Part I

THE DECISION WHETHER TO INTERNATIONALIZE

Introduction to Part I

It is often the case that a firm going into an export adventure should have stayed in the home market because it did not have the necessary competences to start exporting. Chapter 1 discusses competences and global marketing strategies from the value chain perspective. Chapter 2 discusses the major motivations of the firm to internationalize. Chapter 3 concentrates on some central theories that explain firms' internationalization processes. Chapter 4 discusses the concept of 'international competitiveness' from a macro level to a micro level.

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 Introduction

Globalization
Reflects the trend of firms buying, selling and distributing 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 1.1). The framework in Figure 1.1 is based on the following two dimensions:

Figure 1.1 The nine strategic windows

		Industry globalism		
		Local	*Potentially global*	*Global*
Preparedness for internationalization	*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'.

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, etc.), 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 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 1.1.

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

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.

to attract partners for a future buyout bid. This alternative (window number 7 in Figure 1.1) 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 1.1 are further discussed by Solberg (1997).

1.2 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:

- **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.
- **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.
- **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.
- **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:

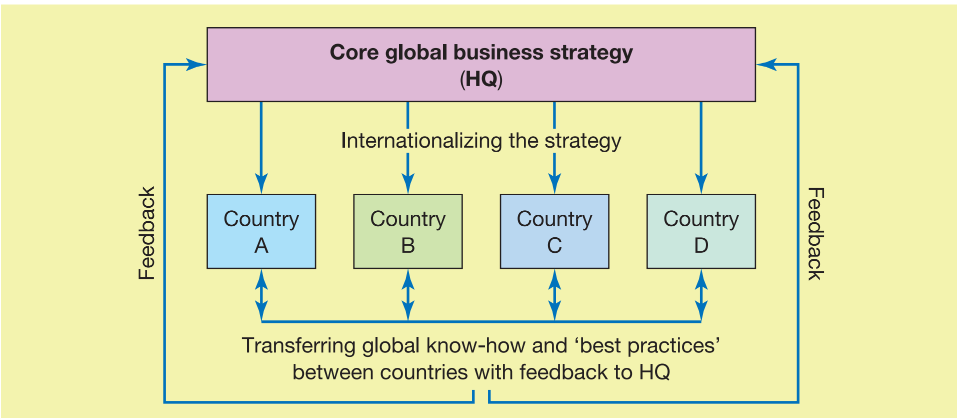
- *Coordinate its marketing activities*: coordinating and integrating marketing strategies and implementing them across global markets, which involves centralization, delegation, standardization and local responsiveness.
- *Find global customer needs*: this involves carrying out international marketing 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 1.2 and further commented on below.

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.)

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 be used elsewhere (in other geographic markets), so that firms can continually update their knowledge. This is also illustrated in Figure 1.2 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.

Figure 1.2 The principle of transferring knowledge and learning across borders



With globalization becoming a centerpiece 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 19). 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.

1.3 Comparison of the global marketing and management style of SMEs and LSEs

LSEs
According to the EU definition this is firms with more than 250 employees. Though LSEs account for less than 1 per cent of companies, almost one third of all jobs is provided by LSEs.

In the Preface a change towards a 'convergence of orientation' in **LSEs** and SMEs was indicated. This 'convergence' is shown in Figure 1.3.

The reason underlying this 'convergence' is that many large multinationals (such as IBM, Philips, GM and ABB) have begun downsizing operations, so in reality many LSEs act like a confederation of small, autonomous, entrepreneurial and action-oriented companies. One can always question the change in orientation of SMEs. Some studies (e.g. Bonaccorsi, 1992) have rejected the widely accepted proposition that firm size is positively related to export intensity. Furthermore, many researchers (e.g. Julien *et al.*, 1997) have found that SMEs as exporters do not behave as a homogeneous group.

Table 1.1 gives an overview of the main qualitative differences between management and marketing styles in SMEs and LSEs. We will discuss each of the headings in turn.

Resources

- *Financial.* A well-documented characteristic of SMEs is the lack of financial resources due to a limited equity base. The owners put only a limited amount of capital into the business, which quickly becomes exhausted.

Figure 1.3 The 'convergence of orientation' in LSEs and SMEs

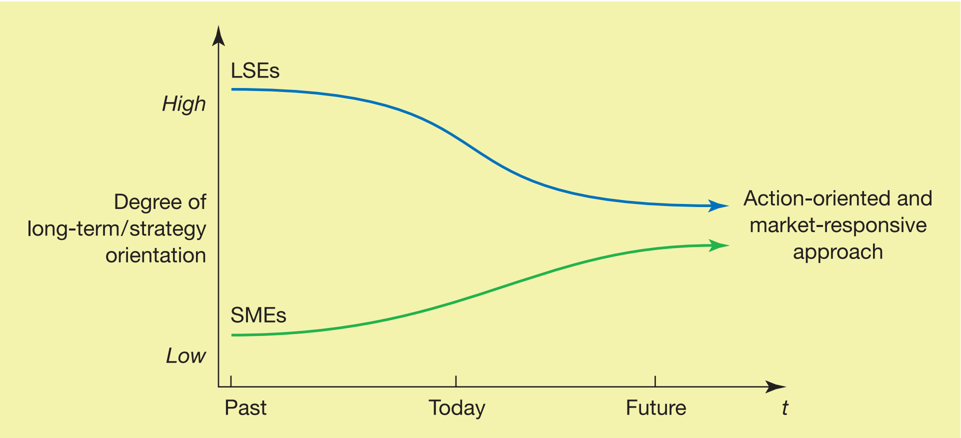
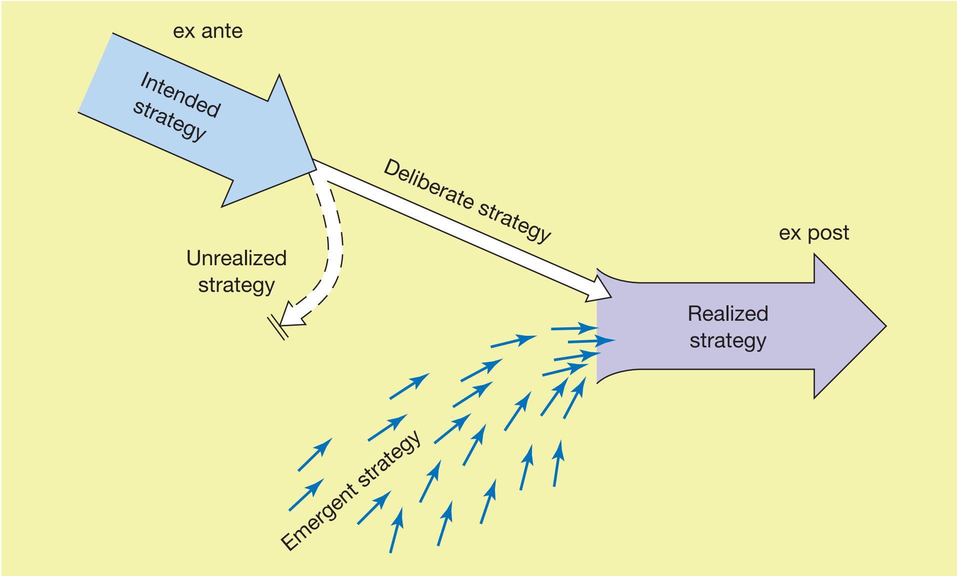


