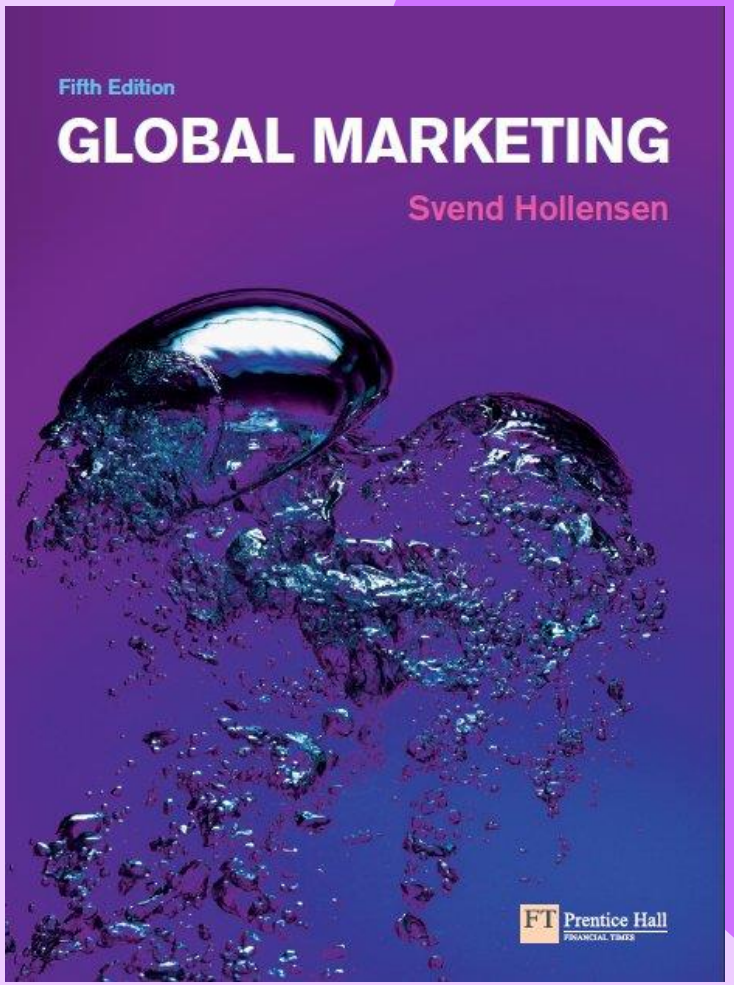


Svend Hollensen

GLOBAL MARKETING

5th Edition

Chapter 4 Development of the firm's international competitiveness

Learning objectives (1)

- Define the concept international competitiveness in a broader perspective from a macro level to a micro level
- Discuss the factors influencing the firm's international competitiveness
- Explain how Porter's traditional competitive-based five forces model can be extended to a collaborative (five sources) model

Learning objectives (2)

- Explore the idea behind the competitive triangle
- Analyse the basic sources of competitive advantage
- Explain the steps in competitive benchmarking
- Explain how a company can create customer value by the use of Blue Ocean Strategy

Development of a firm's international competitiveness

- Macro level: Analysis of national competitiveness
- Meso level: Competition analysis in an industry
- Micro level: Value chain analysis

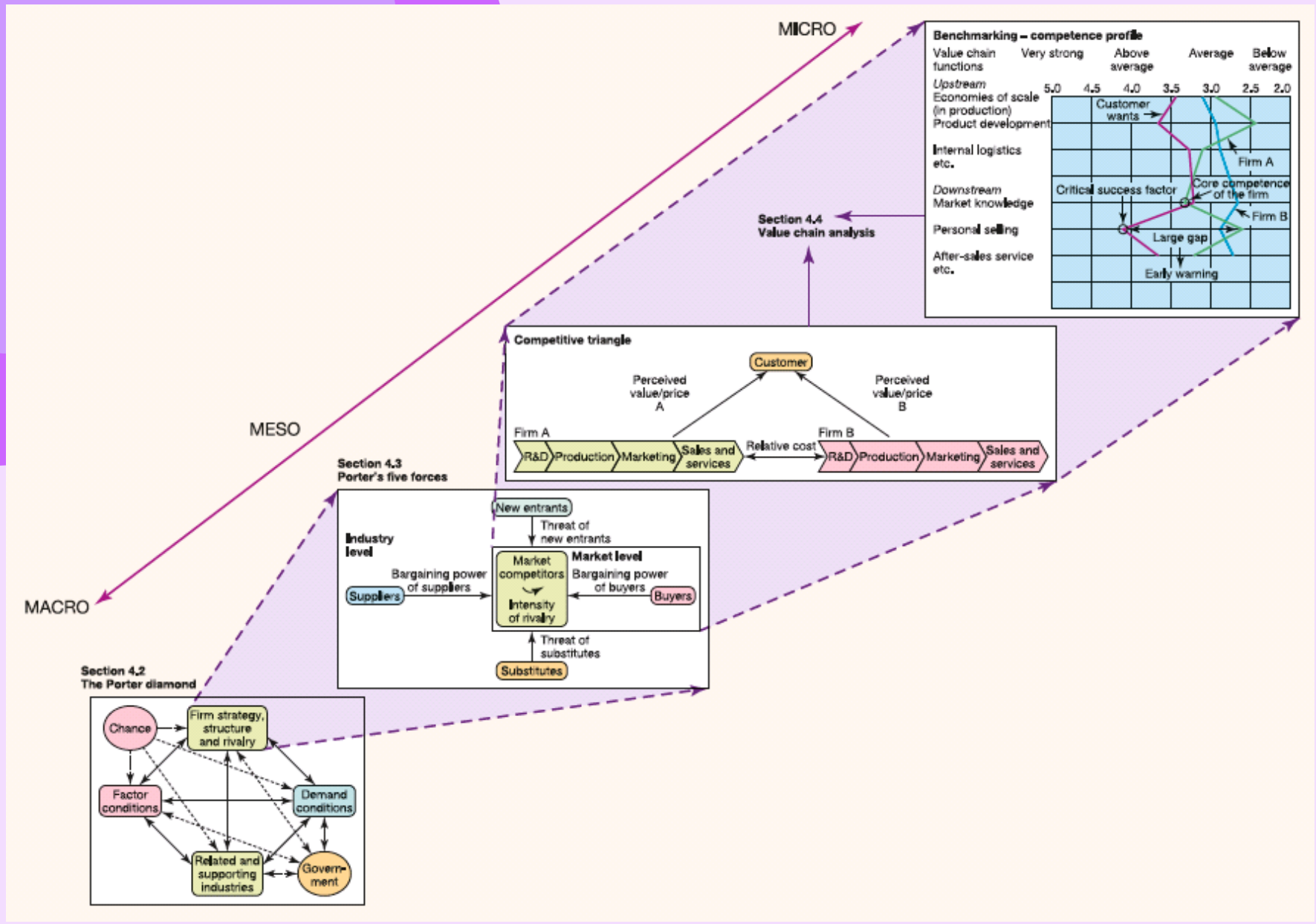


Figure 4.1 Development of a firm's international competitiveness

Analysis of national competitiveness (Porter diamond)

