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Global Competitiveness and Retailing

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MBA - RETAIL MANAGEMENT

IV - Semester

Author

Dr. Bushan D. Sudhakar

Associate Professor

Department of International Business

School of Management

Pondicherry University

Puducherry

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- To explain channels of International retailing.

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Global Competitiveness: An overview – concept of competitiveness: sources of competiveness, Competitive Behavior, Strategies and Models, Challenges of Competition.

Unit - II

Framework for Assessing Competitiveness – Various Approaches: International and National Competitiveness Studies, Developing Competitiveness – Role of Quality and Productivity in Achieving World Class Competitiveness; Attaining Competitiveness through Integrative Process Management; Technology Management, R & D, Production and Operations Management, Management and Location Decision; Entry Mode and Competitiveness; Tax Policy and competitness.

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UNIT - I

Unit Structure

Lesson 1.1 - Global Competitiveness

Lesson 1.2 - Strategies, Models & Challenges

Lesson 1.1 - Global Competitiveness

Introduction to Competitiveness

Competitiveness is defined by the productivity with which a nation utilizes its human, capital and natural resources. To understand competitiveness, the starting point must be a nation's underlying sources of prosperity. A country's standard of living is determined by the productivity of its economy, which is measured by the value of goods and services produced per unit of its resources. Productivity depends both on the value of a nation's products and services – measured by the prices they can command in open markets – and by the efficiency with which they can be produced. Productivity is also dependent on the ability of an economy to mobilize its available human resources.

True competitiveness, then, is measured by productivity. Productivity allows a nation to support high wages, attractive returns to capital, a strong currency – and with them, a high standard of living. What matters most are not exports per se or whether firms are domestic or foreign-owned, but the nature and productivity of the business activities taking place in a particular country. Purely local industries also count for competitiveness, because their productivity not only sets their wages but also has a major influence on the cost of doing business and the cost of living in the country.

Overview on Competitiveness

Worldwide, the most intuitive definition of competitiveness is a country's share of world markets for its products. This definition makes competitiveness a zero-sum game, because one country's gain comes at the expense of others. This view of competitiveness is used to justify intervention to skew market outcomes in a nation's favor (so-called industrial policy). It also underpins policies intended to provide subsidies, hold down local wages and devalue the nation's currency, all aimed at expanding exports. In fact, it is still often said that lower wages or devaluation "make a nation more competitive." Business leaders are drawn to the market-share view because these policies seem to address their immediate competitive concerns.

Unfortunately, this intuitive view of competitiveness is deeply flawed, and acting on it works against national economic progress. The need for low wages reveals a lack of competitiveness, and holds down prosperity. Subsidies drain national income and bias choices away from the most productive use of the nation's resources. Devaluation results in a collective national pay cut by discounting the products and services sold in world markets while raising the cost of the goods and services purchased from abroad. Exports based on low wages or a cheap currency, then do not support an attractive standard of living.

The world economy is not a zero-sum game. Many nations can improve their prosperity if they can improve their productivity. There are unlimited human needs to be met if productivity drives down the cost of products and productive work supports higher wages. Thus, the central challenge in economic development is how to create the conditions for rapid and sustained productivity growth. Microeconomic competitiveness should be the central item on the economic policy agenda of every nation.

A large number of concepts of competitiveness has been proposed in the economic and business literature. This owes to the fact that competitiveness, unlike comparative advantage, has not been defined rigorously in the early economic literature. Thus, over time and after many attempts of definition, it has become a somewhat ambiguous concept. some authors use the term synonymously or in a similar way as comparative advantage, others view it as an economy-wide characteristic.

This distinction is the most fundamental one because the simple extension of micro concepts to the macro level poses problems, as is obvious in the case of comparative advantage. Then we discuss the number and kind of dimensions that the various concepts of competitiveness integrate and measure. A further distinguishing characteristic is the basis for comparison, which ranges from a single firm or industry to groups of countries or the rest of the world.

Bilateral and multi-lateral comparisons always require data from one or more foreign countries, whereas unilateral concepts are based on the data of a single country. Further distinguishing attributes discussed are the static or dynamic nature, positive vs. normative, deterministic vs. stochastic, as well as ex-post vs. ex-ante characteristics.

It would lie beyond the scope of this survey to analyse the theoretical foundations of each of the concepts, but the perspective taken here is the one of market-oriented economic systems and it emphasizes cost and price competitiveness. It does not cover the whole range of concepts, including those that focus on technological indicators.

a) Macro Versus Micro-Economic Concepts

The most controversial kind of competitiveness indicator is the macroeconomic one, although it may be the most popular one. The microeconomic concepts, on the other hand, which apply to single producers or industries, these are less controversial despite the variety of indicators within this group.

Although in recent years the public discourse has focused more on the macro concept, it is less well established in economic theory than the micro concept. Countries may compete for market share or for foreign investment, but the attributes of stability, good government and profitable investment opportunities, are better summarized as a favourable business climate than competitiveness, in our view.

The perhaps best known version of the macro concept is the World Competitiveness Index computed and published yearly by the World Economic Forum and Institute of Management Development (WEF/IMD, annual since 1995). The index is the basis for an international ranking of countries in terms of their business climate. It is a composite of a large number of attributes condensed into a single index. It may serve a useful purpose to international investors, but its theoretical base and, especially, its aggregation method are problematic.

A second interpretation of macroeconomic competitiveness that is more in line with the original meaning of the term is an aggregate of the microeconomic concept. In this view an economy is deemed to be competitive if it harbors a large number of internationally competitive enterprises and industries.

In other words, it must perform strongly in exports. This idea underlies the concept used by Dollar and Wolff (1993)4, who propose to measure it in terms of productivity, both labour and total factor productivity. Similar approaches are the concepts proposed by Hatsopoulos, Krugman and Summers (1988) and by Markusen (1992).

A third approach, equally at the macro level, is that of the real exchange rate as well as the real effective exchange rate, proposed and used by authors within the IMF (Lipschitz, McDonald, 1991; Marsh, Tokarick, 1994). Since the implicitly compares the nominal exchange rate with the purchasing power parity rate, it measures the degree of currency misalignment based on the purchasing power parity assumption.

Under-valuation enhances and overvaluation reduces the international competitiveness of domestic producers. This indicator is clearly macroeconomic, but it has also been used as a micro-level concept, by using the price indices of single industries rather than economy-wide price indices (cf. Helleiner, 1991). At the macro level it is essentially a monetary indicator, capturing the distortion of the currency value, simplicity we consider the meso-economic level as part of the micro level. Rather than factors of real competitiveness, although those are not unrelated to the currency misalignment.

It is interesting to note that one of the strongest condemnations of the concept of competitiveness has come from Krugman, who likened it to a "dangerous obsession" (Krugman, 1994) and the debate over it "a matter of time-honored fallacies about international trade being dressed up in new and pretentious rhetoric" (Krugman, 1996). But Krugman has also used the concept, as we saw in the earlier reference, in an economy-wide sense as well as in the industry-specific sense (cf. Krugman, Hatsopoulos, 1987).

Microeconomic concepts and indicators of competitiveness have a more solid theoretical base because they focus on the essential characteristics of producers in competition for market share and profits or the ability to export. This ability can be measured by the size or increase of market share (e.g. Mandeng, 1991), by export performance (e.g. Balassa, 1965), by price ratios (e.g. Durand, Giorno,1987), cost competitiveness (e.g. Turner, Gollup, 1997; Siggel, Cockburn, 1995), or by more complex and multi-dimensional indicators (e.g. Porter, 1990; Buckley et al.,1992; Oral, 1993). These indicators differ from each other in terms of various characteristics, especially in terms of the numbers.

b) One- Versus Multi-Dimensional Concepts

The number of dimensions included in the measurement of competitiveness is a reflection of the complexity of the concept, but it is also a source of ambiguity. In one of the earlier ground-laying conferences on International Productivity and Competitiveness, Hickman recognized that even among the authors of this conference the concept had a variety of dimensions (Hickman, 1992, p. 6).

He referred to price competitiveness as the most pervasive concept, but focused on the unit labour cost criterion. Since unit labour cost equals the product of the wage rate, labour productivity and the exchange rate (in international comparisons) one may debate whether this makes it a more-than-one dimensional indicator. Here we classify it as one-dimensional concept because it focuses on the dimension of the real cost of labour, irrespective of how that can be further broken down. Turner and Gollub (1997) and Golub (2000) have also proposed and used this indicator for the measurement of competitiveness at the industry level.

An example of a two-dimensional concept is the indicator proposed by Hatsopoulos, Krugman and Summers (1990), which postulates that competitiveness of economies translates into trade balance with rising living standard or real income. The authors argue that export success can always be achieved at the cost of diminished real income, which is then not a reflection of competitiveness.

Only if export success occurs with a constant level of welfare can an economy be said to be competitive. A similar concept was proposed by Markusen (1992) and applied by the U.S. Presidential Commission of Competitiveness.

For this conclusion to hold it is necessary, however, that the PPP value be based on price indices of a comparable basket of goods or price indices representing all goods and services, such as the CPI. Various microeconomic studies of single-industry competitiveness use as indicator the relative industry price (relative to one or more foreign competitors), with the exchange rate translating it into the same currency.

This kind of indicator has been proposed by Durand and Giorno (1987) and Helleiner (1991), and is used extensively by the OECD-Economics and Statistics Department. Formally it resembles the real exchange rate, except that the prices relate to one industry only, instead of reflecting the general price level.

The same type of indicator was also used, under the name of purchasing power parity (PPP), by Jorgenson and Kuroda (1995) in a study for Industry Canada (Jorgenson, Lee, 2000). The term PPP may not be ideally chosen, because it has a very specific meaning with respect to the currency and requires the use of general price indices, as in international comparisons of GDP (cf. Kravis, Heston, Summers, 1978). Multi-dimensional indicators are the most popular in the business economics literature.

Among the micro-economic indicators measuring more than one dimension, the perhaps best known one is the concept of Porter (1990), but Buckley et al. (1992) and Oral (1993) are also interesting attempts to capture more than one dimension of the concept. According to Porter there are four main determinants of competitiveness of enterprises: their strategy, structure and rivalry, the demand conditions they face, the factor supply conditions they encounter, and the conditions of related industries.

In fact, it is a multitude of factors that influence the competitiveness of producers, but Porter models them by classifying them under these four facets of a diamond. These facets can be viewed as dimensions along which competitiveness can be measured. Porter's concept has attracted very wide interest in the business and political communities, perhaps because of its comprehensive nature.

Bases of Comparison

The notion of competitiveness always involves comparisons between producers or industries in different countries. The choice of a foreign competitor is important not only for the numerical outcome, but also for the meaning of the concept. While the Ricardian comparative advantage criterion is most meaningful when applied to a specific foreign country, it is also valid for comparisons with the rest of the world.

However, cost and productivity data, as well as transport costs are rarely available for groups of countries. It is possible to replace the foreign cost data by the free-trade prices of imports at the point of entry, i.e. border prices.

This procedure assumes that imports will normally come from the lowest bidder, so that the import price is a reflection of best practice. While this approach sets a high standard for competitiveness, the inclusion of transport costs to the point of entry does the opposite, it lowers the standard.

A price comparison between the output price of a domestic producer and the free-trade price of a close substitute can then be taken as an indicator of competitiveness vis-à-vis a group of countries in a market close to the home country. In other words, it is a multilateral indicator of price competitiveness.

Both, the Domestic Resource Cost (DRC) ratio and the full unit cost ratios proposed later in this topic by using this approach. It permits the analyst to draw conclusions about competitiveness without using data from other than one particular country. However, this does not exclude the possibility of using the same indicator in bilateral comparisons.

A more precise multilateral indicator takes the different exchange rate valuations of the main trading partners of a country into account. The indicator proposed by Helleiner (1991) serves this purpose as it equals the weighted average of the real exchange rates vis-à-vis several foreign competitor countries, where the weights are the market shares of these foreign competitors in the specific product market.

c) Static vs. Dynamic Concepts

One of the major limitations of the principle of comparative advantage, both for explaining and predicting trade patterns, is its static nature. Since comparative advantage tends to change over time, the prediction of future trade patterns would require knowledge of how comparative advantage itself changes over time.

This is possible by help of knowing the sources or determinants of trade, which is the substance of much of trade theory and policy. Firms or industries that acquire a new and promising technology can be said to enjoy dynamic comparative advantage as they are likely to gain market share.

Similar considerations apply to competitiveness. If it is measured by market share for instance, the change in market share can be taken as a dynamic indicator of competitiveness. It is a more pertinent measure of competitive strength than the market share itself.

At the micro level Krugman & Hatsopoulos (1987) have used market share as indicator of U.S. competitiveness in manufacturing. Competitive advantage may then be reflected by increased market share. They observed that the international market share of U.S. manufacturing declined in the early 1980s, which they analysed as the reflection of declining competitiveness.

The concepts proposed by Porter (1990) and Buckley, Cass and Prescott (1992) include both static and dynamic aspects. The latter integrates three characteristics of firms or industries, their competitive performance, competitive potential and their process of management. It is multi-dimensional and dynamic in that it focuses on the potential of firms to adjust to exogenous changes and to achieve comparative advantage in the future.

At the macro level, the indicators proposed by Hatsopoulos, Krugman, Summers (1988) and Markusen (1992) are dynamic in that they measure changes in welfare over time. The real exchange rate (RER) index also conveys a message concerning changes over time. On the other hand, it can be used to measure the degree of currency misalignment at one moment in time.

Depending on how, precisely, it is used, it can have a static or dynamic interpretation. Other concepts in the dynamic category are those proposed by Aiginger (1998) and Pitelis (2003). Both refer to entire economies and are based on subjective criteria, such as “factor incomes in line with the aspiration level seen as satisfactory by the people” (Aiginger, 1998,

p. 164) or "the improvement of a subjectively defined welfare indicator for a country" (Pitelis, 2003, p. 210). Obviously, these concepts are problematic with regard to measurement and international comparison.

d) Deterministic vs. Stochastic and Ex-Post vs. Ex-Ante Concepts

Most concepts proposed in the literature are deterministic in the sense that they measure costs, prices, market shares etc, which are observed and reflect actual performance. A few concepts, however, focus on notions of welfare or potential performance that are not directly observable. They depend on a number of other variables, which are deemed to determine competitiveness according to models of a stochastic nature. These variables are then either chosen as proxies, or they serve as data in statistical analysis of the unobservable indicators. Such concepts add an element of uncertainty about the relevance and statistical significance of the proposed model. Closely related to this distinction is the one between ex-post and ex-ante. Ex-post concepts tend to be deterministic, whereas exante concepts tend to be stochastic in nature. An example of a macro-economic, stochastic and ex-ante type indicator of competitiveness is the one proposed by Fagerberg (1988). This author attempts to explain the market share of a country in world markets by three variables: technical competitiveness reflected by R&D expenditure and patent applications, price competitiveness as reflected by the terms of trade and unit labour cost, and the output capacity. All variables are expressed in terms of growth rates, which make the indicator also a dynamic one.

Among the micro-economic concepts, one that is typically stochastic in nature is the criterion proposed by Swann and Taghavi (1992). The authors infer competitiveness by comparing the expected price of products, based on quality attributes, with the actual price, where the expected price is regressed on the measured quality attributes. If the expected price exceeds the actual one, this is considered as evidence of competitive advantage. While ex-post concepts reflect the outcome of competition, ex-ante concepts measure the readiness for competition or potential competitiveness.

For instance large or growing market share is the outcome of successful competition and therefore ex-post competitiveness. An example of such measures focusing on market share is the revealed comparative advantage (RCA) measure proposed by Balassa (1965). According to this indicator, a country has comparative advantage in a particular product if its exports of the product, relative to world exports of the product, are larger than the country's market share in total exports. Such a larger than proportional market share can, however, result from subsidies or other price distortions instead of high productivity.

For that reason the RCA criterion measures competitiveness rather than comparative advantage. The indicators of cost and price competitiveness, as well as various composite indicators based on potential (e.g. Porter, 1990; Buckley et al., 1992; and Oral, 1993), are ex-ante in the sense that they demonstrate a capacity to compete. Ex-post indicators have the advantage that they prove de facto the point of successful competition, but rarely reveal the sources of competitiveness. Ex-ante indicators, on the other hand, tend to show the main sources of the advantage, although the advantage may not yet be realized.

e) Positive vs. Normative Concepts

Closely related to the distinction of deterministic and stochastic concepts is the one between positive and normative concepts. Positive concepts measure what is and normative ones measure what should be. While positive concepts are based on observable reality and do not involve value judgements, normative concepts do. For a firm or industry, strong export performance is de facto evidence of international competitiveness. For a whole economy, strong export performance is not per se evidence of competitiveness because it may be achieved at a cost of income loss. Normative concepts are more frequent in the macro context.

Different Objectives Pursued in Measuring Competitiveness

The wide variety of concepts in the economic and business literature can to some extent be explained by the purpose for which specific indicators have been designed. The measurement of competitiveness differs, depending on whether it is undertaken for the purpose of policy analysis within a specific country, or whether it is used for international comparisons of the business environment. An example of the latter kind is the World

Competitiveness Index (WEF/IMD), which is used to rank countries according to a number of conditions that are known to be favorable for business development. Such a ranking can guide international investors in their choice of investment locations, as well as banks in their evaluation of country-specific risks. It can also inform policy makers about the weaknesses and strengths of specific country environments.

The main users of competitiveness indicators are government departments designing industrial policies, negotiating trade agreements or writing development plans. Private sector agents like banks and industrial corporations also gain from the analysis, as do the semi-private institutions like chambers of commerce, trade unions and business associations.

The methods of economic policy analysis used by government departments and research organizations are of a wide variety. In recent years computable general equilibrium (CGE) models have gained prominence for this purpose, but they are costly, due to their complexity. The literature relevant to this wider purpose is not surveyed here, but Francois and Reinert (1997) provide such a survey, as far as trade policy analysis is concerned. CGE models may not be sufficiently detailed, given their comprehensive nature, and they may not be fully reliable, due to the many simplifying assumptions on which they rely.

Competitive and comparative advantage indicators are more manageable and less costly, while permitting the analyst to monitor the impact of policy changes on the competitive environment, the cost structure of industries and the resulting market structure. The concepts and measurements of competitiveness discussed here serve a similar purpose as the CGE modelling approach, but avoid the numerous assumptions about the behavior of economic agents required by CGE models.

Industrial policies and strategies can benefit societies if they induce comparative advantage and reduce obstacles to competitiveness. The pursuit of industrial policies in the context of globalization and trade openness is based on the assumptions that comparative advantage changes with the structural transformations of economies and that it can be developed or enhanced, especially through human resource development.

For instance, an industry may have potential comparative advantage, which is presently not realized because of either skill shortages or infrastructure deficiencies making the industry non-competitive. Industrial policies would then remove such obstacles to competitiveness.

An important task in this respect is to identify the sources of comparative advantage and to enhance those activities exhibiting such potential. Clearly, the prediction of future or potential comparative advantage is difficult, because all measurements are based on past performance. Indicators that are of the ex-ante type, although based on measurements of the past, can serve this task. For instance, an indicator that measures the speed of technical change can be used to predict potential comparative advantage.

Understanding Competitiveness

One of the earliest works on national competitive advantage was written by the famous management guru, Michael Porter. His research revealed that a nation's success in a particular industry depends on four factors:

- ***Factor conditions*** - The availability of skilled labour and infrastructure greatly facilitates the development of an industry. It is because of cheap skilled labour that India is becoming a major software power.

- ***Demand conditions*** - The nature of the home demand for the industry's product or service is an important factor. Sophisticated, demanding customers put pressure on companies to become more efficient. The high quality of most Japanese products is to a great extent due to pressure from demanding customers at home.

- ***Related & supporting industries*** - The presence in the nation of suppliers and related industries that are internationally competitive can give a major impetus to the industry. The computer hardware and software industries have complemented each other well in shaping the evolution of the US as the leading nation in the world for information technology. A cluster of related industries has made Silicon Valley the IT hub of the world.

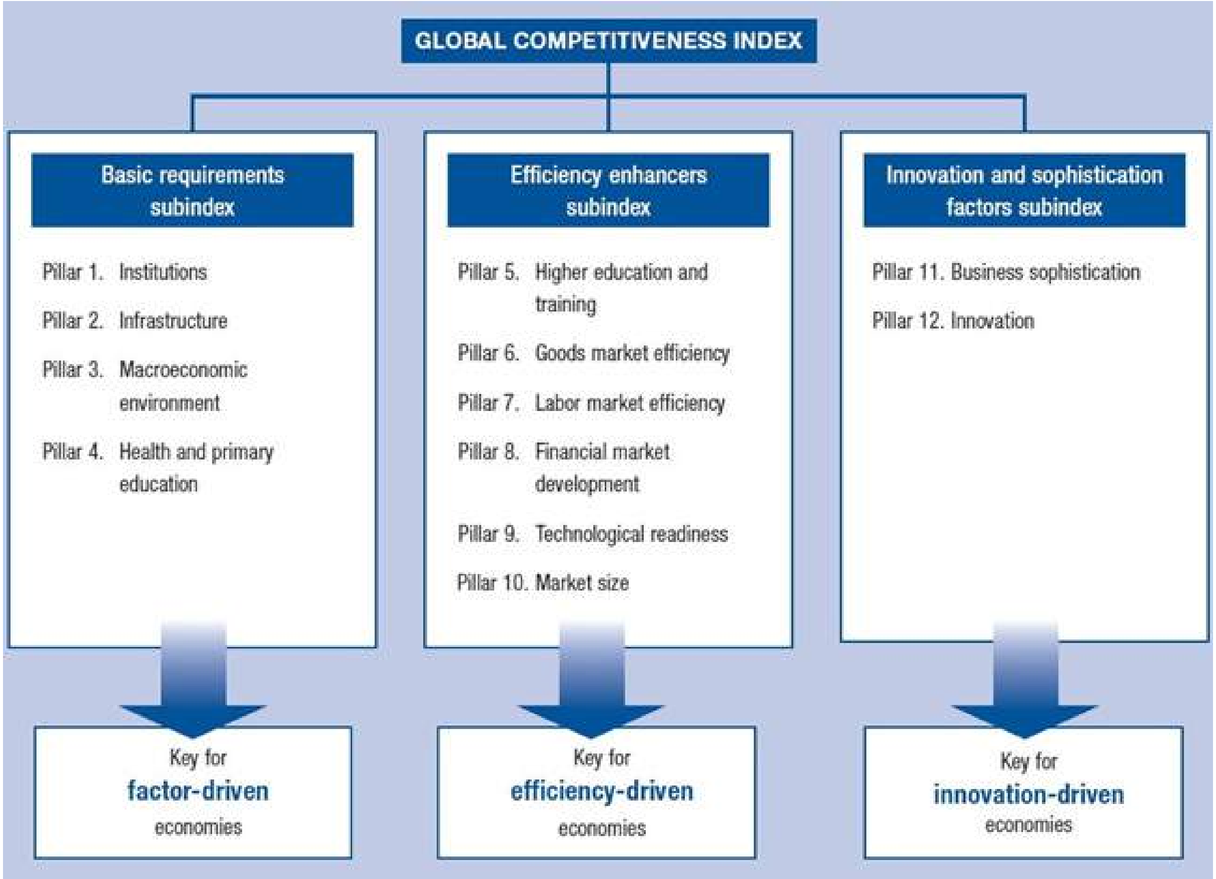
- ***Firm strategy, structure and rivalry*** - Conditions in the country relating to how companies are created, organized and managed and the nature of domestic rivalry play an important role in shaping the competitiveness of an industry. Intense competition motivates companies to become more innovative and efficient. The Japanese automobile industry has come a long way since the 1940s, thanks to the competition among Toyota, Nissan, Honda, Suzuki, Mitsubishi, and Mazda.

As Porter has summarised: "Firms gain competitive advantage where their home base allows and supports the most rapid accumulation of specialized assets and skills". Firms gain competitive advantage in industries when their home base affords better ongoing information and insight into product and process needs. Firms gain competitive advantage when the goals of owners, managers and employees support intense commitment and sustained investment.

Ultimately, nations succeed in particular industries because their home environment is the most dynamic and the most challenging and stimulates and prods firms to upgrade and widen their advantages over time."

Porter has also concluded that nations ultimately succeed, not in individual industries, but in clusters[1] connected through vertical and horizontal relationships. A nation's economy typically consists of clusters, whose composition and sources of competitive advantage reflect the state of the economy's development.

Stages of Competitiveness



Three Stages for the Structural Base of Competitiveness

In his first works on competitiveness, Porter recognizes that there is no universal receipt to increase growth. Nevertheless, much of the success of a competitiveness policy depends on the stage of development of the economy. This classification in three stages of development is also at the core of the theory of competitiveness developed by the World Economic Forum

1. **The factor-driven stage**: concerns the low level of development countries, for which the mobilisation of primary factors of production (land, primary commodities and unskilled labour) is the main condition for macroeconomic growth. At this stage "government's main job is to provide overall political and macroeconomic stability and sufficiently free markets to permit the effective utilisation of primary commodities and unskilled labour both by indigenous firms and through attracting foreign investments." For this category of countries, price remains the first asset in global competitiveness, and the engine of progress towards the second level group is the assimilation of technology through imports, foreign direct investments and imitation.

2. **The "investment-driven stage"**, concerns the middle-income status countries where growth is investment driven and competitiveness is achieved by *"harnessing global technologies to local production. Foreign direct investments, joint ventures and outsourcing arrangements help to integrate the national economy into international production systems"*. At this stage, in order to foster attractiveness, *"government priorities need to focus increasingly on improvements in physical infrastructure (ports, telecommunication, roads) and regulatory arrangements (customs, taxation, company law) to allow economy to integrate more fully with global markets"*

3. **The "innovation-driven stage"** concerns the high-income status countries, which have achieved the transition from a technology-importing economy to technology generating economy. In that case *"competitiveness is critically linked to high rates of social learning (especially science-based learning) and the rapid ability to shift to new technologies."* Nevertheless this transition is considered as the hardest one, the establishment of an innovation-based development "requires a direct government role in fostering a high rate of innovation, through public as well as private investment in research and development, higher education and improved capital markets and regulatory systems that support the start up of high technology enterprises

Sources of Competitiveness

Determinants of Global Competitiveness

Domestic Economy

- Productivity
- Capital Formation
- Competition

Internationalization

- Success in international trade
- Degree of openness to foreign trade and investment

Government

- Extent of state intervention
- Flexibility in responding to changes in the business environment
- Ability to foster social cohesion

Finance

Development of capital and money markets

Integration of domestic and global financial markets

Infrastructure

Roads, Ports, Telecom, Power

Information Technology in general and Internet connectivity in particular

Management

Competitive pricing

Efficiency in organizing activities

Entrepreneurship

Science & Technology

Investments in basic research

Ability to develop new forms of knowledge

People

Labour force skills

Labour force attitudes

Labour force expectations

Source: www.imd.ch

Competitive Behaviour

The 10 Golden Rules of Competitiveness

1. Create a stable and predictable legislative and administrative environment.
2. Ensure speed, transparency and accountability in the administration, as well as the ease of doing business.
3. Invest continually in developing and maintaining infrastructure both economic (road, air, telecom, etc.) and social (health, education, pension, etc.).
4. Strengthen the middle class: a key source of prosperity and long-term stability.
5. Develop privately-owned medium-sized enterprises: a key element of diversity in an economy.
6. Maintain a balanced relationship between wage levels, productivity and taxation.

7. Develop a local market by promoting private savings and domestic investments.
8. Balance aggressiveness on international markets with attractiveness for added-value activities.
9. Counterweight the advantages of globalization with the imperatives of proximity to preserve social cohesion and value systems.

Always return the tangible signs of successful competitiveness to the people by providing a higher level of prosperity for all.

a)The New Global Competitive Environment

America's innovation system has long been the envy of the world. Now the rest of the world is racing to catch up. Virtually every important trading partner has declared innovation to be central to increasing productivity, economic growth, and living standards. They are implementing ambitious, farsighted, and well-financed strategies to achieve that end. This chapter will describe how different nations studied by the STEP Board are addressing their innovation challenge.

Indeed, just as the global movement toward free markets in the 1990s became known as the Washington Consensus, the first decade of the 21st century has seen the emergence of what could be described as the Innovation Consensus. Governments everywhere have been sharply boosting investments in research and development, pushing universities and national laboratories to commercialize technology, building incubators and prototyping facilities for start-ups, amassing early-stage investment funds, and reforming tax codes and patent laws to encourage high-tech entrepreneurialism. What's more, these efforts are backed by intense policy focus at the highest level of governments in Asia, Europe, and Latin America.

Underlying this trend is an emerging understanding of what makes a nation globally competitive. Carl J. Dahlman of Georgetown University notes that economists traditionally have viewed competitiveness as a function of factors such as capital, the costs of labor and other inputs, and the general business climate. In a more dynamic world in which information technology and communications enable knowledge to be created and disseminated at ever-greater speeds, competitiveness increasingly is based on the ability to keep pace with rapid technological and organizational advances.[1]

The innovation agendas and precise policies differ from country to country, based on national needs and aspirations. In some cases, governments are implementing policies modeled after those of the United States. In others, they are borrowing from successful models pioneered in Europe and East Asia that leaders regard as more attuned to the competitive realities of the 21st century global economy. In that regard, other nations' experiences offer valuable lessons for policymakers in the U.S. federal government, regions, and states.

To better understand global trends in innovation policy, the National Academies' Board on Science, Technology, and Economic Policy (STEP) conducted an extensive dialogue over the past several years to compare and contrast policies of many nations. This section presents a number of case studies from those symposia and our research. While it is of course difficult to generalize, a number of common policy themes recurred through this extensive dialogue. They include:

- The paramount importance of investment in education to provide the skills base upon which an innovation-led economy is based.
- The value of increasing public and private investment in research and development, with at least 3 percent of GDP generally viewed as a desired target.
- The importance of establishing a far-thinking national innovation strategy that lays out broad science and technology priorities and a policy framework that addresses the entire ecosystem, including skilled talent, commercialization of research, entrepreneurship, and access to capital. Such national strategies require attention of top political leadership, coordination of government agencies, sustained funding, and collaboration with stakeholders at the regional and local level.
- An increasingly prominent role for public-private partnership in which industry, academia, and government pool resources to accelerate the translation of new technologies into the marketplace.
- A recognition that while universities' primary roles are education and research, they also can serve as powerful engines of economic growth if granted greater freedom to collaborate with industry and to commercialize inventions.
- Focus on programs to encourage firms to transform basic and applied research into new products and manufacturing processes.
- Greater policy emphasis on the institutional framework needed to sustain new business creation, such as intellectual property-right protection, competitive tax codes, and an efficient and transparent regulatory bureaucracy.

