and will have to integrate the rules into their operations – to realize the promise of these fast-growing businesses.

At the end of this chapter the 'virtual value chain' was introduced as a supplement to the 'physical value chain', thus using information to create further business value.

CASE STUDY 1.1 **Bubba Gump Shrimp Co.:** A US-based restaurant chain is going international

Background

Originally Bubba Gump Shrimp Co. (hereafter abbreviated to Bubba Gump) started out in 1972 with the launch of Rusti Pelican Restaurants in California, USA. In 1986 Winston Groom published his novel *Forrest Gump*. When the film was launched in 1994, *Forrest Gump* (with Tom Hanks in the title role) immediately became a box office smash hit and later won six Academy Awards.

In 1995 the *Forrest Gump* film makers, Paramount Pictures, approached Rusty Pelican Restaurants, which at the time was looking for developing a concept for a mid-market seafood restaurant. While there was no actual restaurant in the film, the main character, Forrest Gump, ran a shrimp boat business called Bubba Gump Shrimp Co. together with his 'best good friend' Bubba, who wore an iconic hat representing the operation. This served as the launching point for the restaurant brand. Taking on the name of Bubba Gump provided instant brand identification at the consumer level.

In 1996 the restaurant company Bubba Gump Shrimp Co. (holding company) started up in San Clemente as a licensing partnership between the *Forrest Gump* film makers, Paramount Pictures, and Rusty Pelican. The first restaurant opened at Cannery Row in Monterey, California. The promotional material for the opening of Bubba Gump in Cancun (Mexico) is shown above.

Source: © Craig Lovell/Eagle Visions Photography/Alamy.

The concept

Bubba Gump's own research revealed that the name brought instant recognition and association with the movie. The research showed that there was a 94 per cent unaided awareness of Bubba Gump because of its association with the film. *Forrest Gump* was in the all-time top five grossing films when the concept launched, so the resulting restaurant brand had instant appeal. On the one hand, Bubba Gump learned from its market research that there was an unforced translation from the movie to a restaurant. It made sense in the consumers' minds that such a thing would exist. On the other hand, the restaurant chain also realized that if the brand did not deliver on the quality of the product, it would not have much chance in the market.

The restaurant brand connected with the film property. The theme of Bubba Gump from the film was carried through in decor and menu with items including Bubba's Far Out Dip and Run Across America Sampler, echoing scenes that took place on screen. However, to ensure that it was a brand that could stands on its own, Rusty Pelican's experience of running a seafood restaurant was crucial. The name would bring people in but it would be the restaurant experience – hot food, hot and cold food, cold, and service with a smile in pleasant, clean and interesting surroundings – that would create the brand equity in the long term.

For the Paramount Picture licensing division this has been the single most successful restaurant brand to have emerged from a film property to date. The value has been based on the brand extension after the movie's initial success. It is also worth noting that the success of the restaurants has, in turn, supported the franchise of the film *Forrest Gump* in the marketplace, including sales of DVDs, videos, books and numerous branded products such as the familiar 'box of chocolates'.

The restaurants are positioned in places that have a high footfall of traffic and are very visible, such as the largest shopping malls and tourist destinations in the United States, like Times Square, New York. The typical restaurant sizes vary from 6,300 to 10,000 square feet.

Importance of the HR policy

One of the most important success factors in a restaurant is the quality of the personnel. Bubba Gump must constantly ask itself what it can do to be a better employer. The following are some of the current initiatives (Berta, 2005):

- Employees who put in more than 30 hours a week are eligible for medical, dental and life insurance.
- They receive one week of vacation after a year and two weeks after two years.
- Hourly employees who become certified trainers keep their benefits even if they drop to part-time status.
- There are retirement plans for salaried workers.
- Managers meet every year in exotic locations for ongoing training and development programmes.
- All managers have regular one-on-one meetings with their immediate supervisors to discuss development goals and management issues.

- Ongoing training and development occurs at all levels of the organization and includes such things as English or Spanish language instruction and self-paced management and leadership development courses.
- Bonuses and recognition programmes also are a standard practice at Bubba Gump.
- Twenty-five per cent of a manager's bonus is based on achieving personal goals, and the rest is based on a store's fiscal performance.
- Each store is given a budget for 'Employee Benefit', which is used to reward and recognize workers.

Sales and internationalization

The company currently has 35 restaurants (as of May 2008). In the United States the restaurants are company-owned, but abroad the international expansion of Bubba Gump is mainly based on franchising agreements, where Bubba Gump Shrimp Co. (USA) is the franchisor and the local restaurant owners are the franchisees.

The internationalization process started in Osaka, Japan, and continued over the years. In May 2008 Bubba Gump had nine restaurants outside the United States: three in Japan (one in Osaka and two in Tokyo); one in Indonesia (Bali); one in the Philippines (Makati City); one in China (Hong Kong); and one in Malaysia (Kuala Lumpur).

In 2007 Bubba Gump secured a franchise agreement with Middle East-based Mubarak Al-Hassawi Restaurant Development Group, which plans to open 12 restaurants in key Middle East cities.

The average bill (per person/per family) is \$17 for lunch and \$22 for dinner. In 2007 this resulted in a total turnover for Bubba Gump of over \$150 million.

Sources: Hosea, M. (2007) 'Fantasy brands on a reality check', *Brand Strategy*, May, pp. 25–29; Berta, D. (2005) 'Bubba Gump nets low turnover with incentives', *Nation's Restaurant News*, 12 September, p. 58; Hume, S. (2007) 'Strategic Planning – Top 400 Chains', *Restaurants & Institutions*, 1 July, p. 50; www.bubbagump.com.

Questions

1. What are Bubba Gump's 'Key Success Factors' when going international?
2. Should Bubba Gump Shrimp Co. further internationalize its concept? Why or why not?
3. Over the next five years, Bubba Gump plans to open 35 to 50 new restaurants. What should be its main criteria for selecting locations for these new restaurants?

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

? Questions for discussion

1. How can an SME compensate for its lack of resources and expertise in global marketing when trying to enter export markets?
2. What are the main differences between global marketing and marketing in the domestic context?
3. Explain the main advantages of centralizing upstream activities and decentralizing downstream activities.
4. How is the 'virtual value chain' different from the 'conventional value chain'?

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