Table 1.1 The characteristics of LSEs and SMEs

	LSEs	SMEs
Resources	Many resources Internalization of resources Coordination of – personnel – financing – market knowledge, etc.	Limited resources Externalization of resources (outsourcing of resources)
Formation of strategy/ decision-making processes	Deliberate strategy formation (Mintzberg, 1987; Mintzberg and Waters, 1985) (see Figure 1.4) Adaptive decision-making mode in small incremental steps (logical incrementalism) (e.g. each new product: small innovation for the LSE) (see Figure 1.5)	Emergent strategy formation (Mintzberg, 1987; Mintzberg and Waters, 1985) (see Figure 1.4) The entrepreneurial decision-making model (e.g. each new product: considerable innovation for the SME) The owner/manager is directly and personally involved and will dominate all decision making throughout the enterprise
Organization	Formal/hierarchical Independent of one person	Informal The owner/entrepreneur usually has the power/charisma to inspire/control a total organization
Risk taking	Mainly risk averse Focus on long-term opportunities	Sometimes risk taking/ sometimes risk averse Focus on short-term opportunities
Flexibility	Low	High
Take advantage of economies of scale and economies of scope	Yes	Only limited
Use of information sources	Use of 'advanced' techniques: – databases – external consultancy – Internet	Information gathering in an informal manner and an inexpensive way: – internal sources – face-to-face communication

- *Business education/specialist expertise*. Contrary to LSEs, a characteristic of SME managers is their limited formal business education. Traditionally, the SME owner/manager is a technical or craft expert, and is unlikely to be trained in any of the major business disciplines. Therefore specialist expertise is often a constraint because managers in small businesses tend to be generalists rather than specialists. In addition, global marketing expertise is often the last of the business disciplines to be acquired by an expanding SME. Finance and production experts usually precede the acquisition of a marketing counterpart. Therefore it is not unusual to see owners of SMEs closely involved in sales, distribution, price setting and, especially, product development.

Figure 1.4 The intended and emergent strategy



Source: Mintzberg, 1987, p. 14. Copyright © 1987 by the Regents of the University of California. Reprinted from the *California Management Review*, Vol. 30, No. 1. By permission of the Regents.

Formation of strategy/decision-making processes

As is seen in Figure 1.4, the realised strategy (the observable output of an organization's activity) is a result of the mix between the intended ('planned') strategy and the emergent ('not planned') strategy. No companies form a purely deliberate or intended strategy. In practice, all enterprises will have some elements of both intended and emergent strategy.

In the case of the deliberate ('planned') strategy (mainly LSEs), managers try to formulate their intentions as precisely as possible and then strive to implement these with a minimum of distortion.

This planning approach 'assumes a progressive series of steps of goal setting, analysis, evaluation, selection and planning of implementation to achieve an optimal long-term direction for the organization' (Johnson, 1988). Another approach for the process of strategic management is so-called *logical incrementalism* (Quinn, 1980), where continual adjustments in strategy proceed flexibly and experimentally. If such small movements in strategy prove successful then further development of the strategy can take place. According to Johnson (1988) managers may well see themselves as managing incrementally, but this does not mean that they succeed in keeping pace with environmental change. Sometimes the incrementally adjusted strategic changes and the environmental market changes move apart and a *strategic drift* arises (see Figure 1.5).

Exhibit 1.1 gives an example of strategic drift.

Exhibit 1.1 LEGO'S strategic drift

The Danish family-owned LEGO group (www.lego.com) is today the world's fifth largest toy producer after Mattel (known for the Barbie doll), Hasbro (known for Trivial Pursuit and Disney figures, via a licensing agreement with Disney), Nintendo (computer games) and SEGA (computer games).

Until now LEGO has strongly believed that its unique concept was superior to other products, but today LEGO feels pressured into competing for children's time. The famous LEGO bricks receive increasing competition from

Exhibit 1.1 continued

TV, videos, CD-ROM games and the Internet. It seems that in LEGO's case a 'strategic drift' has arisen, where LEGO management's blind faith in its unique and pedagogical toys has not been harmonized with the way in which the world has developed. Many working parents have less and less time to 'control' children's play habits. Spectacular computer games win over 'healthy' and pedagogical toys that LEGO represents. This development has accelerated and has forced LEGO to re-evaluate its present strategy regarding product programmes and marketing.

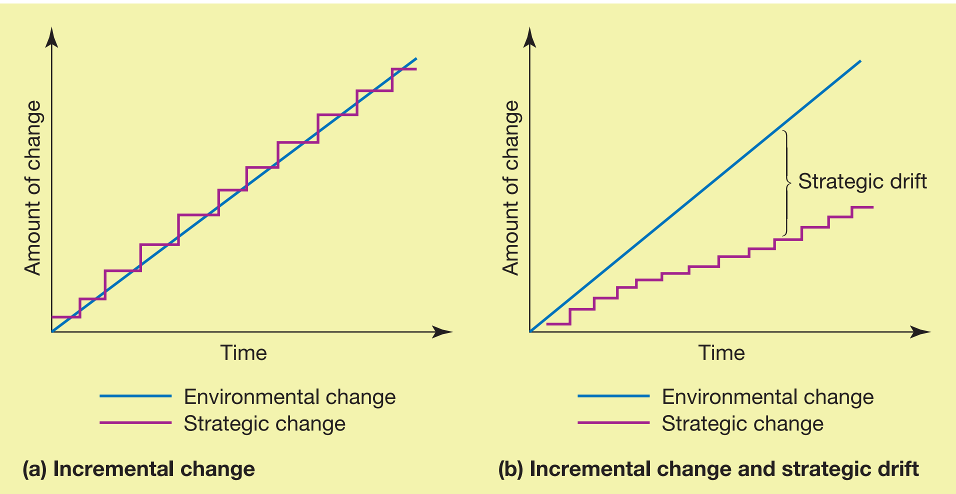
The company suffered heavy losses in 1998 and 2000 and was forced to shed jobs, but in 2002 LEGO again showed some solid profits. However in 2003 LEGO again showed a net loss of approximately €190 million.

LEGO was trying to extend its traditional concepts and values into media products for children aged between two and 16. These new categories – including PC and console software, books, magazines, TV, film and music – aim to replicate the same feelings of confidence and trust already long established among children and their parents.

LEGO kits came as themed playsets under licensing deals with Harry Potter, Bob the Builder, Star Wars and Disney's Winnie the Pooh. It also went high-tech with products such as Mindstorms, and its popular Bionicles toys will appear in a full-length animated feature film. After the huge loss in 2003 (announced in the beginning of 2004) LEGO is now returning to LEGO's former concept. In order to ensure increased focus on the core business, in the autumn of 2004 the LEGO Group decided to sell off the LEGOLAND Parks. It will focus more on building bricks as its main product, concentrating on small kids' eagerness to assemble. This strategy paid off in 2005. The LEGO Group's results before tax improved considerably from a loss of €227 million in 2004 to a profit of €702 million in 2005. With focus on the re-establishment of a strong core business with classic construction toys, and a high degree of production outsourcing the LEGO Group expects to maintain its market position in 2006 and coming years as a smaller, but financially stronger and more competitive toy company.

Source: adapted from different public media.

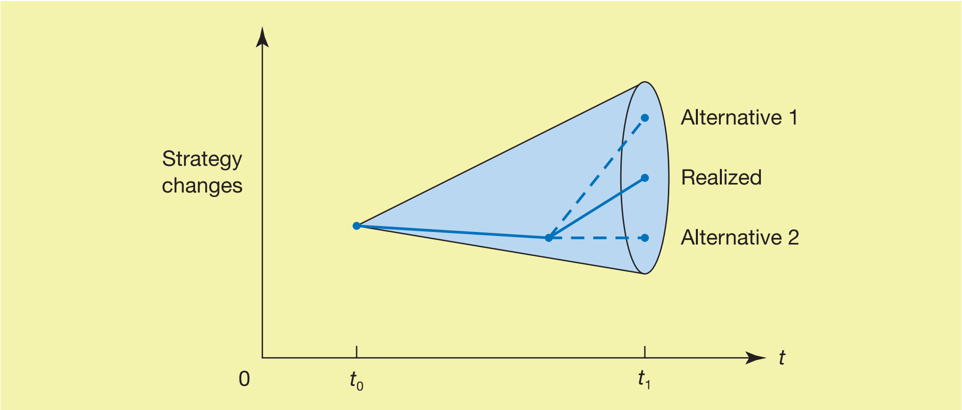
Figure 1.5 Incremental change and strategic drift



Source: Johnson, G. (1988) 'Rethinking incrementalism', *Strategic Management Journal*, 9, pp. 75–91. Copyright 1988 © of John Wiley & Sons Ltd. Reproduced with permission.