In the first tier are the emerging economic powers. We looked at China and India in some depth. Both nations have charted ambitious innovation agendas for improving living standards and moving well beyond labor-intensive manufacturing and low-skill services to high-tech and knowledge-intensive industries.

They are leveraging their large domestic markets and low-cost workforces to attract foreign investment in next-tier industries and are developing globally competitive corporations. They also are making strategic choices about technologies that address domestic needs and in which they are best positioned to compete globally in the future.

In the second tier are the more mature newly industrialized economies. We focus on Singapore and Taiwan, which have extraordinarily well-educated populations and have attained world standards in industries such as high-tech electronics, biotechnology research, and chemicals. They are striving to develop innovation ecosystems that will allow them to rank among the world's richest nations and compete head-to-head with the West and Japan in next-generation industries.

The third tier represents mature industrialized nations. We devote special attention to Germany because of that nation's ability to remain globally competitive in advanced manufacturing exports despite wages and other costs that are higher than in the United States. Our case studies also include Japan, Finland, Canada, and the Flanders region of Belgium. Each of these nations has revamped their national innovation strategies in order to increase R&D spending, collaboration between industry and academia, and new technology start-ups.

In most cases, it is too early to offer a full assessment of whether the strategies and policy tools selected by other nations will achieve their stated targets. What's more, not all of these policy options are appropriate for America. Yet they offer many valuable lessons for U.S. policymakers and present a picture of the changing global context as America prepares for 21st century competition.

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Approaches to Competitiveness: Double Standards and Hypocrisy

There is a double standard in the way the concept of "competitiveness" is applied by governments of developed countries and the manner in which they impose it on developing countries. Developed countries aim at achieving competitiveness at a high level of development through specialization based on dynamic comparative advantage. By contrast, they advocate to, and impose on, developing countries policies that will lead to specialization based on static comparative advantage and will keep them at low level of development.

Having been concerned with the competitiveness of their countries in international markets, almost all industrial countries have established competitiveness commissions, or councils, in the offices of their presidents, or Prime Ministers. In all cases they have emphasized the need to achieve competitiveness at a high level of development with the purpose of raising the standard of living of their citizens. Further, to achieve this goal government intervention for technological development and upgrading of the industrial structure and services has been the focus of their attention.

For example, the US Presidential Commission on Industrial Competitiveness (1985), refuting the narrow approaches based on exchange rate and trade balance, advocated that competitiveness is the basis for raising a nation's standard of living and the expansion of employment. It should contribute, it is added, to labour productivity, real wage growth, and real return on capital employed in the industry in addition to improving the position of the country in world trade. In 2006, the Bush Administration approved an extensive policy framework for technological development under the "American Competitiveness Initiative" with a Federal budget of $137b. In a speech to the United Nations' ECOSOC in 2007, the US representative clearly defended the need for protection of technology: "… technological change is driven by *protection* [our italics] of [Intellectual property Rights]."

The OECD Secretariat confirms this approach to competitiveness. So does the EU in 2000 in the Lisbon European Council. Similar approaches are applied by most individual developed countries. For example, the UK Government, after confirming this approach in 1996, goes even further in its 1998 white paper on competitiveness by emphasizing the role of the government. According to the UK Prime Minister "Old fashioned state intervention did not and cannot work. But neither does naïve reliance on markets". Their framework for achieving competitiveness at a high level of development contains a new approach to *industrial policy* based on four main pillars: actively seeking new ideas and knowledge, innovating new products and services, investing in the workforce, utilizing knowledge and skills to the full.

Yet developed countries have been imposing on developing countries policies for achieving competitiveness at the low level of development. They have been advocating the neo-liberal ideology, e.g. Washington Consensus, based on the theory of static comparative advantage. For example, Williamson (1992) admits that "none of ideas spawned by … development literature…plays an essential role in motivating the Washington Consensus…". More importantly, developed countries have been imposing market-oriented approaches to competitiveness on developing countries, through the IMF, World Bank and WTO, or through regional and bilateral trade agreements. The lack of government intervention, budget cuts, across-the-board trade liberalization, absence of performance requirements from multinational firms, etc., are a few elements of such approaches.

It also creates constraints for upgrading of the industrial structure of those which already have some industrial base.

The process of industrialization requires creating production capacity, operating it efficiently, and eventually upgrading it. None of these can take place automatically through the operation of market forces alone. Not only is there a need for incentives and predictable industrial and development policies, but also policies for creating, or strengthening, a number of "Ins" – Investment, market Institutions, Infrastructure, provision of Inputs, Innovation and Information. It also requires pressure on enterprises for performance, in exchange for incentives, and management of foreign direct investment.

In a world of imperfect competition, a ***dynamic*** trade and industrial policy is essential. Schumpeter correctly stated that: "The problem that is usually being visualized is how capitalism administers existing structure, whereas the relevant problem is how it creates and destroys them. As long as this is not recognized, the investigator does a meaningless job." (Schumpeter,1976: 84).

Developing Competitiveness

Traditionally, the competitiveness of a country has been judged by its ability to export and to attract foreign direct investment. Japan, Germany and Korea have been aggressive exporters. On the other hand, Ireland is considered an attractive place to make investments. Rarely do countries have both qualities, i.e., the ability to export and the ability to attract investments. Ireland, for example is not an aggressive exporter, but is probably the most attractive investment destination in the Euro Zone. Korea is an aggressive exporter, but still has a long way to go to become an attractive investment destination. The US is one of the few countries with both qualities.

In general, a large economy needs to be good in two different types of activities to become really competitive. Some activities are predominantly local. These include social and personal services (doctors & teachers) government & justice and customer support functions such as after sales service. Such activities are located close to the customer but are typically characterised by protectionism and inefficiency, as they are not exposed to global competition.

On the other hand, there are global activities which involve international operations and have to be configured across the world on the basis of comparative and strategic advantages. Countries which have in place efficient processes that contribute to wealth generation are obviously more competitive than those which live off their inheritance. Thus, resource rich countries are often not competitive. Indeed, history is full of examples of countries that have squandered away their natural resources, and seen declining standards of living over time. These include Venezuela, Ghana and Nigeria. On the other hand, resource-scarce nations such as Singapore, Japan and Switzerland have become competitive by putting in place superior value addition processes. Technological infrastructure, consisting of cheap and efficient telecommunication systems, easy Internet access and mobile telephony, is a crucial determinant of a country's competitiveness.

A sophisticated information technology (IT) and communications network has considerable impact in the field of education. Countries such as Britain, France, Sweden, Finland and the US are making attempts to link their schools through the Internet. At the same time, countries also need to invest in training facilities to develop adequate IT skills among people. Otherwise, management of the technological infrastructure may prove to be an insurmountable task. Ireland in one country that has succeeded in developing a young and qualified IT savvy labour force.

The success stories of countries/regions in recent times provide new insight on competitiveness. Territories which have emphasized risk, deregulation, privatisation and individual initiative have become more competitive than the ones that have depended on excessive government regulation, social consensus, an egalitarian approach to responsibilities and an extensive welfare system.

The US economy (which falls in the first category) is today generally considered to be way ahead of countries such as Germany and France (which fall in the second), in terms of competitiveness. Yet, a certain degree of social consensus is needed to hold society together. The US, where the gap between the haves and have not's is widening, has a lot of scope for improvement in this regard.

Models

Theoretical Models to asses International Competitiveness

In order to describe the processes involved in securing and maintaining international competitiveness, the conventional models of international trade theory are used, namely the

Ricardian, Heckscher-Ohlin, contemporary standard trade, and industrial organization models. The major identifier of international competitiveness in these models are trade balance and Terms of Trade (ToT)

- International competitiveness is also influenced by capital flows. TOT is function of exchange rates, which are affected by both short- and long-term international capital flows. This impact directly on the international flow of goods.

a) Classical and Early Neo-Classical Models

1. Ricardian or Factor (labor) Productivity Model

- Comparative advantage
- The factor of the Ricardian theory can be construed as either an optimal combination of a number of resources or literally as a single factor.
- The factor productivity theory is theoretically deficient, insofar as no explanation is given as to the source of the differences in productivity among nations.

2. Heckscher-Ohlin or Factor Proportions Model

- Nations tend to export goods whose production requires relatively more of the inputs for which there is a domestic abundance
- In the Heckscher-Ohlin model, international competitiveness is enhanced through either export- or import-biased growth.

3. *Infant Industry Model*

- The infant industry model depicts a domestic competitive industry that is subject to external economies of scale but which is too small (perhaps, nonexistent) to be internationally competitive.
- If the domestic industry could somehow grow to some critical size or greater, it would be internationally competitive or even domestically or internationally dominant.

4. *Standard Trade and Industrial Organisation Models*

- Introduces, process innovation (dissimilar technologies or technological change) in production or business administration in general (production, marketing, management, finance, and the like) are introduced.
- As a follow up of process innovation, product innovation is also introduced in the structure.
- H-O theory assumes perfect competition only. Once we consider above issues, it becomes necessary to twist the models towards monopolistic competition and oligopoly.

5. *The Chamberlinian Model*

- In this kind of models, the products are differentiated, entry is free, equilibrium profits are zero, and the number of firms is relatively small.
- It describes the welfare effects (and competitiveness) on variety and price (and quantity) of the ability to exploit internal economies of scale because of expanded markets provided by free international trade.

6. *The Conjectural Variation Model*

- In this kind of models, oligopolies may be homogeneous or differentiated, and free market-type barriers to entry and positive economic profits are common.
- It describes the entrepreneurial nature of the profit-seeking behavior of international homogeneous and differentiated oligopolies, with and without internal economies.
- But neither type deals explicitly with the effects of the multinational enterprise (MNE) on international trade and the consequences of these effects on economic welfare.

Modelling Competitiveness is Based on Productivity

- Due to resource endowment
- Due to technological superiority

Entrepreneurial Ability

- (Process and product innovation, managerial skill)
- Efficiency in the process through intra-industry trade

Non-Entrepreneurial Issues

- Exchange rate
- Capital Flows
- Tariffs and trade barriers
- RTAs and geographical effect

Challenges of Competition

Global Competitive Challenges

As the world catapults into the 21st century, companies are drastically altering their business and marketing strategies to get closer to their customers, cc-under competitive threats, and strengthen competitive advantages. While changes confronting managers in the 1980s were unprecedented, the 1990s display even greater diversity and turbulence.2 Challenges to management include escalating international competition, political and economic upheaval, the dominance of the customer, and increasing market complexity.

Successful managers recognize the mandate for adapting to the turbulent and rapidly changing global environment. They seek to reduce costs, create more flexible organizational designs, and build competitive advantage around the core competencies of the organization. Core competencies are what a company does best, as illustrated by Gillette's skills in developing shaving products. Gaining competitive advantage often requires cooperation because a single organization may need to draw from the skills and resources of other organizations. The global business challenge centres on two important competitive issues.

First, companies with the skills and resources for competing beyond their domestic markets have major opportunities for growth. And these opportunities are not restricted to industry giants. Second, maintaining a competitive position in the domestic market requires knowledge of key competitors in the global marketplace. The successful competitor in domestic markets keeps informed of foreign competitors' strategies and strengths. New market arenas are rapidly developing through the world. The Pacific Rim countries, Western Europe, Eastern Europe, and other regions offer promising markets and new sources of competition as they change and develop. Moreover, several of the countries with very low wages, like China, also have the skills to produce high-quality products. The competitive pressures are particularly acute for the countries at the top of the wage rankings:

- Western Europeans on average work fewer hours, earn more pay, take longer vacations, and enjoy far more social entitlements and job protection than their chief competitors in North America and Asia. An average Western German worker, the best paid in Europe, earned $24.87 an hour in wages and benefits in 1993, compared with between $16 and $17'an hour for the average American and Japanese and $4.93 an hour for a South Korean. It is a lifestyle that few Europeans are willing to abandon.

- One consequence of these competitive realities is the movement of manufacturing, distribution, and marketing operations to countries which offer comparable labor skills at lower wage rates. For example, Siemens AG of Germany moved its semiconductor assembly to southeast Asia.4 Siemens workers at its Singapore plant earn $4.40 per hour for the same work previously performed in Germany at $25 per hour.

- Requirements for competing globally are both different and more demanding than competing domestically. Differences in customs, languages, currency, and trade practices create risks and uncertainty for new market entrants. The social and political changes that occurred in Eastern Europe in '989 are illustrative. Almost overnight, access to these countries was possible and major social, political, and economic reforms were initiated.

Problems with Competitors

Occasionally, a competitor begins to create significant problems for your company and the market. Typically, these pesky competitors become involved in predatory pricing, copying your product line, or using aggressive marketing techniques or guerrilla warfare strategies. Whatever the problem, Market Engineering can help you successfully address it.

10 Ways Market Engineering Can Help Neutralize Competitive Problems

- Competitive measurements drive successful competitive strategy.
- Competitive analysis provides a wealth of information on the competition's weaknesses to exploit.
- Competitive analysis provides a wealth of competitive strengths as benchmarks for improvement and duplication goals.
- Customer analysis identifies why customers buy from the competitor.
- In-depth market understanding allows a company to meet customers' needs better than competition does.
- Market Engineering improves profits, increasing competitive strength.
- Market Engineering identifies unexploited opportunities in the market, where being first maximizes one's position.
- Market Engineering creates a market navigation system to achieve goals before the competitor does.
- A Market Engineering monitoring system identifies market problems before they happen.

Market Engineering speeds communication and decision-making, which is needed to beat competition. Checklist for Solving Competitor Problems

- Perform in-depth competitor analysis
- Develop competitor monitor program
- Buy, read, and implement Competitive Engineering
- Train entire company on competitor profile and problem
- Develop company-wide competitive intelligence system
- Integrate entire staff into competitive strategy
- Determine key competitive measurements to be analysed
- Determine key competitive measurement instruments
- Develop competitive strategy brainstorming sessions
- Monitor company's progress against competitive strategy goals
- Perform interviews with competitor's customers.

Self Assessment Questions

1. Discuss Global Competitiveness
2. Highlight the concept and drivers of global competitiveness
3. Analyze global competitive behaviour
4. Highlight different approaches to competitiveness
5. Discuss Classical & Early Neo- Classical Models
6. Highlight the challenges of competition.
7. 10 Ways Market Engineering Can Help Neutralize Competitive Problems

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UNIT – II

Unit Structure

Lesson 2.1 - Frame work for Assessing Competitiveness

Competitive Analysis

The basic premise underlying the concept of competitive analysis is the inseparability of a firm, its competitive environment and its endeavours to survive and prosper in this environment. An understanding of the dynamics of the latter is a key element in the formation of a firm's strategic thinking.

Competitive analysis could aptly be described as the analysis of any particular competitive force active in the competitive environment, and designed to help answer the question: "What is such a competitive force likely to do in a given situation?" (Oster 1999:412). It is furthermore important to determine how the possible future moves of such a particular competitive force will affect the home firm (firm conducting the competitive analysis).

In the context, the, competitive analysis could thus be defined as follows:

- A step in the competitive intelligence process in which information about all the factors of a specific competitive force is subjected to systematic scientific and non-scientific examination, in order to identify relevant facts and determine significant relationships and to derive meaningful insight with regard to the future intent of such a competitive force. Such synthesised information should consequently stimulate management decision- making and action within the home firm.

History of Competitive Analysis

(U-form) Firm, Competitive Industry

↓

Growth

↓

Organic (Internal)-Vertical integration, External-Mergers and Acquisitions

↓

'National' (Public Limited) Company, Industry Concentration, Oligopoly

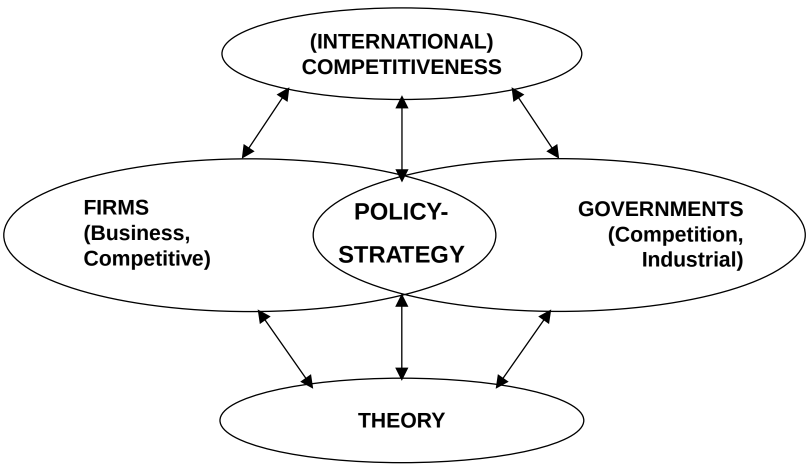
↓

(M-form) Firm, Diversification (Related, Unrelated-Conglomerate)

↓

Foreign Direct Investment, Transnational Corporations (TNCs), Global Firms

A Framework



From this perspective of competitive analysis, it is evident that various analytical models and techniques could consequently be used during the competitive analysis process. Some authors are of the opinion that there are literally hundreds of these techniques available that can be applied in the context of competitive and strategic analysis (Fleisher & Bensoussan 2003:xviii).

In addition, each of these analytical techniques has been developed for a specific purpose. However, Gilad (1998:31) notes that competitive analysis is not merely the application of analytical techniques, but, most importantly, involves the generation of insight, and therefore initiating a process of competitive learning. Insight is therefore based on a true understanding of the real underlying motives of a particular competitive force in the context of its tangible and intangible assets, as applied in the wider context of competitive environmental realities.

According to Fahey (2000:4), the purpose of competitive analysis is not only to learn about competitors or the competitive forces at large, but also to promote thinking, interpretation and decision making about these competitive forces in order to eventually take action.

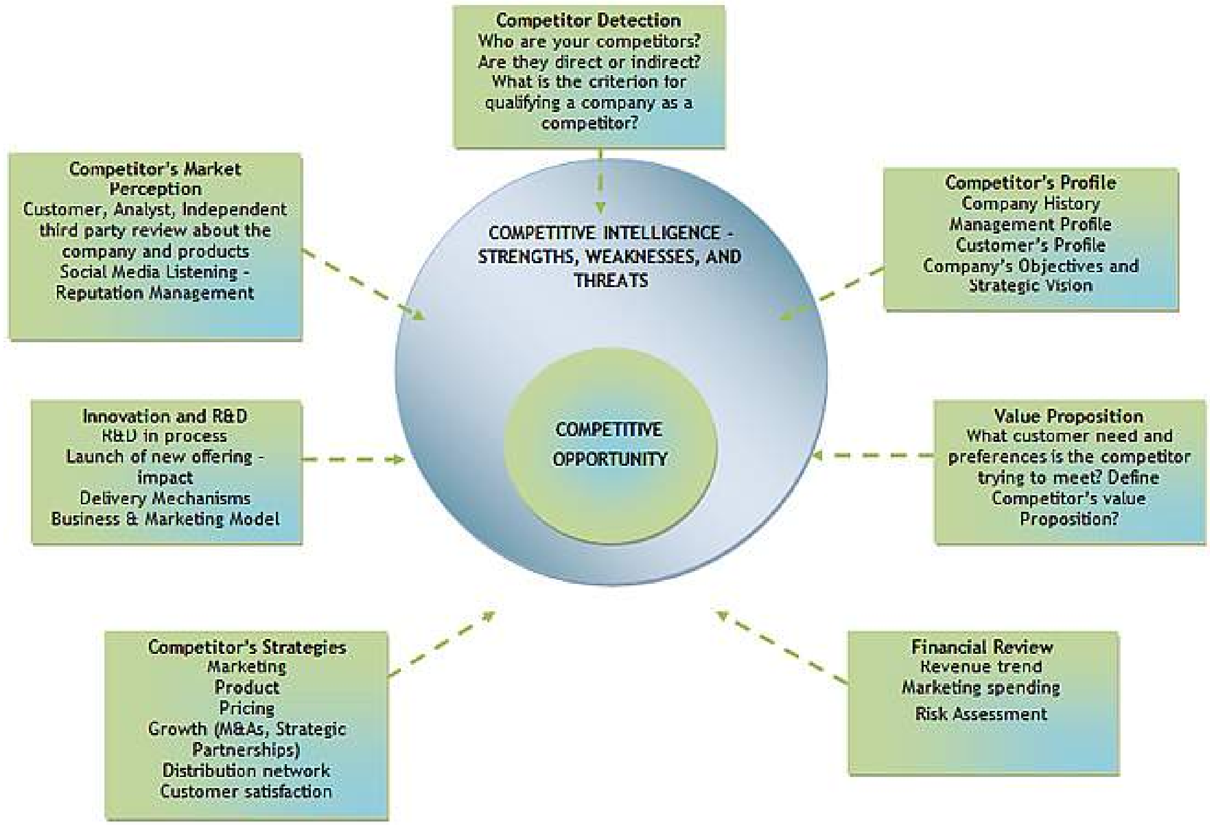
The overriding purpose of competitive analysis is therefore to enhance linear as well as pattern thinking about the competitive force at stake (Kahaner 1996:96). Tredoux (cited in Business Day 2002:16), however, argues that rapidly developing technology, a volatile environment and unforeseen events with international repercussions have largely invalidated conventional analytical tools such as Porter's five forces and the concepts of core competency frameworks.

In response to this, a number of the more popular analytical techniques described in the literature will be evaluated in order to determine whether they still offer enough insight into the context of competitive learning. A much broader and dynamic approach to competitive analysis will thus be considered. This statement relates strongly to the primary objective of the study namely to develop a dynamic competitive analysis model for a global mining firm.

Dynamic Competitive Analysis Model

As indicated, Procter and Gamble's "old-world" competitive analysis method has failed to live up to the demands of a constantly changing and dynamic competitive environment. In contrast to the "old-world" competitive analysis initiatives, in recent years the global consumer group, Procter and Gamble, has developed a competitive analysis capability focused on action, which includes dynamic competitive response modelling using multifunctional teams and scenario planning This capability allows better preparation to combat competitive responses (Prescott & Miller 2001:27).

Such a dynamic competitive analysis model, within the confines of the competitive environment, and on which this research will be focused, could conceptually be demonstrated by means of the following figure:



http://www.infoanalytica.com/competitive_neosis.php

Porter Five Forces Analysis Model of Industry Competition

One way in which staff within Rolls- Royce have focused their actions for responding to the changing role of the business, has been to use Porter's 'Five Forces' model of industry competition.

Five Forces analysis gives an improved understanding of the degree of competition within the business environment. It has helped them to develop a better understanding of the business environment so that business opportunities could be analysed.

The model identifies one force within the industry – competitive rivalry - as well as four forces outside the industry:

- Potential entrants and the threat of entrants
- Power of buyers
- Power of suppliers
- Threat of substitutes

Micheal Porter Five Forces Model

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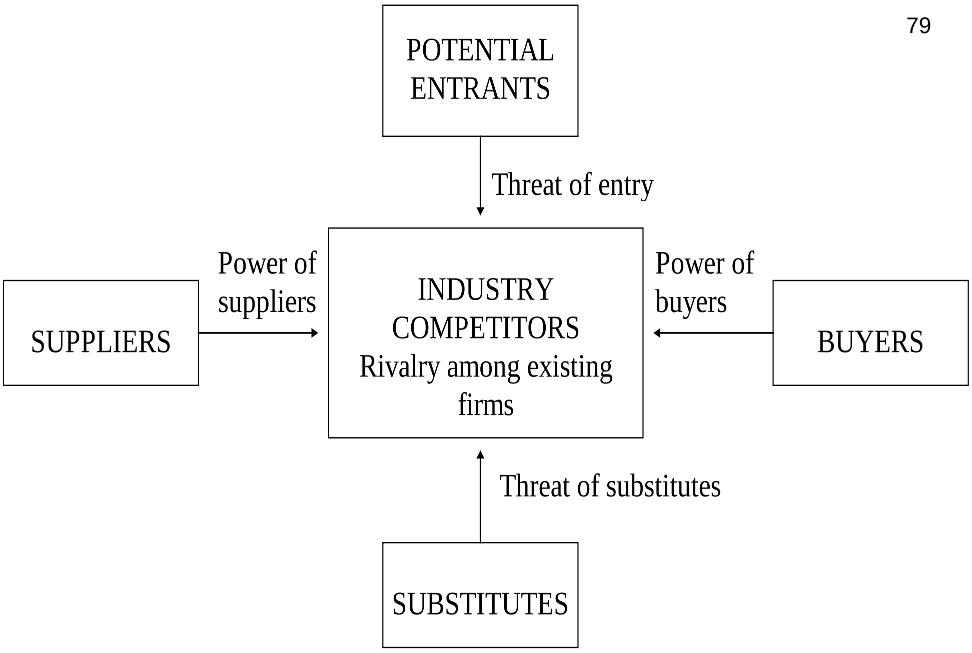

Source: http://en.wikipedia.org/wiki/Porter_five_forces_analysis

- **Competitive Rivalry**

As described above three dominant players operate in this oligopolistic global industry. The industry is capital intensive and there is a requirement for high investment in advanced technology and research and development. No single manufacturer dominates the industry, so balance fuels the rivalry.

Competition in the primary market for aero-engines is intensified by the link to the secondary market for engine part sales and services. Access to the secondary market is dependent on achieving the original sale of new engines. In recent years the intensity of competition has increased as each manufacturer has tried to improve its volumes and market share. Rivalry has also intensified because gas turbine engines are now essentially a mature product and the potential for technological differential advantage has been reduce

- **Power of Buyers**

The numbers of potential buyers of new aircraft are low. Buyers of aircraft engines are therefore essentially price makers, with the market price for new engines being largely set by the buyer. The power of buyers has further increased in recent years as many airlines have become ‘global carriers’.

The decision to purchase a particular aircraft or engine combination is a long-term one. This means that failure to secure an order may prevent an engine manufacturer trading with a particular airline for more than a decade. The selection of one engine type can lead to a domino effect, with other competing buyers following the same selection. Airlines are increasingly seeking lifetime cost of ownership guarantees, and reduced repair costs.

- **Power of Suppliers**

The suppliers to the aero-engine manufacturer have limited power. There are many hundreds of different suppliers to the aero-engine industry. They supply all nature of components, from nuts and bolts to state-of-the-art electronic control systems costing hundreds of thousands of pounds. The power of many of the smaller companies, which represent most of the supplier base, has been reduced. This is due to engine manufacturers adopting dual sourcing strategies, using a range of alternative sources of supply. The most powerful suppliers are those involved in the supply of high specification electronic control equipment.

- **Threat of Entry**

Although not unknown, entry to the aero-engine industry is extremely difficult. The highly specialised advanced nature of aero-engine design combined with the costs of research and development as well as the confidence of customers represent significant barriers to entry. New engines also need extensive testing before gaining airworthiness approval from the authorities. The market is also sensitive to the reputation of the engine manufacturer, where names such as Rolls-Royce represent a range of proven high-technology products.

- **Threat of Substitutes**

There is no substitute for an aero engine and the threat of substitutes for air transport itself is minor. However, it is thought that the development of video conferencing capability will reduce some business travel and the growth of high speed train travel (e.g. Eurostar) will affect some travel decisions. However, both of these developments are taking place at a time when the demand for air travel is increasing.

This analysis shows that the commercial aero-engine business is highly competitive, with the buyer possessing and exerting a very powerful influence upon organisations. The high barriers to entry and the low threat of substitutes indicate that existing competitors will continue to share the business between them. However, a slowdown in industry growth and the increasing maturity of products will intensify the degree of rivalry between the engine manufacturers.

Rolls-Royce has developed its orientation from that of engineering to become more business- and service focused. The organisation has had to become much more proactive, dealing with new ideas to create more services and customer focus. In the past, change was rare and slow, the company tended to follow the market trend. The structure of the organisation has been realigned to meet the needs of the new way of operating. Organisational structures define important relationships within the business and create a mechanism for meeting business objectives. At the same time, it has been important to create a new business culture within Rolls-Royce. A culture exists within the minds and hearts of the people of an organisation and contributes to the way they make decisions and develop business strategies. As an organisation changes from a product-focused organisation towards becoming a service-orientated culture, this requires more involvement of its people, with greater empowerment and rapid decision-taking.

The corporate identity is the sum of the culture and its expression in behaviour and physical terms. Rolls-Royce has defined the identity that it needs to encourage, building on its past reputation and achievements for continuing success. As these changes take place, the organisation is also realigning its financial reporting framework and corporate governance. This will change how the whole business shapes its purposes and priorities.

Frame Work for Assessing Competitiveness

		Competitive advantage	
		Lower cost	Differentiation
Competitive scope	Broad	Cost leadership	Differentiation
	Narrow	Cost focus	Differentiation focus

Source: M. Porter's three generic strategies

Frameworks for Assessing Competitiveness:

- SWOT analysis
- Problem analysis
- Competitive advantage analysis
- Scenario planning

A) SWOT Analysis:*(Case Study)*

SWOT Analysis—IVANO-FRANKIVSK (Ukraine)

Ivano-Frankovsk used SWOT analysis as its principle strategy development framework in 2005. The SWOT analysis was conducted by subcommittees of a Strategy Development Committee representing the city's political, business, and community interests. These stakeholders shared their perspectives of the city's economic environment and commented on the city's strengths and weaknesses in a brainstorming session facilitated by LED experts with extensive experience in conducting participatory processes.

The committee's initial ideas were summarised and categorised, and then discussed at length in order to set priorities and agree on which issues should feed into the strategic plan.

Conducting the SWOT analysis in a participatory forum of this type is considered highly effective. It provided an opportunity for key stakeholders and community leaders to be directly engaged in the strategy development process and to contribute their own ideas. The SWOT framework was also seen as a good fit for the five- to six- month time schedule allotted for the strategic planning process.

SWOT analysis involves analysing both internal and external factors that affect the city, and identifies unique features of the city that set it apart from other cities and could serve as a major selling point.