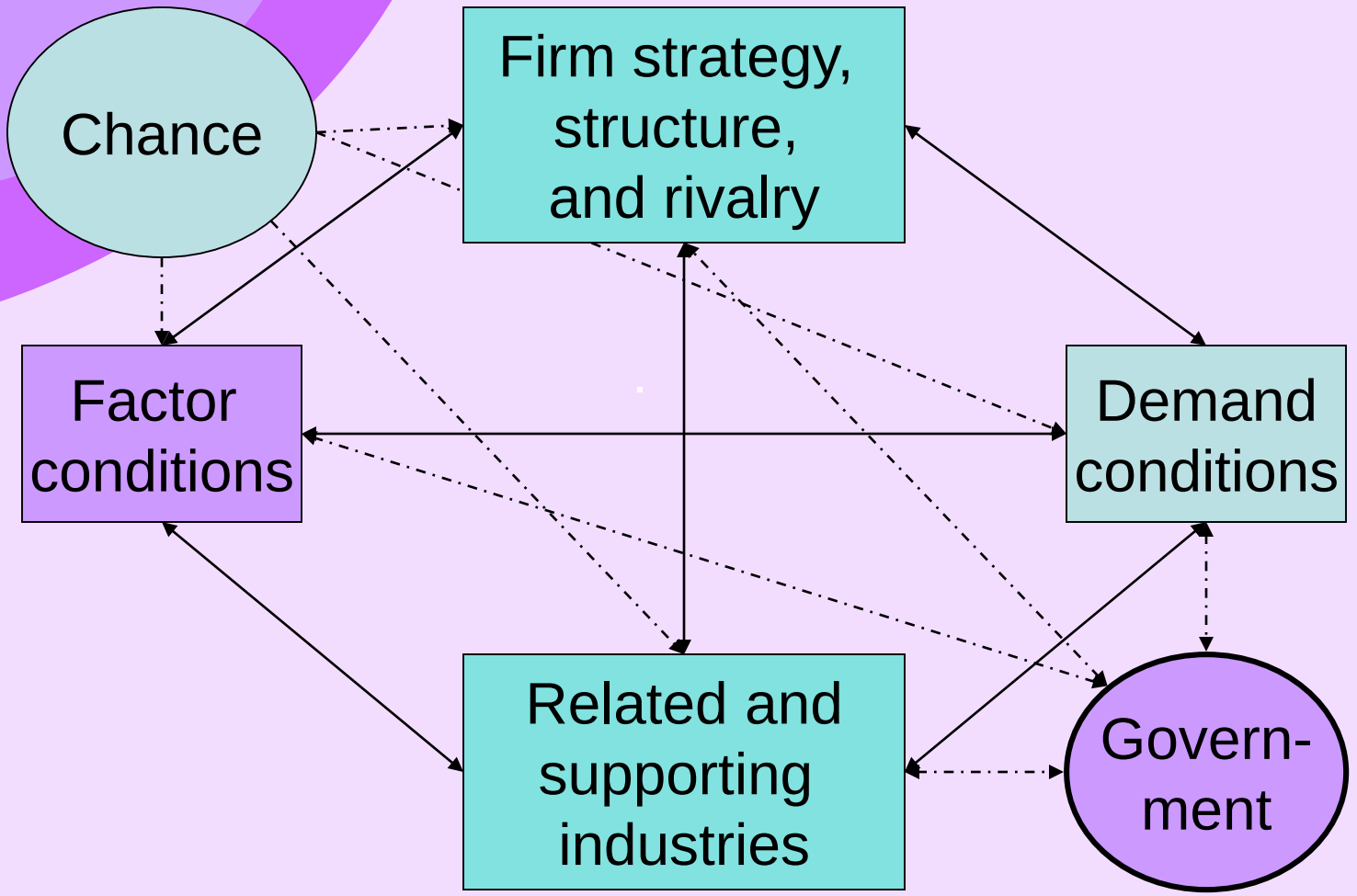


Figure 4.1 Development of a firm's international competitiveness (Continued)

Factor conditions in Porter's diamond

- Climate
- Physical infrastructure
- Natural resources
- Educational system
- Human resources
- Technological infrastructure
- Capital

Demand conditions in Porter's diamond

- Nature of home demand
- Size of home demand
- Economies of scale
- Transportation costs
- Buyer sophistication

Porter's five-forces model

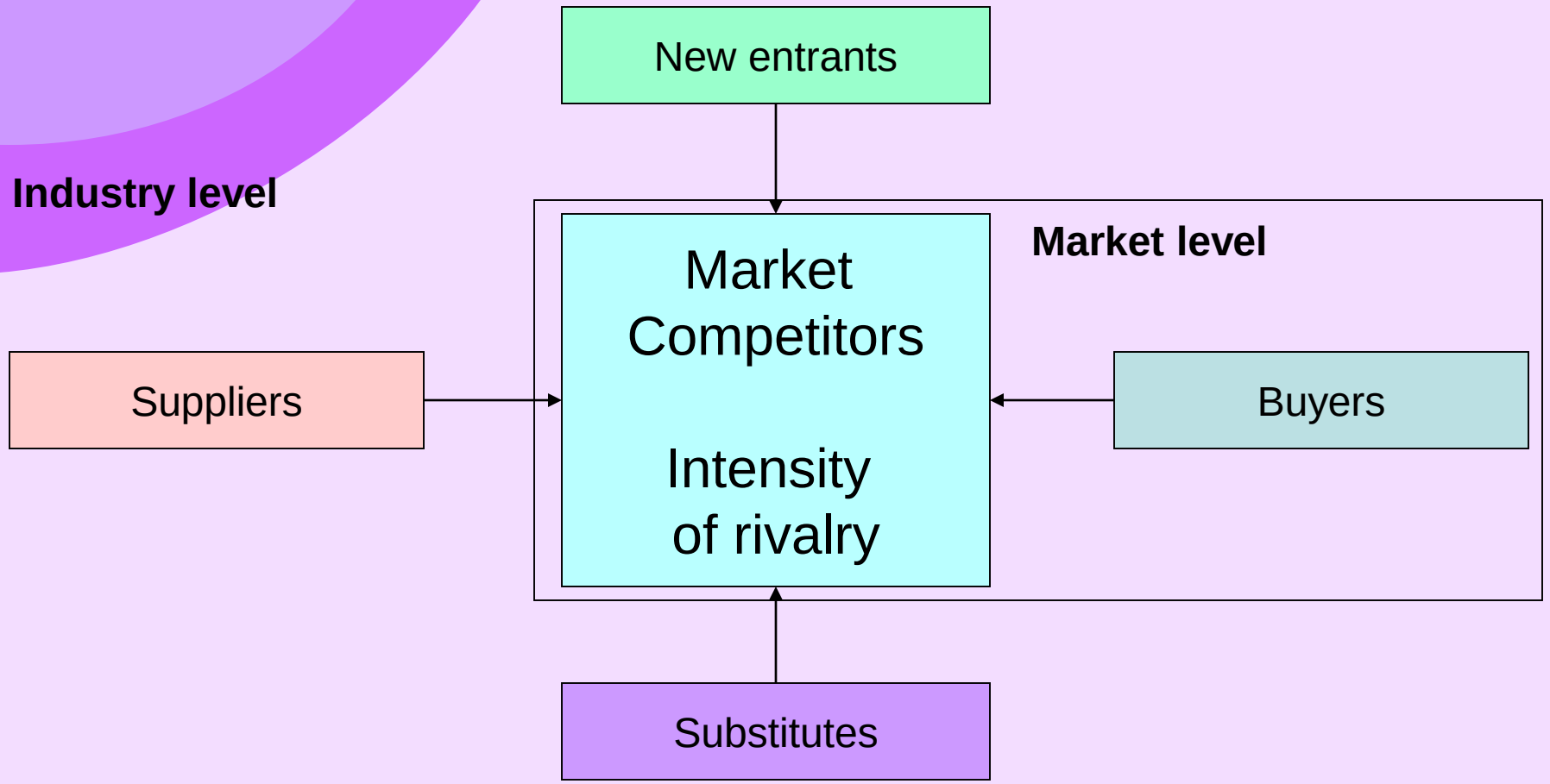


Figure 4.1 Development of a firm's international competitiveness (Continued)

Determinants of market competitiveness

- Concentration of industry
- Rate of market growth
- Structure of costs
- Degree of differentiation
- Switching costs
- Exit barriers

Bargaining power of suppliers

- Supply is dominated by a few companies
- Products are unique
- High switching costs
- Forward integration is possible
- Backward integration is unlikely
- Market is not an important customer to supplier group

Bargaining power of buyers

- Buyers are concentrated and/or purchase in large volumes
- Backward integration is likely
- Products are standardized
- Many suppliers exist
- Buyers earn low profits
- Industry product is unimportant to quality of buyer's products, but price is important

