

Competitive Dynamics

(Mike Peng & Klaus Meyer, International Business)

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Special Topics in Internationalization

Università degli Studi di Bergamo

Dipartimento di Scienze Aziendali

Bergamo, ITALY



■ Local Firms versus Big MNEs

❖ How Local Firms may Respond to MNE Actions?

		Competitive Assets	
		Customized to home markets	Transferable abroad
Industry Pressures to Globalize	High	Cell 1 Dodger	Cell 2 Contender
	Low	Cell 3 Defender	Cell 4 Extender

KEY POINTS:

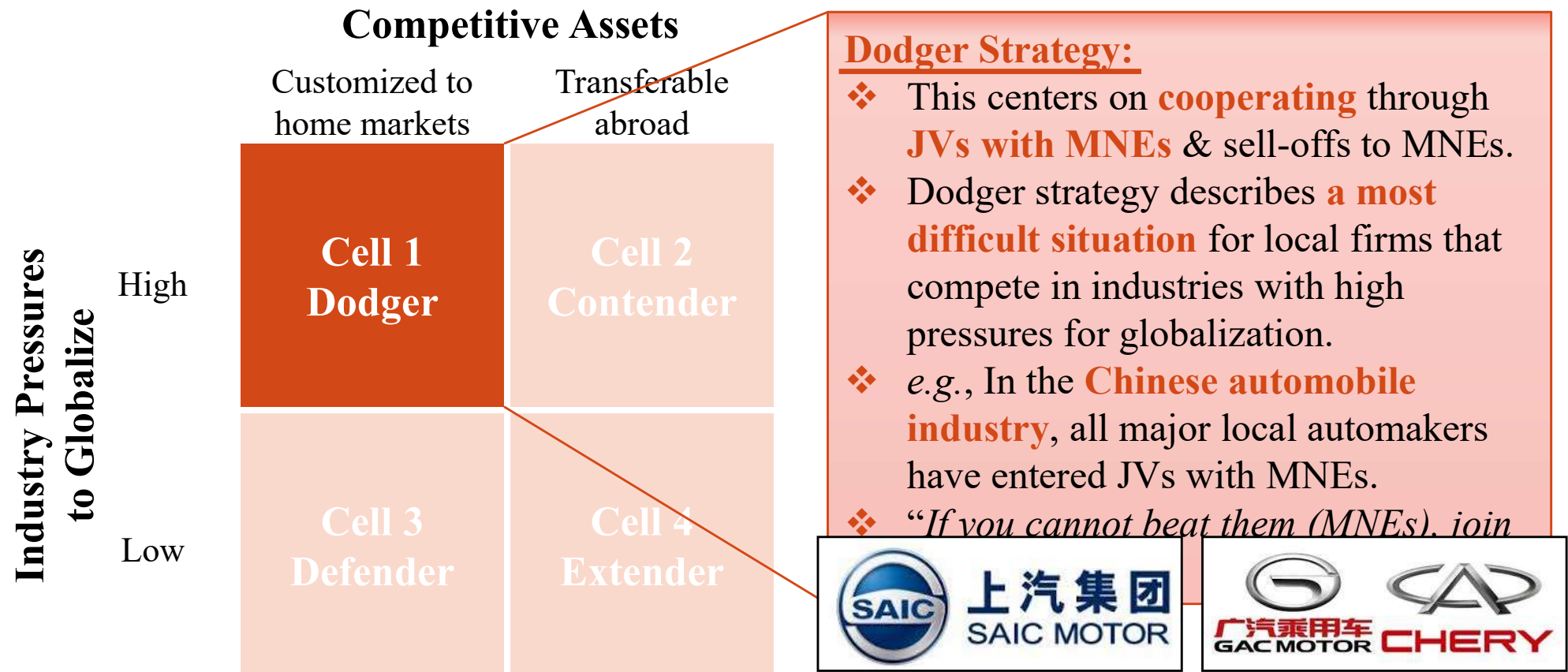
- ❖ Some firms face competitors that are much bigger than themselves, yet sometimes they win.
- ❖ How is that possible?
- ❖ They adopt **4** strategic postures depending on **two conditions**: **(1)** the nature of their firms' competitive asset & **(2)** the industry conditions.

- I. Dodger strategy
- II. Contender strategy
- III. Defender strategy
- IV. Extender strategy