On the other hand, the SME is characterized by the entrepreneurial decision-making model (Figure 1.6). Here more drastic changes in strategy are possible because decision making is intuitive, loose and unstructured. In Figure 1.6 the range of possible realized strategies is determined by an interval of possible outcomes. SME entrepreneurs are noted for their propensity to seek new opportunities. This natural propensity for change inherent in entrepreneurs can lead to considerable changes in

Figure 1.6 **The entrepreneurial decision-making model**



the enterprise's growth direction. Because the entrepreneur changes focus, this growth is not planned or coordinated and can therefore be characterized by sporadic decisions that have an impact on the overall direction in which the enterprise is going.

Organization

Compared to LSEs the employees in SMEs are usually closer to the entrepreneur, and because of the entrepreneur's influence these employees must conform to his or her personality and style characteristics if they are to remain employees.

Risk taking

There are, of course, different degrees of risk. Normally the LSEs will be risk averse because of their use of a decision-making model that emphasizes small incremental steps with a focus on long-term opportunities.

In SMEs risk taking depends on the circumstances. Risk taking can occur in situations where the survival of the enterprise may be under threat, or where a major competitor is undermining the activities of the enterprise. Entrepreneurs may also be taking risks when they have not gathered all the relevant information, and thus have ignored some important facts in the decision-making process.

On the other hand there are, of course, some circumstances in which an SME will be risk averse. This can often occur when an enterprise has been damaged by previous risk taking and the entrepreneur is therefore reluctant to take any kind of risk until confidence returns.

Flexibility

Because of the shorter communication lines between the enterprise and its customers, SMEs can react in a quicker and more flexible way to customer enquiries.

'Economies of scale' and 'economies of scope'

Economies of scale

Accumulated volume in production and sales will result in lower cost price per unit due to 'experience curve effects' and increased efficiency in production, marketing, etc. Building a global presence automatically expands a firm's scale of operations, giving it larger production capacity and a larger asset base. However larger scale will create competitive advantage only if the company systematically converts scale into economies of scale. In principle, the benefits of economies of scale can appear in different ways (Gupta and Govindarajan, 2001):

Economies of scale
Accumulated volume in production, resulting in lower cost price per unit.

- Reducing operating costs per unit and spreading fixed costs over larger volume due to 'experience curve effects'.
- Pooling global purchasing gives the opportunity to concentrate global purchasing power over suppliers. This generally leads to volume discounts and lower transaction costs.
- A larger scale gives the global player the opportunity to build centres of excellence for development of specific technologies or products. In order to do this a company needs to focus a critical mass of talent in one location.

Because of size (bigger market share) and accumulated experience, the LSEs will normally take advantages of these factors (see Exhibit 1.2 about Nintendo's Game Boy). SMEs tend to concentrate on lucrative, small, market segments. Such market segments are often too insignificant for LSEs to target, but can be substantial and viable in respect of the SME. However, they will only result in a very limited market share of a given industry.

Exhibit 1.2 Economies of scale with Nintendo Game Boy

Having sold nearly 200 million Game Boys worldwide since 1989 until mid 2006, Nintendo dominates the handheld game market, even as it's losing market share in console systems to Sony and Microsoft. Over the past 15 years, such companies as Sega, NEC, SNK and most recently cell phone giant Nokia have launched nine competing portable game systems without much success.

The economies of scale primarily relate to the manufacturing of the hardware. In the software, economies of scale were limited. Many different types of game have to be offered and the popularity of most of them was short-lived. This is especially so in the case of software linked to a film: the popularity of the game diminished as the film ceased to be shown in cinemas.

Economies of scope

Synergy effects and global scope can occur when the firm is serving several international markets. Global scope is not taking place if an international marketer is serving a customer that operates in just one country. The customer should purchase a bundle of identical products and services across a number of countries. This global customer could source these products and services either from a horde of local suppliers or from a single global supplier (international marketer) that is present in all of its markets. Compared with a horde of local suppliers, a single global supplier (marketer) can provide value for the global customer through greater consistency in the quality and features of products and services across countries, faster and smoother coordination across countries and lower transaction costs.

Economies of scope
Reusing a resource from one business/country in additional business/countries.

The challenge in capturing the economies of scope at a global level lies in being responsive to the tension between two conflicting needs: the need for central coordination of most marketing mix elements, and the need for local autonomy in the actual delivery of products and services (Gupta and Govindarajan, 2001).

The LSEs often serve many different markets (countries) on more continents and are thereby able to transfer experience acquired in one country to another. Typically, SMEs serve only a very limited number of international markets outside their home market. Sometimes the SME can make use of economies of scope when it goes into an alliance or a joint venture with a partner that has what the particular SME is missing in the international market in question: a complementary product programme or local market knowledge.

Another example of economies of scale and scope can be found in the world car industry. Most car companies use similar engines and gearboxes across their entire product range so that the same engines or gearboxes may go into different models of cars. This generates enormous potential cost savings for such companies as Ford or Volkswagen. It provides both 'economies of scale' (decreased cost per unit of output) by producing a larger absolute volume of engines or gearboxes, and 'economies of scope' (reusing a resource from one business/country in additional businesses/countries). Therefore it is not surprising that the car industry has experienced a wave of mergers and acquisitions aimed at creating larger world car companies of sufficient size to benefit from these factors.

Use of information sources

Typically, LSEs rely on commissioned market reports produced by well-reputed (and well-paid!) international consultancy firms as their source of vital global marketing information.

SMEs usually gather information in an informal manner by use of face-to-face communication. The entrepreneur is able unconsciously to synthesize this information and use it to make decisions. The acquired information is mostly incomplete and fragmented, and evaluations are based on intuition and often guesswork. The whole process is dominated by the desire to find a circumstance that is ripe for exploitation.

Furthermore, the demand for complex information grows as the SME selects a more and more explicit orientation towards the international market and as the firm evolves from a production-oriented ('upstream') to a more marketing-oriented ('downstream') firm (Cafferata and Mensi, 1995).

As a reaction to pressures from international markets, both LSEs and SMEs evolve towards a globally integrated but market-responsive strategy. However, the starting points of the two firm types are different (see Figure 1.3 earlier). The huge global companies have traditionally based their strategy on taking advantage of 'economies of scale' by launching standardized products on a worldwide basis. These companies have realized that a higher degree of market responsiveness is necessary to maintain competitiveness in national markets. On the other side, SMEs have traditionally regarded national markets as independent of each other. But as international competences evolve they have begun to realize that there is interconnectedness between their different international markets. They recognize the benefits of coordinating the different national marketing strategies in order to utilize economies of scale in R&D, production and marketing.

Exhibit 1.2 is an example of an LSE (McDonald's) that has also moved from the left to the right in Figure 1.3, towards a higher degree of market responsiveness.

Qualitative characteristics of SMEs and LSEs

Despite the convergence of behaviour in SMEs and LSEs, there are still some differences as indicated in Table 1.1 on page 10.

Exhibit 1.3 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 an annual 500 million burgers.

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 Tamagoburger

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.


Riceburger

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 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.


Vegimcurry

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.