Threat of substitutes

Buyer's willingness to substitute

Relative price and performance of substitutes

Costs of switching

Factors affecting entry barriers

- Economies of scale
- Product differentiation and brand identity
- Capital requirements in production
- Switching costs
- Access to distribution channels

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

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

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

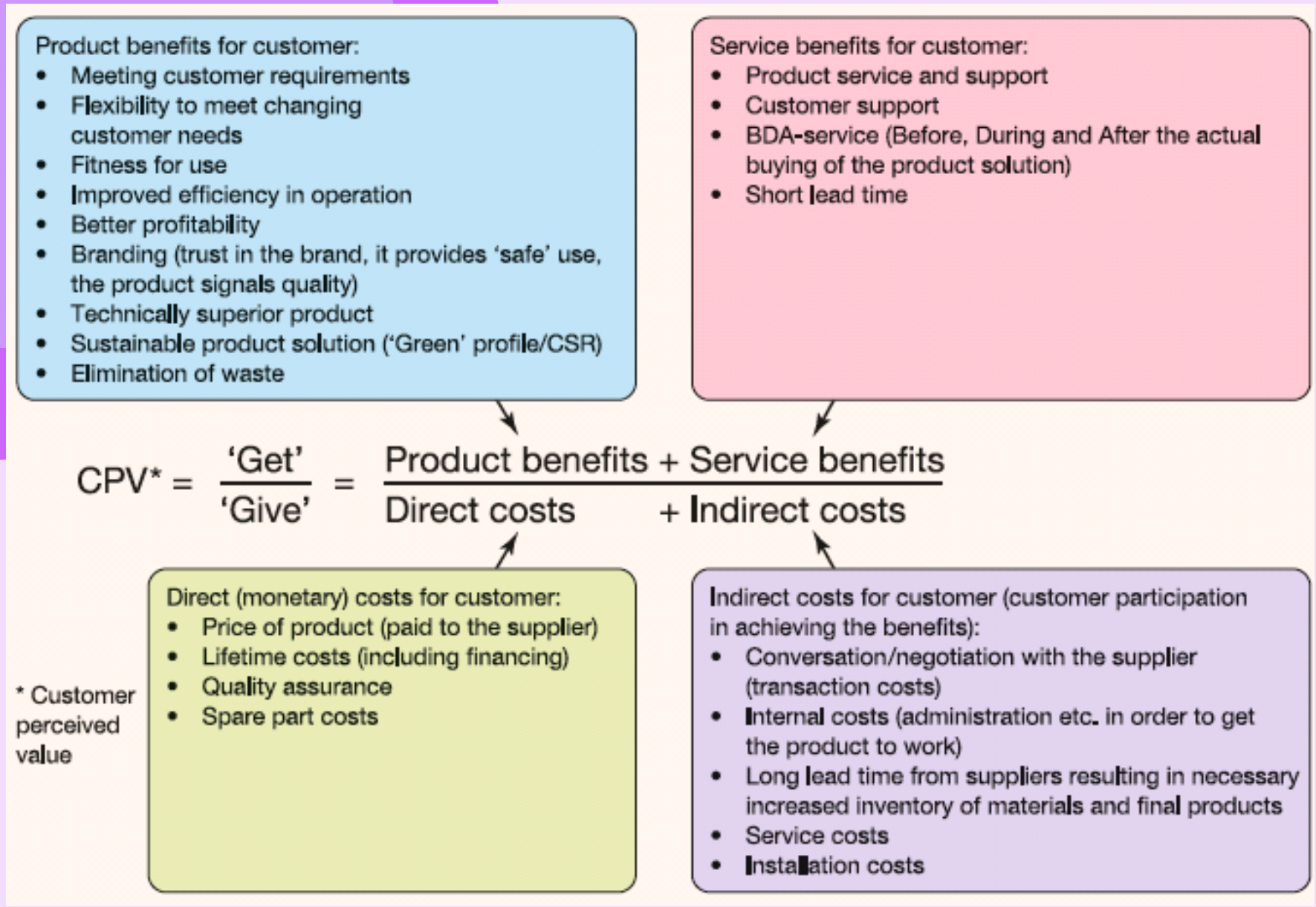


Figure 4.2 Illustration of customer value (perceived value)

Source: adapted from Anderson *et al.* (2007, 2008); McGrath and Keil (2007); Smith and Nagle (2005)

What is this?

The _____ consists of a customer, the firm, and a competitor. The winning of the customer's favour depends upon the perceived value offered compared to the relative costs between the firm and the competitor.

Competitive triangle

Value chain analysis

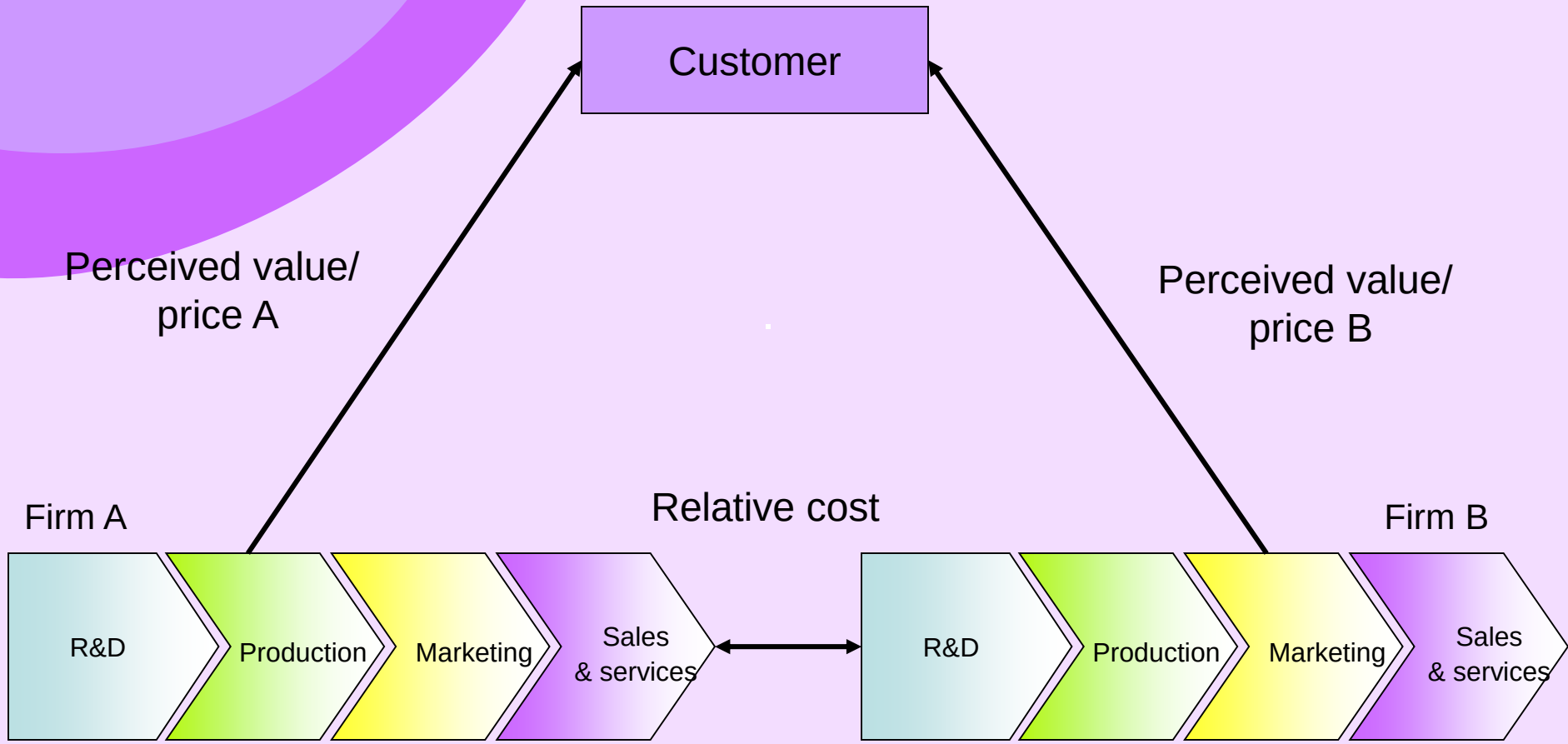


Figure 4.1 Development of a firm's international competitiveness (Continued)

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

Figure 4.3 Perceived value, relative costs and competitive advantage

What is this?