■ Local Firms versus Big MNEs

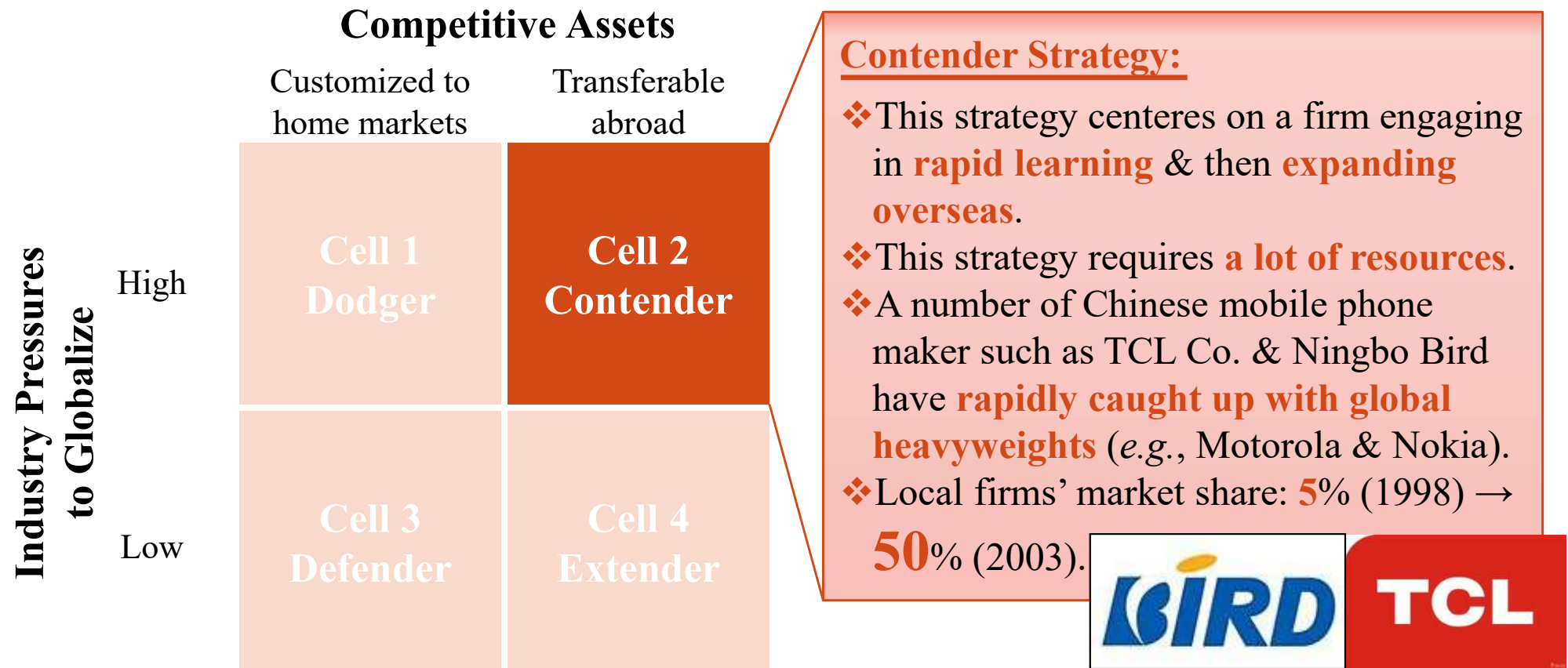
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■ Local Firms versus Big MNEs

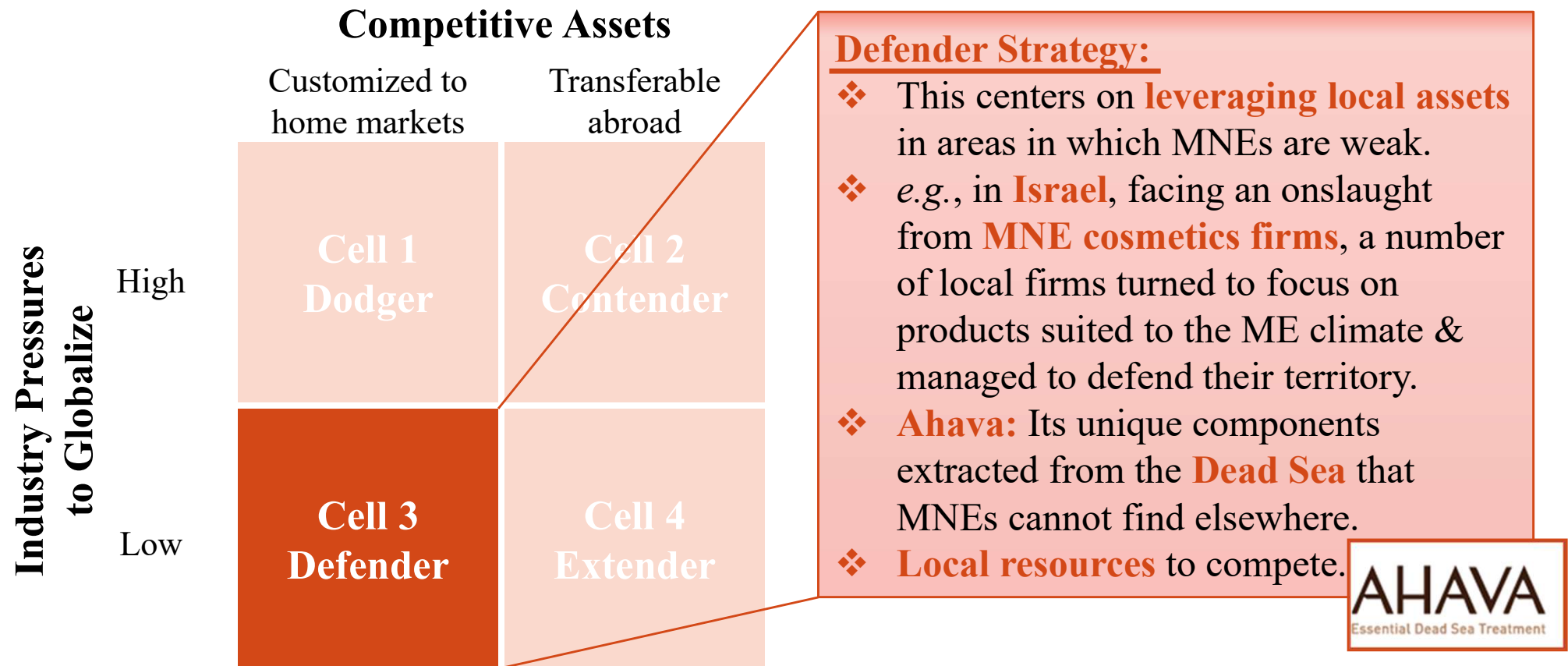
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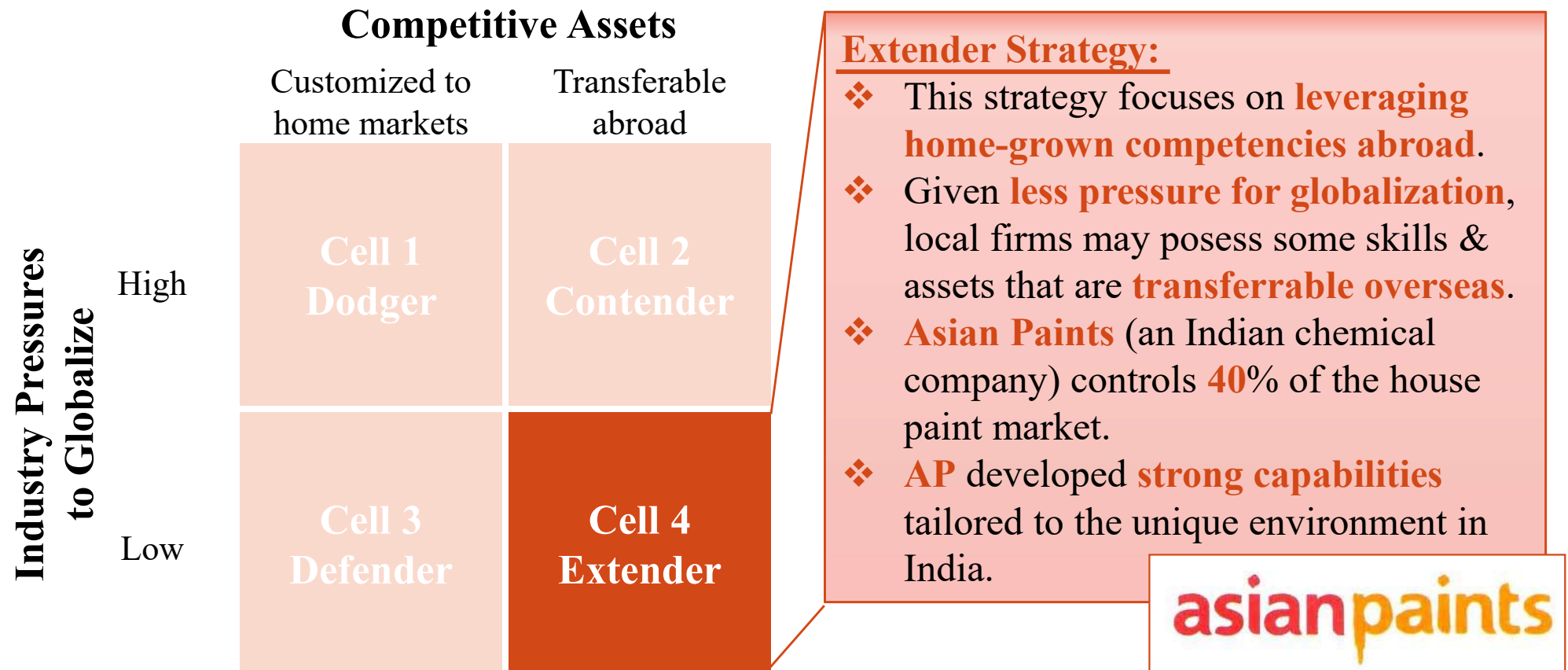
❖ How Local Firms may Respond to MNE Actions?