The SWOT approach involves organising key data and information about the city across four categories: strengths, weaknesses, opportunities, and threats. Although SWOT is sometimes used for individual-level LED indicators (sectoral structure and specialisation, for example), it is most commonly used to summarise the position of the local economy overall.

In particular, SWOT frameworks are commonly used to facilitate participatory workshops aimed at agreeing on the status quo of the local economy. SWOT is a concept that can be understood by most stakeholders, therefore, it is a useful framework to build consensus in the strategy development process.

A SWOT analysis is often a valuable input into identifying and prioritising strategic priorities, local economy development initiatives, and projects.

<table>
<tr><th colspan="3">SWOT Analysis Framework</th></tr>
<tr><td rowspan="2">Internal</td><td>Strengths</td><td>Weaknesses</td></tr>
<tr><td>➢ Location near key ports
➢ Major universities and research centres
➢ High quality of life
➢ Highly educated population
➢ Substantial foreign investment</td><td>➢ Lack of strong base of business service firms
➢ Declining manufacturing base
➢ High cost of property</td></tr>
<tr><td rowspan="2">External</td><td>Opportunities</td><td>Threats</td></tr>
<tr><td>➢ Investments in new technology incubators
➢ Taking advantage of global outsourcing trends
➢ Establishment of free trade zone</td><td>➢ Continuing brain drain of recent graduates
➢ Impact of security concerns on port logistics sector and free trade zone plans</td></tr>
</table>

What Key Inputs are Required for SWOT Analysis?

An effective SWOT analysis can be completed with limited quantitative/statistical data input. But when these data are not available, practitioners rely on qualitative input. This input is sometimes obtained by assembling a panel of experts with specific knowledge of different sectors and aspects of the economy. Alternatively, a SWOT analysis can be undertaken in a larger participatory forum where individual input is requested. It is recommended that such an event be limited to about 60 people to enable all to participate. In these cases, the SWOT analysis requires a trained facilitator.

Ideally, SWOT analysis includes comparative data from other cities in the country or comparable international benchmarks. This can help confirm the accuracy of identified strengths and weaknesses. Overall, SWOT analysis requires low resource intensity.

b) Problem Analysis

What Issues Are Addressed by Problem Analysis?

The following questions can be addressed by a problem analysis:

- What are the main issues facing the local economy?
- How are these issues related to each other and to the external environment?
- Which issues are of higher or lower priority?

How Is the Problem Analysis Framework Used?

Problem analysis is a framework used to identify core issues to be addressed in the strategic planning process. Problem in this context does not necessarily indicate weaknesses or concerns but can equally refer to opportunities and challenges—essentially it is about identifying issues that should be addressed in the city strategy. Problem analysis is most commonly used to analyse qualitative information about the local economy that has been collected through participatory processes. The various frameworks for problem analysis include problem trees, objective trees, and various forms of needs analysis.

The framework usually involves four basic steps

- Identify a long list of problems and issues (in most cases, unsatisfactory situations are described, and a set of symptoms emerge).
- Identify one or more core problems that are at the root of the others (the idea is to attack the core problems rather than the symptoms).
- Determine which problems are causes and which are effects.
- Arrange the issues in a hierarchy of causes and effects.

A problem tree is often developed from this information, which enables practitioners to visually illustrate symptoms, core problems, and interrelationships.

What Key Inputs Are Required for Problem Analysis?

A problem analysis does not require any detailed, sophisticated assessment of quantitative data. Instead, this frame- work draws on qualitative information and perceptions from stakeholders. The main requirements for using this frame- work are:

- A trained and experienced facilitator to lead the process.
- Participants with a good knowledge of the local economy.
- Facilities to host participatory processes such as seminars and workshops.

CASE STUDY

Problem Analysis; SAN FERNANDO (Philippines)

In 2001, San Fernando used the problem tree as one of two main strategic frameworks (along with SWOT analysis) to assess its local economy and develop a CDS. The problem tree framework was an analytical output of a series of workshops that used participatory issues identification tools to capture perceived issues facing the local economy.

After all relevant issues were identified, the problem tree framework was used in participatory workshops in an effort to trace problems back to a set of core issues and to map causes and effects.

Overall, the city found problem tree analysis somewhat difficult to use com- pared to SWOT analysis. Stakeholders were generally able to identify problems effectively, but separating symptoms from the core problems was more difficult. Similarly, mapping the relationships between problems often required substantial resources and effective facilitation. However, the framework was found to be highly valuable in showing linkages between key issues and in defining the city' strategic priorities.

c) Competitive Advantage Analysis

What Issues Are Addressed by Competitive Advantage Analysis?

The following questions can be addressed by competitive advantage analysis:

- How competitive is the local economy?
- How well is the local economy performing relative to a competing economy (based on employment, exports, government efficiency, GDP, innovation, and productivity)?
- How well are firms in the local economy performing with regard to the firms in a competing economy (based on employment, exports, innovation, and productivity)?
- How does the business environment of the local economy perform relative to that of a competing economy (based on financial infrastructure, location, nature of local market, physical infrastructure, and size)?

How Is the Competitive Advantage Analysis Framework Used?

Competitive advantage is an umbrella term for a range of frameworks that assess a local economy based on its potential to create sources of advantage (low cost, high innovation, or differentiation) for area firms. The most popular competitive advantage analysis frameworks are those developed by management theorist Michael Porter, especially his diamond framework of national competitiveness and the related five forces of firm rivalry, bargaining power of suppliers and customers, threat of new entrants, and substitute products. The diamond framework examines four factors that determine the competitiveness of a city and can be influenced by government:

- **Factor conditions**: the availability of inputs such as skilled labour, infrastructure, and capital
- **Demand conditions**: the level and sophistication of local demand.
- **Business/sector structure, strategy, and rivalry:** the degree of competition
- **Related and supporting industries:** The availability and degree of linkages between core and supporting activities. There is no standardised methodology for analysis con- ducted using the diamond framework, but the process typically involves combining descriptive statistics and qualitative assessment for each of the components. Many cities follow more generic, informal, competitive advantage models that consider elements of the diamond framework and other factors. The diamond framework and other competitive advantage models can be useful in structuring a participatory workshop to get a snapshot of the local economy. Using this approach, the participants comment on strengths and weaknesses of the local economy and provide other observation on each of the defined factors of competitiveness. A benefit of this approach is that it encourages local actors to see their current situation and economic potential in a different way; considering economic development possibilities from a demand side can be especially helpful for both local organisations and surveyors.

The competitive advantage analysis framework tends to make extensive use of benchmarking analysis, as competitiveness is almost always defined with regard to reference economies. This framework also has close links with cluster strategies and thus makes extensive use of cluster **mapping** tools.

What Key Inputs are Required for Competitive Advantage Analysis?

Using the competitive advantage analysis framework effectively requires quantitative and/or qualitative data on the main components of the Porter's Diamond framework, including employment data, inter-firm linkages, size and nature of the local market, financial infrastructure, and the skill and educational levels of the local labour force. It is also valuable to obtain similar data from at least one of several other cities considered to be the city's main competitors or peers. Competitive analysis requires an understanding of competitiveness theory and how it is applied in urban and regional economies. But an understanding of complex econometrics is not required, and there are no requirements for specific software or other analytical resources. When data availability is not a problem, this framework has moderate resource intensity.

d) Scenario Planning

The following questions can be addressed by scenario planning:

- How might my local economy look in the future, and how could this change the assessment of the city's competitiveness?
- What factors could influence the city's future economic development, and how?
- What is the desired future for the city? What needs to change to get there?

How Is Scenario Planning Used?

Scenario planning is a strategic planning framework used to predict potential changes and understand the implications of those changes to identify strategies that might be used to adapt to these changes. This approach can be an effective framework for testing the existing assessment of the local economy and for challenging the LED strategy from the standpoint of uncertain future environments.

Scenario planning highlights major forces that may shape the future and provides insight on how these forces may interact; it does not attempt to predict one specific outlook. The sources of changes considered can be relatively predictable (trends in local demographics) or unpredictable (global economic conditions, for example). In scenario planning, a scenario describes a plausible future that can incorporate a range of qualitative and quantitative information. There is no set number of scenarios to be developed, but scenario planning exercises typically develop at least two or three contrasting future scenarios.

**Three Broad Scenario Planning Frameworks are used,
Sometimes in Combination, in Cities**

1. **Qualitative scenario planning.** In this setting, a facilitated group-based process typically involves policy makers, planners, and internal and external experts. The main steps include determining which macroeconomic forces exist and how they might interact to change the external environment. Scenarios are then created and analysed for their implications on the local economy.
2. **Quantitative scenario planning (scenario forecasting):** A technique traditionally used mainly for spatial planning, quantitative scenario plans use economic forecasting techniques to analyse how different macroeconomic scenarios might shape the structure and performance of the local economy. This typically is an

analytical exercise, but it is often conducted in combination with qualitative scenario planning.

3. **Futures**. The futures approach can be seen as scenario planning in reverse. In these scenarios, futures are first defined, and stakeholders agree to a short list of possible futures for the city. With these futures as the goal, the strategy process then works in reverse (back to the status quo analysis) in order to clarify the strategic path needed to reach the desired future. This framework tends to be both qualitative and participatory

What Key Inputs Are Required In Scenario Planning?

A scenario planning exercise can range from an informal planning activity based on a qualitative discussion of "what if" scenarios to a highly analytical exercise in which econometric methods and computer simulation programs are used to quantify the outcomes of different scenarios. The following are the minimum needed to conduct a scenario planning exercise:

- A trained and experienced facilitator to lead the process.
- Participants with a good knowledge of the theme for the exercise.

More complex scenario planning exercises are generally advisable only for cities and city-regions with considerable experience.

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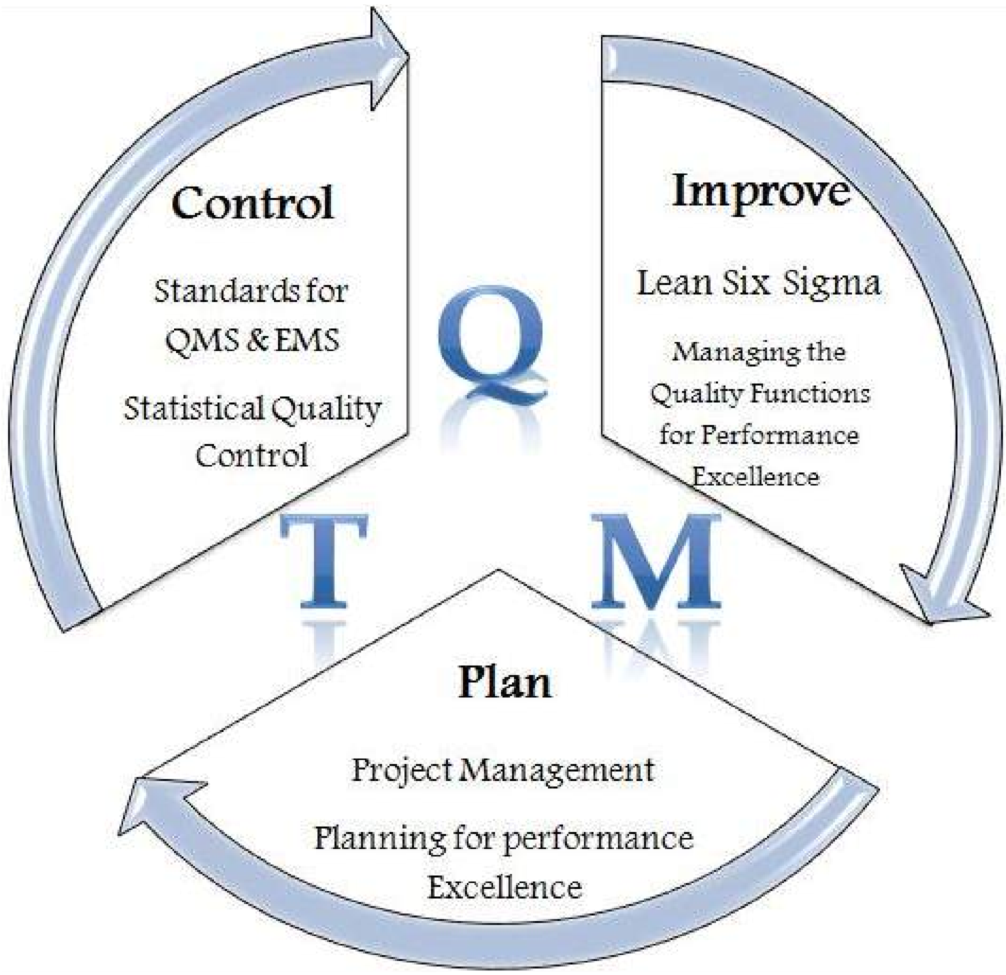
Role of Quality and Productivity:

Quality Management

The purpose of quality management is to reduce costs and improve customer satisfaction. These ideas fit closely with the market-based view of competitive advantage arising from a superior cost structure or being able to differentiate products in a way that adds value for customers; i.e., the reduced rework and savings that emerge from improving product quality can help lower a firm's cost structure, and by producing products that better satisfy the requirements of customers, there is the potential for differentiation.



Beyond this obvious fit between the seminal literature and the market-based view, an examination of more recent work that deals specifically with TQM content helps provide validity. Reed et al. (1996) argued that TQM content includes four main components generating a market advantage, enhancing product design efficiency, boosting product reliability, and increasing process efficiency and they deduced that a fit is required among the orientation of the firm, the firm's environment, and the four main components of TQM to improve firm performance.

For example, firms with a customer orientation operating in environments with high levels of uncertainty should focus on creating a market advantage and on product design efficiency to improve revenues and reduce costs, respectively. For firms with an operations orientation in an environment with low uncertainty, a concentration on product reliability and process efficiency will produce improved revenues and reduced costs, respectively.

A market advantage arises from being market-driven (Day, 1990), which provides the potential for product differentiation through better identification of the needs of customers and the ability to anticipate competitors' product offerings. Likewise, firms that can offer products with a higher reliability than those offered by competitors are, in effect, differentiating their product offerings to customers. Better product design efficiency reduces costs by eliminating parts that do not add value which, in turn, makes products easier to produce.

Improved process efficiency, which arises from experience curve effects and learning, also reduces costs. We can therefore again conclude that TQM has the potential to generate competitive advantage. However, in this instance, the conclusion is sophisticated by the not unreasonable caveat that the creation of any advantage depends not only on TQM but also on the fit between the strategy, firm orientation, and the environment.

Quality as a competitive advantage is seen as one of the fundamental ways in which both individual businesses and national economies can successfully compete in the global marketplace. It contrasts with comparative advantage, which, until the the mid-1980s, was seen as a key method of facilitating trade and economic growth.

Comparative advantage focuses on businesses or nations producing those goods and services at which they are most efficient, and trading these for products that can be made more efficiently in other nations. While considered mutually beneficial, comparative trade did not directly take into account quality as a competitive advantage and instead focused on the cost of producing goods instead of their final viability and durability once completed.

All competitive industry tries to distinguish itself through the manipulation of several key factors. These include the price charged for goods and services, convenient locations from which they can be provided, and by establishing a loyal customer base. Where quality as a competitive advantage comes into play is in a background or supporting role, as it has a direct impact on every other aspect of a business strategy.

A premium price can be charged for goods that are based on perceived superior quality, and this creates a tendency for customers to be naturally loyal to a brand, facilitating more rapid expansion than competitors can attain in the same industry. Quality also adds an element of strategic advantage to businesses as it negates most negative feedback and returns from customers, and reduces both scrap and rework expenses in the manufacturing process.

In a 2011 survey, 70% of 3,400 small- and medium-sized businesses overall in 34 different national economies rated quality as a competitive advantage as their primary concern. Unique exceptions in India and China were noted, with Indian businesses also rating quality as very important, but placing more emphasis on brand recognition and price than elsewhere. In the Chinese firms surveyed, only 46% rated quality as being of top concern in being competitive, which may not be surprising as China has made a name for itself internationally for being more competitive on price than most products from other economies.

China also remains an exception to the rule as it has continued to find success globally by focusing on comparative advantage for its goods and services. Nations where businesses rated quality as a competitive advantage more highly than elsewhere in the world included 84% of Latin American businesses surveyed considering it most important, and 92% in Vietnam as well as 85% in Taiwan considering quality as extremely important to business success.

A more complex look at quality as a competitive advantage in the business environment gets into what is known as Quality Function Deployment (QFD). QFD attempts to break down quality into both positive and negative aspects as a guide for businesses to focus their efforts on positive quality advantages over all else, as this is seen as a stronger driver for building up the company. An example of negative quality aspects that can be inordinately focused on by businesses includes dealing with disappointed customers to an excessive degree. Instead, if a business focuses on those customers who are the most pleased with its products or services and finds ways to improve upon this aspect of the business, it is more likely to drive the business forward.

Since quality is a subjective term which can be defined quite differently by business rivals, attempts have been made to break it down into several different objective categories, such as design quality and conformance quality.

Design quality is concerned primarily with the functionality and durability of the product in terms of for what the customer actually wants to use it. Conformance quality, on the other hand, focuses on the original intent for which the product was made regardless of the various uses it is put to in the marketplace. Together, the complex aspects of both approaches to looking at products are incorporated into what is known as Total Quality Management (TQM), which must remain customer-centric in order to facilitate the survival and growth of all business endeavours.

Quality management, also known as quality control, is a system used by all types of businesses all around the world. This type of management system can help any type of business provide consumers with the best product and/or service possible by coordinating its activities, which leads to an increase in its effectiveness and efficiency. There are many different types of quality management systems utilized by businesses. Through these types of systems, a business can monitor and measure the quality of its products and/or services being offered to consumers. An effective quality management system helps a business to increase its competitive edge, augment its organizational development, highlight its customer satisfaction, and more.

Through quality management, a business finds that it is able to gain a competitive edge because it can better understand all of its operational processes. Understanding operational processes enables a business to improve them, which, in turn, allows for innovation and enhancing of the quality of its products and/or services being offered to consumers. Some of the most commonly utilized quality control process improvement tools are process mapping, brainstorming, scatter diagrams, control charts, and force field analyses.

These tools help an organization's employees to stay creative and productive, which increases a business' competitive edge. It is important for a business to carefully choose what quality management tools it uses, as different types of businesses will use different types of systems.

Organizational development is improved for business that utilize a quality control system. This increase in development stems from all organizational employees staying aware of their organizations product and service quality. The more focused and educated an organizations employee stay about quality, the higher quality the organizations product and service will be.

Quality management system also leads to quality planning, which leads to an improvement in employee's communication skills and knowledge, as well as an increase in organizational flexibility. This system also improves an organizational internal customer/ supplier relationships.

One of the most valued aspects of utilization a quality management system is that leads to an increase in customer satisfaction. This type of system increase a business ability to reduce the waiting time of its customers, improve its delivery and shipping methods, as well as increase its customer loyalty. The higher the rate of customer loyalty a business has, the higher its profit levels will be. A quality control system is able to analyse the expectations. Meeting customers' expectations is the key element in providing superb customer satisfaction.

Quality Management: Generating a Competitive Advantage

In a product, quality ensures that the present expectations of the customer are met and the future needs are also incorporated (or shown concern). This I futuristic and multi-functional thinking added in developing the product accumulates and results in customer satisfaction and value for money.

In the contemporary market, it is now more important for a company's future to make the customer's experience with the product as easy, enjoyable and enthusiastic as possible. For instance, Swiss knifes have multi-functionality and are made in accordance with customer's needs. They have a lifelong warranty on their sharpness and the customer can get it reworked at any of company's outlets worldwide.

Therefore, from the Swiss knife example, we can deduce that quality is freedom for customers to experiment with the product with reinforcement from the producers against any problem/defect that the customer may experience with the product under normal circumstances. But applying quality in a company or an organization is not the work of a single authority; rather, every department has to contribute in equal measures.

Growing numbers of organizations use quality management as a strategic foundation for generating a competitive advantage and improving firm performance. Firms that have won quality awards generally outperform other firms with respect to both income measures and stock market value. One of the main conditions for successful quality practices is to engage everyone in the improvement process.

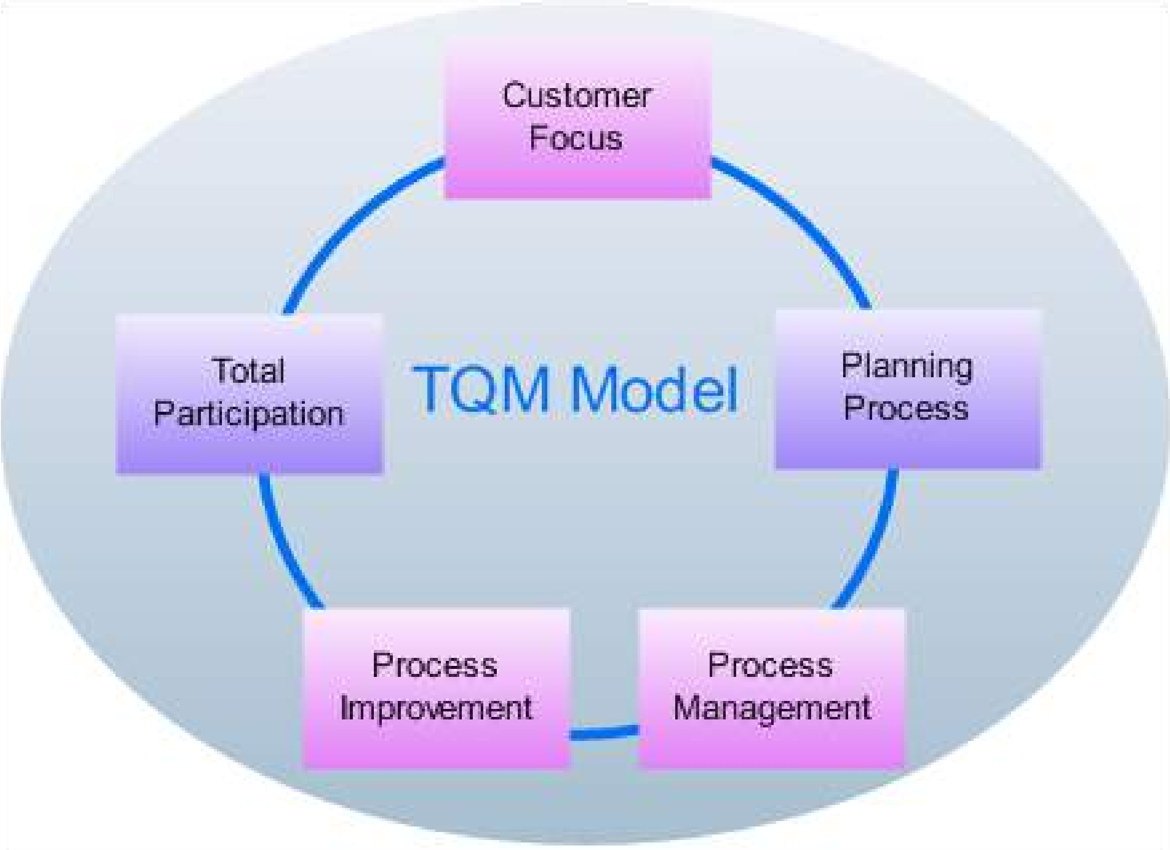
Total Quality Management

What is total quality management (TQM)? It is a strategy (towards continuous change), it is a philosophy, it is an operationalised process and it is a fad. It becomes a fad if we expect quick results and become disenchanted because we are not “like the Japanese” in the first two months.

TQM is a process if we just look at the steps for implementation, but do not look at the major strategic effects. TQM is a philosophy if we do not look at the specific, concrete way it can be used to implement improvements. But TQM is really all of these. It is a strategy toward becoming leading edge and world class. And this type of strategy requires both the philosophical, and the operational aspects. TQM offers all of it, if we can only see beyond the fad. Global companies like Motorola, AT&T and Solectron have achieved enormous success with TQM because of their consistent and applied focus with it.

TQM is a philosophy, it is not a setup of some commands that will make machines work; rather, it is a way of doing things altogether different from the simple ways of doing things. TQM requires thinking on the next level, the level of “efficient utilization of all the resources”. The philosophy of TQM is filled with ideas and attitudes. Basic to this philosophy is the idea that the only thing certain in life is change. And, we can either wait for the change to happen to us, or we can become an instrumental leader in the changes that will occur anyway. Competitive edge is rampant with changes. The philosophy behind change is one that suggests that we become excited about changes. We look for opportunity to change, especially because change should mean that we are becoming better. To be a TQM organization is to become an organization that wants to be the best, and realizes that there is always room for improvement. Need for quality the major environmental challenges which face the planet require consideration of an uncertain future with a long-term perspective and an acceptance of major changes which will affect our way of life. Seeing the future in terms of a sustainable society with humane behaviour rather than islands of personal wealth insulated from harsh reality is an integral part of that perspective. Other factors that make quality a serious movement are for instance market competition, importance to customer’s needs and fulfilling them too, high quality – low-cost battle.

Total Quality Management is a comprehensive and structured approach to organizational management that achieves best quality of products and services through using effectively refinements in response to continuous feedback, and through using them effectively in order to deliver best value for the customer, while achieving long term objectives of the organization.



The roots of Total Quality Management (TQM) go back to the teachings of drucker, juran, deming, ishikawa, crosby, feigenbaum and countless other people that have studied, practiced, and tried to refine the process of organizational management.

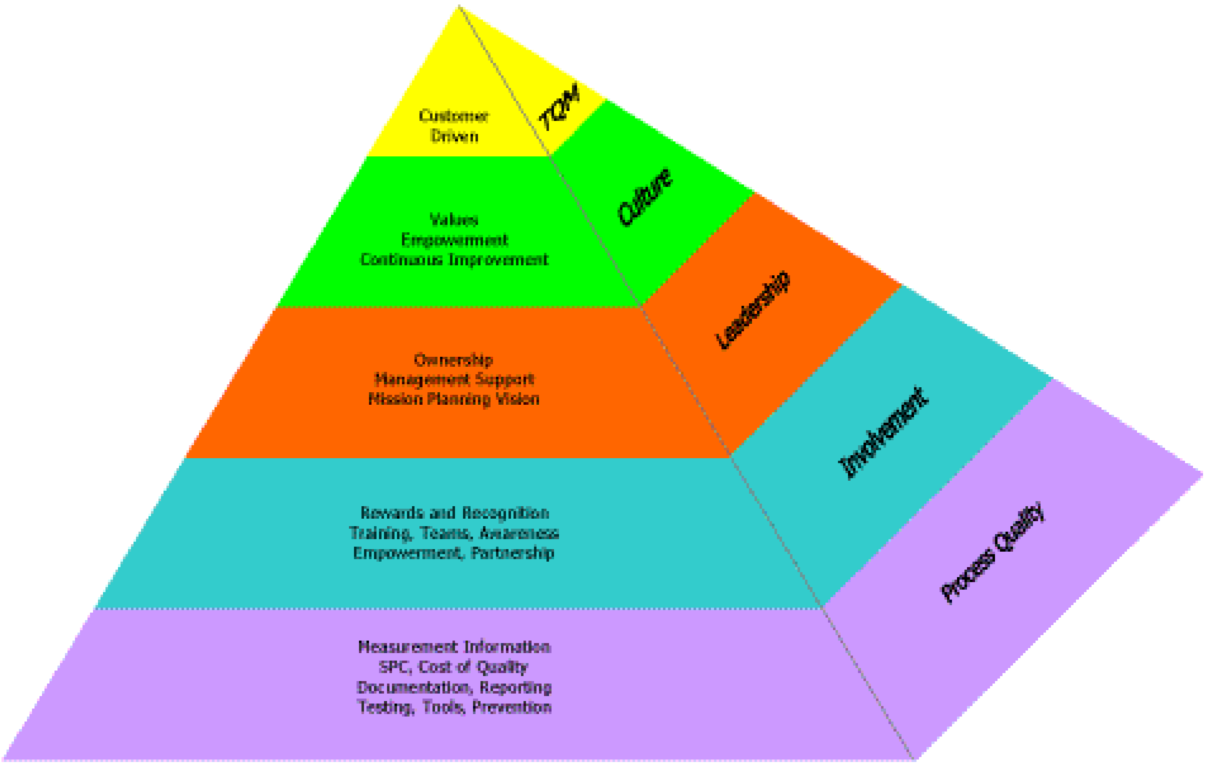
TQM is a collection of principles, techniques, processes, and best practices that over time have been proven effective. Most all world-class organizations exhibit the majority of behaviors that are typically identified with TQM.

Guidelines for Total Quality Management

Total quality management transcends the product quality approach, involves everyone in the organization, and encompasses its every function: administration, communications, distribution, manufacturing, marketing, planning, training, etc. There are many guidelines of total quality management around to create the TQM diagrams. Though the different organization has the different total quality management criterion, in general guideline of total quality management should contain the following items.

- TQM is a customer focused approach
- It is company wide strategy and involves everyone in the organization
- Aims at satisfying the customer or delighting them

- Provides best quality product and satisfy them in a cost effective manner
- Fundamental changes in basic beliefs and practices
- Prevention of defects is the way and the target is zero defects
- Total quality management is methodical
- Provides meaningful measures of performance that guide the self-improvement efforts of everyone involved



The advance in the area of quality management and development of numerous "statistical" as well as "strategical" tools divert our attention towards the increasing fluid behaviour of market, neck-to-neck competition, consumer behaviour, and other vital standpoints which indicate the success/failure level of a business. A starting effort in line with implementation of quality is the acceptance of 3M (*Muda*, *Muri*, and *Mura*). Out of all these Japanese words, *Muda* and *Mura* are for the "waste" and "unevenness". Thus, they represent the waste, which was considered an essential by product of processes half-a-century ago.

The quality philosophy and principles have become central to international business reform efforts in nations such as Canada, Australia, Japan, the USA, and the UK as they seek quality products and services through renewal and restructuring.

Quality as a standard is necessarily required in any business endeavour irrespective of the target consumer segment. Thus, it becomes all the more important for the standardization of some important codes (or yardsticks) to help companies find the right path to achieve their own goals in accordance with the best possible satisfaction of customer's requirements.