What term refers to a firm's cost position as it relates the configuration of the activities in its value chain versus that of the competitors?

Relative cost advantage

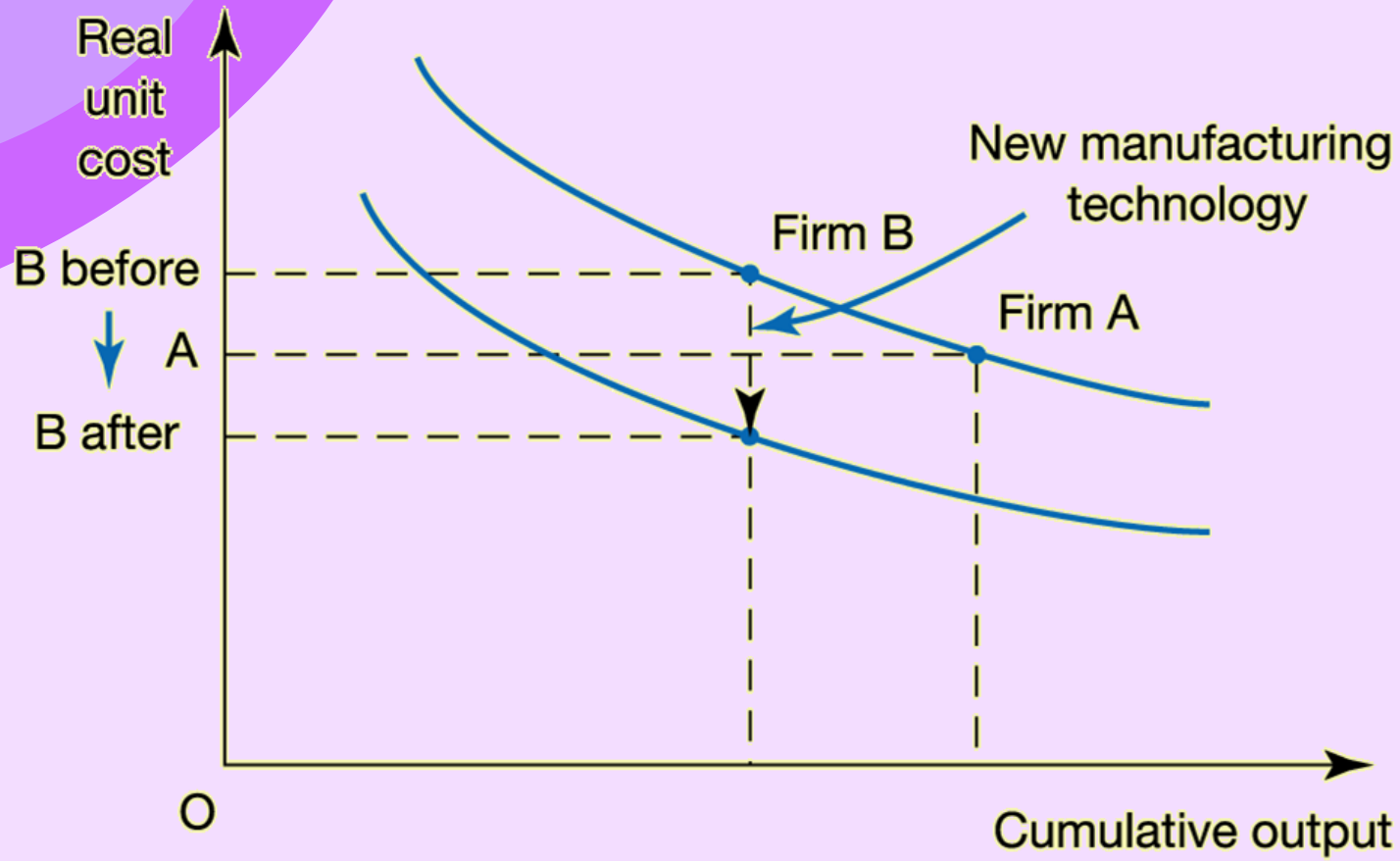
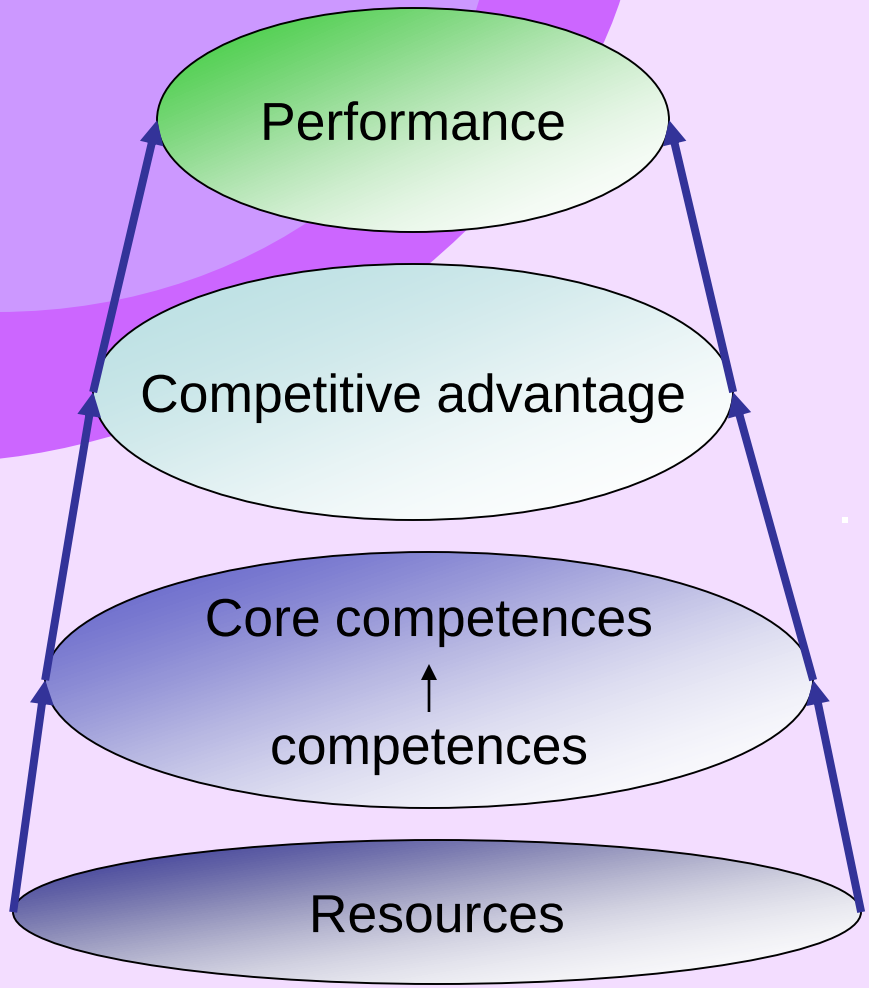


Figure 4.4 Leapfrogging the experience curve

Cost drivers in value chains

- Capacity utilization
- Linkages
- Interrelationships
- Integration
- Timing
- Policy decisions
- Location
- Institutional factors



Tangible Assets (flexible/short Term)

Intangible Assets (“tacit know ledge / long term

Figure 4.5 The roots of performance and competitive advantage

Source: adapted from Jüttner and Wehrli (1994)