■ Local Firms versus Big MNEs

❖ How Local Firms may Respond to MNE Actions?



Global Strategies & Acquisitions I

(Mike Peng & Klaus Meyer, International Business)

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1. Introduction (The Case of Danisco)

2. Competitive Advantages of the Global Firm

3. Global Business Models

4. Growth by Acquisitions

5. Resources Influencing M&A Performance

6. Debates & Extensions

7. Implications for Practice



■ Learning Objectives

- Articulate the **STRATEGIC ADVANTAGES** of globally operating firms.
- Explain different **BUSINESS MODELS** to exploit the advantages of a globally operating firm.
- Explain **WHY** global firms decide M&As & strategic alliances.
- Apply the **RBV** to explain the **SUCCESS** of acquisitions.
- Participate in **‘2’ DEBATES** about European SMEs.



■ Danisco: The Evolution of a Global Niche Leader

PRODUCTS

Food ingredients: stabilizers, flavours, enzymes, emulsifiers.

HISTORY

- 1872** **Danish Sugar** was founded by the Danish financier C.F. Tietgen.
- 1989** A **merger** of **3 companies** aiming to create a strong Danish company that could compete in the EU common market after its completion in 1992
- 1990s** The **foods, food ingredients & packaging** (↑) businesses were grown, while businesses in the **machine building segment** (↓) were sold.
- 1999** Danisco A/S acquired **Cultor OY**.
- 2009** The sale of Danisco's Sugar division to **Nordzucker**.
- 2011** Takeover by **Dupont** Denmark Holding APS.





■ What is Danisco's Competitive Superiority?

1

R&D intensity (%)



Innovative capacity

2



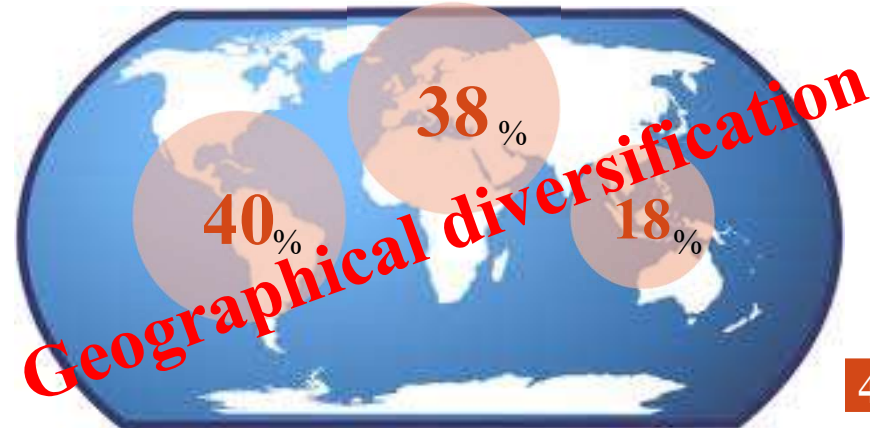
Customer diversification

3

The development of applications for the ingredients jointly with customers



4



Geographical diversification

Introduction



■ Key Words

Transformation

Global Strategies

Divestment

AAA Strategies

Global Firms

Global Focusing

Global Business Models

Acquisitions

**Hidden
Champions**



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■ How to Develop Global Strategies (1/5)

❖ When is a Buyer Group Powerful?