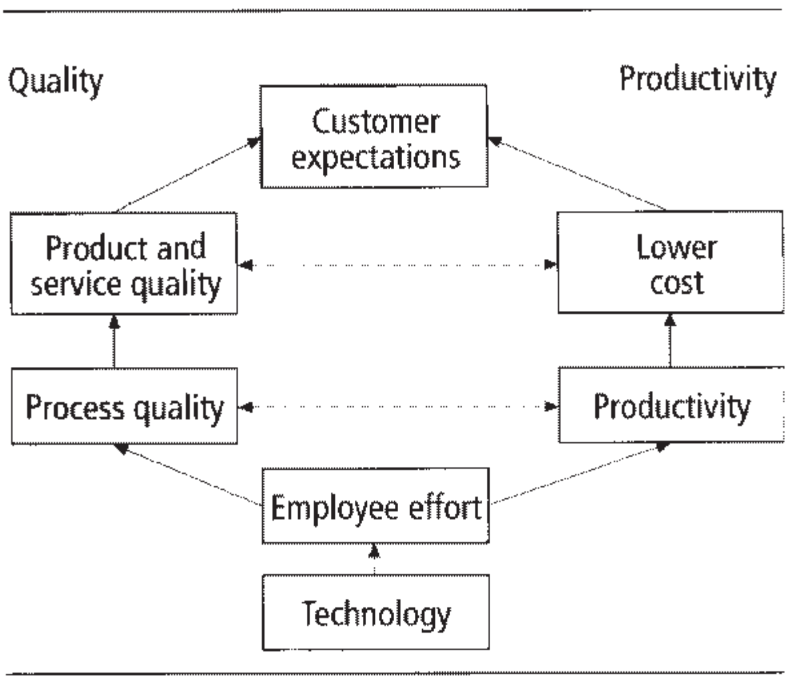
Hence, the International Organization of Standardization (ISO) 9000 standards were introduced in 1987 by the IOS, based in Geneva, Switzerland.

The ISO 9000 standards are based on the concept that certain minimum characteristics of a quality management system could be usefully standardized, giving mutual benefit to suppliers and customers, and they focus on process rather than product quality. ISO 9000 is a management control procedure which involves a business documenting the process of design, production and distribution to ensure that the quality of products and services meets the needs of customers.

Quality and Productivity

It may seem at first thought that why we should invest in quality when we can in same time focus on producing more to cater to the ever increasing competition which is now omnipresent. A simple explanation to the above fallacy will clear things out.

When quality is improved by identifying and eliminating the causes of errors and rework, more usable output is available for the same amount of input labour (or for that matter any input resource), i.e. for the same input resource used for production, the number of saleable units increases.



There is no doubt in stating that there is a divided opinion of the "nature of connection" between productivity and quality among managers. Many managers seem to believe that the effect of quality improvement is decreased productivity. This is because of two reasons: first, an improved product or service may incur a greater use of resources. Second, most of them believe that taking their eye off the productivity in present market conditions can be suicidal.

The main aim of implementing quality in a manufacturing company is cost reduction, and this is realized through fewer rejects and delays, with better use of resources, and hence higher productivity. Thus, in order to become a world class organization, a company will have to take productivity and quality hand-in-hand so as to realize both customer commitments and company goals. Take for instance the internet shopping websites that are prevalent in developed (and even in some developing) countries, these companies daily witness huge competition in their market segment.

Therefore, customer loyalty in this market segment is a crucial survival factor for companies; hence, the customer support and helpline system is quite active. For the slightest mistake, full compensation can be claimed. And companies are happily willing to do whatever they can do to make customers come back in the near future. The overall important aspect is to "make customers feel good and happy about the whole process".

Cost of Quality

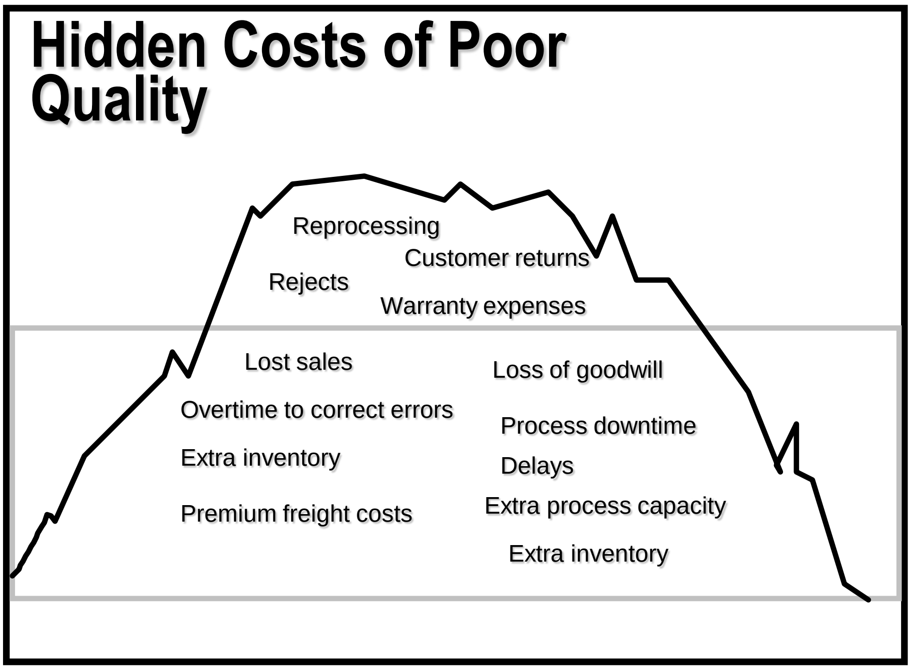
A quality cost is considered to be any cost that the company would not have incurred if the quality of the product or service were perfect

Total quality costs are the sum of prevention costs, appraisal costs, and internal and external failure costs.

The cost of quality (COQ) is generally classified into four categories:

1. Prevention;
2. Appraisal;
3. Internal failure; and
4. External failure.

Cost of Quality



Cost of Quality

Prevention cost is all of the costs expended to prevent errors from occurring in all functions within a company. They include quality planning cost, new product review cost, process control cost, quality audit cost, supplier quality evaluation cost and training cost.

Appraisal cost is the cost incurred to identify poor quality products before shipment to customers. Appraisal costs normally include incoming inspection and testing cost, in-process inspection and testing cost, final inspection and testing cost, accuracy of test equipment cost, inspection and testing of materials and services cost and evaluation of stock cost.

Internal failure cost is the cost associated with defects when found before shipment of the product to the customers. Internal failure costs include scrap cost, loss cost, rework cost, failure analysis cost, 100 per cent sorting inspection cost, re-inspection and retesting cost and downgrading cost.

External failure cost is the costs that are associated with defects that are found after shipment of the product to the customers. They may include warranty charges, complaint adjustment, returned material and allowances costs. The COQ is aimed at placing a measure upon current business processes and highlights waste. The COQ itself gets covered under the increase in production which results. Hence, it is a win-win situation for both producers and consumers along with earning the loyalty of customers. The uses of quality costs can be grouped into four categories.

1. For promoting quality as a business parameter;
2. They give rise to performance measures and facilitating improvement activities;
3. They provide a means for planning and controlling future quality costs; and
4. They act as motivation.

And a quality product does not require any “grounds of Marketing strategies or advertisement to support itself”. Calculation of the COQ acts as an indicator of current efficiency of an organization. Reducing the COQ enables the improvement process to unfold without the burden of excessive additional costs.

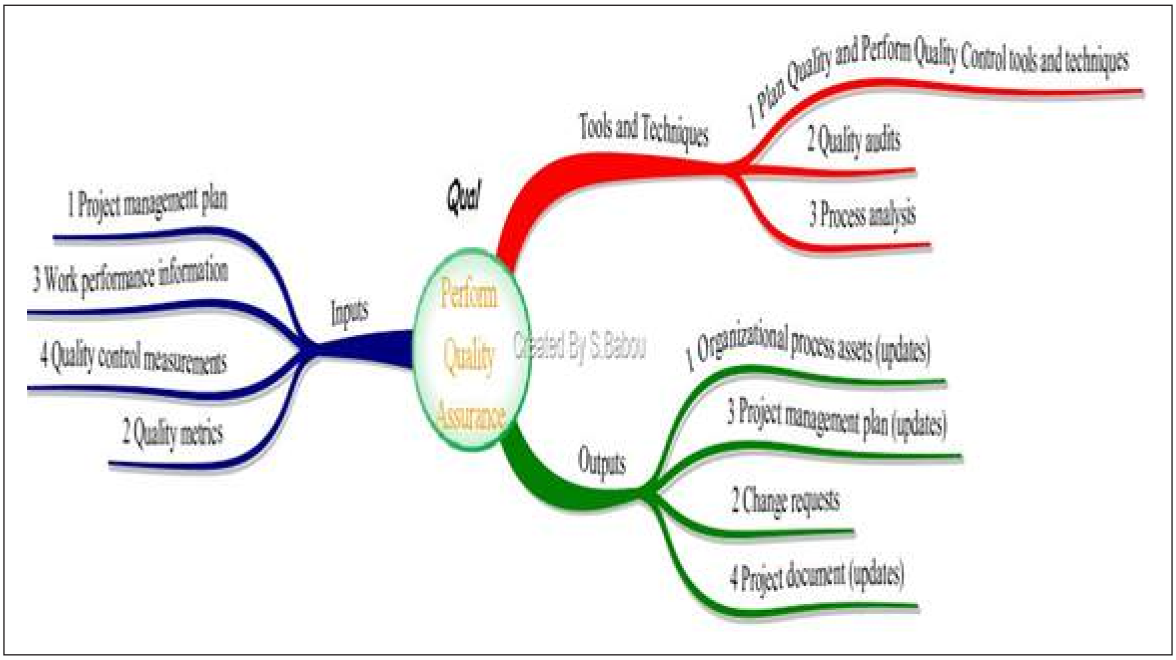
Productivity

Productivity refers to the amount of work that is accomplished in a unit of time using the factors of production. For example making a change such as revising the way employees work on an assembly line to increase the number of products they can finish in an hour.

The goal of a business is to make a profit. But what is the purpose of a business?

1. To fulfill a need
2. To solve a problem

Perform Quality & Assurance Model



Factors influencing a Country's Productivity

- Efficient use of human and physical resources
- Costs associated with labour (wages, benefits, EI., etc..)
- Accessibility and quantity of a country's usable natural resources
- Quality and availability of a nation's technology
- Quality of education and of government services
- Quality of business leadership and strategy
- General work ethic and healthy lifestyle
- Efficiency of plants and of organizational structures
- Size of both domestic and international markets for a country's products and services
- Amount of support given to research and development

Securing the Future

The principals of TQM are now a recognized characteristic of most of the successful businesses the world over. Customer's changing demands and the need for stringent cost management in fluctuating environments make TQM a practice of paramount importance for every enterprise, big or small. Gone are the days when customers considered price as the main reason for purchasing a product or service.

In the end, we cannot fail to appreciate the importance of TQM in that the company gets admitted into an elite league of companies that have a safe and secure place in the markets of the future world. In this present market situation with an exponentially advancing technological field, quality is a yardstick that every product will have to appreciate to go through the labyrinths of market place.

Integrative Process Management

What is integrated Process Management

Integrated Process Management is meant for consistently control production variables to achieve higher quality, less scrap, and greater on-time delivery.

Principles of Integrated Process Management

To lay strong foundations for a proactive, disciplined, data-driven process control system that empowers workers to take control of their production processes

- To identify those variables that must be carefully controlled to achieve high quality. We call these "Key Input Variables."
- To develop "control standards" that describe how to control the key input variables. Process engineers develop these cooperatively with production managers and workers.
- To communicate the control standards to all workers and production managers who will use them or who will monitor their use
- To monitor the Key Input Variables on charts (done by operators) and to monitor operator adherence to the control standards and provide them with constructive feedback and reinforcement (done by production managers and others).
- To identify improvements in any of the above five points that will achieve higher quality by analysing the process in detail.

Benefits of Integrated Process Management

The benefits of modelling the best practices not only derived from the automation of time-consuming administrative tasks (such as tracking, monitoring, and notification), but also by the detailed, on-line documentation of those processes, which increases their visibility and reusability throughout the enterprise.

In order to realize these benefits, the business processes managed by workflow technology should be amenable to being understood, modelled (i.e., represented as sequential flows of tasks), executed (i.e., carried out by a identifiable participants), monitored (i.e., identifiable as having being started and completed), coordinated, (i.e., having some sequential constraints on the order of subtasks), shared (i.e., having subtasks that may be carried out by different participants), repeated (i.e., executed many, separate times in an organization), and, in some cases, simulated (i.e., able to estimate performance metrics).

If a business process meets these criteria, then the level of benefit from workflow management often depends on the degree to which the business process can take advantage of the other information technologies that are integrated with the particular workflow manager.

The key benefits of integrated process management are as follows:

- Tool/Vendor Neutral Workflow Process Definition - define once, execute anywhere.
- Reusing library of Process Components and knowledge captured in the PM. Enabling fast workflow development in accordance with PM and vice-versa.
- Workflows are executed according to schedule - no arbitrary workflow execution.
- Schedule changes reflected in WFMS - real work execution affected.

Integrated Management Process is about assessing your organization's ability and to integrate following things needs to review in advance:

- The extent to which integration should occur.
- The political & cultural situation within the company.
- The levels of competence necessary.
- Legal and other regulatory requirements.
- Clear objectives for the integration project.
- When introducing another standard, those responsible for the introduction should look very carefully at the similarities within the standards to ensure there is no duplication.

Communicating what is being done is also vital to the successful introduction of an integrated management system, so that everyone in the organization knows what is being done and most importantly why. Below are some suggested steps in the process.

Step 1 - Combined	**Separate systems being used at the same time.**
Step 2 - Integratable	**Common elements have been identified.**
Step 3 - Integrating	**Common elements have been identified and are being integrated.**
Step 4 - Integrated	**One system incorporating all common elements.**

CASE STUDY

Business Processes management to create a Competitive Advantage

Background:

During the boom times of our economy, such as the late 90s, it was easy for companies to turn a profit. It was so easy that many companies did not give a lot of thought to efficiency. However, after the stock market bubble burst, most companies began thinking about efficiency. Look back about 5 years when Dell and Compaq were competing to be the number one Personal Computer manufacturer. PCs were becoming commodities, and the quality difference among all competitors was not readily apparent. As prices fell, these companies needed to figure out how they could manufacture a PC and still make a profit. Compaq's strategy is not obvious as it was purchased by HP before we could define results. Dell's strategy, however, is well-defined and has proved to be a winner. It has become so efficient that it actually does not build a computer before it receives the order. It has worked out a deal with its suppliers that allow it to process the order, get parts, assemble the PC, test the PC, and ship it to the customer in a few short days. Rightly so, it sees this efficient process as its competitive advantage.

Dell realized that spending money on research and development to create the ultimate PC motherboard was not going to increase its profits. It saw that it could order parts to its specifications and then assemble and test to make sure that its performance criteria were being met. It saw that the closer you get to "just in time" manufacturing, the more profit you could make. It saw a way that it could take in an order and ship the product within days. Once it understood what its competitive advantage was, it saw that it could expand its product offerings to include other electronic devices like a PC version of the iPod, and flat panel televisions.

So, what are the driving forces that will help other companies to gain their competitive edge?

InformationWeek published a study (July 2005) that identifies the factors driving companies' business process management initiatives. After performing many returns on investment (ROI) analyses, this author has found that automating manual processes usually provides the greatest returns.

Managing Business Processes

Without knowing what Dell's business processes are, it is obvious that Dell has worked to make those processes as efficient as possible. Any company efficiency improvements are going to involve business process management (BPM).

The response to the InformationWeek poll is very revealing. Let's look at some of the issues underlying those "Driving Forces." Ensuring Process Consistency Most companies have great difficulty in defining their business processes. One group may define it one way, while others may define it very differently. If you could come up with a single definition, each group, nevertheless, would be likely to handle exceptions differently. If you want to improve your efficiency, then you must be able to measure your current processes. If those processes are not consistent, it is hard to know how to be more efficient. Further, these inconsistencies are more likely to show up in product quality levels.

Optimizing Business Processes

It is impossible to optimize business processes if you cannot define them. When you have them defined, then you should work those processes to make sure that you have them defined correctly. A well-defined process should lead to process consistency. You can and should measure your consistent process. Now you have something to build on – you can make changes to the process and measure the results.

Automating Cumbersome Manual Processes

Assuming that you have a well-defined process, you will be amazed at the impact automation can have on that process. Automating the process will produce shortened cycle times, lower management costs, increased quality, controlled access to critical data, and more. Automation will provide the biggest impact on your ROI.

Ensuring Compliance

With the new requirements of Sarbanes Oxley ([SOX), companies are mandated to put processes in place. Those who have successfully implemented SOX compliant processes and automated them have found rewards beyond meeting legal compliance regulations. There are some articles being written touting companies that see SOX compliance as a competitive advantage. Integrating and Automating Complex, Multi-application Processes, This brings in an entirely new set of difficulties. Two of the difficulties include:

- One application talking to another
- The inability of most BPM software packages to link one process to another.

It is extremely important not to lose track of your vision for a solution. The technology is available to create almost any solution – but, at what cost? The author has seen many successful solutions created with minimal integration coding. Linking one process to another allows you to map reality: We call it process orchestration.

Why Automate?

Companies are in business to build and sustain profitability while growing revenue. In today's competitive economy, it is not easy to raise prices to increase profits. However, if you could maintain your pricing and reduce costs, the results would increase profits. Further, automating processes is a winning strategy. According to an InformationWeek 2004 survey, 95% of companies attempting to automate business processes were successful. Companies responding reported an average 15% rate of return and more than half had returns from $100k to $500k on each project.

Automate to Cut Costs

Research shows that process delays are costly. The costs of delays are generally considered to be part of the cost of doing business, and most companies are unclear how much they could actually save by automating key processes.

Automate to Save Time

Over the last 20 years, "time to market" has become common terminology. If a company can bring a product to the marketplace one month earlier than scheduled, then it can potentially get an additional month of revenue. Or, it can establish its position in the market before its competition.

Automation Adds Value

Companies that have implemented business process management (BPM) strategies have seen many benefits: increased control; cycle time predictability; improved visibility into processes; improved morale; fewer manufacturing errors; greater throughput; and more.

Automate to Create a Price Advantage

If you and your competitor sell your goods for the same price and your company is more efficient, then you have more room to lower your price, putting pressure on your competitors to follow your lead. Most companies that have implemented BPM have discovered an unexpected benefit of improved product quality.

A Competitive Advantage

A competitive advantage allows you to build and sustain profitability while you grow revenue. A competitive advantage is a barrier to entry: Imagine deciding to get into the PC manufacturing business against Dell. A competitive advantage can help you sell product – No one was ever fired for purchasing an IBM product. Because of Dell's competitive advantage, it has been able to build relationships with its suppliers that allow it to "manufacture on demand." It has negotiated terms that allow it manufacture, ship, and bill before its supplier invoices are due. It actually makes money on the "float." According to one investment magazine, Wal-Mart sells more than 5% of all retail goods sold in the United States. Its competitive advantage is in logistics. If it is short of an item that is selling well in California, it can stop one of its trucks in Nebraska, carrying that item, remove the item, and redirect the item to California. Japanese automakers can turn around a new car from design to showroom floor in about a year and a half; it takes Detroit 5 years. This is an obvious competitive advantage. Curiously, they have not published how they reduced their cycle times – BPM maybe?

Build a Competitive Advantage for Your Company Make Business Process Management (BPM) your competitive advantage. Well-defined, automated business processes allow you to bring products to market sooner ("shorter time to market"). Lower costs due to increased efficiencies make your company more competitive. More efficient consistent processes usually result in higher quality products. In short, effective management of your business processes can provide your company with a Competitive Advantage:

- BPM should provide some control over how long a process takes. If nothing goes wrong, you know how long the process will take. If something does go wrong, you will be notified immediately (not weekly) so that you can assign other resources to the problem. This early notification may keep the project on schedule.
- BPM should provide visibility into the status of any process in the system. You should be able to see what step is being worked on and who is working on it. You should be able to see if someone is late or even potentially late.
- BPM should provide access to documentation required to perform tasks. BPM should manage and provide access to any documentation created by performing tasks.
- BPM software should allow you to perform audits in a few hours versus a full week.

Your Competitive Advantage

How will you build and sustain your profitability while you grow revenue? What will be the story that is written about your company?

Technology Management

The role of technology in economic growth and competitiveness, summarizes the strategies of the fastest growing economies over the last 50 years from the perspective of their technology strategy, summarizes some of the key global trends which are making it more difficult for developing countries to replicate the fast growth experience of the countries mentioned, and traces the impact of the rise of China on developing countries. Technology is an increasingly important element of globalisation and of competitiveness and that the acceleration in the rate of technological change and the pre-requisites necessary to participate effectively in globalisation are making it more difficult for many developing countries to compete.

Efficient IT Becoming New Critical Infrastructure

Information technology is becoming a fundamental enabling infrastructure of the new competitive regime. "Supply chain management requires speed across global space to accomplish what a factory accomplished internally with the assembly line. Information and communications technologies (ICT) are the tools that allow flexible accumulation to function." ICT is a critical part of what enables the organization and coordination of global production networks and the integration of global supply chains. It is also an essential element for monitoring what the consumers are buying and what they want, and passing that information seamlessly along to producing units which often are not even owned by brand name manufacturers. This real-time information on the changing needs of the market, indeed even direct interaction with the consumer (as in the examples of made to order computers or automobiles), as well as internal electronic exchange and management between different departments and division within firms and among firms, their suppliers and distributors, are becoming essential new ingredients of the global economy. There are several implications for developing countries. At the national level, there needs to be modern and low cost communication systems as well as good training in the skills necessary to use these networks.

For the development of e-business, there need to be appropriate legal and regulatory systems including e-signature as well as secure digital communications and safe payment systems. At the level of the firm, investments in training and hardware as well as in restructuring business processes are also necessary in order to take advantage of the reduction in transactions costs and time that can be obtained through these technologies.

The Technology Asset

The technology asset consists of sharable technical platforms and data bases. A strong technology asset is essential for integrating systems and making IT applications cost-effective in their operation and support. Two distinguishing characteristics of the technology asset are

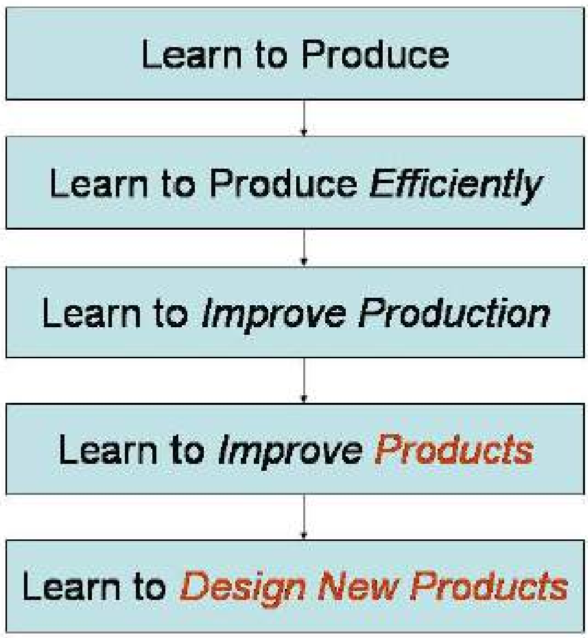
(a) A well-defined technology architecture and
(b) Data and platform standards.

As IT becomes distributed throughout firms and even beyond their boundaries, IT managers and their business partners need a clear vision of where individual technology components and responsibility for those components will be located. Firms with solid architectures have elaborated rules for distributing hardware, software and support - independent of individual applications.

These rules specify what kinds of data will be shared and how it will be stored, where servers will be located, and how applications and technologies will be supported. Each new application, then, moves the firm closer to the IT capabilities and management approaches defined by the architecture.

Technology Adoption as a Distinctive Competency

Distinctive competencies are the company's ensemble of skills and knowledge that are built on specialized expertise and tangible and intangible endowments that other competitors do not possess and cannot readily acquire or replicate. Armed with these distinctive competencies, company management chooses to methodically adopt a low-cost and/or differentiation strategy by developing its processes, systems, products, and services in order to distinguish the company from its competitors. Differentiation can take the form of a unique product, higher quality, customized service, personal relationship, and or an improved defensive position. Such strategic action gives the company an advantage over its rivals in buyer-seller transactions. If this advantage is sustainable over some narrow range, it is the basis for a business.



Source: Forbes & Wield, 2002

Figure 1: The Technology Capability Hierarchy

Employing relevant technology, the entrepreneur must grow her/his customer base by further penetrating, or by broadening, the initial foothold in the market. Moreover, he/she must supply existing customer, and attract potential new customers, by providing value equivalent to, or better than, the value offered by competitors.

During this period, the company can employ new technology, which can and make the growing company a world leader in developing distinctive competencies as an effective strategy for establishing a sustainable competitive advantage. By the time competitors can recognize the impact of these technologies and react to them, the company can develop and adopt the next generation of technological improvements. Thus the adoption of technology keeps the company abreast of the latest developments, helps it adapt to changing markets, and protects it from obsolescence. This process must be successfully repeated over the life cycle of the firm.

a) Technology, Growth Curve, and Theories on the Five Stages of Growth

The growth curve is characterized by alternating periods of revolution and evolution in a company's development. The general slope of the curve is dependent on the growth rate of the industry in which the company competes. Failures in introducing new technology can usually be rectified while only delaying - but still preserving - the growth curve. In this event, costs incurred in developing technology that is subsequently abandoned can diminish available resources, but have only a temporary effect on future returns. Only if the new technology requires an irreversible commitment is the dissolution of the company truly a risk.

A number of authors (e.g., Greiner, 1972; Churchill and Lewis, 1983; Tushman, Newman, and Romanelli, 1996; Hansen 1998, 1999) have concerned themselves with issues related to the growth curves of firms. Central to the discussion of technological adoption is the phenomenon known as "punctuated equilibrium" (Tushman, Newman, and Romanelli, 1996), which describes the non-continuous development of systems. If the growth cycle of most organizations is graphed, one will see periods of relatively smooth growth bounded by periods of rapid change and upheaval.

The curve can also be characterized as a "step curve," which occurs as resources are added or reformulated to induce the next level of relatively smooth growth. Congruent with the step curve model of growth, management theorists (e.g., Greiner, 1972; Churchill and Lewis, 1983; Hansen, 1998 and Hansen, 1999) argue that there are five stages of growth experienced in the life of a successful business. No single model claims to be comprehensive. However, all of the models presented emphasize the fact that each of the five transition periods that bound these stages is itself a period of management change and resource restructuring undertaken to better support anticipated conditions in the next level of business.

Each model examines some aspects of the organizational structure, management type, business requirements, capabilities, strengths, opportunities and limitations that affect the performance and success of a company at each phase of its development. All theories contend that every evolutionary period is characterized by the dominant management style used to achieve growth, while each revolutionary period is defined by an enterprise-threatening management problem that must be solved before growth can continue.

Thus, each period is both an effect of the previous phase and a cause for the next phase. Each successive theory progressively models a more mature description of the characteristics and requirements of an evolving organization, and implies the need for adopting appropriate, effective and efficient forms of technology to assure continuity and growth.

Moreover, each model is founded on the basic principles explored by Greiner (1972) in his theory of organizational growth. Greiner's (1972) analysis suggested five key dimensions essential for building a model of organization development. These are the age of the organization, the size of the organization, the current stage of evolution, the present phase of revolution, and the growth rate of the industry. As each of these dimensions evolves in a unique state of circumstances prescribed by past experience and practices, they resolve to form the growth curve that is singular for a particular company.

Like Greiner, Churchill and Lewis (1983) developed a method to depict a different mix of management factors required for each stage. The changing role of the factors clearly illustrates the need for owner flexibility and entrepreneurial strategy. Fifteen years after "The Five Stages of Growth," Hansen (1998) published his thesis, which states that the periods of revolution are engendered because the management structure necessary to foster success in a particular stage becomes an obstacle to further growth. Hansen modernizes the models set by Greiner (1972) and Churchill and Lewis (1983) to reflect current trends in business and the market opportunities for small companies.

Hansen posits that after a company progresses through the first two growth stages, individual business conditions and opportunities will dictate if the company experiences none, one or two of the subsequent phases. As Hansen explains, most companies constantly strive to differentiate themselves in order to protect themselves from the commodity pricing that occurs in the economists' perfectly competitive market. As a result, most markets are not perfectly competitive and individual business conditions can affect the company's ability to seize a timely market opportunity. Yielding or seizing such a break can, in turn, affect the company's chance to marshal resources to prepare it for the next market opportunity.

The similarities among these various positions are pervasive. Most of their differences can be attributed to the evolutionary and revolutionary processes, and the varying perspectives examined by the individual authors. The entrepreneur must consider and understand the effects of these stages of growth to optimize the impact when new technologies are introduced.

b) Technology Management in India

The technology management challenges faced by Indian firms in the past were closely related to the first three stages of this technological capability-building process. The absorption and improvement of imported process technologies was the biggest challenge faced by Indian companies. Indian firms took decades to be able to catch up with global productivity levels. In the import substitut ion regime, particular emphasis was placed on using locally available raw materials and intermediates.

This often implied changes in the production processes from the originally sourced process. For example, Indian coals have high ash content, so Indian steel plans had to learn how to modify their steel-making process to use local coal yet not compromise the quality and yield of the end product.

Similarly, Indian crude has high sulphur content, so refining processes had to be developed and improved to deal with this characteristic. In the pharmaceutical industry, the Indian patent regime allowed Indian companies to produce drugs covered by product patents elsewhere as long as they could come up with a process that did not infringe the process patent(s) of the original innovator.

This spurred Indian pharmaceutical capabilities to develop sophisticated process capabilities. An alternate source of technology for firms was the wide network of government research laboratories. Here the challenges were of a different nature. The technologies were often demonstrated at the laboratory-scale but both the laboratory and industry lacked the funds to scale-up the technology. Design and engineering capabilities in the laboratories were weak, and this impeded the scaling-up process. The transfer of technology from laboratory to the firm thus became a serious management challenge.

Post-liberalisation, Indian firms have been under tremendous pressure to improve their competitiveness. The removal of physical restrictions on imports and the lowering of customs duties implied that Indian firms had to be as good (or nearly as good) as their international competitors in order to survive. This accelerated the process of technological absorption. Several companies also pushed ahead in improving production and improving their products so as to be able to add value to their products and improve profitability.