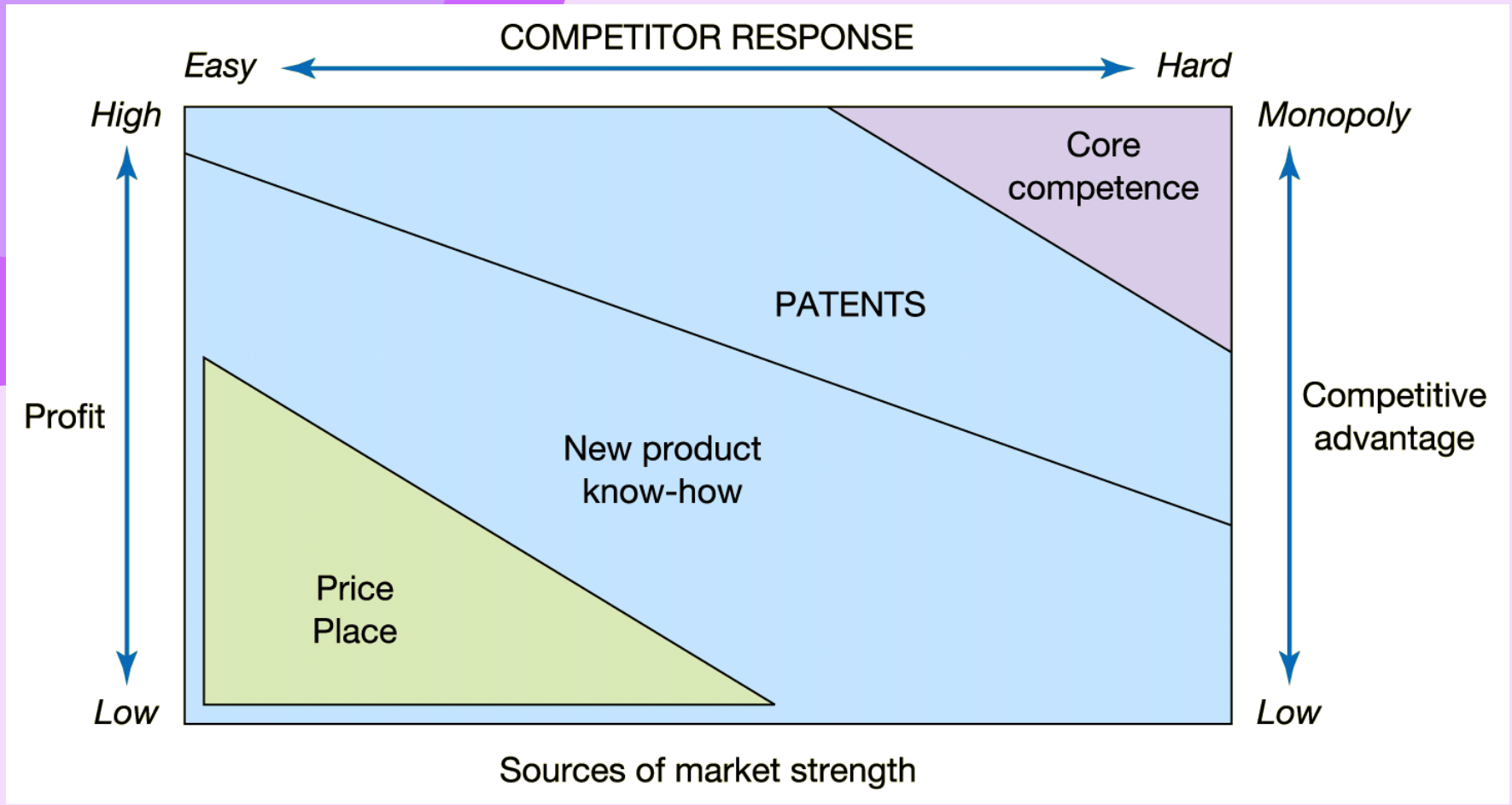


Figure 4.6 Illustration of the core competence

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

What is this?

What term refers to value chain activities in which the firm is regarded as better than its competitors?

Core competences

What is this?

What term refers to a technique for assessing relative marketplace performance compared with main competitors?

Competitive benchmarking

Competitive Benchmarking profile

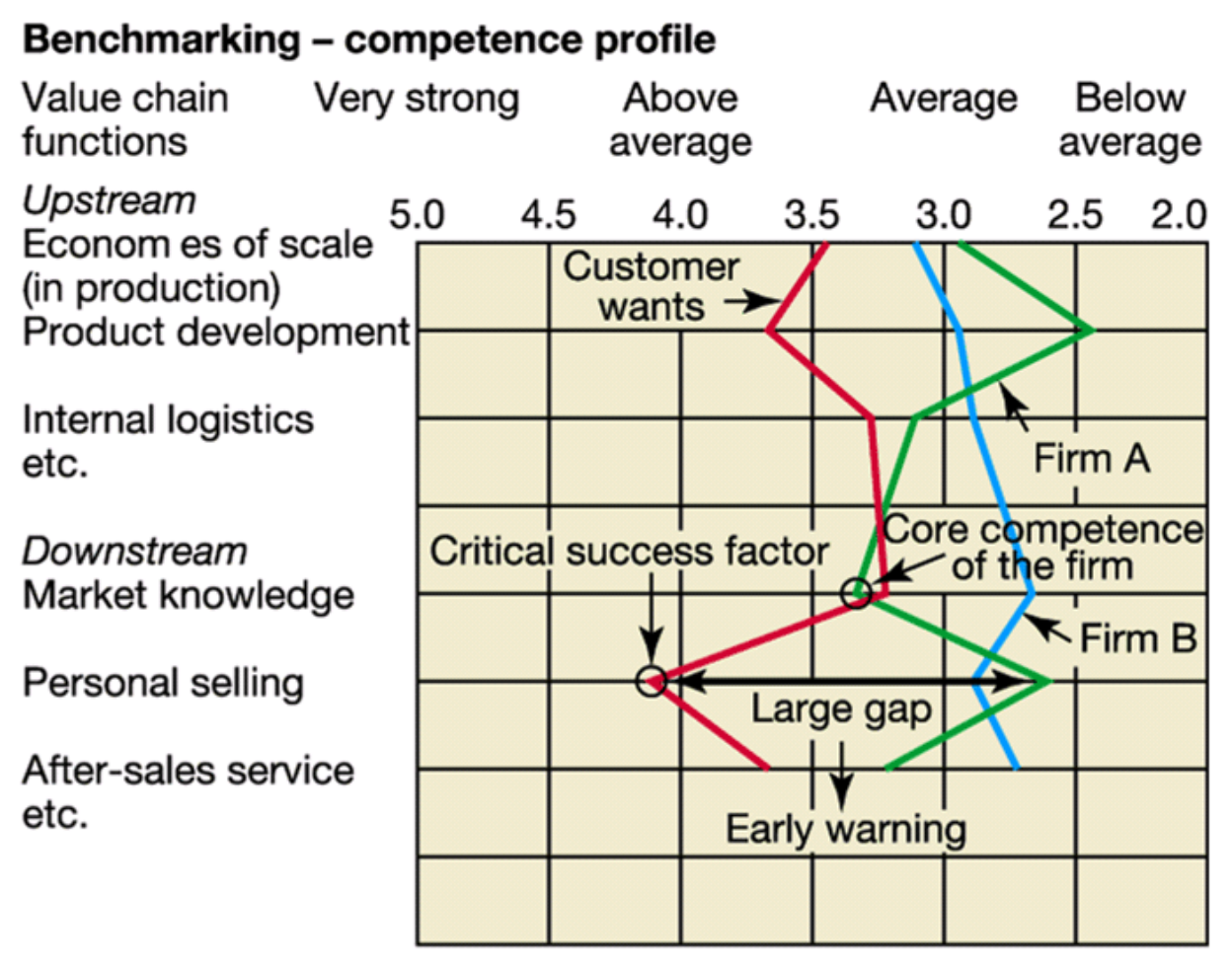


Figure 4.1 Development of a firm's international competitiveness (Continued)

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

Figure 4.7 Competitive benchmarking (example with only a few criteria)