1. Buyers threaten an industry by **forcing down prices & bargaining for higher quality or more services.**
2. The buyer **purchases large volumes** relative to seller sales.
3. The products in purchases from the industry are **standardized or undifferentiated.**
4. The buyer faces **few switching costs.**
5. The buyer puts **backward integration** forward.

Competitive Advantages of the Global Firm



■ How to Develop Global Strategies (2/5)

Global scale
advantages

▶ Global sourcing

Global knowledge
management

Global customers

Risk diversification

❖ Businesses operating on the global stage can **ACCESS RESOURCES** in a variety of locations.

- Hence, global MNEs can source every input (e.g., raw materials) where it is available **at the best quality** or **the lowest price**.
- The case of **Danisco**: A specialized plant to process specific food ingredients that were only available in the sea off the coast of **Southern Chile**.

DANISCO

❖ “2” key benefits from global sourcing.

- (1) High levels of **OPERATIONAL FLEXIBILITY**.
- (2) The ability to **CONFIGURE & COORDINATE** MNEs’ activities in response to changes in exchange rates or labor costs.

Competitive Advantages of the Global Firm



■ How to Develop Global Strategies (3/5)

Global scale advantages

Global sourcing

▶ Global knowledge management

Global customers

Risk diversification

- ❖ Global companies can spread their **R&D** units to tap into capabilities at different sites.
 - **Silicon Valley**: Access to latest ideas in **IT** sectors.
 - **Cambridge & Copenhagen**: A cluster of **biotechnology** firms.
 - Exposure to **different customer expectations & values**.
- ❖ According to a study by consultants Booz & Company, international linkages between R&D units (more important than increased R&D spending) enhance innovation performance.
 - Strong **CONNECTIONS** with people & businesses that operate in different environments.
 - **EXCHANGE**: Knowledge, experiences & competences.

Competitive Advantages of the Global Firm



■ How to Develop Global Strategies (4/5)

Global scale advantages

Global sourcing

Global knowledge management

▶ Global customers

Risk diversification

❖ Global operations are especially valuable when it comes to serving **CUSTOMERS** themselves that are operating at different locations.

❖ GLOBAL KEY ACCOUNTS

- The **automotive** industry.
- **Danisco** is developing relationships with global key accounts such as food manufacturers: **Nestle**, **Danone** & **Unilever**.
- Many business services such as **consulting**, **accounting**, **advertising** also **work with global key accounts**.

DANISCO

First you add knowledge...



Competitive Advantages of the Global Firm



■ How to Develop Global Strategies (5/5)

Global scale advantages

❖ Operations in multiple countries reduce the financial risk profile of the overall company.

- Economic recessions;
- Wars & terrorism; &
- Natural disasters.

Global sourcing

Global knowledge management

❖ Sales revenues from a variety of sources reduce the overall risk profile as long as they are less than perfectly positively correlated.

Global customers

► Risk diversification

Risk management practices that allow MNEs to **react flexibly** to increased frequency of **unexpected events** can be a key competitive advantage.



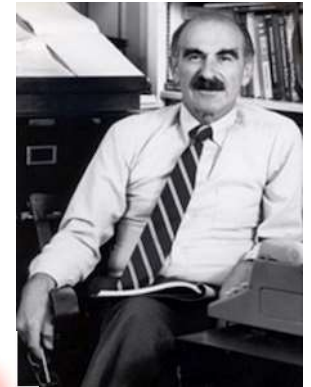
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■ Act on the International Stage or in a Single Country?

❖ Theodore Levitt (Harvard Business School).

- *The Globalization of Markets* in HBR (1983).
- There is **a worldwide convergence of consumer tastes**.
- Coke Classic, Levi Strauss jeans, Sony color TVs.



– Lev
pro

One size does not fit all !

most

- He argued that MNEs should **globally integrate** (↑) their products while minimizing **local adaptation** (↓).
- **HOWEVER**, most of global integration experiments have been **UNSUCCESSFUL**.
 - ✓ e.g., Ford found that there are wide-ranging differences among consumer tastes around the globe.