More recently, in the last decade, the emphasis has been shifting to innovation and product development. Several industries, particularly the automobile, two-wheeler, and pharmaceutical industries have seen a high level of product innovation activity. This focus on innovation poses new challenges for Indian companies. Innovation is less predictable, and more risky than the earlier stages of capability-building. Indian companies lack experience in managing innovation and there are no easy recipes to follow.

Intellectual Property Rights (IPRs) play an important role in protecting innovations from being copied by others and companies now have to formulate IPR strategies that complement their competitive strategies.

c) Need for Growing Technological Competence

It is imperative for organizations to be able to adopt technologies that can sustain competitive advantage in today's global economy. Investors and lenders both recognize and reward those companies that demonstrate proficiency in technological disciplines (Montgomery and Porter, 1991). Investors are aware that technology can produce dramatic productivity gains through the leveraging of skilled positions and enhanced processes. Investors also know that innovation can be more rapidly adopted, that product consistency and reliability can be more readily ensured, and that customer relations can be further enhanced by capable and timely application of technological knowledge.

If one accepts that competitive technology is important to ensure success in many industries, a number of questions arise. When is it best to introduce new technologies into the firm? Should one be an innovator, a close follower, a state-of-the-art practitioner, a laggard, or a late adopter? (McGrath and MacMillan, 2000). Kevin Kelly's (1998) position implies that one should introduce new technologies for maximum effect, not necessarily for maximum efficiency.

In order to be the most effective, organizations should strive to implement pertinent new technologies during the periods of revolution in the growth curve. However, the experience curve may play a far more significant role in low-cost than differentiation. Kelly is implicitly acknowledging that differentiation is often dependent upon the ability to induce short-term monopoly rents through constant product introduction and enhancement, while low-cost is far more dependent on factors like the experience curve, economies of scale and continuing improvements in cost containment for products that tend to be commodity-like. Although differentiation and low-cost strategies are not mutually exclusive, the present study focuses on the need to differentiate to achieve maximum effectiveness.

Based on a differentiation strategy, during a revolutionary phase, firms should adopt those technological competencies that will yield advantages that can be readily perceived by potential customers; customers who will make the purchases to fuel the next period of evolution. Ongoing change will continue to bring other innovative technologies to the fore to be exploited by the entrepreneur. Adopting Hansen's (1998) terminology for the five phases of growth, the following technologies may be appropriate for each growth phase:

Phase 1 - Concept Development: Internet and related information and communications technologies; innovative products and services; and customer relationship management system.

Phase 2 - Foundation Building: e-Business innovation; enterprise resource planning system; digital network for greater interface; global connectivity; and Quality management.

Phase 3 - Rapid Market Expansion: integrated global network systems; fiber-optic and bandwidth technologies; globally managed service models; multi-vendor support system; single source managed services; and network outsourcing.

Phase 4 - Market Stabilization: enterprise management system; lean manufacturing techniques; and extensive product differentiation research and implementation.

Phase 5 - Niche Development: virtual organizational structure and management; strategic collaborations through joint ventures, mergers and acquisitions; data warehousing system; online analytical processing system; and portfolio management system.

d) The Role of Technology in the Concept Development Phase

Convincing potential customers that the company can deliver a unique product/service that better serves their needs will create a means for the company to enter the marketplace. Technology introduced at the development stage should focus on market intelligence and flexibility so the company can leverage its competitive edge by identifying and meeting previously unmet customer needs.

At this phase of uncertainty, the entrepreneur must be flexible and creative in adapting appropriate technologies that will adjust products, processes, marketing strategies, services, and other systems to establish a record of customer satisfaction. During the Concept Development Phase, products, production rates, and service packages are frequently adjusted or refined. Technology expenditures should be kept modest and applied to improving fundamental production and business processes because resources are scarce at this stage and the frequency of product, output and services change is typically the highest.

The Role of Technology in the Foundation Building Phase

At this point, the company has established the basis for a competitive advantage. It has developed a product/service mix that is rewarded in the market place. It now has to establish a reputation for consistency in executing the key strategies for the industry. This will allow the company to defend its advantage and to shelter itself from excessive costs as it pursues additional customers. It must then develop the products, processes, and systems that will provide the additional capacity required allowing the company to enter into the next phase.

To accomplish this task, the appropriate technologies to be introduced at this phase must focus on the processes that will consistently produce a high quality product as defined in the Concept Development Phase.

Concurrently, the product must be supported with an organization that is recognized by customers. The company must identify target markets and deliver products that inspire confidence among present and potential customers. Also, the organization must employ innovative technology that will: produce a discernable competitive advantage, differentiate the customer's "buying experience" at any point in the transaction, support product proliferation and the rapid increase in the number of customers arising out of growth, and control operations and to support inter-company and intra-company communications at multiple levels. It must provide a level of quality, price, and customer service that will keep present clients and attract new customers.

However, the company's inability to adopt the most strategic and appropriate technology at this phase of its business life cycle can have some significant consequences. Including the loss of competitive advantage and the erosion of the company's position in the industry. The potential for such setbacks should not discourage the company from pursuing a different set of strategies and adopting new technologies. With adequate, planned and strategic adjustments, a company can rectify its position to continue its intended growth path.

The Role of Technology in the Rapid Market Expansion Phase

The core of technology in this phase is a continuation of the focus begun in the previous phase. Management efforts are consumed with concern for control and growth.

Technological innovations must be directed toward enabling low-level employees to make day-to-day quality operating decisions. Increasing sales volumes effect learning and simultaneously offer the opportunity to realize economies of scale. The combined influences of these two factors can increase the rewards gained beyond the additive sum of the individual effects if the firm applies new technologies to the improvement of products, processes, controls, and communications.

These technologies are mainly expansions and upgrades of the systems adopted in the Foundation Building Phase. They evolve to promote delegation and specialization opportunities afforded by the higher volumes. These technologies earn profit premiums for those organizations that employ them. A portion of these profit premiums can be reinvested to preserve the company's position as a technological leader. This cycle can continue until the market reaches a new equilibrium, the Market Stabilization Phase.

The Role of Technology in the Market Stabilization Phase

The company does not have to dominate the market with its technology strategy in the Market Stabilization Phase. Acceptable profits can be reached through distinctive products and services, and/or cost advantages obtained while employing superior technology executed by highly trained specialists.

In the Market Stabilization Phase, the company should continue to invest in making continuous improvements to preserve its share of discriminating customers and to search for new opportunities for investment. Blindly pursuing greater market share can direct a leading edge technology company into a "race to the bottom." The "bottom" is defined as "average market returns."

This occurs because, once the company has attracted those customers willing to reward innovative technology, its marginal sales must come from those customers who do not strongly value the enhanced benefits of the new technology and who are only willing to pay average or near average prices or those customers who do not offer the opportunity to realize cost reduction opportunities.

Under these conditions, the seller cannot earn premiums sufficient to allow it to continue to make the investment necessary to sustain its technological leadership. In order to earn sufficient profit premiums and sustain growth, the company needs to seek out niches where the market will reward it for technological leadership. With investments in multiple and sophisticated technologies, it is time for the company to focus attention on consolidating all the experiences, tools, skills and information acquired throughout its development stages.

The Role of Technology in the Niche Development Phase

The advantage to a firm that has followed the path described in this paper is that it may now have developed distinctive competence as a technology innovator. This may give it a reputation for innovation and an advantage both in product and capital markets. The firm that reaches this phase has license to transcend the limits of the original market in which it earned its reputation and to explore companion markets served by companion technologies. For the most daring entrepreneur, this is the time to consider global operations and expanded offerings.

The company must reach some practical limit in the amount of business it can control and manage, so it must direct itself to those activities that create an optimal mix of long-range opportunity and current revenue. This requirement engenders a new technology that can enhance the organization's ability to examine the market for potentially profitable investment and divestment opportunities.

Building a profitable unit and selling it to another firm better situated to manage it can produce funds that can be better spent to develop products that fit the long-range goals of the company. Conversely, a unit that meets neither profit nor strategic goals can be sold at an attractive price to a company better situated to exploit the opportunity, or it can simply cut company losses and divest a poorly performing unit at the best obtainable price.

It emphasizes the advantage of adopting appropriate innovative technology as a competitive weapon and to describe the need to incorporate it into the strategy of a growing company. An entrepreneur can begin by creating a firm with a competitive edge that may, or may not, be technology based, but the firm must eventually employ some form of leading edge technology to establish its ability to perform key strategic actions necessary for survival in the industry.

Establishing a distinctive competence in innovative technology can be important to maximizing the growth potential of a company. If the company is generally perceived as successful at using new technology as a way of obtaining a sustainable competitive advantage, the firm can readily attract both capital and customers.

The strategy of adopting relevant innovative technology at each phase of the life cycle of a business to achieve strategic competitive advantages is not as high-risk as it seems at first consideration. As the company expands, it must develop new capabilities to address the requirements and risks associated with each development phase. Introducing innovative technology to be a market leader incurs only the marginal cost and risk associated with employing advanced technology. The reward of taking the risk is thus to produce a sustainable competitive advantage that can ensure the future competitiveness, growth and sustainability of the entrepreneurial company.

Research & Development

In the modern dynamic world, the society is steadily shifting to a fast track of economic and industrial development. The world of technology is in the state of rapid change and changes in the economic and industrial scenario are taking place at a rapid pace. The nations are now on the verge of immense technological change and knowledge revolution. In the modern age, technology is perhaps the most important resource to any nation. Technology and its management are today matters of global primacy.

Technological developments, in the areas of both product and process technologies are taking place at a very fast pace (Rathore, 2001). Shortening of product life cycles, rapid innovation, inventions and product developments are indicators to the fast changing manufacturing scenario.

The economic activities are moving in the direction of globalization. It is creating new structures and new relationships, with the result that business decisions and actions in one part of the world are having significant consequences in other places. Underlying and reinforcing these globalization trends is the rapidly changing technological environment (Muhammad et al., 2010). Increasing global competition coupled with rapidly changing technology, and shortening of product life cycles, have made corporations vulnerable to failure more than any time in the past (Jalan and Kleiner, 1995).

Today the industries worldwide are faced with new era of global competition and manufactures are forced to achieve world-class status to compete effectively in the global market. Organizations, which are able to continually build new strategic assets faster and cheaper than those of their competitors, will create long-term competitive advantages (Ajitabh and Momaya, 2004).

Further the recent advancements and rapid growth in the field of information technology has opened up the floodgates and led to globalization of economies and has resulted in the global competition between the organizations (Vanden Kroonenberg, 1989; Leonard-Barton, 1991). As the organizations around the world are faced with dynamic environments, the technology up-gradation has become key factor for the organization's survival and prosperity on the long-term basis.

The need of the hour is to achieve more product variety, shorten the delivery times and achieving greater flexibility of manufacturing functions. The advent of liberalization, Privatization and Globalization has brought forth profound economic, social, environmental and technological pressures.

Today the world is moving from an era of separate national economies to the networked global economy. Markets have become more open, competitive and the customers are more demanding. Competition is fierce in all aspects of the business such as technology, cost, product quality and service quality and the product quality has become strategic variable for effectively competing in the global market (VandeVen, 1986).

The organizations worldwide are faced with stiff, cutthroat competition that is marked by rapid technological developments and unprecedented obsolescence rates. These formidable changes have forced the organizations around the world to adopt innovative and state of the art strategies to suitably address the all-important issue of organization survival, growth and excellence.

Thus the organizations are left with no choice but to upgrade the existing systems, products and technologies for their survival (Martins and Terblanche, 2003; Yang, 2007).

The top competitive issues facing industry today include the following:

a. Deliver high quality products through continuous improvements in product features, reliability and service.
b. Bring new products to market faster.
c. Make product design changes faster and more manageable.
d. Improve forecasting accuracy of product demands.
e. Reduce costs.
f. Improve employee training, skills, and education levels.
g. Improve Information Systems and Networks

In order to address the top competitive issues facing the industry and meet the demands of today's complex manufacturing system, successful firms across the world are continuously making efforts in meeting pace with new technologies. Thus, continuous up-gradation of technology has become essential for survival of any manufacturing unit. Without continuous technology up-gradation, no enterprise can ever remain competitive.

In this highly competitive global scenario, technology upgradation has become mandatory for economic development, industrial growth, improved organization, enhanced corporate image, more flexible responses, strategic self reliance and sustained competitiveness of an enterprise (Giorgio, 2000). Thus technology up-gradation efforts must be placed within the context of market opportunity, customer needs and strategic direction, thereby leading to improving the product and technology portfolio.

Need for Research & Development in the Organizations

In the modern dynamic world, competition is the driving force behind technological and institutional change. The world is fast turning into a global village that provides unlimited access to the technologies and products of the entire world to everybody. Today, technology is the main driver of economic development of any nation.

Thus, organizations across the globe are faced with the task of developing indigenous technologies and products to enhance their competitive edge thereby contributing to evolution of national wealth in all segments of economy (Cagliano, 2000). Thus, in this rapid paced environment, the organizations are faced with challenge of bringing forth a steady stream of new products and technologies. Thus the organizations have to learn to stretch themselves in order to create new products and technologies and identify new market places and challenge before the organizations is how can they create their own successful future.

To achieve the developmental goals of an enterprise for technology up-gradation, there are two options: first, the technology can be developed indigenously through inhouse R&D; secondly, it can be acquired from an external source within the country or abroad (Ettlie, 1998). The first option of indigenous development of technology is quite expansive, both in terms of time and money, as it requires extensive technical / scientific manpower and R&D infrastructure. In addition to this, the shortening technological life cycles also make it extremely difficult for the organizations to make investments in R&D activities.

As the organizations are faced with dynamic environment and the product and technology life cycles are also getting shortened, the technologists are left with very short reaction time for harnessing the heavy investments required for indiginizing the R&D activities within the organization (Pegels and Thirumurthy, 1996).

Thus the organizations in the past have reacted to this situation by putting onus on shortening the learning time and reacting faster to rapidly changing technological environment through the strategic networking for obtaining new technologies for providing technological solutions to a large number of organizational problems and bottlenecks. The enterprises in most of the developing countries have often depended on other advanced countries for acquisition of technology, taking into account their market needs and resources. Thus, many enterprises in the developing countries have considered the external technology acquisition for mitigation of existing and perspective technological problems.

Here it must be well understood that, while the external acquisition of technology in the initial stages may be desirable or even necessary in the high technology areas, but no industry can prosper in the long run unless it builds up a self reliant base for carrying out indiginization of process and product technologies.

It is the right time that the organizations learn to embrace change, as development of advanced technologies help in improving the competitive position of the organization and the full advantage of such technologies cannot simply be purchased off- the-shelf; these can be obtained by carefully tailoring the technology to fit into the organization's strategic goals and objectives (Marco, 1993).

Moreover it is also not possible for the organizations to acquire state-of-art technologies from the external sources due to the basic reason that no entrepreneur ever offers state-of-art technology at terms that are suited to encourage the growth and development of the organization and that might lead to the capability building of the organization.

This leads to the situation wherein organizations are forced to follow the state-of art technology based on the black-box approach and in no way empowers the organizations to adapt the technology towards building up of technological know-how for developing core competencies within the organization to suit its strategic and business requirements (Liyanage, 1999).

Moreover in many situations, even if state-of-art technology is made available to the organizations, it is usually not affordable by the organization to effectively and economically adopt / absorb the technology into its operations. Thus, in order to achieve sustained competitive edge over the competitors in the global market, the organizations are faced with the challenge of indigenization of the product and process technologies through research and development and incremental process innovations as process innovations lead to the development of core competencies within the organizations.

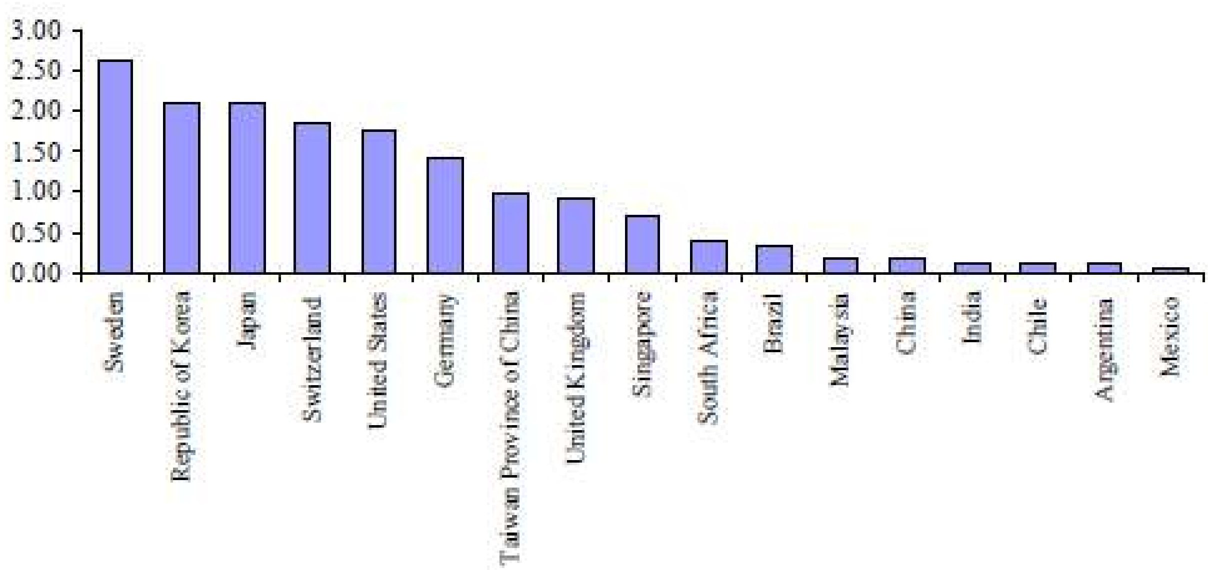
Global competition, technological change, and demanding customers are creating a more knowledge intensive, turbulent, complex and uncertain environment. Creating new forms of competitive advantage has become major area of concern for management in such an uncertain and competitive environment (Singh, Garg, Deshmukh, 2008).

The fierce competitive situation arising out global competition is forcing the organizations across the globe to realize that the mere survival act is also not feasible in the absence of research and development and innovation practices in the contemporary global scenario (Takahashi, 1997). For the industry to stay 'alive' and remain competitive, it must innovate. Innovation is therefore portrayed as the backbone of any industry (Pichard et al., 2008). It is therefore the right time for the industries to wake up and gear up for research and development initiatives to develop cutting edge technologies for sustained competitive advantage in the global market place.

In today's business world successful product or process innovation provides companies with major opportunities and advantages. Successful innovation is increasingly important in the globally competitive economy (Regan, Ghobadian, Gallear, 2006).

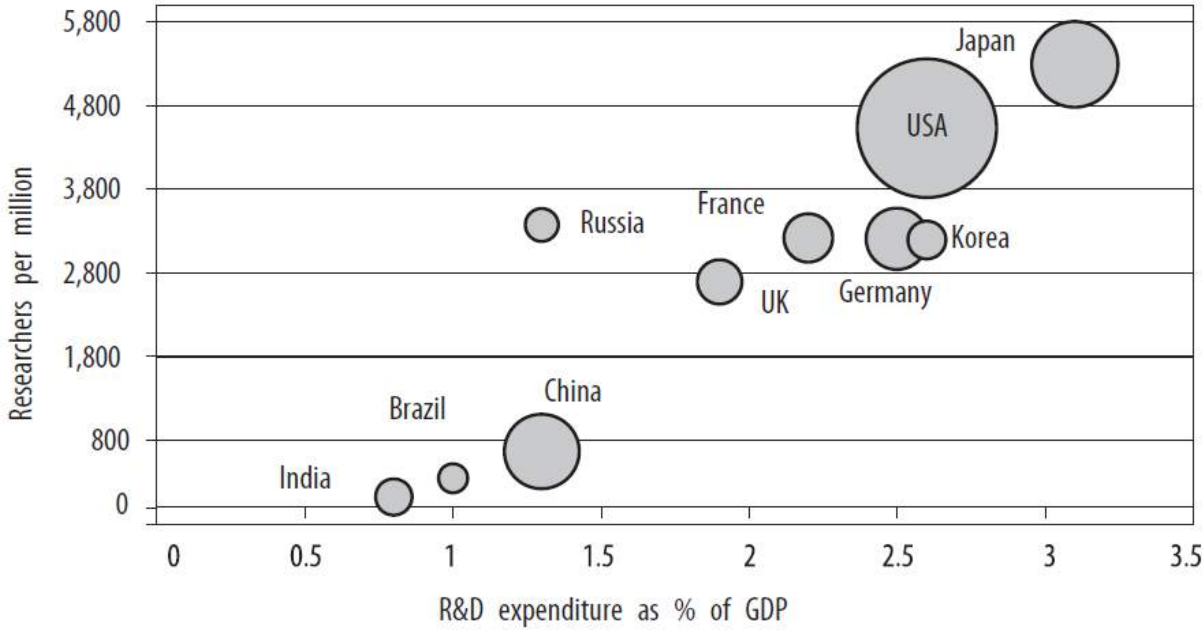
Let us now look at *R&D spending*, taking not total R&D (which can be misleading for analysing industrial technological activity) but that *financed by productive enterprises* (figure).

Figure 12. R&D by productive enterprises as percentage of GDP, most recent year



The leaders in the world in this activity (measured by R&D as a percentage of GDP) are Sweden, Japan and the Republic of Korea. Yet only some 20 years ago, the Republic of Korea was a typical developing country, with 0.2 per cent of gross national product going into R&D and 80 per cent of that coming from the public sector. Today, total R&D is over 3 per cent of GDP, with over 80 per cent coming from the private sector.

Figure 4. Total gross domestic expenditure on R&D (PPP US$)



Source: Computed from data in World Bank (2006a).

The global competitive scenario requires constant review of the existing product and process technologies; strengthening of the prevailing knowledge base to develop cutting edge technologies and products to satisfy the customer's requirements in performance, state-of-art quality, reliability at an affordable price (Perez, 1998). As the organizations across the world find it extremely difficult to compete in the global market through the strategies like external technology acquisition without familiarization to the technologies, they are forced to adopt the strategy of transforming the organization into a learning organization, thereby assimilating and integrating the knowledge towards development of new and improved innovative product and process technologies (Palhan, 1991).

Objectives of Technological Developments Through R&D

The main objectives of an enterprise going for technology up-gradation / technological developments through Research and Developmental activities include the following:

a. Enhanced infra-structural facilities
b. Enhanced corporate image
c. Increasing manufacturing agility
d. Early development of in-house expertise
e. Diversifying into new product markets

f. Extended proprietary positions and rapid ramp up

g. Improving product mix

h. Restructuring mature / declining product lines

i. Reducing technological gap behind competitors

j. Improved responsiveness to changing market demands

k. Achieving consistency in quality

l. Greater reliability of products

m. Improved resource utilization

n. Fostering good vendor relationships

o. Accelerated time to market

p. Better process control

q. Low cost of meeting demand

r. Improving the skill base

s. Broadening of product lines

Indian Technology and R&D Scenario

Globalization and liberalization of economy have tremendously changed the industrial scenario in our country. The industrial scenario has undergone a sea-change consequent to the liberalization and globalization that began in early nineties. India was in a protected environment till 1990. India had the license regime; entry into businesses was very much restricted with certain sectors like telecommunication, airways under monopolistic situation.

Whatever goods produced had to be accepted, as there was no alternative available. Prior to liberalization, privatization and globalization, cost was not a major factor for the Indian domestic entrepreneurs and whatever price was fixed by the supplier, had to be paid by the customer while there was little or rather no focus on providing service to the customers. It sued to be the seller’s market wherein very little emphasis was given to continuously improving the product quality and providing state-of-art products regularly into the market.

But after opening up of the economy, competition came in - both from local and from abroad. All of a sudden the customer has received all the importance. The secret for this sudden change is the onslaught of competition. Now it is the question of survival of the fittest. The uncertainties due to globalization of the Indian market after economic reforms have led to drastic changes in the approach of manufacturing organizations for developing various competencies to get competitive advantage. The new competition is in terms of reduced cost, improved quality, products with higher performance, a wider range of products with better service, and all delivered simultaneously (Nanda and Singh, 2008).

According to the Global Competitiveness Report, 2009- 2010, published by Harvard Institute, India ranks fourth in the world on the factor of availability of scientists and engineers, yet it ranks at 43 out of 133 nations on overall technological sophistication. The paradox is very stark. On one hand India has developed, nuclear capabilities and has shown lot of strength in the areas of satellite communication, missile technology but on the other performs badly in the export of capital equipment. The pattern of technology funding by Indian government, does not reflect priorities inferred from economic development and growth objectives.

An analysis of R&D expenditure in India shows that funding for technology in specific sectors is not in consonance with the size of domestic or global markets. In India, too much of research and development effort is expended in the public sector. Over 80% of the funding for R&D comes from the government and almost all of this is spent in government run organizations. India stands at number 36 on private sector spending on R&D among 133 developed and emerging economies. The country ranks 46 on research collaborations between the universities and industry. All high technology businesses across the globe have academic ties wherever they are located. This type of industry - institute interaction lacks in India with a ranking of 46 out of 133 countries (Global Competitiveness Report, 2009-2010).

Today the biggest challenge before the Indian industry is to generate the knowledge base for producing technologies and core competencies to remain competitive globally. Unfortunately, the research and development scenario in the country is not very encouraging at the present moment.

The Global Competitive Report, 1988 published by Harvard Institute puts India in 53rd position out of 53 developed and emerging technologies. This ranking does not do justice to the inherent potential of Indian companies to achieve international levels of competitiveness. Moreover the research and development investments in India are very low, ranging between 0.2 % - 0.5 % of the total turnover compared to 2.5 - 18 % in the case of organizations across the globe. In addition to this, the Indian industry in the past has often been often motivated and guided by the technology inputs from the foreign collaborators.

Thus the industry has neglected to foster the healthy relationship between the industry and research and development establishments. A near total disconnect between the industry and research and development establishments in the country has been hampering the country's efforts towards achieving technological excellence and self reliance in this highly competitive environment.

In the pre-liberalized Indian economy, not many organizations had bothered to invest in research and development. Now, ever since the opening up of the Indian economy, the Indian entrepreneurs are constantly feeling the heat of fierce and cutthroat unlimited competition. With the Multinational Corporations entering into the Indian marketplace with better core capabilities and much superior research and development infrastructure facilities, the Indian entrepreneurs are finding it extremely difficult to compete with their global counterparts as their age old practices of over dependence on external technology acquisitions to compete effectively in the marketplace have rendered their available technologies and skills obsolete, inefficient and outdated.

The industrial scenario in India has undergone a sea-change consequent to the globalization and liberalization of economy. This competition is marked by rapid technological developments and unprecedented obsolescence rates. Today, the biggest challenge before the Indian industry is to generate the knowledge base for producing technologies and core competencies to remain competitive globally.

This requires extensive research and development efforts for indigenous technology development. The over dependence of the Indian firms on external technology acquisition have rendered their available technologies and skills obsolete, inefficient and outdated. They should move away from their complacent technology development and innovation initiatives and start managing innovation in research and development activities to develop cutting edge technologies and products.

With the state-of-art technology not available easily off the- shelf, the Indian entrepreneurs are left with no option but to wake up and harness their resources, in particular their much-neglected human resources for effectively and efficiently competing with their global counterparts.

Organizational structure should be such that there are adequate funds, materials, production facilities and information support system to sustain innovation (Amabile et al., 1996; Ghorbani and Bagheri, 2008). Government should concentrate on quality strategy development, goal stretching, continuous improvement and concurrent engineering programmes contributing to the creation of innovation context (Bossink, 2002; Avnimelech and Teubal, 2008).

Governments should develop policies for technological innovations, both on a global and local scale, using especially tools geared towards improving the links between firms and research. These tools involve creation of infrastructures for assistance and technological transferal. Among these tools, a key role is played by an effective network of service centers, development agencies and technological parks, suitably linked to local public or private bodies, providing a real support to the innovation needs of firms (Cariola, 2009; Henrik et al., 2009).

Increase in technological innovation demands that government should enhance the extent of investment on R&D and training of employees through targeted expenditure and collaborative research programs (Liyanage, 2003; Regan, Ghobadian, Gallear, 2006; Fajnzylber, Maloney, Montes-Rojas, 2009). The Government should support programs to build infrastructure as well as incentives (such as tax incentives) and special start-up programs to develop private sector. Factors under infrastructure facilities are related to transport, market information, credit, power, water, telecom, technology upgradation and quality certification; noninfrastructure category includes interaction with government, taxation, and manpower availability (Thomas, 1993; Sheel, 2002; Hyland, 2004).

Facilitating access to credit and business development services and promoting formalization, will lead to increase in increase firm's growth (Shi et al., 2008; Fajnzylber, Maloney, Montes-Rojas, 2009).

The Indian entrepreneurs have understood that competitiveness can only be achieved through undisputed customer orientation through timely and flexible responses to the market-place requirements. Therefore economic liberalization and consequent global competition have forced the Indian industries to move away from their traditional complacent technology development and creation initiatives and adopt the strategy of continuous improvement, innovation and research for keeping pace with rapidly changing global scenario. Thus, it is the right time that Indian industries gear up research and development activities to develop cutting edge technologies and products.

Conclusions

The business environments are witnessing a rapid change in today's highly competitive and fast growing marketplace. The requirements of the present customers and potential customers are undergoing drastic changes due to wider exposure, customer education that is driven by hardcore competition. To stay close to the customers is essential for sustained growth and continuity of business.

This places all organizations to continue to evaluate customer's needs and problems and take a best possible course of action to satisfy them, as customer's satisfaction is the measure of success of an organization. Thus, continuous supply and development of excellent quality products, services at competitive prices, timely delivery and after sales service are being viewed as key strategies for sustained growth and development of an organization.

India is a fast growing economy and has been making impressive economic progress in the last few years despite many daunting challenges on the socio-political fronts. With arguably a very high level of availability of technical and scientific manpower in the country, the government should tap this vast potential of human resource in order to gain an upper hand in research and development. This is possible only when we are able to prioritize our research and development activities and right policies are not only framed but also effectively and religiously implemented to encourage the human resources to take up the research and development activities.

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Lesson 2.3 - Production and Operations Management

Introduction

The Subject of Production Management is studied under different Headings-such as Production Planning and control, Production and Inventory control, production and operations control and many more. Whatever may be the title of the subject, the contents of the subject are more or less one and the same. Before we discuss about production management, let us discuss about product, production and management. This will give us a rough idea about production Management and with what a production manager has to deal with.