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

In Figure 1.3 it is assumed that SMEs and LSEs 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 1.3. The rest of the book will concentrate on a common 'action/decision-oriented' approach. The result of the convergence movement of LSEs and SMEs into the upper-right corner can be illustrated by Figure 1.7. The terms 'glocal strategy' and 'glocalization' have been introduced to reflect and combine the two dimensions in Figure 1.7: 'Globalization' (y-axis) and 'Localization' (x-axis). 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 optimise 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 1.7:

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

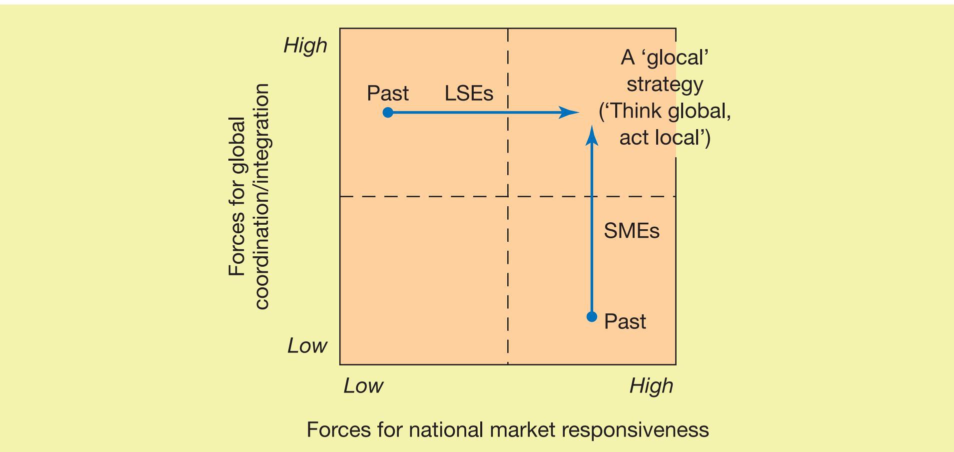
Market responsiveness
Responding to each market's needs and wants.

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

Figure 1.7 **The global integration/market responsiveness grid: the future orientation of LSEs and SMEs**



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 have such 'global' demands towards 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. This issue is further discussed in Chapter 20 (section 20.3).
- *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 preempt 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*: Categorized as 'economies of scale' and 'economies of scope', these were discussed in section 1.3.

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*** *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, or 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 'McDonaldisation' and 'Coca-Colonization' describe in a simple way fears of US cultural imperialism.

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

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.

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

The 7-S framework shown in Figure 1.8 can be regarded as the roots from which the firm's different activities come. In particular, shared values should be a main determinant of the configuration of the **value chain**.

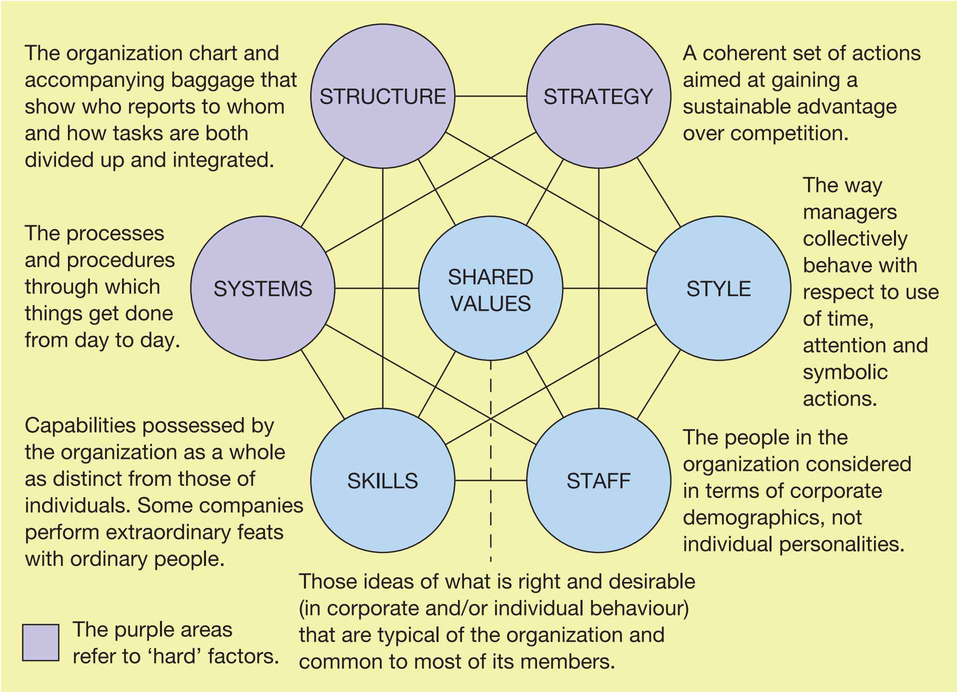
Value chain
A categorization of the firm's activities providing value for the customers and profit for the company.

The concept of the value chain

The value chain shown in Figure 1.9 provides a systematic means of displaying and categorizing activities. The activities performed by a firm in any industry can be grouped into the nine generic categories shown.

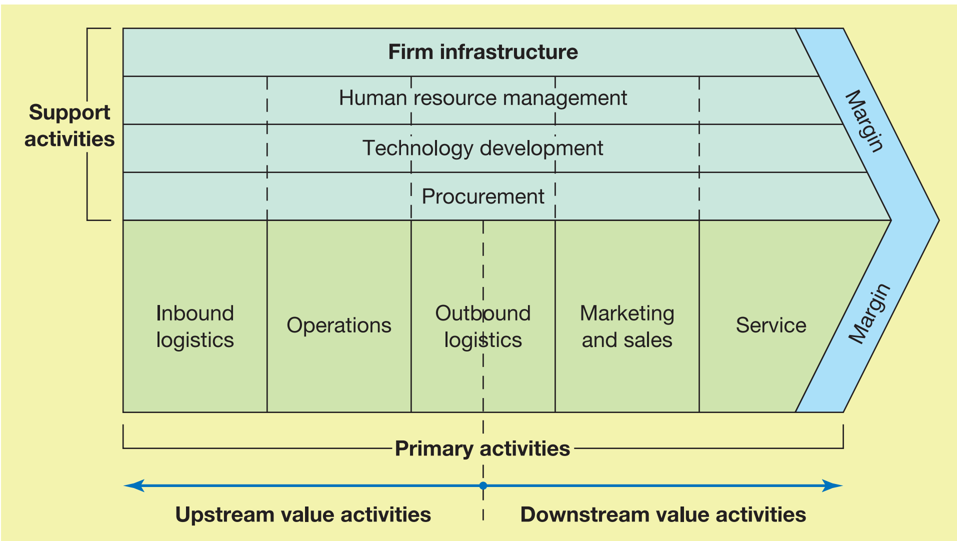
At each stage of the value chain there exists an opportunity to contribute positively to the firm's competitive strategy by performing some activity or process in a way that is better and/or different than the competitors' offer, and so provide some uniqueness or advantage. If a firm attains such a competitive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

Figure 1.8 The 7-S framework



Source: 'McKinsey 7S Framework' from *In Search of Excellence: Lessons from America's Best Run Companies* by Thomas J. Peters and Robert H. Waterman, Jr. Copyright © 1982 by Thomas J. Peters and Robert H. Waterman, Jr. Reprinted by permission of HarperCollins Publishers, Inc.

Figure 1.9 The value chain



Source: Reprinted with permission of The Free Press, a division of Simon & Schuster Adult Publishing Group, from *Competitive Advantage: Creating and Sustaining Superior Performance* by Michael E. Porter. Copyright © 1985, 1998 Michael E. Porter.