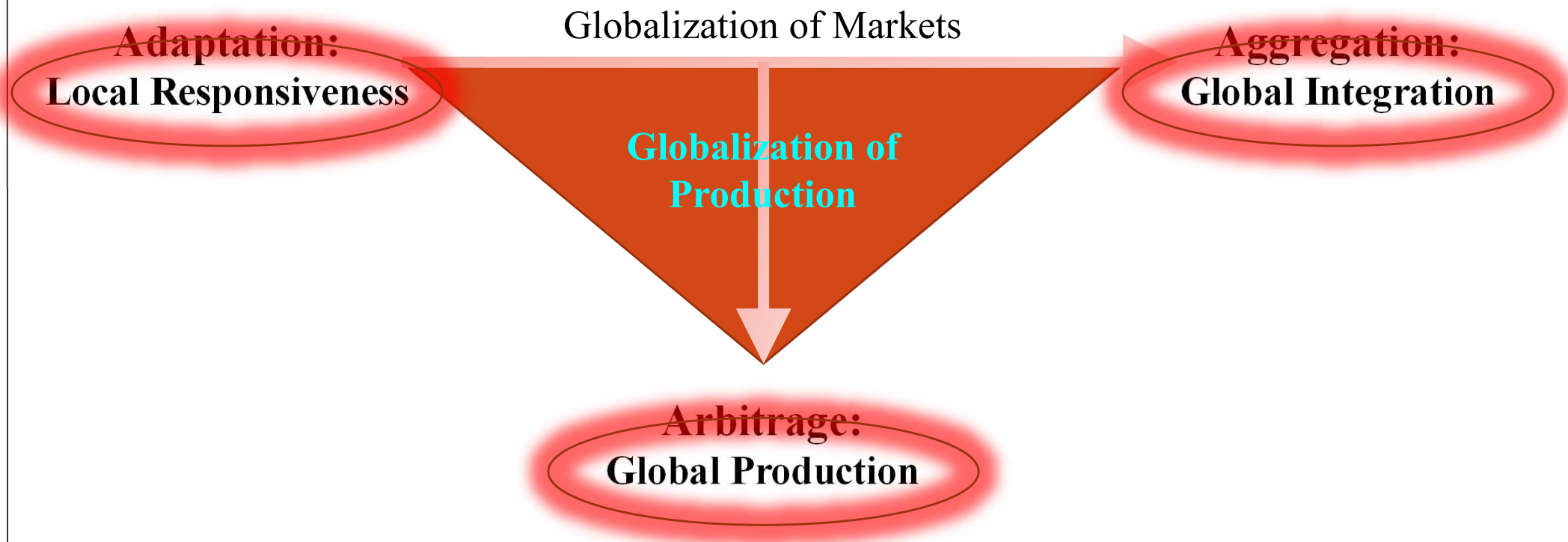
Global Business Models



■ AAA Strategies



Professor Pankaj Ghemawat (HBS)



Global Business Models



■ Aggregation Strategy

❖ The realization of **SYNERGIES**.

❖ Exploit **SCALE** economies.

❖ Not necessarily **STANDARDIZATION**.

❖ Stay **CLOSE** to local customers & resources.

❖ Foster **INNOVATION & KNOWLEDGE** management.

❖ Product development, sourcing & finance are often handled **globally**, while sales, marketing & human resource management are typically managed **locally**.

❖ The case of **Toyota**: **REGION**-based supply chain management.



Professor Pankaj Ghemawat (HBS)

Aggregation:
Global Integration

Global Business Models

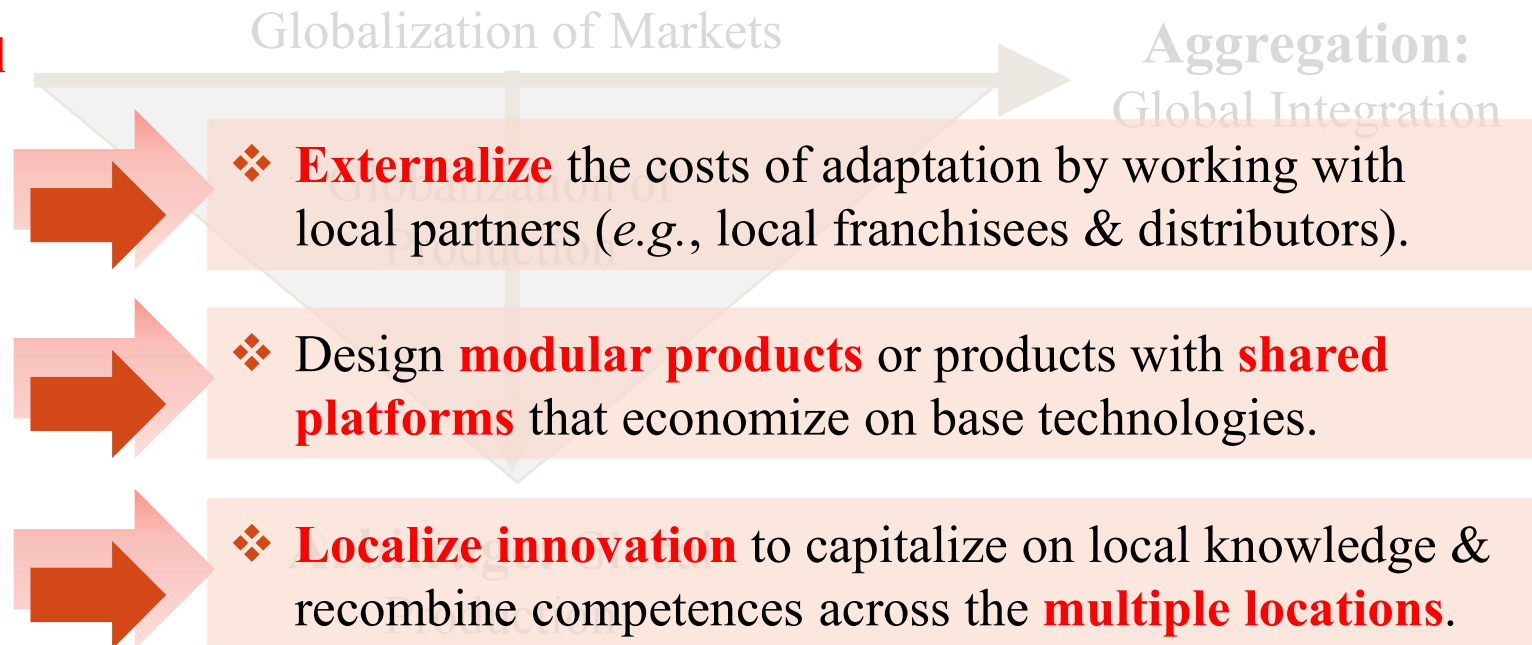


■ Adaptation Strategy

“... Is a strategy of delivering locally adapted products in each market.”



Adaptation: **Local Responsiveness**





■ Arbitrage Strategy

“... is a strategy of exploiting differences in prices in different markets.”