What Is Product?

Though many authors define the product with Consumer orientation, it is better for us to deal with different angles, because it will be helpful for us to understand the subject of production and Operation Management.

(i) For a Consumer

The product is a combination of or optimal mix of potential utilities. This is because every consumer expects some use or uses from the product. Hence he/she always identifies the product in terms of the uses. Say for example-Soap can be identified by complexion, cleanliness of body, freshness, fragrance or health.... etc. Because of this, many producers advertise that they are selling health, or they are selling Cine star Complexion or they are selling freshness and so on.

(ii) For a Production Manage

Product is the combination of various surfaces and processes (or operations). This is because the production Manager is solely responsible for producing the product. He has to think of the various surfaces by which the product is made of, so that he can plan for processes by which a particular surface can be made and plan for required capacity of the facility by which the surface is produced. While planning he has to see that the required surface is produced by the best and cheapest method (optimally), so as to make the product to face competition in the market.

(iii) For a Financial Manager

For him the product is a mix of various cost elements as he is responsible for the profitability of the product.

(iv) For a Personnel Manager

For him the product is a mix of various skills, as he is the person who selects and trains the personnel to meet the demand of the skill to produce the product. In general we can define the product as a bundle of tangible and intangible attributes, which along with the service is meant to satisfy the customer wants.

Production

Production means application of processes (Technology) to the raw material to add the use and economic values to arrive at desired product by the best method, without sacrificing the desired quality. We have three ways of Production, they are:

(i) Production by Disintegration

By separating the contents of Crude oil or a mixture the desired products are produced. For example the crude oil is disintegrated into various fuel oils. Similarly salt production is also an example for product produced by disintegrated. We can use Mechanical or Chemical or both technologies to get the desired product, so that it will have desired use value.

(ii) Production by Integration

In this type of Production various Components of the products are assembled together to get the desired product. In this process, Physical and Chemical Properties of the materials used may change. The examples are: Assembly of Two wheelers, Four wheelers and so on.

(iii) Production by Service

Here the Chemical and Mechanical Properties of materials are improved without any physical change. The example for this is Heat Treatment of metals. In real world, a combination of above methods is used. In general production is the use of any process or procedure designed to transform a set of input elements into a set of output elements, which have use value and economic value.

Management

Management can be explained as an art or science, (in fact it is a combination of art and science) of getting things done by the people, by planning, coordinating, organizing, directing and controlling the activities to meet specified goals, with in the frame work of agreed policies. The above explanation put emphasis on getting things done, Planning, Organizing, Coordinating, and controlling and specific objectives and agreed policies.

Today's manager needs scientific base as well as personal tactics to manage the people under him to achieve the desired goals. Above discussion about product, production and management will help us to understand what exactly the Production Management or Production, and Operations Management is.

Production and Operations Management – An Overview

Operations Management is the conversion of *inputs* into *outputs,* using physical resources, so as to provide the desired utility/utilities of form, place, possession or state or a combination there-of to the customer while meeting the other organizational objectives of effectiveness, efficiency and adaptability. It distinguishes itself from other functions such as personnel, marketing, etc. By its primary concern for '*conversion by using physical resources*'. There should be a number of situations in either marketing or personal or other functions, which can be classified or sub-classified under ***Production and Operations Management.***

For example, (*a*) The physical distribution of items to the users or customers, (*b*) The arrangement of collection of marketing information, (*c*) The actual selection and recruitment process, (*d*) The paper flow and conversion of data into information usable by the judge in a court of law, etc. Can all be put under the banner of production and operations management? '*The conversion*' here is subtle, unlike manufacturing which is obvious. While in case (*a*) and (*b*) it is the conversion of '*place*' and '*possession*' characteristic of product, In (*c*) and (*d*) it is the conversion of the '*state*' and characteristics. And using physical resources effects this 'conversion'. The input and / or output could also be non-physical such as 'information', but the conversion process uses physical resources in addition to other non-physical resources. The management of the use of physical resources in addition to other non-physical resources for the conversion process is what distinguishes production and operations management from other functional disciplines.

Production and Operations Management systems are also described as providing physical goods or services. When we say that the Central Government provides *service* and the Indian Airlines provide *service* these are two entirely two different classes of utilities and consequently the objective and criteria for reference will have to be entirely different for these two cases. We may say that the actual production and operations management systems are quite Operations Management complex involving multiple utilities to be provided to the customer, with a mix of physical and non-physical inputs and outputs and perhaps with a multiplicity of customers.

Criteria of Performance

Three aims of performance of the Production and Operations Management system may be identified. They are,

(*a*) Effectiveness,
(*b*) Customer satisfaction,
(*c*) Efficiency.

The case of *Efficiency* is *productive* utilization of resources is clear. Whether the organization is in 'private sector' or in the 'public sector', is a 'manufacturing or 'non-manufacturing' organization or a 'profit' or a 'non-profit' organization, the optimal utilization of resource inputs is always a desired objective. The effectiveness has more dimensions to it. It involves optimality in the fulfilment of multiple objectives with a possible prioritization within the objectives.

Modern production and operations management has to serve the target customers, the people working within, as also the region, country or society at large. Thus Production / Operations Management system, has not only to be *profitable* and / or *efficient*, but must necessarily satisfy many more *customers*. This effectiveness has to be again viewed in terms of the short and long-term horizons depending upon the operations system.

Optimum, Good, Better operations management can improve:

(*i*) Efficiency of operation system to *do things right and broader concept.*
(*ii*) Effectiveness of operation system refers to doing right things that is seven rights, they are:

Right operation, Right Quantity, Right Quality, Right Supplier or Right Vendor, Right Time, Right Place and Right Price. Basically, *efficiency and effectiveness of the operations system* can be measured by four dimensions, they are:

(i) Cost,

(ii) Quality,

(iii) Dependability and

(*iv*) Reliability.

In fact these directly relate to the *competitiveness* of the organization, both nationally and internationally. Modern developments in better tools and techniques, methods and systems like Automation, Flexible manufacturing, CAD, CAM, CIM at management, CADD, CIMS, Use of Robotics, TQM, OR Techniques etc, are taking place to achieve improvements in Cost, Quality, Dependability, Reliability and Flexibility and thus to help for *better management.*

Definition of Production Management

It may be defined as:

(i) The performance of the management activities with regards to selecting, designing, operating, Controlling and updating production system.

(*ii*) It is the processes of effectively planning, coordinating and controlling the production, that is the operations of that part of an enterprise, it means to say that production and operations Management is responsible for the actual transformation of raw materials into finished products.

(*iii*) Production management is a function of Management, related to planning, coordinating and controlling the resources required for production to produce specified product by specified methods, by optimal utilization of resources.

(*iv*) Production management is defined as management function which plans, organizes, coordinates, directs and controls the material supply and Processing activities of an enterprise, so that specified products are produced by specified methods to meet an approved sales programme. These activities are being carried out in such a manner that Labour, Plant and Capital available are used to the best advantage of the organization.

Objective of Production Management

The objective of Production Management is to produce the desired product or specified product by specified methods so that the optimal utilization of available resources is met with. Hence the production management is responsible to produce the desired product, which has marketability at the cheapest price by proper planning, the manpower, material and processes.

Production management must see that it will deliver right goods of right quantity at right place and at right price. When the above objective is achieved, we say that we have effective Production Management system.

Scope of Production Management

In fact, we apply Principles of Management; and functions of Management in our day-to-day life. We all know, from morning till night, we plan our activities; we coordinate available resources and control our activities to achieve certain goals. So also any organization must follow the Principles of Management for its survival and growth.

The same is applicable to production Management also. Reading and learning Production Management will enable one to be capable of solving the problems of the organization, may be an Educational Institution, Production Shop, Hospital, Departmental shop or even a barber shop. The problems a manager face in various organizations are more or less similar to that of Production department but smaller in magnitude.

Hence the knowledge of Production Management will help any professional Manager to tackle the problems of his business easily. For example: The Production Management consists of Planning, selection of materials, planning of processes, Routing, Scheduling and controlling the activities etc., Take the example of an Educational Institution/University. Here also selection of raw students, Planning of the Course Work, Educating the students and conducting the examination. Therefore this knowledge will enable one to apply the principles of Production Management to any field of life without restriction.

Here, We have to remember that the above is also applicable to the management of a service organization and the management of a Project. Here it is better to distinguish between product, Service and Project, so as to help the reader to know on which particular aspect of Production Management to put much emphasis, in managing a service organization or a project.

(i) Product

Manufacturing system often produces standardized products in large volumes. The plant and machinery have a finite capacity. The facilities constitute fixed costs, which are allocated to the products produced. Variable costs, such as, labour cost and materials costs.

While manufacturing the product use value and economic values are added to the product. Hence the product is a store of values added during manufacture. Because the input costs and output costs are measurable, the productivity can be measured with certain degree of accuracy. Product can be transported to the markets and stored physically until it is sold.

(ii) Service

Service system present more uncertainty with respect to capacity and costs. Services are produced and consumed in the presence of the customer. We cannot store the service physically. Because of this the service organizations, such as Hotels, Hospitals, Transport Organizations and many other service organizations the capacity must be sufficiently or consciously managed to accommodate a highly variable demand. Sometimes services like legal practice and medical practice involve Professional or intellectual judgments, which cannot be easily standardized. Because of this the calculation of cost and productivity is difficult.

(iii) Project

Project system does not produce standardized products. The Plant, Machinery, Men and Materials are often brought to project site and the project is completed. The project is of big size and remains in the site itself after completion. As the costs can be calculated and allocated to the project with considerable accuracy, Productivity can be measured. Once the project is completed, all the resources are removed from site.

Benefits Derived from Efficient Production Management

The efficient Production Management will give benefits to the various sections of the society. They are:

(i) **Consumer** benefits from improved industrial Productivity, increased use value in the product. Products are available to him at right place, at right price, at right time, in desired quantity and of desired quality.

(*ii*) **Investors:** They get increased security for their investments, adequate market returns, and creditability and good image in the society.

(*iii*) **Employee** gets adequate Wages, Job security, improved working conditions and increased Personal and Job satisfaction.

(*iv*) **Suppliers:** Will get confidence in management and their bills can be realized with out any delay.

(*v*) **Community:** community enjoys Benefits from economic and social stability.

(*vi*) **The Nation** will achieve prospects and security because of increased Productivity and healthy industrial atmosphere.

Functions of Production Management Department

The functions of Production Management depend upon the size of the firm. In small firms the production Manager may have to look after production planning and control along with Personnel, Marketing, Finance and Purchase functions.

In medium sized firms, there may be separate managers for Personnel, marketing and Finance functions. But the production planning and control and Purchase and stores may be under the control of Production management department.

In large sized firms the activities of Production Management is confined to the management of production activities only. As such, there are no hard and fast rule or guidelines to specify the function of Production Management, but in the academic interest we can mention some of the functions, which are looked after by the Production Management department. They are:

(*i*) **Materials:** The selection of materials for the product. Production manager must have sound Knowledge of materials and their properties, so that he can select appropriate materials for his product. Research on materials is necessary to find alternatives to satisfy the changing needs of the design in the product and availability of material resumes.

(*ii*) **Methods:** Finding the best method for the process, to search for the methods to suit the available resources, identifying the sequence of process are some of the activities of Production Management.

(*iii*) **Machines and Equipment:** Selection of suitable machinery for the process desired, designing the maintenance policy and design of layout of machines are taken care of by the Production Management department.

(*iv*) **Estimating:** To fix up the Production targets and delivery dates and to keep the production costs at minimum, production management department does a thorough estimation of Production times and production costs. In competitive situation this will help the management to decide what should be done in arresting the costs at desired level.

(*v*) **Loading and Scheduling:** The Production Management department has to draw the time table for various production activities, specifying when to start and when to finish the process required. It also has to draw the timings of materials movement and plan the activities of manpower. The scheduling is to be done keeping in mind the loads on hand and capacities of facilities available.

(*vi*) **Routing:** This is the most important function of Production Management department. The Routing consists of fixing the flow lines for various raw materials, components etc., from the stores to the packing of finished product, so that all concerned knows what exactly is happening on the shop floor.

(*vii*) **Despatching:** The Production Management department has to prepare various documents such as Job Cards, Route sheets, Move Cards, Inspection Cards for each and every component of the product. These are prepared in a set of five copies. These documents are to be released from Production Management department to give green signal for starting the production. The activities of the shop floor will follow the instructions given in these documents. Activity of releasing the document is known as dispatching.

(*viii*) **Expediting or Follow up:** Once the documents are dispatched, the management wants to know whether the activities are being carried out as per the plans or not. Expediting engineers go round the production floor along with the plans, compare the actual with the plan and feed back the progress of the work to the management. This will help the management to evaluate the plans.

(*ix*) **Inspection:** Here inspection is generally concerned with the inspection activities during production, but a separate quality control department does the quality inspection, which is not under the control of Production Management. This is true because, if the quality inspection is given to production Management, then there is a chance of qualifying the defective products also. For example Teaching and examining of students is given to the same person, then there is a possibility of passing all the students in the first grade. To avoid this situation an external person does correction of answer scripts, so that the quality of answers are correctly judged.

(*x*) **Evaluation:** The Production department must evaluate itself and its contribution in fulfilling the corporate objectives and the departmental objectives. This is necessary for setting up the standards for future. Whatever may be the size of the firm; Production management department alone must do Routing, Scheduling, Loading, Dispatching and expediting.

This is because this department knows very well regarding materials, Methods, and available resources etc. If the firms are small, all the above-mentioned functions (*i* to *x*) are to be carried out by Production Management Department. In medium sized firms in addition to Routing, Scheduling and Loading, Dispatching and expediting, some more functions like Methods, Machines may be under the control of Production Management Department. In large firms, there will be Separate departments for Methods, Machines, Materials and others but routing, loading and scheduling are the sole functions of Production Management. All the above ten functions are categorized in three stage, that is Preplanning, Planning and control stages as shown in figure.

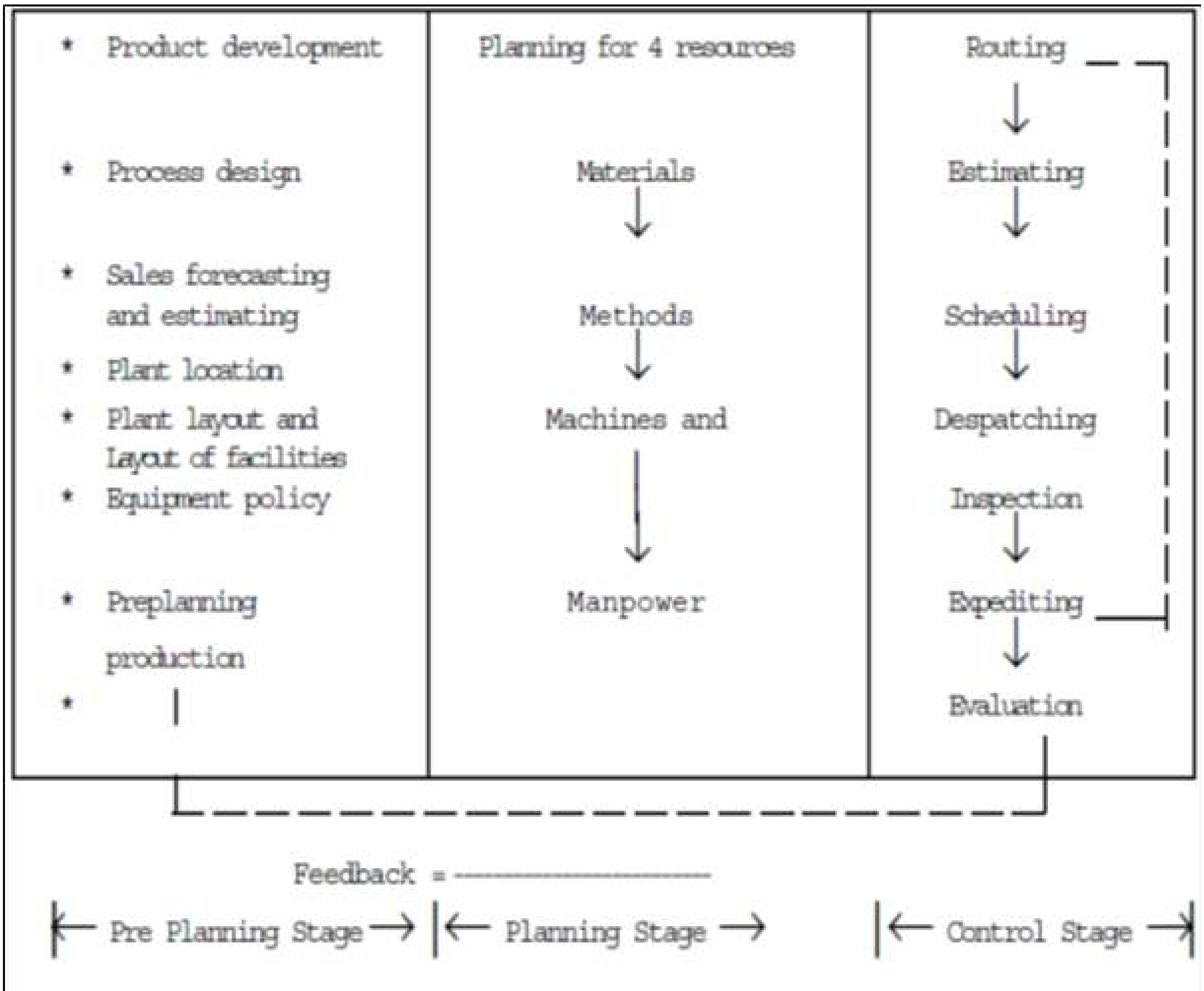


Fig. 1.1 : Production function.

Place of Production Management Department in the Organisation

Production is the centre of all activities of an organization. This is to say all the activities of an organization, such as: Finance, Personnel, Marketing...etc., are exists in an organization because of production activity.

Hence the position of Production Management in an organization is very important. Whether it should be a line function or Staff functions, more or less depends upon the corporate management policy. In small organization, Production Management is whole and sole of it. In large industries, generally it is advisable to have Production as line function, because, the decision taken by the line manager and the advices given by the Staff personnel will be based on the Production activities.

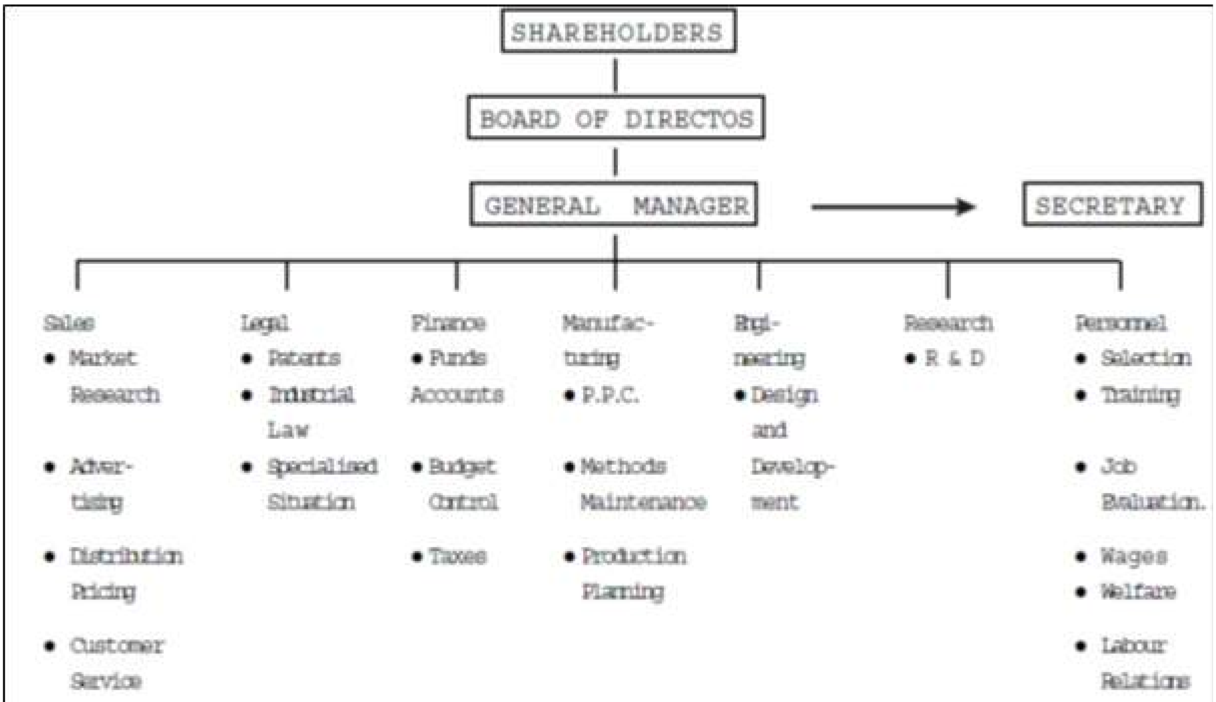


Fig. 1.2 : Typical Organisation chart for an organisation

ORGANISATION CHART FOR P.P.C. DEPARTMENT

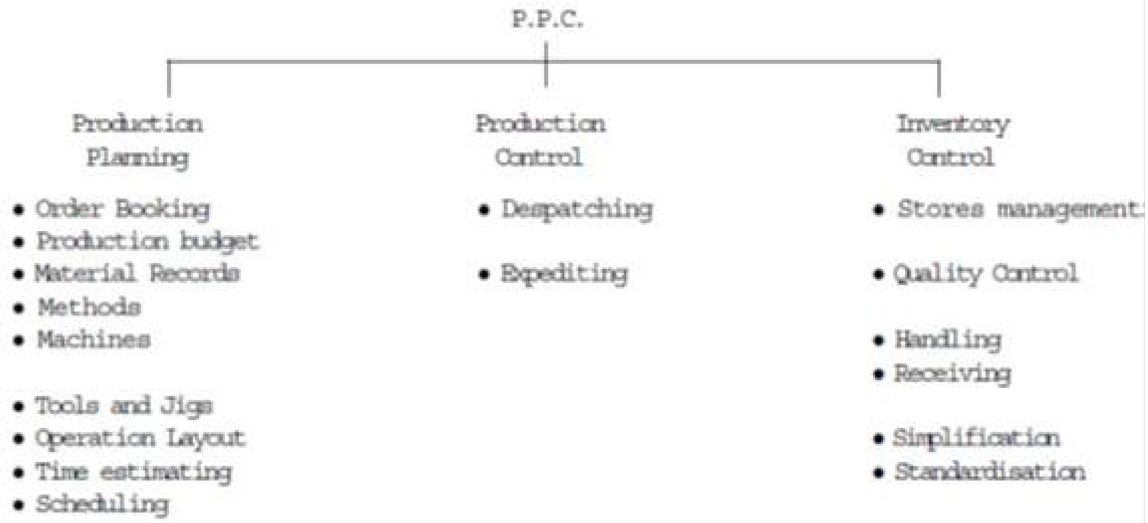


Figure 1.3 : An organization chart for production management department.

The Production Manager, directly report to General Manager, who in turn report to the Board. The figure shows a typical organization structure showing the position of Production Management. Figure shows an organization chart for Production and Operations Management department.

Types of Production Systems

The organization of manufacturing systems, also planning and control of production greatly depends on type of product type of the product line. Basic principles that guide the formation of planning policy and its execution may be the same for all the manufacturing concerns.

But emphasis on a particular aspect of production management in fulfilling of specific requirement of the plant and the management approach to the problems of inventory, machine selection, machine setting, tooling, routing, scheduling, loading, follow up and general control will differ depending on the type of production system. Three main factors generally determine this aspect are:

(*i*) **Type of production** i.e., quantities of finished products and regularity of manufacture. For example whether Job production or Batch Production or Continuous Production.

(*ii*) **Size of the Plant** i.e., Small Industry, Medium sized Industry or Large Industry.

(*iii*) **Type of Production:** In general there are three classifications in types of Production system.

They are discussed below.

(a) Job Production

In this system Products are manufactured to meet the requirements of a specific order. The quality involved is small and the manufacturing of the product will take place as per the specifications given by the customer. This system may be further classified as.

(*i*) **The Job produced only once:** Here the customer visit the firm and book his order. After the completion of the product, he takes delivery of the product and leaves the firm. He may not visit the firm to book the order for the same product. The firm has to plan for material, process and manpower only after receiving the order from the customer. The firms have no scope for pre-planning the production of the product.

(*ii*) **The job produced at irregular intervals:** Here the customer visits the firm to place orders for the same type of the product at irregular intervals. The firm will not have any idea of customer's visit. Here also planning for materials, process and manpower will start only after taking the order from the customer. In case the firm maintains the record of the Jobs Produced by it, it can refer to the previous plans, when the customer arrives at the firm to book the order.

(*iii*) **The Jobs Produced periodically at regular intervals:** In this system, the customer arrives at the firm to place orders for the same type of product at regular intervals. Here firm knows very well that the customer visits at regular intervals, it can plan for materials, and process and manpower and have them in a master file. As soon as the customer visits and books the order, the firm can start production. If the volume of the order is considerably large and the number of regularly visiting customers are large in number, the Job Production system slowly transform into Batch Production system.

(b) Batch Production

Batch Production is the manufacture of number of identical products either to meet the specific order or to satisfy the demand. When the Production of plant and equipment is terminated, the plant and equipment can be used for producing similar products. This system also can be classified under three categories.

(*i*) **A batch produced only once:** Here customer places order with the firm for the product of his specification. The size of the order is greater than that of job production order. The firm has to plan for the resources after taking the order from the customer.

(*ii*) **A Batch produced at irregular intervals as per Customer order or when the need arises:** As the frequency is irregular, the firm can maintain a file of its detailed plans and it can refer to its previous files and start production.

(*iii*) **A Batch Produced periodically at known Intervals:** Here the firm either receives order from the customer at regular intervals or it may produce the product to satisfy the demand. It can have well designed file of its plans, material requirement and instructions for the ready reference. It can also purchase materials required in bulk in advance. As the frequency of regular orders goes on increasing the Batch Production system becomes Mass Production System. Here also, in case the demand for a particular product ceases, the plant and machinery can be used for producing other products with slight modification in layout or in machinery and equipment.

(c) Continuous Production

Continuous Production system is the specialized manufacture of identical products on which the machinery and equipment is fully engaged.

The continuous production is normally associated with large quantities and with high rate of demand. Hence the advantage of automatic production is taken. This system is classified as

(*i*) **Mass Production:** Here same type of product is produced to meet the demand of an assembly line or the market. This system needs good planning for material, process, maintenance of machines and instruction to operators. Purchases of materials in bulk quantities is advisable.

(*ii*) **Flow Production:** The difference between Mass and Flow Production is the type of product and its relation to the plant. In Mass Production identical products are produced in large numbers. If the demand falls or ceases, the machinery and equipment, after slight modification be used for manufacturing products of similar nature. In flow production, the plant and equipment is designed for a specified product. Hence if the demand falls for the product or ceases, the plant cannot be used for manufacturing other products. It is to be scraped. The examples for the above discussed production system are

- *(i)* *Job Production Shop*: Tailors shop; cycle and vehicles repair shops, Job typing shops, small Workshops.
- *(ii)* *Batch Production Shop*: Tyre Production Shops, Readymade dress companies, Cosmetic manufacturing companies...etc.
- (*iii*) *Mass Production Shops*: Components of industrial products,
- (*iv*) *Flow Production*: Cement Factory, Sugar factory, Oil refineries...etc.,

The Table given below and figure will give the Characteristics of Intermittent (Job and Batch production) and continuous (Mass and flow production) Production system.

Table 1.1 : Characteristics of intermittent and continuous manufacturing system

S. No.	Particulars	Intermittent production system (job and batch production)	Continuous production system. (mass and flow production)
1.	Type of plant layout.	Process layout is most suitable.	Product layout designed according to a process separate line for each product is considered.
2.	Type of machine	As it necessitate frequent changes in the machine set-up required by the specification of each order, general purpose machines are more suitable. Also they have good flexibility. In batch production special purpose machines Automatic and Semi-automatic machines are used.	As production flow is permanently in the form of product line, Automatic or special purpose machines are used. In flow production specialised machines are used.
3.	Type of labour	The type of production pre-supposes frequent changes in product design and machine setups; which requires highly skilled labour. Repair and maintenance of machines are to be done by these labours.	The manufacturing activity becomes a routine function and as the machines are designed to suit the process required for product and automatic in nature unskillful or semi-skilled labour is required. A specialised team of plant maintenance staff will look after the repair and maintenance of machines.
4.	Number of products and product design.	Wide range of products are manufactured in small quantities. The product design changes from lot to lot as per the product specification. Each lot produced in small size.	Few/one standard products/product is manufacutred in large quantities. Usually the product line is designed to one or two products of standard specification.
5.	Changes in machine set-up.	As specification of each order changes, the machines are to set according to the requirements of each order, frequent changes in machine setup is a common phenomenon.	In this type of manufacturing, the set-up of machines remains unchanged for a longer period. The standard products are manufactured in a continuous flow.
6.	Nature and size of orders.	Generally the size of orders is small and they are not repeated. The orders are for non-standardised products. The order may involve the production of single product or products in limited lot. Usually the production is done according to first-in-first-out principle. First orders are received and then they are translated into production.	Generally the production is carried on for stock. The production of standardised products is the nature of this type of production. Products are produced in anticipation of demand. The size of the order is large. Same type of product is produced in every cycle to satisfy the demand.
7.	Investment on machines and equipment.	As the machines are arranged in process layout and general purpose machines are required for Job production, the investment comparatively less. For batch production as automatic and semi-automatic machines are involved the investment will be higher than job production.	The machines are arranged according to process layout and because of this duplication of machines is fairly high. The machines are fully automatic, the cost is higher than intermittent production.
8.	Investment on inventories	Here the operating cycle takes more time and it is necessary to have standard materials for long period hence inventory cost per product is considerably large.	Bulk purchase of materials is done at periodic intervals. Due to continuous process, less in process inventory exists hence material cost per product is less.