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 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 1.9, 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, as follows:

- *Inbound logistics*. The activities concerned with receiving, storing and distributing the inputs to the product/service. These include materials, handling, stock control, transport, etc.
- *Operations*. The transformation of these various inputs into the final product or service: machining, packaging, assembly, testing, etc.
- *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).
- *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.
- *Services*. 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:

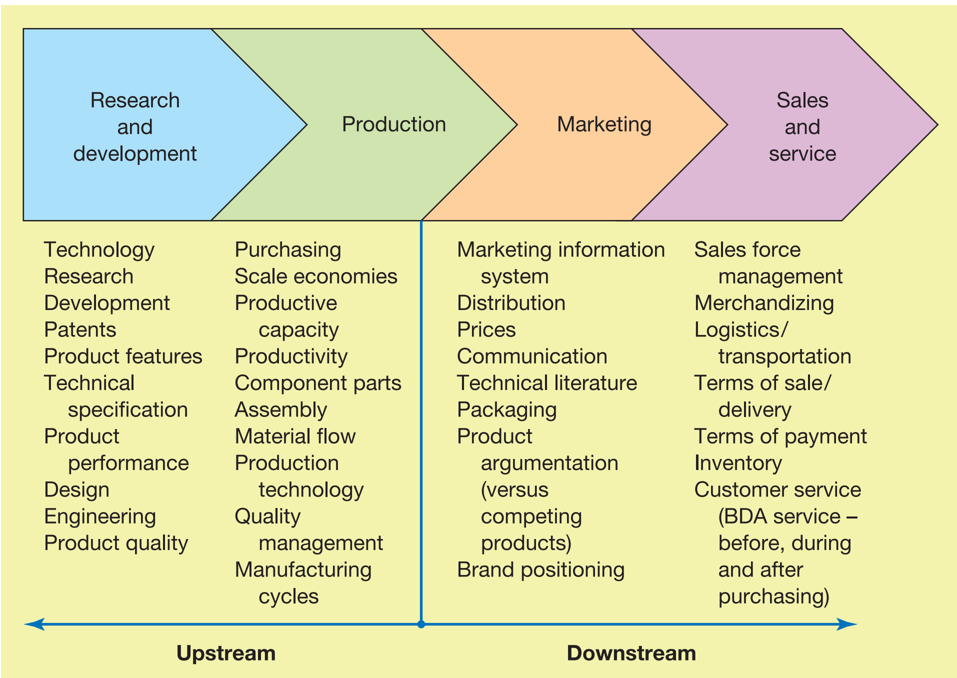
- *Procurement*. This refers to the process of acquiring the various resource inputs to the primary activities (not to the resources themselves). As such, it occurs in many parts of the organization.
- *Technology development*. All value activities have a 'technology', even if it is simply 'know-how'. 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).
- *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.
- *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 1.9, 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 1.10). 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.

Figure 1.10 A 'simplified' version of the value chain



Furthermore, the chronological order of the activities in the value chain is not always as illustrated in Figure 1.10. 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:

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

Internal linkages

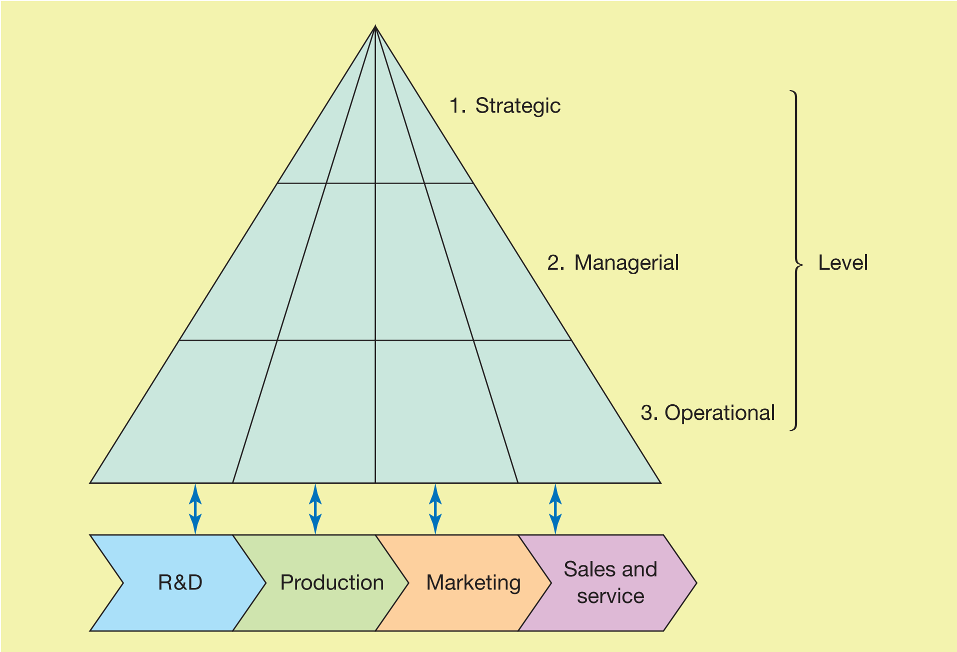
There may be important links between the primary activities. In particular, choices will have been made about these relationships and how they influence value creation and strategic capability. For example, a decision to hold high levels of finished stock might ease production scheduling problems and 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 1.10 in a simplified form) as a thoroughgoing model on all three planning levels in the organization.

In purely conceptual terms, a firm can be described as a pyramid as illustrated in Figure 1.11. 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:

- 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.
- 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.
- 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.

Figure 1.11 The value chain in relation to the strategic pyramid



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 networks 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 11 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 1.4 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 woldwide 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 1.12) 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 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!'

Figure 1.12 The Pocoyo value chain

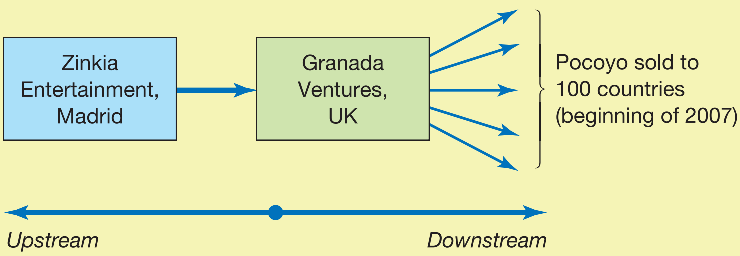


Exhibit 1.4 continued

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

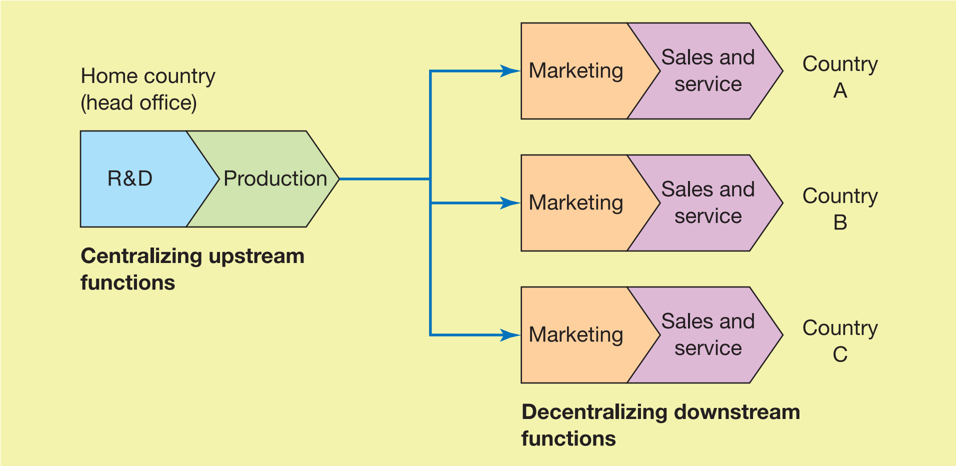
All internationally oriented firms must consider an eventual internationalization of the value chain's functions. The firm must decide whether the responsibility for the single value chain function is to be moved to the export markets or is best handled centrally from head office. Principally, the value 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.