- ❖ Arbitrage strategies were associated with **labor, capital & natural resources**.
- ❖ Strategies of labour arbitrage exchange the services of a labor force, & thus allow exploiting **low cost labor** or **specialist human capital**.
- ❖ **Capital arbitrage** is less common as financial markets are generally more efficient. *e.g.*, Chinese companies list in HK, SABMiller list in London.
- ❖ Location-bound human capital gives rise to arbitrage of **knowledge intensive services**. *e.g.*, medical services for patients provided by hospitals in CEECs.



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■ What are Motives for Acquisitions?

1

Synergetic motives

- > Leverage superior **organizational capabilities**.
- > Enhance **market power**.
- > Reduce costs by **eliminating duplicate units** & exploiting **scale economies**.
- > Access to **complementary resources**.

2

Hubris motives

- > Managers' **overconfidence** in their capabilities.
- > These motives may often **reduce shareholder value**.
- > *"We can manage your assets better than you can !"*

3

Managerial motives

- > **Self-interested actions** (empire building & bonuses).
- > Some managers *knowingly* overpay for target firms in their personal quest for more **power, prestige & money**. This behaviour is caused by **agency problems**.

Acquisitions

Growth by Acquisition



■ Examples?



Growth by Acquisition



■ Incentives for Strategic Alliance



❖ Cost Factors

- Certain airlines have always dominated certain international airports.
- Strong capabilities (*e.g.*, baggage handlers & baggage-handling equipment).
- Ownership in the **Apollo & Galileo reservation systems**.

❖ Connecting Flights



- Governments restrict domestic or regional routes to their own carriers.
- Code sharing.

■ Why Not a Merger or an Acquisition?

- Ownership requirements.
- Respective pilots' unions under different operating & compensation systems.
- National identity.



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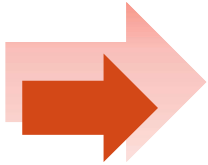


■ Value-Destruction or Value-Creation?

- ❖ As many as 70% of acquisitions reportedly fail.
- ❖ Acquiring firms' performance does **NOT IMPROVE** after acquisitions on average.

■ The Failure Case of Daimler-Chrysler

- ❖ In 1998, Daimler paid US\$35 billion to acquire Chrysler, a 40% premium over market value.
- ❖ In 2007, Chrysler was sold to Cerberus Capital, US\$7.4 billion.



Consequently, 4/5 of the value had been lost !




■ Why Acquisitions Often Fail?

Pre-acquisition: Overpayment for Targets

- > Managers **OVERESTIMATE** their ability to create value.
- > **INADEQUATE** pre-acquisition screening.
- > **POOR** strategic fit.
- > **LACK** of familiarity with foreign cultures, institutions & business systems.
- > **NATIONALISTIC** concerns against foreign takeovers (political & media levels).

Post-acquisition: Failure in Integration

- > **POOR** organizational fit.
- > **FAILIURE** to address multiple stakeholder groups' concerns.
- > **CLASHES** of organizational cultures linked to clashes of national cultures.
- > **NATIONALISTIC** concerns against foreign takeovers (firm & employee levels).

 The case of **Daimler-Chrysler**: Little organizational fit (e.g., American managers resented the dominance of German managers).



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■ Hidden Champions

SIMON • KUCHER & PARTNERS
Strategy & Marketing Consultants



❖ ... was coined by German professor Herrman Simon who leads a global consulting firm.

- Germany's infamous *Mittelstand* (medium size) firms have



– REVENUE BELOW US\$4 BILLION.







❖ Where do the Hidden Champions come from?

- Out of **2,000** companies considered as the Hidden Champions, **2/3** come from **Germany**, followed by **Scandinavia & Northern Italy**.





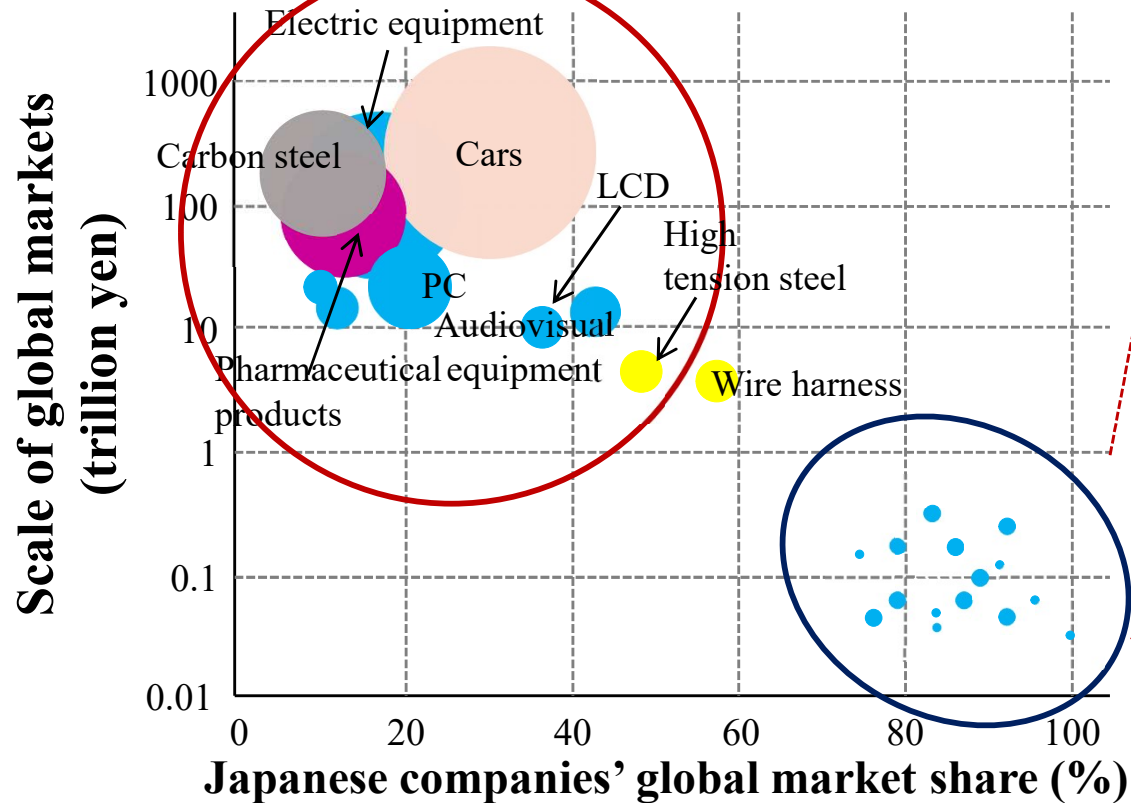
■ Hidden Champions: Medium-sized Firms with Global Market Shares of 70% or Higher