9.	Material handling equipments	Because of verities of products, different routes are followed by materials also volume of order is small, mechanisation of material handling is not possible.	Mechanisation of material handling is possible. Generally, convenyors, pipe-lines, automatic material handing equipment is used.
10.	Material handling cost	Material handling per product is costlier because of long distance handling (manual) and backtracking.	Due to mechanised material handling, material handling cost per product is less.
11.	Plant maintenance and service	It is desirable to have a maintenance department to avoid losses due to brake down of machinery.	It is essential to have a good plant maintenance department to avoid stoppage of production due to break down of machines.
12.	Balancing of production capacity	Due to different products and different types of machines with different capacity blocks, possibility of imbalance in plant capacity occurs.	The chances of imbalance in plant capacity is very much less.
13.	Production planning and control	The functions of routing, scheduling and loading becomes relatively complicated due to odd size of order, non-repetitive nature of the order, different delivery dates, etc., production planning and control is complicated.	The function of routing, scheduling and loading are carried on smoothly due to standardised products, rated capacity. Here production planning and control is simpler.

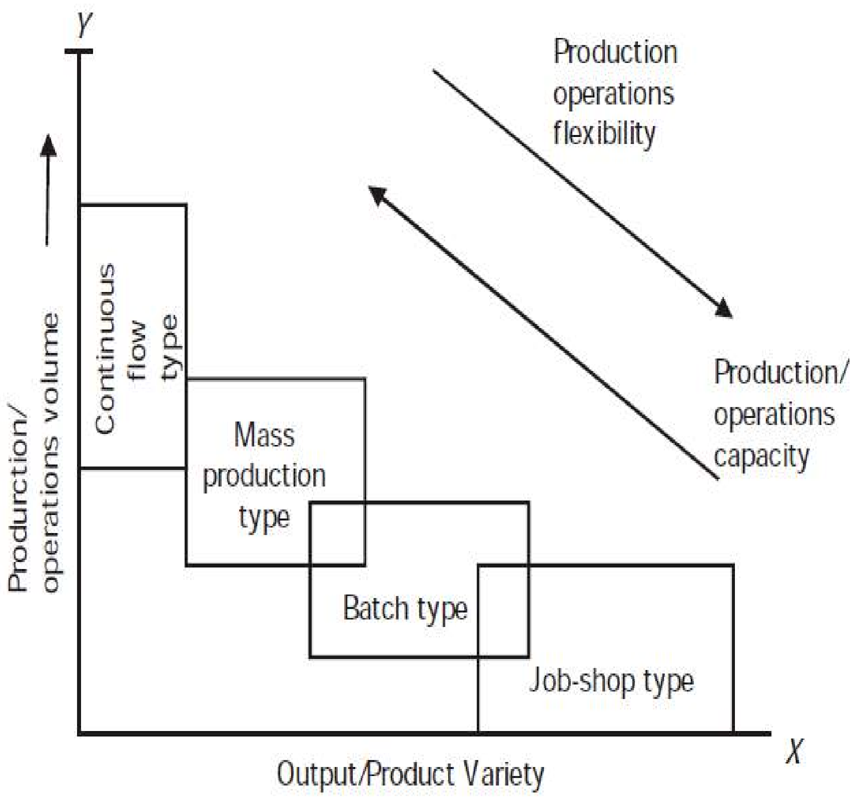


Fig. 1.4 : Production and operations system.

Characteristics of intermittent and continuous manufacturing system

The Production Cycle

The production cycle starts from Market Research. Market research reveals consumer preferences and needs. The marketing department will transfer this information to the design department.

The design department basing on the information received from marketing department designs the product to fulfil consumer needs and supplies design specifications and drawings to production department.

The production department verifies whether the product can be manufactured with the technology and skill available in the firm. If yes it will give the acceptance.

Otherwise the Production Manager, Design engineer and Marketing Manager, discuss together and make alterations in the product, without sacrificing the customer needs. Once this is done the design department conduct the market survey and analyze the demand and submits its sales programme to the top management.

The top management after going through the proposals sanctions the budget and gives green signal for production. Production department produces a trial run and sales department release the product in the test markets to get consumer acceptance sells the products.

Meanwhile, the production department prepares the detailed production plans and production scheduling. After getting the acceptance from the marketing department, actual production of product starts to meet the marketing programme. All this is shown in figure

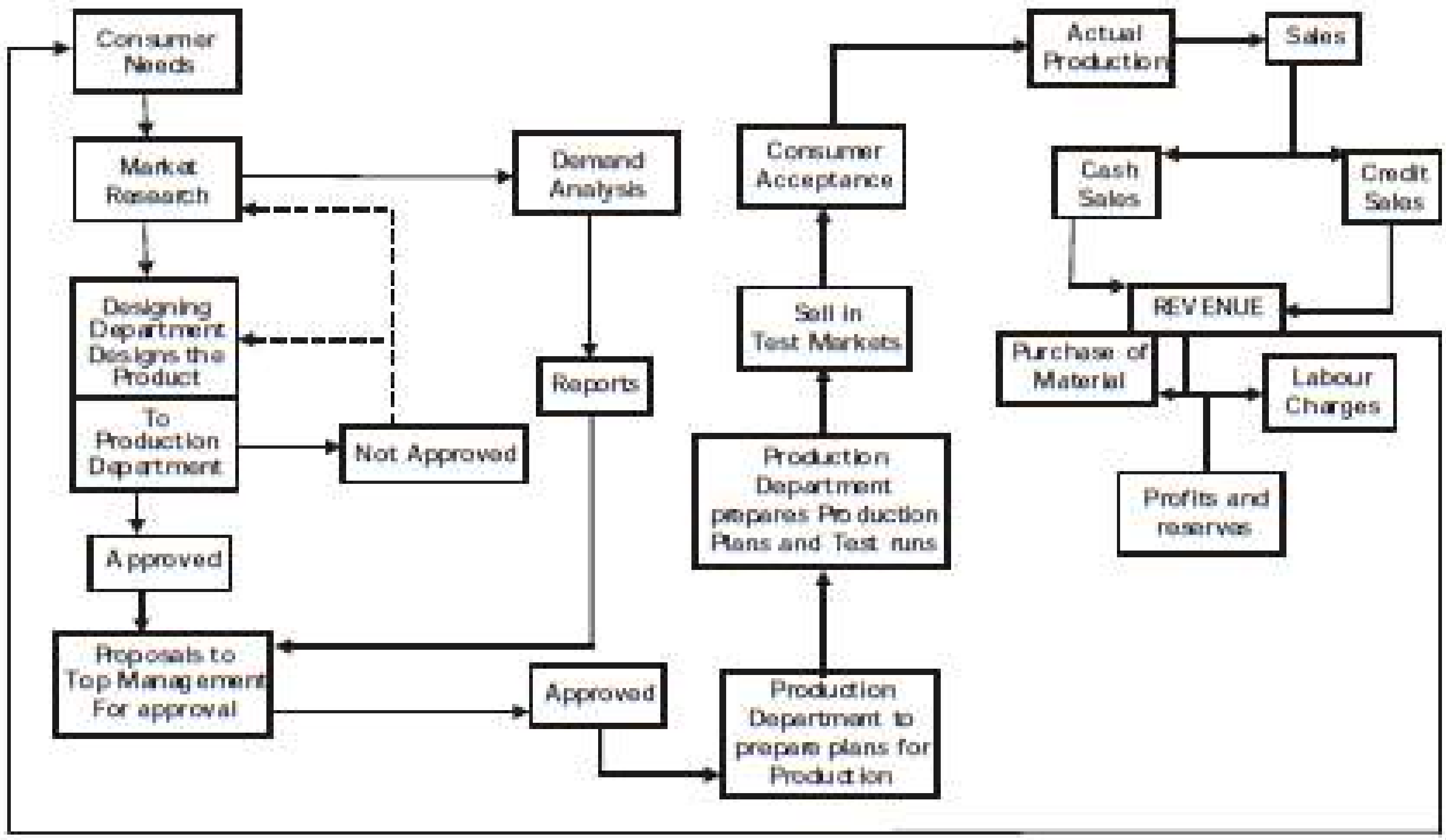


Fig. 1.5 : Production cycle.

Management and Location Decision

Competitiveness has emerged as an important discipline in the area of strategy and research efforts have brought many interesting perspective and frameworks at the country, industry and firm level. Seeing competitiveness from competence point of view, role of factors, internal to the firms such as firm's strategy, structures, competencies and capabilities and other tangible resources lead to competitive success of a firm. This is recognized as Resource Based View towards competitiveness.

Location decision of a firm has been subject for empirical researches and literature suggests that location can be a contributing factor to the competitiveness of a firm. The impact of location on the firm performance has been the subject for research and special economic zones, as a specialized location, have provided ease to use business location along with advance infrastructure and other facilities to enhance competitiveness at the country level.

The early theories of industrial location concentrated on analyzing simple frameworks, where the location and spatial diversification were simply determined by an adjustment between location and weight distance characteristics of inputs and outputs (Weber, 1929).

However global competition has made location decisions of firms an important strategic decision depending on several factors. Various recent empirical research and literature suggests that location can be a contributing factor to the competitiveness of a firm (Karakaya & Canel, 1998). There are higher chances of pursuing agglomeration, are found to be more successful as compared to those which are located in semi or undeveloped areas (IDFC, 2001).

The interregional trade theory of OLHIN, which is intended to explain the geographic allocation of activities and incomes, assumes both an equal distribution of technological endowment among regions, and constant returns. However, this theory is not concerned with local specificities: labour and capital are homogeneous, and economic mobility is perfect and costless. The result is wage equality and an equal economic growth process between regions. Yet great disparities, notably in trade structure and performances, are apparent both at the inter-national state level and at the regional or intra-national level (FAGERBERG AND VESPAGEN, 1996 ; STENTA, 1995 ; CATIN, 1993).

The impacts of returns, due to spatial externalities, are related to the organization of the firm and more precisely to the spatial allocation of its activities and to its industrial and strategic choices. Thus, any explanation of the regional trends must pay attention to the dynamics of regional industrial structures and the strategies of organizations (SAXENIAN, 1999 ; ASHEIM and DUNFORD, 1997). Therefore, competitiveness should be interpreted within a dialectic in which these spatial externalities are closely related to structures and organizational logics as well as to technico industrial determinants at their different micro and macro-economic levels.

The Determinants of Competitiveness: the Firm in its Organizational, Spatial and Sectoral Environment

Taking the organization of a firm into account amounts to considering its spatial diversity and the various externalities generated by the different environments in which it is located. Thus, the very nature of a firm's organizational form may be a crucial determinant of its competitiveness. Two levels must be distinguished: the organizational context in which the firm may be embedded (the enterprise may belong to a group of companies) and the intra-organizational levels (plants, affiliates and headquarters) which permit the firm to articulate the different spatial externalities. Finally, industrial spill-overs generated at the macroeconomic level must be added to these spatial externalities and taken into account when analysing the role of firm's organization in competitiveness.

The Organizational Context

For most empirical studies in spatial economics, the firm or its plants are the unit of observation, but are not considered within the broader organization in which they are embedded. However, the many stimulus related to group of companies are favourable to the competitiveness of subsidiary firms.

First of all, they concern the international experience of the group, notably informational learning (knowledge of markets, adaptation to foreign demand, management of currency exchange risks, tariff or non-tariff regulations, etc.) and organizational learning (existing distribution networks, existence abroad of subsidiaries of the same group, etc.), which is facilitated or conditioned by belonging to a group (CHEVASSUS and al., 1999). Secondly, they result from a more general assemblage of synergies, notably financial and technological, which the affiliate can benefit from and which enhance its competitiveness.

Intra-Organizational Diversity of the Firm: the Specificity of the Multi Plant Firm

In the case of groups of companies, three intra-organizational levels can be identified: the plant, the subsidiary and the parent company to which the subsidiary belongs. The last two levels can be combined in the case of independent firms. Each of them has distinct purposes which must be taken into account in the analysis.

Thus, the *plant* is the basic production unit and thus embodies technico-productive constraints of the firm. The *firm,* or the *legal entity* constituted by the subsidiary, represents the intermediate link of group structure and relates more specifically to legal and trade aspects. This level manages market relations and evaluates the performance of the different subsidiary's plants. Corporate laws also are implemented at this level. Finally, the *parent company* constitutes the final decision-making force where all the ownership rights of the entire organization are centralised and where all the strategic and global decisions are taken.

Therefore, the group, which possesses different subsidiaries and plants, all with their own functions, can seek the optimal location for each of them (GALLIANO 2000; DUPUY AND GILLY 1995). In a more general sense, this refers to the spatial organization of the multi plant firm which, while benefiting from agglomeration effects at a certain level of its internal organization, can manage a more varied spatial combination that is likely to be efficient. This ultimately concerns the need to take account the relation between each of the functions of the group and the various infra-regional spaces. The levels at which externalities and economies of scale play a role are multiple, indicating the complexity of organizations and the diversity of their modes of interaction with territories.

Effect of Industrial Location on Firms' Competitiveness: the Comparative Advantages

The study of the organizational context needs to be supplemented with an analysis of the sector to which the firm belongs. This will concern both the technico-industrial determinants that affect the activity of the firm and the macroeconomic sectoral dynamics in which it is inserted. Because of the nature of the production processes, the local unit is inserted into an industrial context characterised by specific technico-economic conditions and a collection of knowledge and skills which play an important role in structuring its needs and its modes of articulation with the local environment.

These refer to the industrial agglomeration economies described above. However, beyond these local externalities, the national specialization can remain a structural element for the achievement of firms in exportation. In other words, there would appear to be an effect of sectoral influence related to national comparative advantages (a dominant French position on foreign markets, the effect of the image of the firm, sectoral organization for the promotion of products abroad, etc.).

To sum up, the interpretation of firms' competitive advantage remains multidimensional, relating to a mixture of traded and untraded effects in which the firm and its organization play a central role. These advantages are in fact built around a complex interaction of organizational, sectoral and territorial dimensions in which the local production unit is involved. The objective of the following empirical work is to evaluate the respective roles of these different determinants in firms' competitiveness.

Factors affecting location of a firm

Studies	Factors affecting location of firm (F1)	Inference
Schemenner (1979), Galbraith (1985, 1990); Galbraith and De Noble (1988), Schemenner (1982)	• Other competitive industries in the area • Proximity to supplier/resources	It encompasses availability and proximity to other industries and supplier/resources in the region which leads to forming of business transaction as decider of location of a firm.
Galbraith and De Noble (1988); Hekman (1992), Schemenner (1979), Blair and Premus (1987), De Noble and Galbraith (1992), Stonebraker and Leong (1994), Blair and Premus (1987), Fulton (1971), De Noble and Galbraith (1992), Schemenner et al. (1987)	• Area's business climate, • Attitude of local and state govt. • State and local govt. incentives • Transportation costs and facilities • Proximity to highways • Availability of utilities and services • Tax structure and rates • Local and physical infrastructure.	Availability of infrastructure, incentives in the form of tax rates and attitude of local govt. can be grouped in govt. and institutional support being provided to the firm which wants to locate in the region.
Fulton (1971), De Noble and Galbraith (1992), Galbraith and De Noble (1988), Hekman (1992), Schemenner (1979), Stonebraker (1994), Galbraith and De Noble (1988), Hack (1984), Schemenner (1982), Schemenner et al. (1987), Stonebraker and Leong (1994), Blair and Premus (1987), Fulton (1971), Galbraith (1985, 1990), Schemenner (1982), Karakaya and Stahl (1989)	• Labor productivity and attitude toward productivity, • Cost of labor • Availability of labor • Availability of skilled labor • Availability of unskilled labor • Availability and transfer of qualified technical and managerial personnel, • Land availability for building and expansion, • Cost of land • Cost of construction • Financing opportunities • Banking services • Access to raw materials	Availability and quality of men, machine, money, material including land are traditionally considered to be factors of production in economic literature.

The Silicon Valley Story

What makes a country or a region globally competitive? What can governments do to improve the competitiveness of their countries and make them attractive places to do business? Answers to these questions can be found by understanding the reasons behind the spectacular growth of what is today the world's most famous industrial hub, Silicon Valley. In a 50 mile long corridor stretching from San Jose to San Fransisco, companies are demonstrating how knowledge can be effectively utilised to generate wealth at a rate which other regions can only dream of. While much of Silicon Valley's success is due to private initiative, governments in emerging markets can draw useful lessons for creating similar hubs in their countries.

The transformation of the Valley from a region of apricot and prune orchards into a global innovation centre shows that competitiveness has more to do with mindset rather than heritage or pedigree.

The Valley has become famous today for its risk taking culture that facilitates the incorporation of a company within hours. Its ability to transform a concept into a company, in the words of an analyst 'has reached an art form.' Sun Microsystems CEO, Scott McNealy has recalled the ease with which his company started operations: "We were able to open a checking account on our word.

We were able to rent a building without showing an ID. We were able to get phone lines and Wilson Sonsini (a law firm in Palo Alto) filled a huge boardroom table full of documents for us to sign. Actually, on their word processor, they just changed a previous name to our name." The Valley has fostered a culture where the penalties are not for failures but for not trying. According to a local businessman, "failure is not a blackout in the valley; it's a badge of merit."

The business environment has bred a class of entrepreneurs called 'repeaters' who often fail in a new venture but learn the lessons well and come back to tie up venture capital and run a successful business. The Valley's strong belief seems to be: "Good ideas are the most precious commodity and an entrepreneur who has them and stumbles comes away with enough lessons to get it right the next time."

Compare this situation with the one in Europe. A senior official of UNICE*, Europe's employers' federation recently remarked that anyone wanting to start a business in Europe had to be patient and rich. On an average, it takes ten times longer to set up a limited liability company in Germany than in America and costs three times more, according to UNICE.

In Italy, contractual disputes can take upto seven years for legal settlement. European entrepreneurs who go bust often do not get a second chance as creditors are allowed to hound them for up to 20 years.

The growth of Silicon Valley: A brief history

1931:	David Packard and William Hewlett, founders of Hewlett Packard begin a long and rewarding partnership. In 1938, they obtain a loan from a Stanford professor, Fred Terman to make an audio oscillator.
1955:	William Shockley sets up Shockley Labs in Palo Alto. Two years later, Gordon Moore and Robert Noyce set up Fairchild Semiconductor, the first company to work exclusively in Silicon Valley.
1959:	Noyce files a patent for the integrated circuit. Five years later, Moore predicts that the number of transistors that fit into a chip will double every two years.
1968:	Noyce and Moore quit Fairchild and pool $250,000 to set up Intel, which introduces its first microprocessor, 4004 in 1971.
1976:	Apple computer is set up by Steve Jobs and Steve Wozniak.
1977:	Larry Ellison sets up Software Development Laboratories, the forerunner of Oracle.
1980:	Apple makes the biggest public offering since Ford in 1956.
1982:	Sun Microsystems is founded by Stanford University students, Vinod Khosla, Scott Mc Nealy and Andy Bechtolsheim.
1984:	The husband-wife team of Leonard Bosack and Sandra Lerner set up Cisco Systems to develop networking technology.
1993:	Intel unveils the Pentium Microprocessor.
1994:	Jim Clark and Mark Andreassen set up Netscape. A year later, Netscape goes public.
1997:	Steve Jobs returns to Apple.
1998:	The Valley's growth continues, fuelled by Internet startups.

Source: Business Week, August 25, 1997

As Business Week has argued, the Valley's dominance will continue for a long time to come as conditions which have shaped its competitiveness will be difficult to replicate elsewhere: “The Valley’s industrial landscape is America’s dreamscape; tight links among companies and top notch universities, unlimited access to venture capital, a rolling influx of brilliant engineers from around the world and a diverse mix of high tech companies, both large and small. What’s more, the Valley is self replenishing.

The proceeds from one company’s success are flowed back into the next generation of start-ups.” The Valley has also been quick to forge ahead of other centres in its commitment to the Internet, the most important technological shift in the 1990s. This means other centres may have to wait for some time till the next major shift comes along.

Ireland: The Rising Star of Europe

One of the best examples of a country which had hit the rock bottom at the start of the 20th century, but is today one of the most competitive economies in Europe, is Ireland. An analysis of the country’s evolution into Europe’s most attractive investment destination offers useful lessons.

In 1921, when Ireland gained its independence from Britain, it was a poor country. After independence, the country got off to a really bad start. To begin with, there was a civil war. Later, unimaginative economic policies worsened the country’s plight. Protectionist policies discouraged foreign trade and foreign investment, while tiny, inefficient, local industries were subsidised. As exports fell, living standards declined. Per capita income growth lagged far behind other countries in western Europe. Faced with this dismal scenario, the Irish Government decided in 1958 that isolationism and protectionism had to go.

The government began to open up the economy to attract foreign investments. To start with, companies in low-tech industries like textiles set up shop to take advantage of tax incentives and cheap labour. At this juncture, the government, realising the need to attract more high-tech value adding industries, set up the Industrial Development Agency (IDA). The agency first persuaded pharmaceutical companies, like Pfizer, Johnson & Johnson and SmithKline Beacham to invest in Ireland. Later, the IDA looked seriously at the computer industry. Digital Equipment entered Ireland in the early 1970s. When Intel announced that it would set up a plant in Europe in the late 1980s, the Irish authorities made a strong sales pitch. Intel’s main concern was that qualified engineers would not be available in Ireland.

The Head of IDA, Kieran Mc Gowan, came up with a brilliant idea to get around the problem. Mc Gowan who developed a database of Irish engineers working in the semi conductor business in the US and identified people who could be persuaded to return to their motherland recalls[2], “We presented a booklet to Intel with the names, addresses and phone numbers of 85 people. And I think that impressed them." Soon, Intel started its operations in Ireland, depending to a large extent on returning Irish emigrants.

Along with a more proactive approach to attracting foreign investment, the Irish Government has also realised the importance of education in developing a skilled workforce. Till the 1960s, Ireland's education system had been in a shambles. In 1963, Ireland announced that secondary education would become compulsory. Subsequently, the government invested heavily in institutions of higher learning and technical education. These investments have paid off and the Irish labour which is currently entering the industry is well educated and skilled.

A major landmark in Ireland's turnaround was the admission of the country into the European Economic Community (EC) in 1973. EC membership gave Ireland the much needed financial resources to strengthen its infrastructure. As EC nations moved in the direction of a common market, richer countries decided to support their poorer brethren. The financial support received from the EC helped Ireland in developing infrastructure such as roads. EC membership also helped Ireland to gain access to markets in other western European countries. Ireland rapidly emerged as the manufacturing base for many US companies entering Europe.

In recent times, the Irish economy has gone from strength to strength. Real GDP grew by 5.8% in 1994, 9.5% in 1995, 7.7% in 1996, 10.7% in 1997 and 8.9% in 1998. A remarkable feature of Ireland's growth has been the virtual absence of conventional heavy industries. Ireland seems to be making the big leap directly from the agricultural age to the information age.

In the late 1990s, the Irish Government continued to demonstrate its commitment to pro business policies. Deputy Prime Minister Mary Harney recently remarked: "Because the Irish economy is small, government tends to be very responsive to the needs of industry. Our big advantage is that we have very low corporate tax rates and a very pro business environment. As long as many other European countries continue with high corporate tax rates and regulation, we'll be attractive to the outside investor."

Ireland has already succeeded in attracting investments from major players in the computer industry such as Dell and Intel. Now the country's sights seem to be set on computer software. A combination of factors has encouraged the development of the software industry in general, and Internet start-ups in particular. These include Ireland's emphasis on technical education; government funding and the presence of several technology- oriented US corporations.

In the coming years, as Irish living standards approach those of its more prosperous brethren in western Europe, growth is expected to slow down. Even then, GDP is likely to grow at an annual rate of 5-6% in the next few years. The Irish obviously need to work hard to sustain the policies that have helped the economy boom. One such policy is the consensual approach to wages, thanks to the cooperation among the government, companies and labour. This policy will not be easy to sustain as labour becomes more demanding in time and asks for a greater share of a growing profits in a booming economy. Notwithstanding these concerns, Ireland's success can be a source of inspiration to other emerging economies.

Taiwan: Asia's Silicon Valley

If Ireland represents the new face of Europe, Taiwan is a resounding testimony to the strengths of Asia. Taiwanese companies have made a name for themselves in the global marketplace, even in high-tech industries such as micro processors. Taiwan's ability to withstand the Asian currency crisis of 1997-98, while neighbours like South Korea suffered, was a reflection of the country's strong fundamentals. At the micro level, companies such as Acer (computers) and Giant (bicycles) have done the country proud.

Taiwan's remarkable progress in the last few decades which puts it in the ranks of the more developed countries in the world, offers several useful lessons. Taiwan is a small country with a little over 20 million people. Yet, it is the third largest producer of IT products in the world, after the US and Japan. In 1998[1], Taiwan's worldwide market share in various product categories was: hand-held scanners – 96%, desktop scanners –69%, mouses – 63%, motherboards – 60%, monitors –54%, modems – 48%, notebooks –32%. The most remarkable feature of this achievement is that Taiwan has not invented any of these products; it has come up with cheaper versions of products invented by other companies.

Taiwan is a classic example of how sensible government policies can boost the competitiveness of local companies. Unlike Japan and Korea, where government - directed bailouts of ailing companies are common, in Taiwan, sick companies are allowed to go bankrupt. This process is also less difficult in Taiwan, as most companies are small. Just as it is easy for sick companies to exit, so is it for new start-ups to attract investors, thanks to a thriving venture capital industry. In 1991, 40% of chemicals, 38% of textiles and 54.2% of fabricated metals in Taiwan were produced by companies that had been in existence for less than five years.

Firms that had accounted for 58% of Taiwan's chemical production in 1981 had left the business by 1991. 80% of the firms that manufactured clothing, metal products, textiles and plastics in 1981, either closed or moved into new businesses over the next 10 years. In 1996, some 25,272 companies went out of business in Taiwan, about 4.7% of the total. Between 1960 and 1994, Taiwan's productivity had improved faster than that of all other Asian countries. In 1998, there were approximately 100 venture capital funds in the country with $2 billion at their disposal.

The government of Taiwan has realized the importance of creating and disseminating knowledge to foster the growth of high-tech industries. Taiwan produces roughly 8000 engineers annually, thanks to its 75 universities. In 1998, Taiwan had 43 research scientists and engineers for every 10,000 people compared to 33 in South Korea and 28 in Singapore. Government research institutes spend time, effort and money to understand futuristic technologies and sell their know-how to local companies for a fee.

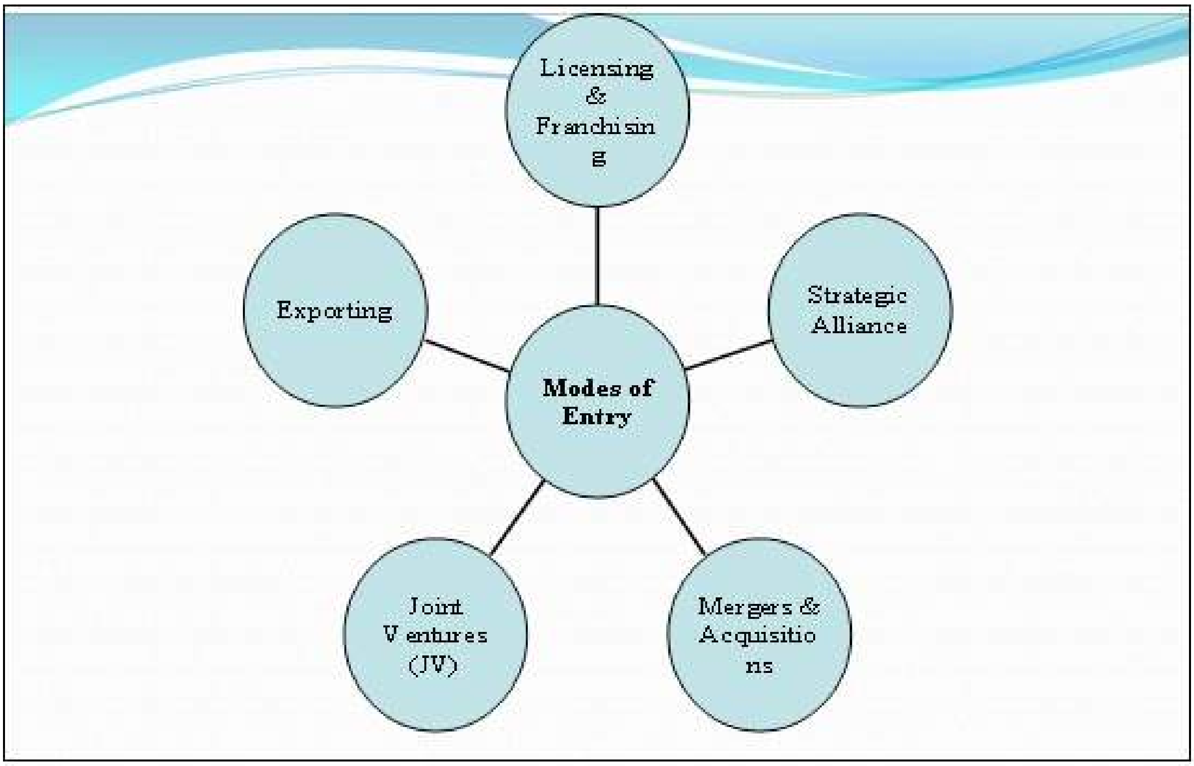
Notwithstanding the country's attempts to innovate and disseminate knowledge, efficient manufacturing still remains the main strength of Taiwan's computer companies. Besides operating in a flexible manner and introducing new models in quick time, these companies have taken several initiatives to streamline their supply chain management practices. Many use a Build to Order model. Mitac International Corp, one of the bigger computer manufacturers on the island, is a good example. Mitac's 250 odd suppliers are electronically linked and are expected to respond to Mitac's requirement within 24 hours. Basic components such as keyboards are manufactured at Mitac's factory in Shunde, China. Complex components are made in Taiwan and the US. The final assembly takes place at Freemont, California. Mitac takes orders from customers over the Internet and supplies the machines under different brand names such as Compaq and HP direct to US dealers.

Taiwanese companies are realising the importance of keeping pace with changing technology. Where necessary, they have not been shy to shop around. Consider Lite On Technology Corporation, which makes monitors and CD-ROM drives. The company holds stakes in Silicon Valley firms that provide the latest technologies. It also has a holding in Omni Vision, a company which makes sensors used in digital still cameras and PC cameras for video conferencing.