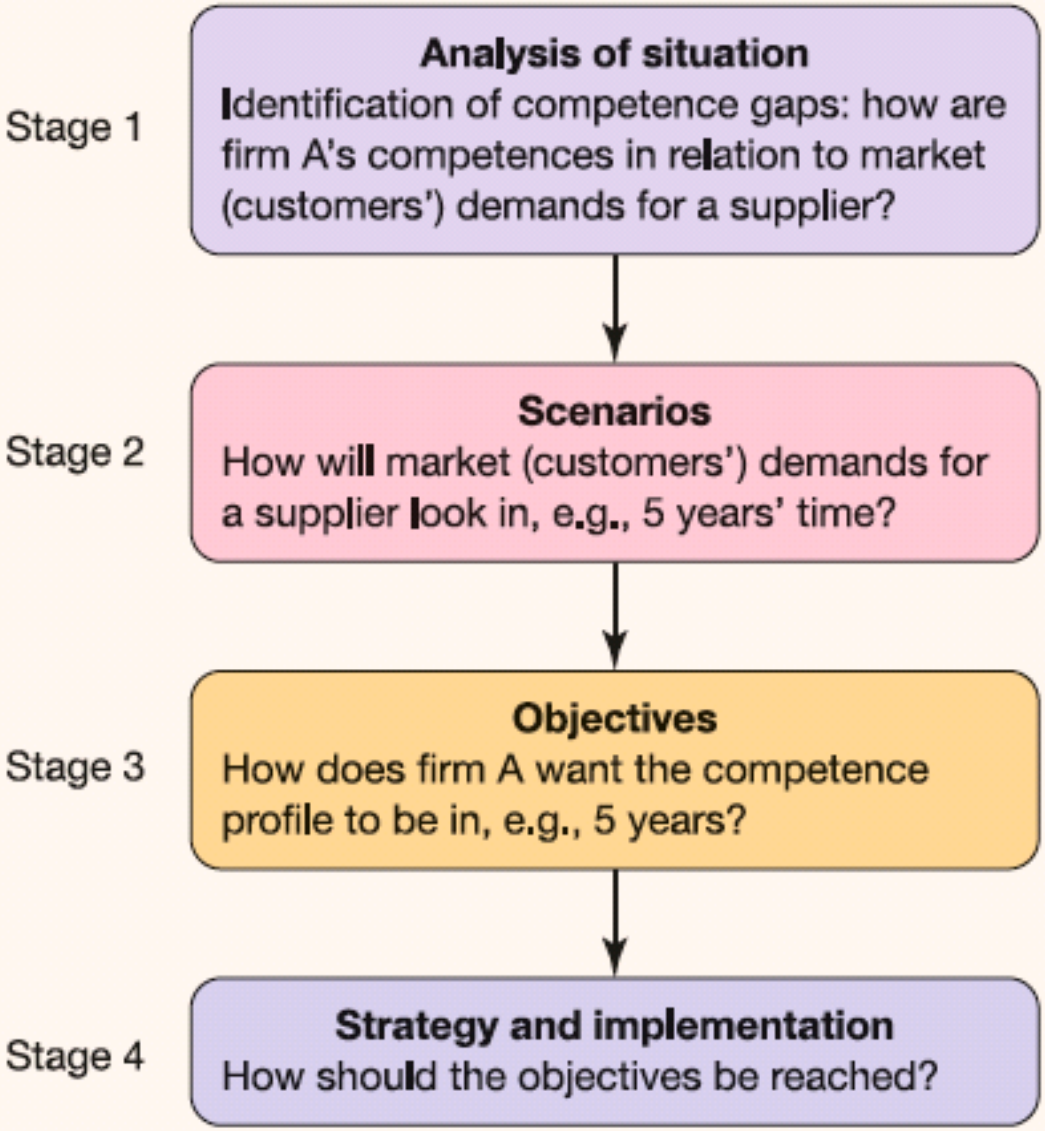


Figure 4.8 Model for development of core competencies

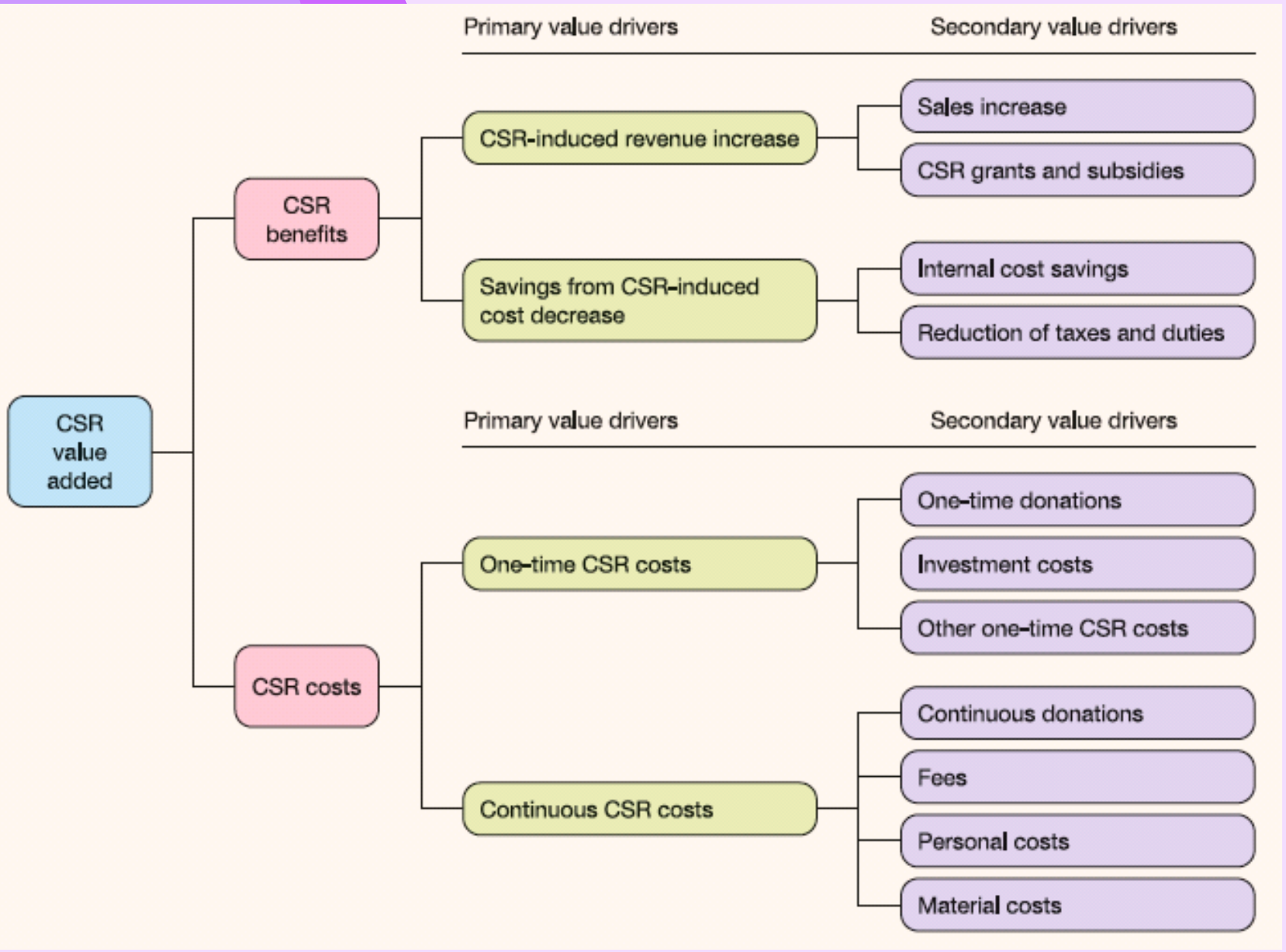


Figure 4.9 CSR value added drivers

Source: adapted from Weber, M. (2008) The business case for corporate social responsibility: a company-level measurement approach for CSR, *European Management Journal*, 26, 4: 247–61. Reproduced with permission from Elsevier