Company		Main Product	World Market Share
Dr. Suwelack		Collagen	100%
Sky Sails		Towing kite wind propulsion systems	100%
Gerriets		Theater curtains, stage equipment	100%
Ulvac		LCD panel coating	96%
G.W. Barth		Cocoa processing systems	90%
GKD		Metal fabrics	90%

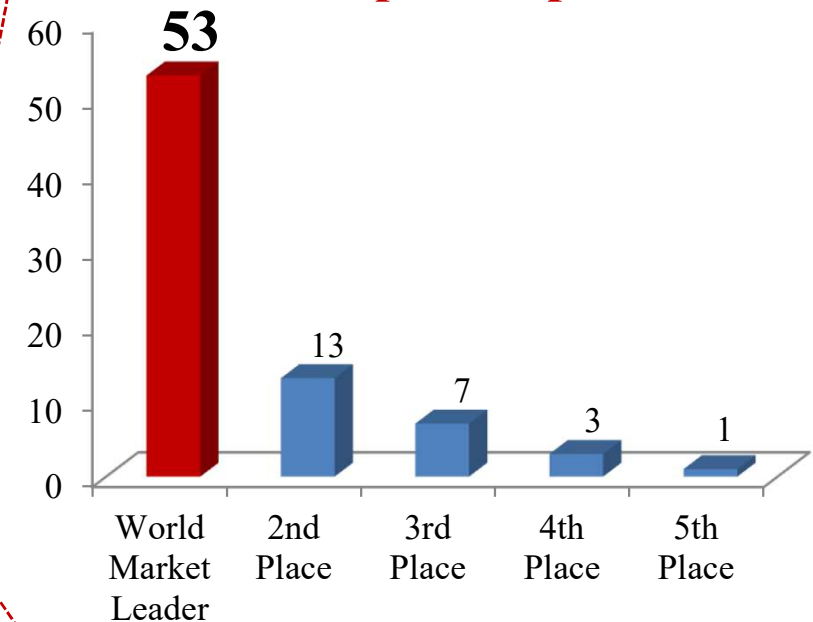
Source: Simon, H. (2009: 73).



Winning Global Markets



Number of Japanese Global Niche-Top Enterprises



A number of Japanese firms enjoy their competitive edge in specific product areas.

Source: Fuji Chimera Research Institute, Inc. (2014). *Wagakuni Kigyō no Kokusai Kyōso Position no Teiryōteki Chōsa*, 1-526.
Own illustration based on *Kaisha Shikiho* (2012) for the figure on the right-hand side.



■ Winning Global Markets

1



Nippon Shokubai has the world's top-class production capacity for acrylic acid & superabsorbent polymers (**Global market leader**).

2



Rheon Automatic Machinery has been manufacturing a wide range of high-quality bread production machines (**Global market leader**).

3



Toray having a 40% market share has competitive superiority in developing, manufacturing & supplying carbon fibre materials (**Global market leader**).

4



The Yaskawa Electric Corporation manufactures servos, motion controllers, AC motor drives, switches & industrial robots & it is ranked the 1st in the area of servo motors (**Global market leader**).



■ Hidden Champions: '8' Major Successful Elements

FOCUS

- > Concentrate on **one area**
- > Focus includes “*knowing what you do not want to do*”.

GLOBALIZATION

- > The **Internet**
- > Modern **transportation**

INNOVATION

- > Fit between **market** & **technology**

CLOSENESS TO CUSTOMER

- > **Customer** orientation > competitive orientation
- > The **long-standing relationships** with customers

HIGH PERFORMING EMPLOYEES

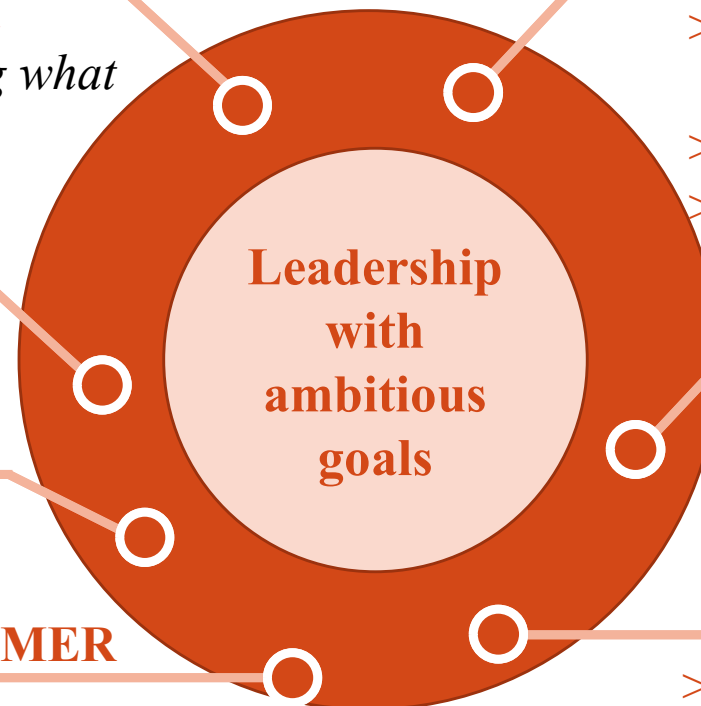
- > The rigorous selection of the **right employees**
- > **Low** employee **turnover**
- > **Less top-down** intervention

DEPTH

- > An incredible depth in the value chain system & the **high vertical integration**

DECENTRALIZATION

- > **Freedom** for execution & implementation
- > A means for mobilizing **entrepreneurial energies**



Source: Simon, H. (2009: 351-356).