A distinction immediately arises between the activities labelled downstream on Figure 1.10 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 1.13). 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

Figure 1.13 **Centralizing the upstream activities and decentralizing the downstream activities**



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.

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 16.

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. 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'

Value shops (service value chain)
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.

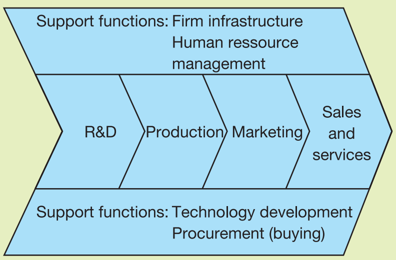
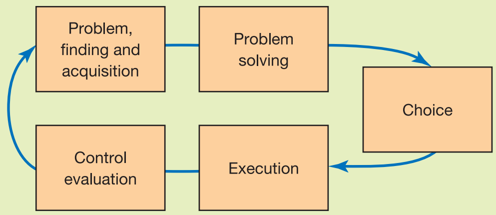
Value network
The formation of several firms' value chains into a network, where each company contributes a small part to the total value chain.

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.

The main differences between the two types of value chains are illustrated in Table 1.2.

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.

Table 1.2 **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).

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. 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.

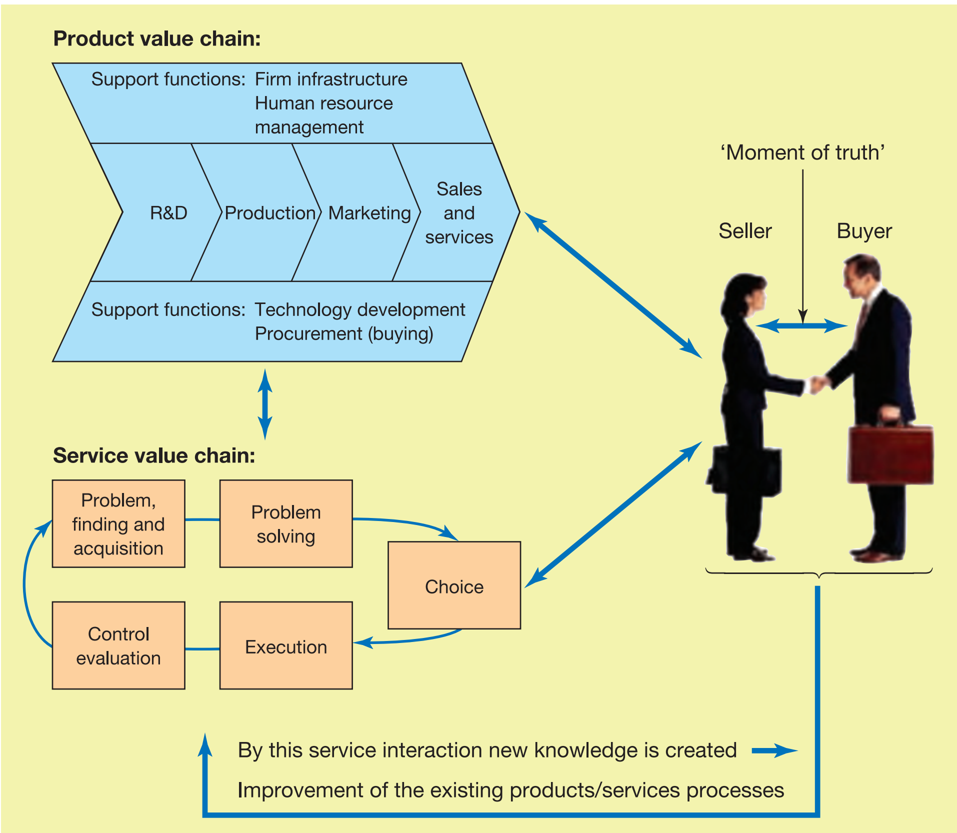
Competitive success often depends on more than simply performing your primary model well. It may also require the delivery of additional kinds of complementary value. Adopting attributes of a second value configuration model can be a powerful way to differentiate your value proposition or defend it against 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 1.14 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 1.14).

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

Figure 1.14 Combining the 'product value chain' and the 'service value chain'



groups 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 1.14 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 1.14 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).

Anyway, one of the purposes with the 'learning nature' of the overall decision cycle in Figure 1.14, is to pick up the 'best practices' among different kinds of international buyer–seller interactions. This would lead to implications for a better set-up of:

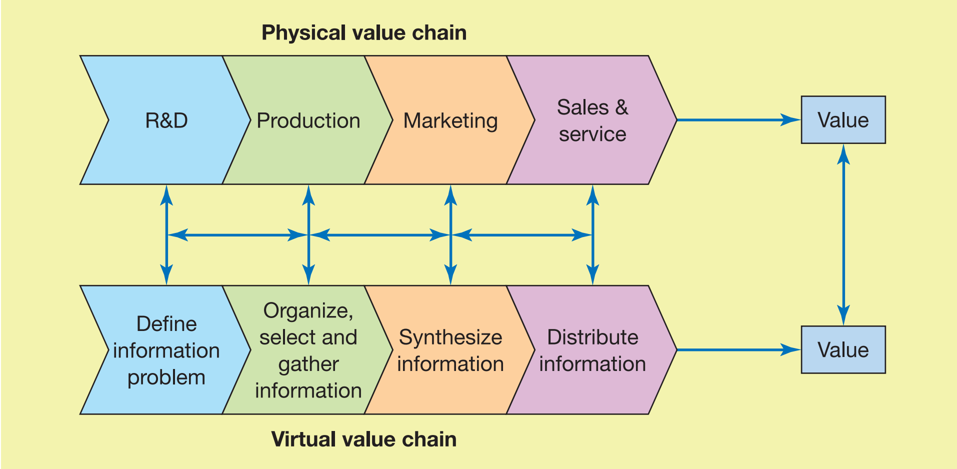
- the 'service value chain' (value shop)
- the 'product value chain'
- the combination of the service and product value chain.

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.

Figure 1.15 The virtual value chain as a supplement to the physical value chain



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 1.15).

By introducing the *virtual value chain* Rayport and Sviokla (1996) have made an extension of the conventional value chain model, which treats information as a 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 1.15 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 1.15) 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 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.

On the basis of the 7-S framework, a simplified version of 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 mobilising 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

Vermont Teddy Bear: Should Vermont Teddy Bear go abroad?

As Elisabeth B. Robert, CEO of The Vermont Teddy Bear Company (**www.vtbear.com**), wakes up on 30 June 2006 (the day where the 2005 financial results are published) she can look back on one of the most eventful years in the history of the company:

On 16 May 2005 Vermont Teddy Bear announced the signing of a definitive agreement that enabled the company to be taken private by an investment group led by The Mustang Group, a Boston-based private equity firm. The main motive for taking this step has been stated by Elisabeth B. Robert: 'As a private company, Vermont Teddy Bear will no longer face the challenges of a small company trying to comply with increasingly complex and costly public company requirements. We will have more time and resources to devote to growing our business'.

The key financial figures for 2005 were:

2005	
Net revenue:	$39.0 million
Net profit:	$2.5 million

The number of employees at the end of 2005 was 352.

But Elisabeth has further ambitions for the company:

> My longer-term vision for the company is to leverage our marketing and operational strengths with a sound brand strategy to grow our company with teddy bears and other products in the gift delivery service industry. Unlike other Internet companies, we have proven our ability to profitably market a gift delivery service using radio and the Internet. Unlike other Internet companies, we have an established, state-of-the-art, cost-effective fulfilment operation with integrated systems to customize, personalize, pick, pack, and ship, and provide superior customer service. And, the people of The Vermont Teddy Bear Company are not only persistent and smart, they have become over the past several years extremely good at what they do. Why shouldn't we aspire to be one of the premier gift delivery services in the world?'
>
> Source: Vermont Teddy Bear Annual Report.