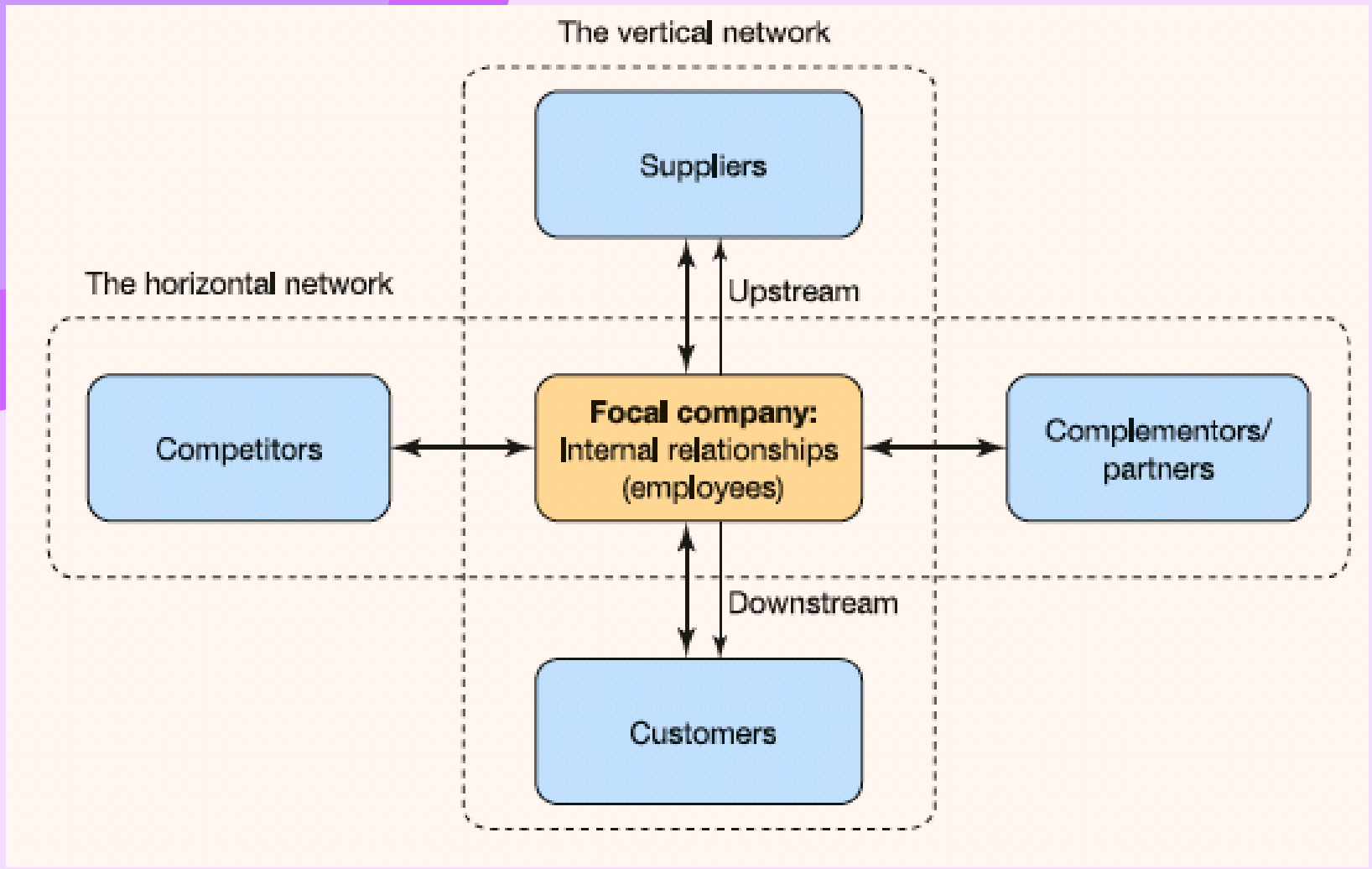


Figure 4.10 The value net

Blue-ocean strategy

- **Red Oceans**: Tough head-to-head competition in mature industries often results in bloody red oceans of rivals fighting over a shrinking profit pool

- **Blue Oceans**: The unserved market, where competirtors are not yet structured and market is relatively unknown. Here, it is about avoiding head-to-head competition

What is this?

What term refers to tough head-to-head competition in mature industries which often results in nothing but fighting over a shrinking profit pool?

Red oceans

What is this?

What term refers to unserved markets, where competitors are not yet structured and the market is relatively unknown?

Blue oceans

Value innovation at Formule 1

- Which of the factors that the budget hotel industry took for granted should be eliminated?
- Which factors should be reduced well below the industry standard?
- Which factors should be raised well above the industry standard?
- Which new factors (that the industry had never offered) should be developed?

EXHIBIT 4.1 Value innovation at Hotel Chain Formule 1

Tony Souter © Dorling Kindersley.

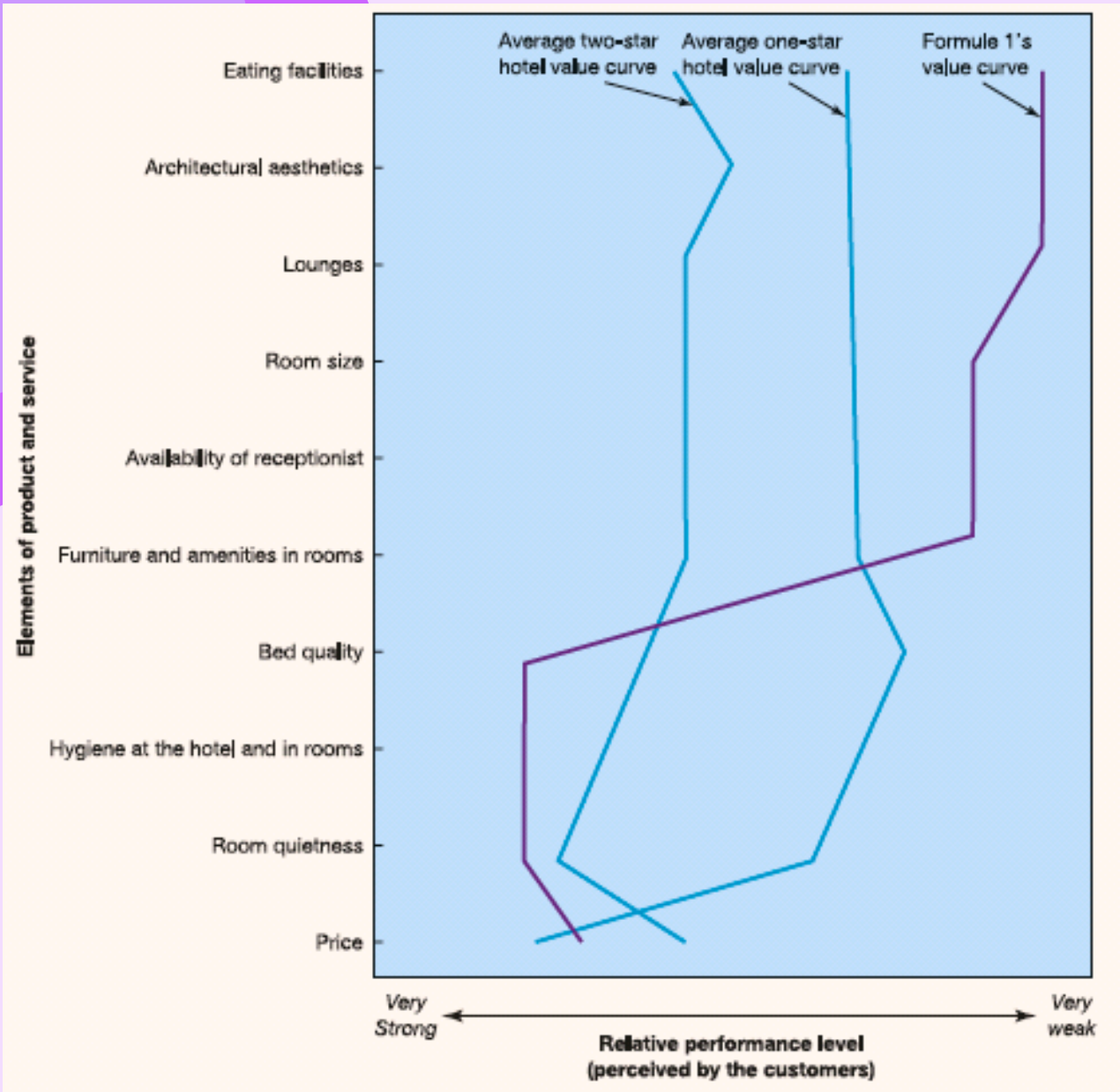


Figure 4.11 Formule 1's value curve

Source: Adapted from Kim and Mauborgne (1997)

CASE STUDY 4.1

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

The Nintendo Wii

Bob Riha Jr/WireImage/Getty Images.