■ Global Focusing

❖ ... refers to a strategic shift from **DIVERSIFICATION** to **SPECIALIZATION** which increasing the international profile.

❖ Characteristics of globally focused firms

- Strong roots in diversified **CONGLOMERATES** of the 1950s & 1960s.
- Focused on their home markets due to **BARRIERS** to trade & investment.
- The reduction of trade barriers allowed them to strengthen **A GLOBAL SCOPE** within **a much sharper defined industry**.

❖ **HOW** can companies that formerly diversified in a local or regional market develop a global strategy? (**3** ways)

- I. Divestment;
- II. Acquisition; &
- III. The sale of business units.

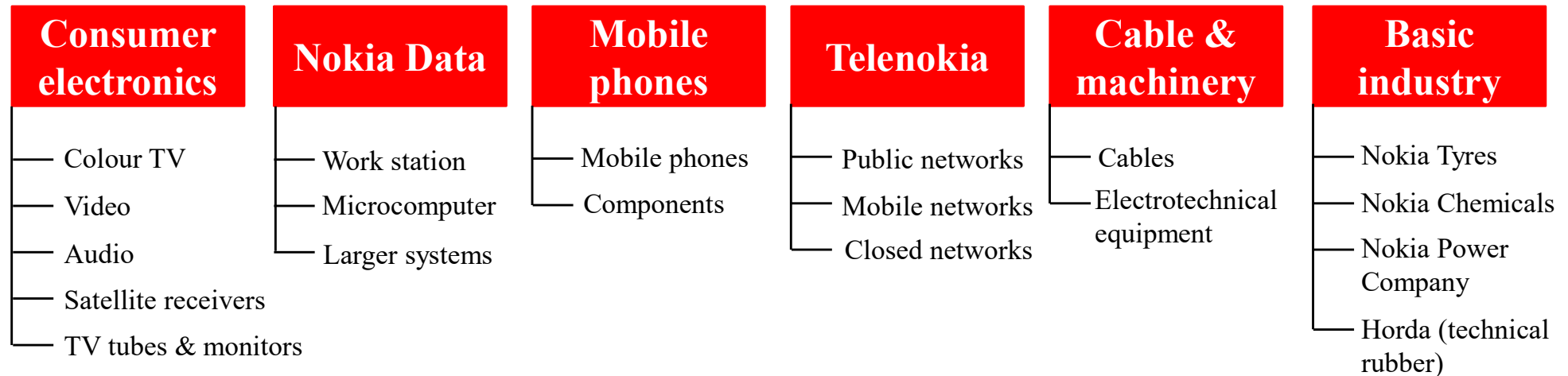


Debates & Extensions

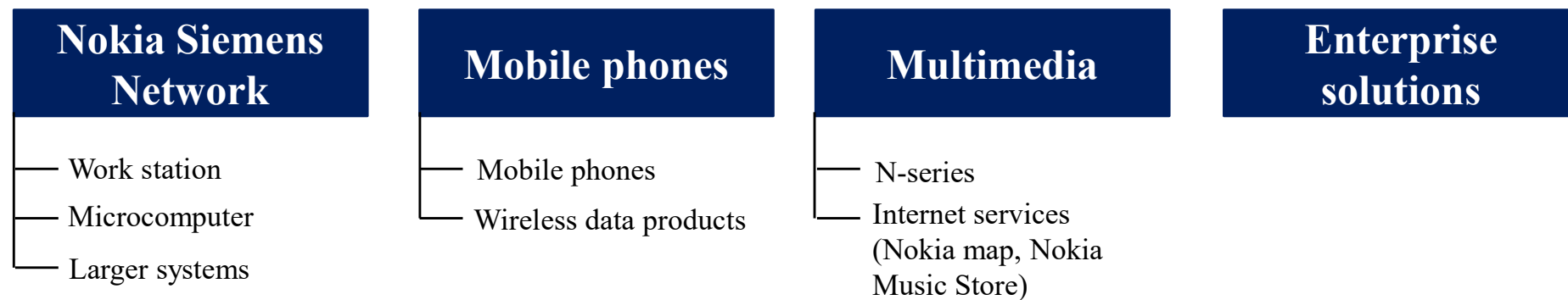


■ Global Focusing: Nokia OY 1990-2008

1990



2008



[illegible]

40



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■ What Should Managers Care About?



- ❖ Each firm needs **a business model** that **creates value** from the resources at its disposal around the globe !
 - **Danisco (Denmark)**: Food ingredients (e.g., stabilizers, enzymes & flavours) were developed, manufactured & distributed.
 - **Kärcher (Germany)**: High-pressure cleaning equipment.



- ❖ Managers are advised **not to overpay** for targets & to focus on both **strategic & organizational fit**, when managing **M&As** !
 - Misalignment may result in low morale & high staff turnover.
 - The cultural clashes between Daimler & Chrysler.



- ❖ What does it mean by “**the formation of a strategic alliance**”?
 - It may be (1) a fancy term for a JV, (2) a partial acquisition that is the first step towards a full take-over, (3) a divisional merger that secures the long-term viability of a struggling business unit, & (4) an extensive operational collaboration between 2 or more parties.

The End of Today's Lecture



ご清聴有難う御座いました。

Thank you so much!

Merci beaucoup !

Vielen Dank für Ihre Aufmerksamkeit!

Grazie mille !

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