The company

Vermont Teddy Bear's principal activity is direct marketing in the gift delivery industry. Founded in 1981 in Vermont (on the east coast of the United States) Vermont Teddy Bear expanded very quickly. In 1992 *Inc. Magazine* recognized The Vermont Teddy Bear Company as the 80th fastest growing private company in the United States. The same year, Vermont Teddy Bear went on the stock exchange in New York to finance further expansion. Building on its success with its bear delivery services, Vermont Teddy Bear began a new business segment in fiscal 2001, with its SendAMERICA subsidiary selling handicrafts and foodstuffs made by US artisans and growers. Vermont Teddy Bear launched PajamaGram in April 2002.

Vermont Teddy Bear (VTB) has six operating segments:

1 The *Bear-Gram service* segment involves sending personalized teddy bears directly to recipients for special occasions such as birthdays, anniversaries, weddings, and new babies, as well as holidays such as Valentine's Day, Christmas, and Mother's Day. VTB positions its BearGram gift delivery service as a 'creative alternative to flowers'.

2 The *PajamaGram* service segment provides customers with a convenient gift that includes an item from a broad assortment of pajamas, gowns, robes and spa products delivered with a free gift card, lavender bath tea, and a 'do not disturb' sign, all in a keepsake hatbox. PajamaGram gifts are ordered online at pajamagram.com or via a toll free telephone number. The service is targeted to appeal to female customers in order to broaden VTB's predominately male customer base. In 2005 women purchased approximately 48 per cent of PajamaGram gifts, versus only 30 per cent of BearGram gifts. VTB also uses direct response radio advertising to market the PajamaGram service, driving visitors to both the toll free number and the website. Many of the same radio stations and syndicated radio networks air both BearGram and PajamaGram ads. In addition, VTB uses cable television and print, with emphasis on targeting woman. As the customer base for PajamaGram gifts expands, VTB has also added catalogue to its marketing mix for this segment.

3 *The TastyGram Service*. Through this business segment, the company markets and sells a variety of regional food specialties such as NY Carnegie Deli Cheesecake and Gino's Chicago Deep Dish Pizza. Using proprietary technology, customer orders are processed and forwarded electronically via the Internet to the 'food' supplier. The supplier prints a personalized card, picking instructions, and a prepared shipping label from the order information received. The suppliers prepare their unique products for shipping with packaging that incorporates TastyGram labelling. The company coordinates pickup of the gift item at the supplier's location by Federal Express for delivery.

4 *Calyx & Corolla.* On 29 August 2003, the company completed the acquisition of certain assets and the business model of Calyx & Corolla. This new business segment (which accounts for 26 per cent of the total VTB sales) is also a wholly-owned subsidiary of the company. It direct markets premium direct-from-the-grower flowers, plants and preserved floral items. The company has arrangements with 17 growers most of which are located in Florida and California. Certain varieties of fresh cut flowers are flown in from farms in Ecuador, Colombia, Thailand and Holland to the growers' import warehouses in the United States. Prepared shipping labels, also transmitted electronically, are applied to the colourful gift boxes that are shipped directly from the grower's warehouse to the receiver.

5 The *retail operation* segment involves two retail locations and family tours of the teddy bear factory and store.

6 The *wholesale/corporate* segment proactively develops opportunities in the corporate affinity market and certain wholesale markets.

In 2005 the Bear-Gram service accounted for 46 per cent of revenue; the PajamaGram service for 22 per cent; TastyGram for 1 per cent; Calyx & Corolla 26 per cent; retail operations for 4 per cent; and corporate/wholesale (including licensing) for 1 per cent.

Because the Company positions itself primarily in the gift market, its distribution is highly seasonal, with Valentine's Day, Mother's Day and Christmas representing approximately 28 per cent, 21 per cent, and 16 per cent of the company's annual sales, respectively.

The B-t-B – 'Bears-to-Business'

The B-t-B, or 'Bears-to-Business', programme offers promotional products and corporate gifts for mainly large companies. One example of the 'Bears-to-Business' programme took place in late 1999 when the company had a copromotion with Seagram's Ginger Ale. Across the country, 20 million litre bottles of Seagram's Ginger Ale were labelled with a chance to win a Vermont Teddy Bear and carried a

coupon for a 20 per cent discount on any of the Vermont-made bears offered through the Bear-Gram gift delivery service.

Another example of a corporate customer is BMW of North America, which regularly uses the Bear-Gram gift delivery service to congratulate and thank both employees and clients for their dedication and service.

Among Vermont Teddy Bear's corporate customers are Johnson & Johnson, Kraft Foods, Marriott International and Pepsi Cola.

Market communication

VTB's marketing and selling expenses are immense. Of VTB's total sales of $66 million, 37 per cent is used for this purpose.

The company developed the BearGram segment using predominantly *direct response radio* for marketing and distribution in combination with a toll free telephone number and subsequently its website vermontteddybear.com. Most of the radio advertisements are read 'live' by local radio personalities in major metropolitan areas. In 2005 the company used local radio stations across the country to advertise its BearGram and PajamaGram services. Many of the stations and personalities air advertisements for both segments.

In the early 1990s the Company produced several *television commercials* that were aired on a small scale on cable networks. These TV initiatives were not considered successful at the time. In 2003 VTB again tested a small-scale television ad campaign for the BearGram segment at Valentine's Day and for both the BearGram and PajamaGram segments at Mother's Day. Encouraged by the results of these campaigns, the company in 2004 engaged a Los Angeles agency to produce commercials and increased its spending on cable networks. The company intends to continue expanding television as a means of direct response marketing and distribution particularly for the BearGram and PajamaGram segments in the holidays. Based on the results during 2005, the company intends to continue developing TV as a advertising medium for all its segments.

VTB has periodically tested *direct response print advertisements* in a variety of magazines and newspapers. These early efforts were deemed only marginally successful. More recently, VTB's brands have gained greater awareness in markets nationally and as it embraced the 'art' of multi-channel marketing, the company has again begun to test a variety of print advertising opportunities for all of its gift segments.

For the 2005 Fall/holiday season, the company mailed a 48-page catalogue to approximately 4 million names including both its customer list and prospects. The company believes that it has significant opportunity to grow the segment through *catalogue marketing* in addition to direct response radio distribution.

VTB has also initiated an *online affiliate-marketing programme* for its delivery service. The company has worked with affiliate partners, including opt-in list aggregators, news and entertainment websites, existing radio stations and charities to advertise to new prospects via e-mail, and paid these partners a percentage of sales generated. The company has also been successful in acquiring certain keywords and phrases used on these Internet search sites and pays these partners on a 'cost per click' basis. Affiliate websites are pre-qualified based on criteria established by the company and signed up and monitored by a third-party service provider. Under this system, the company pays its partners a percentage of revenues generated through links from their websites.

Online ordering

As the company began to clarify its identity as a gift delivery service as opposed to a toy manufacturer, customer service increasingly became the focus of its efforts to differentiate its brand. Focusing on customer service, including last-minute gift delivery and personalization, the company expanded its contact centre, invested in the technology infrastructure to support online orders and built a new distribution facility with state of the art fulfillment, personalization and shipping capability. Orders, including personalization in the form of artwork or embroidery, eventually could be taken as late as 5 p.m. for delivery the next day. On the day prior to certain key holidays, the company set up its own remote fulfillment operation near the carrier distribution hub to receive and process orders until midnight for next day delivery.

The company began taking orders on its website in March 1997, recognising that the website provided visual support of the company's radio advertising campaign across the country and was a convenient way for customers to place orders. In December 1997 online orders represented 7 per cent of total Bear-Gram orders. In April 2000 approximately 35 per cent of the Bear-Gram orders were received via the Company's website, triple the level of the prior year. In 2005 nearly 60 per cent of the orders were received via the Internet.