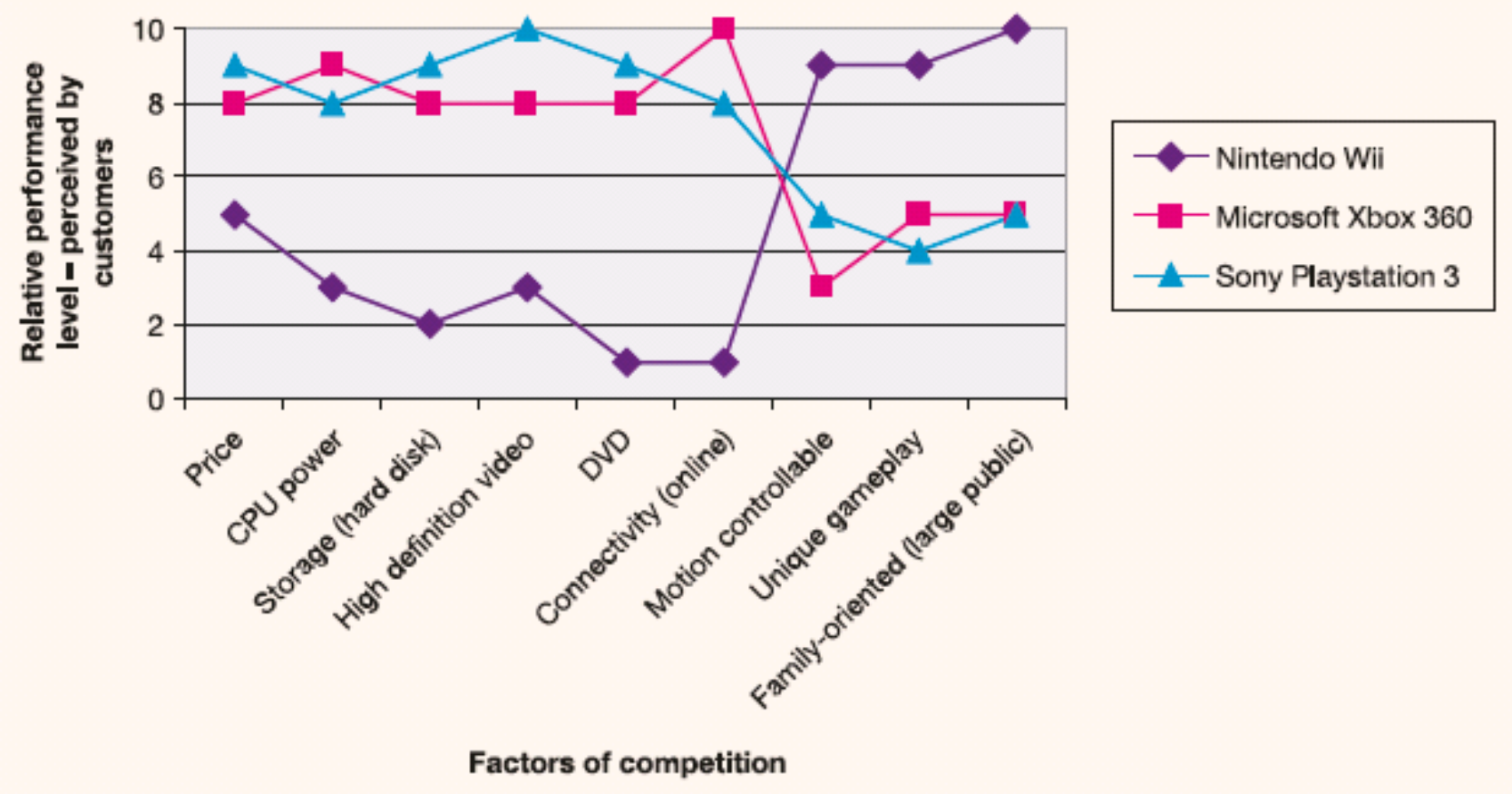


Figure 1 Value curve: Wii versus. Xbox and SP3

Table 1 World sales of games consoles (units) and market shares

	2005 million units (%)	2006 million units (%)	2007 million units (%)	2008 million units (%)
Sony				
PS2	16.8	11.7	8.6	7.4
PS3	–	1.2	7.2	10.3
Total	16.8 (69%)	12.9 (53%)	15.8 (40%)	17.7 (33%)
Microsoft				
Xbox	3.6	0.7	–	–
Xbox 360	1.2	6.8	7.8	11.2
Total	4.8 (20%)	7.5 (31%)	7.8 (20%)	11.2 (21%)
Nintendo				
GameCube	2.7	1.0	–	–
Wii	–	3.0	15.5	24.8
Total	2.7 (11%)	4.0 (16%)	15.5 (40%)	24.8 (46%)
Total	24.3 (100%)	24.4 (100%)	39.1 (100%)	53.7 (100%)

Source: www.vgchartz.com; http://vgchartz.com/hwcomps.php?weekly=1.

CASE STUDY 4.2

Senseo: creating competitiveness through an international alliance

Table 1 The global market for coffee machines (2008)

Retail volume (million units)	
Western Europe	17.8
Eastern Europe	0.6
North America	28.4
Latin America and Carribbean	4.1
Asia Pacific (minus Australia and NZ)	2.9
Australia and NZ	0.3
Africa and Middle East	0.7
World total	54.8

Source: adapted from Euromonitor International.

Table 2 The Western European coffee machine market

Category	Typical brands	Sold units in millions 2008	Typical price € 2008	Value in millions € 2008
Traditional filter machines	Melitta, Mr Coffee	10.0	30	300
Pod coffee machines	Nespresso, Senseo	3.5	70	245
Espresso machines	De Longhi, Jura, Krups and Rowenta, Rotel	4.3	200	860
Total		**17.8**		**€1,405**

Source: adapted from: Jürg Nipkow and Eric Bush: Coffee machines: recommendations for policy design, Report 7 August 2008, Topten International Group TIG, Paris, www.topten.info.

QUESTIONS

1. What are the key success factors in this industry?
2. Explain how the competences represented in the Senseo concept can create international competitiveness.
3. Which threats is Senseo facing in the future sales of its product concept?
4. Which new markets are relevant for Senseo to enter?

VIDEO CASE STUDY 4.3 Nike

Questions

1. Discuss how Nike's growth can be attributed to its targeting of diverse market global segments.
2. How did Nike penetrate the European soccer footwear market?
3. What are the key driving forces behind Nike's international competitiveness?

Questions for discussion (1)

- How can analysis of national competitiveness explain the competitive advantage of the single firm?
- Identify the major dimensions used to analyze a competitor's strengths and weaknesses profile. Do local, regional and global competitors need to be analyzed separately?

Questions for discussion (2)

- How can a country with high labour costs improve its national competitiveness?
- As the global marketing manager for Coca-Cola, how would you monitor reactions around the world to a major competitor such as Pepsi?