

1.6: Globalization Pressures on Companies

Gupta, Govindarajan, and Wang identify five “imperatives” that drive companies to become more global: *to pursue growth, efficiency, and knowledge; to better meet customer needs; and to preempt or counter competition.* (Gupta, Govindarajan, and Wang (2008), p. 28).

Growth

In many industries, markets in the developed countries are maturing at a rapid rate, limiting the rate of growth. Consider household appliances: in the developed part of the world, most households have, or have access to, appliances such as stoves, ovens, washing machines, dryers, and refrigerators. Industry growth is therefore largely determined by population growth and product replacement. In developing markets, in contrast, household penetration rates for major appliances are still low compared to Western standards, thereby offering significant growth opportunities for manufacturers.

Efficiency

A global presence automatically expands a company’s scale of operations, giving it larger revenues and a larger asset base. A larger scale can help create a competitive advantage if a company undertakes the tough actions needed to convert scale into economies of scale by (a) spreading fixed costs, (b) reducing capital and operating costs, (c) pooling purchasing power, and (d) creating critical mass in a significant portion of the value chain. Whereas economies of scale primarily refer to efficiencies associated with supply-side changes, such as increasing or decreasing the scale of production, economies of scope refer to efficiencies typically associated with demand-side changes, such as increasing or decreasing the scope of marketing and distribution by entering new markets or regions or by increasing the range of products and services offered. The economic value of global scope can be substantial when serving global customers through providing coordinated services and the ability to leverage a company’s expanded market power.

Knowledge

Foreign operations can be reservoirs of knowledge. Some locally created knowledge is relevant across multiple countries, and, if leveraged effectively, can yield significant strategic benefits to a global enterprise, such as (a) faster product and process innovation, (b) lower cost of innovation, and (c) reduced risk of competitive preemption. For example, Fiat developed Palio—its global car—in Brazil; Texas Instruments uses a collaborative process between Indian and U.S. engineers to design its most advanced chips; and Procter & Gamble’s liquid Tide was developed as a joint effort by U.S. employees (who had the technology to suspend dirt in water), the Japanese subsidiary (who had the cleaning agents), and the Brussels operations (who had the agents that fight mineral salts found in hard water). Most companies tap only a fraction of the full potential in realizing the economic value inherent in transferring and leveraging knowledge across borders. Significant geographic, cultural, and linguistic distances often separate subsidiaries. The challenge is creating systematic and routine mechanisms that will uncover opportunities for knowledge transfer.

Customer Needs and Preferences

When customers start to globalize, a firm has little choice but to follow and adapt its business model to accommodate them. Multinationals such as Coca-Cola, GE, and DuPont increasingly insist that their suppliers—from raw material suppliers to advertising agencies to personnel recruitment companies—become more global in their approach and be prepared to serve them whenever and wherever required. Individuals are no different—global travelers insist on consistent worldwide service from airlines, hotel chains, credit card companies, television news, and others.

Competition

Just as the globalization of customers compels companies to consider globalizing their business model, so does the globalization of one or more major competitors. A competitor who globalizes early may have a first-mover advantage in emerging markets, greater opportunity to create economies of scale and scope, and an ability to cross-subsidize competitive battles, thereby posing a greater threat in the home market. The global beer market provides a good example of these forces at work. Over the past decade, the beer industry has witnessed significant consolidation, and this trend continued during 2008. On a pro forma basis, beer sales by the top 10 players now total approximately 65% of total global sales, compared to less than 40% at the start of the century. In recent major developments, the division of Scottish and Newcastle’s business between Carlsberg and Heineken was completed during the first

half of 2008, while InBev acquired Anheuser-Busch in November 2008. SABMiller and Molson Coors combined their operations in the United States and Puerto Rico on July 1, 2008, to form the new MillerCoors brewing joint venture.

Minicase: Chocolatiers Look to Asia for Growth (Fishbein (2008, January 17))

Humans first cultivated a taste for chocolate 3,000 years ago, but for India and China this is a more recent phenomenon. Compared to the sweet-toothed Swiss and Brits, both of whom devour about 24 lbs (11 kg) of chocolate per capita annually, Indians consume a paltry 5.8 oz and the Chinese, a mere 3.5 oz (165 g and 99 g, respectively).

Western chocolate makers hungry for growth markets are banking on this to change. According to market researcher Euromonitor International, in the past 5 years, the value of chocolate confectionery sales in China has nearly doubled, to \$813.1 million, while sales in India have increased 64%, to \$393.8 million. That is a pittance compared to the nearly \$35-billion European chocolate market. But while European chocolate sales are growing a mere 1% to 2% annually, sales in the two Asian nations show no sign of slowing.

European chocolatiers are already making their mark in China. The most aggressive is Swiss food giant Nestlé, which has more than doubled its Chinese sales since 2001 to an estimated \$91.5 million—still a relatively small amount. It is closing in on Mars, the longtime market leader, whose sales rose 40% during the same period to \$96.7 million.

Green Tea Kisses

Nestlé's Kit Kat bar and other wafer-type chocolates are a big hit with the Chinese, helping the Swiss company swipe market share from Mars. Italy's Ferrero is another up-and-comer. It has boosted China sales nearly 79% since 2001, to \$55.6 million, drawing younger consumers with its Kinder chocolate line, while targeting big spenders with the upscale Ferrero Rocher brand. Indeed, its products are so popular that they have spawned Chinese knockoffs, including a Ferrero Rocher look-alike made by a Chinese company that Ferrero has sued for alleged counterfeiting. Despite those problems, the privately owned Ferrero has steadily gained market share against third-ranked Cadbury Schweppes, whose China sales have risen a modest 26% since 2001, to \$58.6 million.

Until now, U.S.-based Hershey has been a relatively small player in China. But the company has adopted ambitious expansion plans, including hooking up with a local partner to step up its distribution and introducing green-tea-flavored Hershey Kisses to appeal to Asian tastes.

Attractively Packaged

Underscoring China's growing importance, Switzerland's Barry Callebaut, a big chocolate producer that supplies many leading confectioners, opened a factory near Shanghai to alleviate pressure at a Singapore facility that had been operating at capacity. The company also inaugurated a nearby Chocolate Academy, just 1 month after opening a similar facility in Mumbai, to train local confectioners and pastry chefs in using chocolate.

Unlike China's chocolate market, India's is dominated by only two companies: Cadbury, which entered the country 60 years ago and has nearly 60% market share, and Nestlé, which has about 32% market share. The two have prospered by luring consumers with attractively packaged chocolate assortments to replace the traditional dried fruits and sugar confectioneries offered as gifts on Indian holidays, and by offering lower-priced chocolates, including bite-sized candies costing less than 3 cents.

The confectionary companies have been less successful, though, at developing new products adapted to the Indian sweet tooth. In 2005, Nestlé launched a coconut-flavored Munch bar, and Cadbury introduced a dessert called Kalakand Crème, based on a popular local sweet made of chopped nuts and cheese. Both sold poorly and were discontinued.

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