Competition

Competition in the gift market is very intense. Many of its competitors sell similar products at lower price points and have greater financial, selling and marketing resources than the company. The Company, however, believes that its brand strength, its customer relationships and its last-minute personalization and fulfillment capabilities position it to compete effectively with its current and future competitors in each of the gift service categories. Barriers to entry into the company's markets are low, however, and increased competition based on price or other considerations could result in decreased revenues, increased marketing and selling expenditures and lower profit margins.

The VTB's BearGram service competes with a number of sellers of flowers, balloons, confectionery, cakes and other gift items, which can be ordered by telephone and over the Internet for special occasions and are delivered by express service in a manner similar to Bear-Gram gifts. The company also competes to a lesser degree with a number of companies that sell teddy bears in the United States, including but not limited to Steiff of Germany, Dakin, North American Bear, Gund and Build-A-Bear Workshop. The company also competes with businesses that market and sell teddy bears and other stuffed animals in a manner similar to BearGrams, including 'Pooh-Grams' marketed by certain subsidiaries of Disney Enterprises, Inc.

With its PajamaGram gift delivery service the company competes against virtually all apparel retailers selling pajamas and related sleepwear and spa products, including Lands End, L.L. Bean, GAP and Victoria's Secret, that can deliver their products via express service. The company competes by providing its customers with a convenient service and reliable, expedited delivery options. It also competes by providing its customers with a 'complete' gift with the added value of a free personalized greeting card and a free add-on such as lavender tub tea, packaged in a decorative box and delivered in a colourful shipping container.

With its TastyGram service, the company competes with other specialty retailers that sell food items and deliver them via express services, including Harry and David, Omaha Steaks and Hickory Farms. Again, the company competes by providing convenient customer service and offering a gift presentation of the item with a free personalized card in a colourful gift box.

With the Calyx & Corolla business segment the company competes with other direct-from-the-grower floral retailers such as 1-800-Flowers, FTD and ProFlowers and with local retail florists throughout the country and 'wire services' companies such as TeleFlora, 1-800-Flowers and FTD that distribute orders to delivering florists. It also competes by providing high-end designs for its bouquets, fresh cut varieties less commonly available and exclusive containers for bouquets and plants. Finally, it competes by providing a convenient service that includes support to receivers in caring for their flowers and plants.

In a broader sense VTB also competes with other 'bricks and mortar' retailers. There can be no assurance that additional companies will not seek to compete directly with VTB, including those with greater resources.

VTB keeps its production in Vermont because it is convinced that its identity as an American brand manufacturer (with production in Vermont, USA) is a key element of its market positioning for the VTB brand. Approximately 350,000 bears are assembled per year. Only a relatively small per cent of this production is outsourced to overseas manufacturers, mainly in Asia. However, the management is exploring some opportunities in other parts of the world. As Elisabeth Robert says:

> Gift giving is a deeply rooted tradition in many foreign cultures. Using common carriers such as FedEx and taking orders on the Internet, we avoid setting up an international distribution infrastructure. Handling an order from Tokyo is now no different than handling one from Chicago.
>
> Source: Vermont Teddy Bear Annual Report.

However, until now the company has only been selling to US customers, primarily in the big cities on the east coast such as New York, Boston and Philadelphia.

Questions

1 What kind of difficulties would Vermont Teddy Bear meet if it were to internationalize its business?

2 In what part of the world should the company start its internationalization?

3 How should the company penetrate the foreign markets:
   (a) by Internet?
   (b) by physical stores?
   (c) by a combination of the two?
   (d) by other means?

4 How would the communication mix in the chosen countries differ from the US market?

CASE STUDY 1.2

Arcor: A Latin American confectionary player is globalizing its business

Arcor (www.arcor.com.ar/eng/) was founded in 1951 to produce sweets. However, in order to tell the company's history fully we must go back to 1924, the year that Amos Pagani, a young Italian immigrant, decided to start up a bakery in the Province of Córdoba.

In the 1970s and 1980s Arcor transformed itself into a vast industrial complex, showing the way for other companies in the country. The company continued to grow both in Argentina and in different countries in the region. In 1976 Arcor started operations in Paraguay, in 1979 in Uruguay, in 1981 in Brazil and in 1989 in Chile.

In 1999 in Brazil Arcor opened the most advanced chocolate plant in the region, whose facilities also include the largest product distribution centre in that country. This was a start-up that put the company at the cutting edge of technology and production on the continent. It also permitted Arcor to consolidate its position in the very attractive Latin American market.

In order to continue with its expansion process Arcor established itself in Barcelona in 2002. Arcor's goal has always been to expand beyond the borders of its own country, and the opening of this new office allows the company to create closer bonds with customers from the European Economic Community, the Middle East and Africa.

Today the Arcor Group has 35 plants in the region (27 in Argentina, four in Brazil, three in Chile, and one in Peru).

ARCOR prepares more than 1,500 products in the four areas that make up its business focus: foods, confectionery, chocolates, and cookies and crackers. In all these segments the company has developed a very high degree of 'know-how' that has allowed it to become a true specialist in everything it produces.

At present Arcor is well established in Latin America, but outside this area it is relatively weak. Of the total sales in 2005 of US$1,500 million less than 5 per cent derived from outside Latin America.

In the coming years, Arcor faces three big challenges within its 'international expansion' framework: becoming the No. 1 Latin American confectionary and chocolate company; continuing to grow and establish itself in high development potential markets outside Latin America, such as the emerging Asian markets; and strengthening product penetration in the most demanding markets in the world: the United States, Japan and the European Union.

The group is an active participant in various strategic alliances (production and/or marketing agreements) with international players, such as Nestlé and Brach's. The most recent example is the partnership with Danone Group (France) in the biscuits and cereal bar business in Argentina, Brazil, and Chile. In April 2004 the two companies merged their biscuit manufacturing activities into a single company, Bagley Latinoamérica SA, which resulted in the biggest biscuit company in South America. The joint venture company is owned 49 per cent by Danone SA (France) and 51 per cent by Arcor. This partnership includes highly recognized brands in local markets like Formis, Maná, Saladix, Hogareñas, Sonrisas, Merengadas, Criollitas, Rumba, Opera, Aymoré, Triunfo, Selts and more.

In 2000 the Arcor Group launched **www.arcorsales.com**, the first food industry website in Latin America devoted to business-to-business (B2B) markets, a new trade channel for its products, to leverage those currently in use.

Questions

1 What would be the major obstacles to Arcor's attempt to penetrate markets outside Latin America?

2 How could Arcor use the concept of the 'virtual value chain' to increase internationalization?

3 Where are Arcor's competitive advantages in the value chain?

VIDEO CASE STUDY 1.3

download from www.pearsoned.co.uk/hollensen

Nivea

Nivea (**www.nivea.com**) is Beiersdorf's (**www.beiersdorf.com**) largest brand in terms of sales, product and geographical reach. The brand is a market leader in a number of product areas, including skin care and sun care, especially in Europe.

Questions

1 Which degree of 'Market Responsiveness' and 'Global Coordination/Integration' does Nivea represent?

2 Do you think that the Nivea Vital commercial (shown in the video) is able to cross borders without any adaptation? If not, which elements should be adapted?

3 Which marketing problems does Nivea anticipate, when penetrating the US market?

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

? Questions for discussion

1 What is the reason for the 'convergence of orientation' in LSEs and SMEs?

2 How can an SME compensate for its lack of resources and expertise in global marketing when trying to enter export markets?

3 What are the main differences between global marketing and marketing in the domestic context?

4 Explain the main advantages of centralizing upstream activities and decentralizing downstream activities.

5 How is the 'virtual value chain' different from the 'conventional value chain'?

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