Taiwanese companies are realising that they can claim to have truly arrived only if they have strong software capabilities. Their country is not particularly strong in this area. According to Stan Shih, the Chairman and founder of Acer, "Software capability can create a lot of wealth. Asians always rely on real estate appreciation and tangible goods for wealth, but I am trying to change that model." Acer is developing Aspire Park, an entire software community where programmers can live and work on a picturesque 426-acre site. It is also buying stakes in US software firms, setting up a software centre in Shanghai and forming a joint venture with global IT leader, Computer Associates, to develop and sell business software in Asia. Shih's remarks are an indication that Taiwanese companies are realising that cost competitiveness cannot be a permanent strength in a high tech industry. In addition to flexibility and operational efficiency, Taiwan is likely to lay emphasis on knowledge-based industries in the coming years. If the past is any indication, there does not seem to be any cause for pessimism. Until a viable competitor emerges, Taiwan can justifiably be referred to as the Silicon Valley of Asia.

Entry Mode and Competitiveness

Kinds of Entry Strategies



a) Five alternative entry modes available to firms for international expansion:

- Exporting
- Licensing
- Strategic alliances
- Acquisition
- New, wholly owned subsidiary

The next section of this chapter will discuss the characteristics of each mode, including trade-offs between cost and control.

Entry mode	Definition
Strategic alliance	A long-term inter-corporate association without an affiliated organization based on trust and a mutual respect for each participant's business needs, used to further the common interests of the members (including the entrant)
Local agent	A contractual arrangement between the entrant (principle) and a local agent where the agent provides principle information on local market conditions, contacts, and assistant to the entrant
Licensing	A contractual arrangement between parties in different countries on the licensee's use of limited rights or resources like patents, trademarks, trade names, technology, and management skills from the entrant (licensor)
Joint venture company	A permanent joint venture in which the entrant and other legally separate parties form a jointly owned entity in which they invest and engage in various decision-making activities
Sole venture company	A permanent venture in the host country wholly owned by the entrant where profits and responsibilities are assigned exclusively to the entrant
Branch office/company	A form of presence without a legal person status of the entrant in the host country that can carry out either profit-making or non profit-making business activities
Representative office	An unincorporated formal presence in the host country to carry out non-commercial activities like business communications, product promotion, market research, contract administration, and negotiations on behalf of the entrant's head office
Joint venture project	A project specific joint venture in which profits and other responsibilities are assigned to the entrant and other parties according to a contract
Sole venture project	A wholly owned project specific venture where both profits and responsibilities are assigned exclusively to the entrant
BOT/equity project	A project delivery method where the entrant (sponsor) finances, builds, and operates an economic infrastructure in the host country, and then transfers the ownership back to the government at the end of the project term free of charge or at an agreed price

Table I.
Definitions of entry modes for international construction markets

Exporting

A common—but not necessarily the least costly or most profitable—form of international expansion is for firms to export products from the home country to other markets.

- Exporters have no need to establish operations in other countries.
- Exporters must establish channels of distribution and outlets for their goods by developing contractual relationships with firms in the host country to distribute and sell products.

However, exporting also has disadvantages:

- Exporters may have to pay high transportation costs.
- Tariffs may be charged on products imported to the host country.
- Exporters have less control over the marketing and distribution of their products.

Because of the potentially significant transportation costs and the usually greater similarity of geographic neighbors, firms often export most to countries that are closest to its facilities.

Small businesses are most likely to use the exporting mode. One of the largest problems with which small businesses must deal is currency exchange rates, a challenge for which only large businesses are likely to have specialists.

Licensing

Through licensing, a firm authorizes a foreign firm to manufacture and sell its products in a foreign market.

- The licensing firm (licenser) generally is paid a royalty payment on every unit that is produced and sold.
- The licensee takes the risks, making investments in manufacturing facilities and pays the marketing and distribution costs.
- Licensing is the least costly (and potentially the least risky) form of international expansion because the licenser does not have to make capital investments in the host countries.
- This strategy is becoming popular, especially with small businesses.

The costs or potential disadvantages of licensing include the following:

- The licensing firm has little control over manufacture and distribution of its products in foreign markets.

- Licensing offers the least revenue potential as profits must be shared between licensor and licensee.
- The greatest potential risk to the licensor is that the licensee will learn the firm's technology and, upon expiration of the license, produce a competitive product that it offers for sale in multiple markets.

Strategic Alliances

Strategic alliances enable firms to:

- Share the risks and resources required to enter international markets
- Facilitate the development of new core competencies that yield strategic competitiveness

Most strategic alliances represent ventures between a foreign partner (which provides access to new products and new technology) and a host country partner (which has knowledge of competitive conditions, legal and social norms, and cultural idiosyncrasies that will enable the foreign partner to successfully manufacture or develop and market a competitive product or service in the host country market).

Strategic alliances also present potential problems and risks due to:

- Selection of incompatible partners
- Conflict between partners

Research suggests that alliances are more favorable in the face of high uncertainty and where cooperation is needed to bring out the knowledge dispersed between partners and where strategic flexibility is important; acquisitions are better in situations with less need for strategic flexibility and when the transaction is used to maintain economies of scale or scope.

Acquisitions

Cross-border acquisitions enable firms to achieve the most rapid international expansion when compared to other entry alternatives. In addition, acquisitions also generally present the largest form of international expansion.

As explained, acquisitions can provide quick access to a new market. In fact, acquisitions may provide the fastest and often the largest initial international expansion of any of the alternatives.

In addition to the disadvantages previously discussed for domestic acquisitions, international acquisitions also can be quite expensive (because of debt financing) and require difficult and complex negotiations due to:

- The same disadvantages as domestic acquisitions
- Expensive and often require debt financing
- International negotiations for acquisitions, which can be exceedingly complex (generally more complicated than for domestic acquisitions)
- Different corporate cultures
- The problems of merging the new firm into the acquiring firm often are more complex than in the case of domestic acquisitions

Wal-Mart has used multiple entry strategies as it globalizes its operations, ranging from joint ventures in China and Latin America to acquisitions in Germany and the U.K.

New Wholly Owned Subsidiary

Firms that choose to establish new, wholly owned subsidiaries are said to be undertaking a green field venture. This is the most costly and complex of all international market entry alternatives.

The advantages of establishing a new wholly-owned subsidiary include:

- Achieving maximum control over the venture
- Being potentially the most profitable alternative (if successful)
- Maintaining control over the technology, marketing, and distribution of its products

While the profit potential is high, establishing a new wholly-owned subsidiary is also a risky venture for two reasons: This alternative carries the highest costs of all entry alternatives as a firm must build new manufacturing facilities, establish distribution networks, and learn and implement the appropriate marketing strategies.

➢ The firm also may have to acquire knowledge and expertise that is relevant to the new market, often having to hire host country nationals (often from competitors) and/or costly consultants.

Entry mode	Advantage	Disadvantage
Exporting	Ability to realize global scale economies	High transport costs Tariff barriers Problems with local marketing agents
Licensing	Low development costs and risks	Difficulties achieving global strategic coordination Lack of control over technology
Franchising	Low development costs and risks	Difficulties achieving global strategic coordination Problems of quality control
International joint ventures (IJV)	Access to local partner's knowledge Sharing of development costs and risks Political acceptability	Difficulties achieving global strategic coordination Lack of control over technology
Wholly owned subsidiaries	Protection of technology Establishment of tight control necessary for achieving global strategic coordination	Assumption by company of all development costs and risk
Global Strategic alliances	A low-cost market access and access to proprietary technology	High-tech giveaways

Dynamics of Mode of Entry

The choice of a market entry strategy is determined by a number of factors. However, initial market development strategies generally are selected to establish a firm's products in the new market.

➢ Exporting does not require foreign manufacturing expertise; it only requires an investment in distribution.

➢ Licensing also can facilitate direct market entry by enabling the firm to learn the technologies required to improve its products in order to achieve success in international markets or to facilitate direct entry.

➢ Strategic alliances are also popular because the firm forms a partnership with a firm that is already established in the new target market and reduces risks by sharing costs with the partner.

Firms interested in establishing a stronger presence (in most instances, in the later stages of the firm's international diversification strategy) and in controlling technology, marketing, and distribution adopt riskier, more costly entry strategies, such as acquisitions.

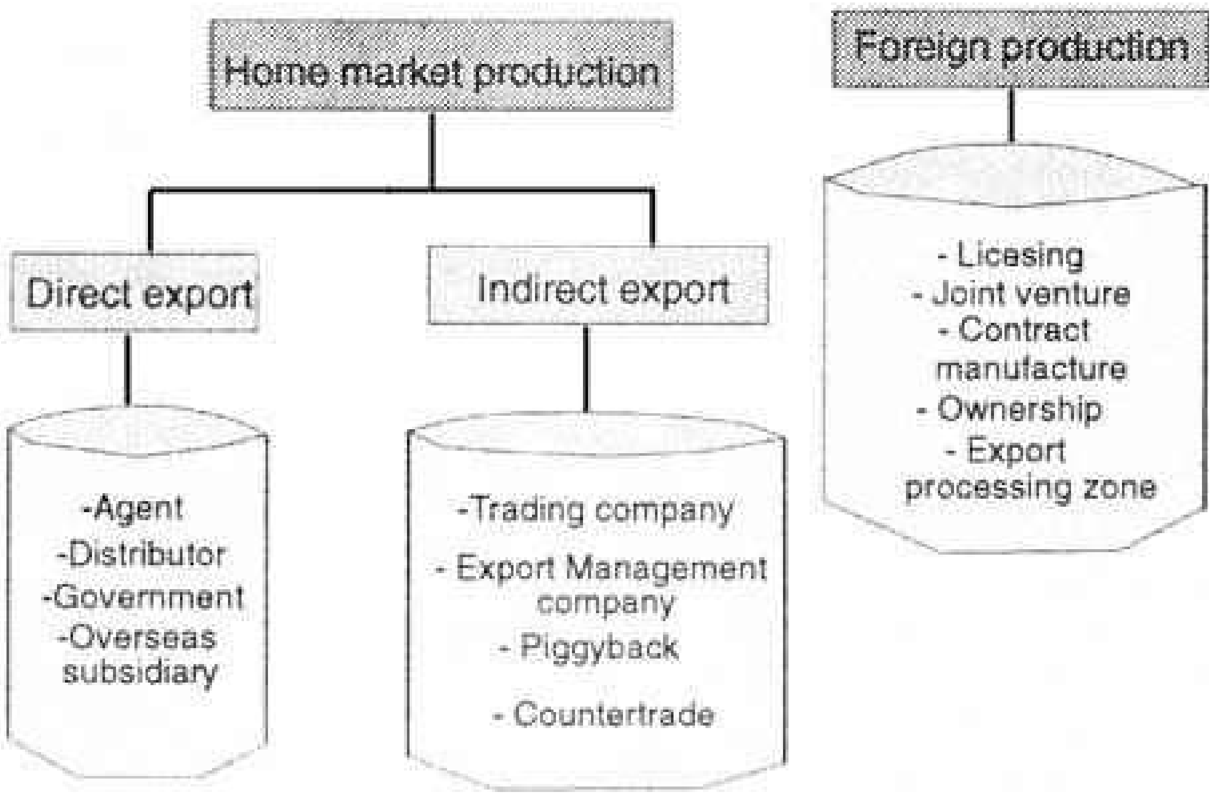
However, the entry strategy should be matched to the particular situation. In some cases, a firm may pursue entry strategies in sequential order—beginning with exporting and ending with green field ventures.

The entry mode decision should be based on the following conditions:

- The industry's competitive conditions
- The target country's situation
- Government policies
- The firm's unique set of resources, capabilities, and core competencies

Strategic Competitiveness Outcomes

Once firms identify international opportunities, adopt an international strategy, and select an entry mode, their primary concern is with achieving strategic competitiveness through high performance and maintaining (or establishing) innovation.



International Diversification and Returns

Rather than diversifying the product line, international diversification is the manufacture and sale of the firm's existing product lines across country or national boundaries (in other words, in multiple national markets, thus in international markets).

- The number of different markets in which the firm operates and their importance indicates the degree to which a firm is diversified internationally.
- The percentage of total sales is used to indicate the importance of a region or nation to the firm.

Based on the advantages discussed earlier, international diversification should be positively related to firm performance. Research indicates that as international diversification increases, so does firm performance.

There are several reasons for the positive relationship between international diversification and firm performance. The firm may enjoy:

- Potential advantages from economies of scale and learning
- Location advantages
- Increased market size
- The potential to stabilize returns
- Opportunities to better exploit its core competencies or distinctive capabilities
- Knowledge sharing that may produce synergy among the firm's operations in international markets
- Improved access to more efficient (and/or more skilled) and flexible labor markets
- Benefits from global scanning that enables them to better identify competition and market opportunities
- Higher returns for investors and better products for their customers than purely domestic firms if its international operations are both efficient and competitive

International Diversification and Innovation

Developing new technology is critical to strategic competitiveness.

In fact, Porter indicates that a nation's competitiveness depends on the innovativeness of its industries and that firms achieve strategic competitiveness in international markets through innovation.

As discussed innovation is important for a firm's ability to succeed in a dynamic, competitive environment because innovative competitors outperform firms that fail to innovate and improve their products and processes.

The only way that a firm can sustain a competitive advantage is to continually upgrade its source of competitive advantage before competitors can imitate it successfully.

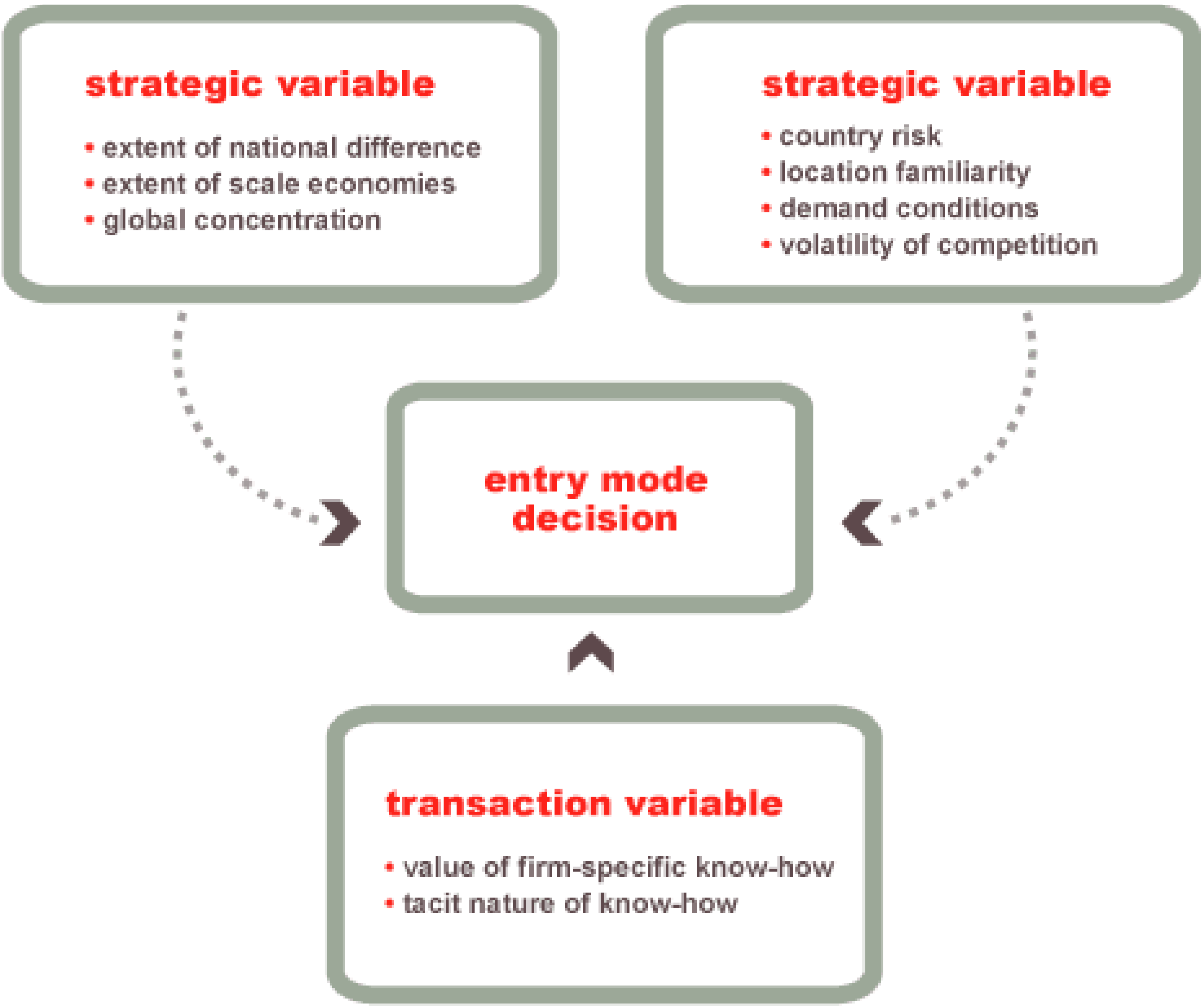
Earlier it was mentioned that one of the advantages of international expansion is that it provided firms with larger potential markets.

- This is important because larger markets provide firms an opportunity to achieve greater returns on their innovations, which results in a reduction in R&D-related risks.
- As a result of this relationship, international diversification provides firms with incentives to innovate.

International diversification also may be necessary both to generate the resources that are required to maintain a sufficient scale of innovation and, at the same time, to enable firms to spread the cost of innovation over a larger sales volume.

As the pace of technological change and more rapid product obsolescence continues, firms that operate only in smaller domestic markets may not be able to generate the resources required to invest in new technology and capital-intensive operations.

On the other hand, because international firms operate in a larger market, they may be able to recover investments in technology and related assets more rapidly because of the sheer size of the international markets in which they operate.



As you can see, a complex relationship exists among international diversification, innovation, and performance. This leads, in fact, to the following circular relationship:

- Some level of performance is necessary to provide the resources required to diversify internationally.
- International diversification provides incentives (advantages) to firms to invest in R&D (innovation).
- If done properly, R&D and the resulting innovations should improve firm performance.
- Improved performance, once again, provides the firm with the resources necessary for continued international diversification and investments in innovation.

It also is possible that international diversification may result in improved returns for product-diversified firms (referred to as unrelated diversification) by increasing the size of the potential market for each of the firm's products. But managing a firm that is both product and internationally diversified is very complex.

As a result of this complexity, international and product diversification together may improve firm performance only if the firm is well managed.

Asea Brown Boveri (ABB) may provide a useful example of these relationships.

- The firm is highly diversified both from product and nation perspectives.
- ABB has strong performance.
- Corporate and divisional management teams are culturally diverse.
- Teams facilitate the simultaneous achievement of global integration and local responsiveness.

Cultural diversity may enable a firm to compete more effectively in international markets.

- Culturally diverse top management teams often have a greater knowledge of international markets.
- An in-depth understanding of diverse markets among top-level managers facilitates inter-firm cooperation, the use of strategically relevant, long-term criteria to evaluate managerial and business unit performance, and improved innovation and performance.

Complexity of Managing Multinational Firms

Much has been said about the advantages of international diversification, but there are several problems and complexities that accompany an international diversification strategy. As a result of environmental complexity, managers of internationally diversified firms face a number of complex challenges.

- Firms face multiple risks from being in several countries.
- Firms can grow only so large before they become unmanageable.
- The costs of managing large diversified firms may outweigh the benefits of diversification.
- Global markets are highly competitive.
- Firms must understand and effectively deal with multiple cultural environments.
- Systems and processes must exist to manage shifts in the relative values of multiple currencies.
- Firms must scan the environment to be prepared for potential government instability.

Self Assessment Questions

1. Discuss Competitive Analysis with necessary illustrations
2. Highlight and explain Dynamic competitive analysis model
3. Explain the Michael E. Porters five forces analysis model of industry competition.
4. Analyze the framework for assessing competitiveness
5. Describe approaches to International and National Competitiveness studies
6. Explain Scenario planning with necessary illustrations
7. Discuss the role of quality in the competitive environment
8. Describe productivity and its effects on developing competitiveness
9. Highlight Total Quality Management and its contribution to the business world
10. Technology Management is the key for the sustainable growth of the firm in this changing world of business
11. Discuss the importance of Research & Development in developing competitiveness
12. Distinguish between Product, Service and Project.
13. Define Production Planning and Control and state the objective of production Planning and control department.
14. What advantages are desired from efficient Production? Operations Management.
15. Briefly discuss the functions of Production Management.
16. Describe with the use of organization structure the importance of Production Management function and its relationship with other departments in the organization.
17. Explain the steps in Planning Production in the case of Line Production and Job Production. What are the specific problems in each one of the above and how can there be tackled.
18. Recommend a suitable Production Planning and control system by a unit undertaking design and fabrication of steel transmission towers. Each order is tailor made to Customers requirements. Your proposal, among other things, should cover
    (a) Production of the nature of work from the print of view of production Planning and control.
    (b) Pre Production Planning
    (c) Work order and feed back system
    (d) Cost estimation and Control

(e) Planning and Control techniques particularly of importance for this type of work.

19. Distinguish in clean terms between mass, batch and unit production. In what ways Production Planning and control system differ between the three types?

20. In a restaurant wide variety foods are offered to the customers, to suit the needs the locality the restaurant work from 9-00am to 1-00pm and 4.pm to 8-00pm. The restaurant is famous for its food stuffs. The items that are served can be categorized as

    (a) Those involving preparation time of1/2 an hour or more.

    (b) Those require about 5 to 10 minutes for preparation.

    (c) Those are from packed/canned, which does not require any preparation time. Stuff that has not been consumed in any one day are scrap and cannot be stored for use on the next day. Materials required for (a) and (b) we have to be ordered a day in advance; if delivery is required in the morning, while delivery of packed/canned food is usually made in the afternoon. A certain amount of cold storage at the restaurant is available, and the management is prepared to expand the facility, if necessary. How would you use Production Planning and control procedure to:

21. Study Customers preferences and demand patterns?

22. Determine the number of foodstuff the restaurant should plan under each Category to ensure of maximum Customer satisfaction and minimum scrap.

23. Exercise a control function to provide effective waitresses service?

24. The term "Operations Management" implies the applicability of production concept to a much wider variety of human endeavours. Explain?

25. What five modes of international expansion are available, and what is the normal sequence of their use?

26. Explain the effects of international diversification on firm returns and innovation.

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UNIT - III

Unit Structure

Lesson 3.1 - Retailing and Marketing Competitiveness

Retail productivity is an important issue and vast literature was found on its definitions and measurements. A review of this literature showed that multiple methodologies have been applied to assess productivity of individual retail stores, groups of stores, and the retail industry as a whole, but surprisingly little attention has been given to comparing the efficiency of retail organizations in India.

Understanding and measuring the productivity and efficiency of retailers have been important issues in retailing research (e.g., Bucklin 1978; Ingene 1982, 1984; Ratchford and Brown 1985; Ratchford and Stoops 1988). Retail productivity has been considered important for society and for the individual retail firm (Bucklin, 1978; Ingene, 1984). But, despite a special issue of the Journal of Retailing in Fall, 1984 and subsequent researches, there is still no single widely accepted definition and measurement methodology for retail productivity. Most of the international studies of retail productivity in the 1950s were based heavily on concepts developed in productivity assessments in the manufacturing sector.

The European Productivity Agency and the National Institute of Economic and Social Research had provided foundation studies of various industrial sectors and economists drew on these sources (Rostas, 1948). These studies effectively set the parameters for studies, not only related to manufacturing but also to retailing, for the next 30 years (Deurinck, 1955). On these foundations, and comparable ones in USA, several studies of retail productivity were undertaken. While in essence the concepts remain relevant, much has changed over 50 years in respect of both the nature of retail productivity and the factors affecting this productivity thus requiring new and innovative methods for measuring retail productivity and efficiency.

Past researches have used and suggested the use of various measures and methods to assess retail efficiency and productivity. Retail productivity is usually measured as ratios of outputs to inputs (Bucklin, 1978; Ratchford and Brown, 1985; Ratchford and Stoops, 1988). Bloom (1972) defined productivity as a ratio of output measured in specific units and any input factor also measured in specific units. A higher ratio of measured output to measured input factors can be directly interpreted as higher productivity. It can also be seen that the most widely used conceptualization of productivity

Culture and Competitiveness

the characteristics of successful service-oriented companies who have built a strong corporate culture. Empirical evidence found in research papers and many other scholarly articles will support the theory of how strong corporate cultures positively affects strategy, how it can help companies sustain long-term competitive advantage, and maintain a strong presence within their respective industries even during tough economic times.

Does Corporate Culture Affects Firm Performance?

Strong corporate cultures are associated with higher performance and greater flexibility in changing market demands. An important study conducted by J. Kotter and James Hesket found companies who purposely managed their culture successfully exceeded comparable companies that did not manage their culture. "Their findings included revenue growth of 682 percent versus 166 percent, stock price increases of 901 percent versus 74 percent, net income growth of 756 percent versus 1 percent, and job growth of 282 percent versus 36 percent (American Management Association, 2008)."

Organizations who also stress the importance of innovation are more likely to expand faster and become more profitable than competitors. Customer-oriented organizations typically stress the importance of innovation and continuous learning. It has also been said the tangible product is not as important as much as an organizations ability to convey its culture to consumers (American Management Association, 2008). For example, as innovative as Apple Computer is, it does not sell products; they sell ease of use, ease of share, and ease of creation. Apple Computer communicates its culture across to customers very effectively.

The company has a global marketing program with a strong and consistent message which is recognized all over the world. Its new product introductions are customer-driven which has given them the capability to sustain a large market share and retain customers. Apple Computer's continuous effort in building and managing a positive and healthy corporate culture leaves customers satisfied and makes the prices of their products less relevant. This can be said for any company who builds and manages a strong corporate culture.

a) What Drivers Lead to a High-Performance Culture?

In addition to stressing the importance of innovation and continuous learning, other drivers also create value for a firm. American businesses are known to be very service-oriented and always looking for was to create value for consumers. The world is a very consumer-driven society. Nine drivers of high-performance cultures are identified as

1. Value-driven leadership, of which all the other eight drivers are stemmed from,
2. Strategic focus,
3. Innovation,
4. Power over future,
5. Loyalty,
6. Investment in employee success,
7. Acting small, 8) brand development and,
8. Social responsibility (Berry, 17). Managing these drivers of excellence is important for a company to build a positive culture and to distinguish itself in a competitive and changing business environment.

The top 50 companies listed on Fortune 500 list of 2009's World's Most Admired Companies have many of the nine drivers of excellence listed above. For example Apple, listed as the number one most admired company, is a company known for its value-driven leadership. Steve Jobs, the CEO of Apple, has infused and reinforced values such as innovation and excellence by which the company operates.

He is leading by example which can be seen through the commitment of the company's employees. A strong corporate culture is a major driver of radical innovation in addition to external forces (Tellis, Prabhu, Chandy, 2009). Southwest Airlines (No. 7) has not changed its business model in over 38 years which shows commitment to strategic focus. The CEO of Southwest Airlines, Gary Kelly, said, "To this day we still operate one aircraft type, the Boeing 737. We still fly in the domestic U.S. We still operate with a single class of service. We just try to be really good at what we do (Colvin, 2009)."

This strategy has also worked out well for the company through the recession. Focusing on what the company does best has given Southwest Airlines the ability to say virtually unaffected from the economic slowdown. Google (No. 4) is ranked number one in terms of innovation in the internet services and retailing industry. Nordstrom's (No. 24) is positioned high for its superior customer service which shows its loyalty to customers. Nordstrom's operation is very customer-centered making sure customer needs are met first which enables the development of a clear strategy, structure, and processes. Johnson & Johnson is devoted to continually investing in employee success even during a period of economic slowdown (Colvin, 2009).

An empirical study conducted on Japanese firms, who were once scrutinized, revealed their conservative efforts in valuing financial stability versus distributing large dividends to shareholders are rational decisions which payoff during economic downturns. These decisions helped the Japanese firms avoid layoffs and maintain their positive cultures. This increases productivity, reduces employee turnover, and gives them a source of competitive advantage (Hirota, Kubo, Miyajima, 2007). Starbucks has been good at acting small regardless of its large scale global operations.

The inviting and warm atmosphere Starbucks (No. 34) creates in all of its stores has given the company an edge over competitors. Coca-Cola (No. 12) believes strongly in marketing its brand in good times and bad. In order to maintain and increase market share, Coca-Cola continues to build brand equity. Target (No. 19) has strong corporate responsibility programs. The company is very involved and engaged within the communities in which it operates by supporting education, sponsoring art and cultural programs, as well as giving five percent of its income back to global communities (Colvin, 2009).

The service companies above show the importance of such drivers which develop positive cultures. All of the nine drivers ultimately support each other and build upon one another. In order for the drivers to be sustainable, top management must convey its importance continuously. These drivers are also very influential in the strategic decision making process as it determines the direction a company will likely pursue. In other words, the company culture made up from values, assumptions, and external factors shapes the strategies, structures, and procedures essential for survival in a given industry.

b) Is a Culture- Oriented Culture Important?

As it was mentioned before, the United States is a very consumer-driven society. American businesses are known to be very service-oriented and always looking for was to create value for consumers. Customer-oriented culture is very important for a firm to survive in this marketplace. Services' marketing is different from traditional product marketing because of four distinctive features: intangibility, inseparability, heterogeneity, and perishability. These four distinct features make the delivery of service that much more important. Services are broken down into two components: the way in which the services are carried out or the service delivery process and the end result or outcome of the service.

It is important for organizations to listen to what consumers want and deliver services accordingly. It is also equally important to show concern and build loyalty when services do not meet consumers' expectations. When consumes are not satisfied, corrective measures must be taken because consumers are ultimately the ones who evaluate the service. The non-routine services have the largest impact on an organizations image. An organizations culture is put to test every time a non-routine service is delivered.

A truly customer-oriented service company will pass the test all the while enhancing its reputation through positive word-of-mouth as well as distancing itself from competitors. A dedication and commitment to consumer satisfaction has to dominant concern to fully realize the benefits. Employees who have customer contact need to have a level of flexibility to offer such services, even if it deviates away from written rules. Empowering employees to use good judgment and creativity to satisfy consumers is more effective than other traditional forms of marketing. Recognizing these efforts of employees who offer exceptional services especially during non-routine situations also reaffirms the organizations culture and values to other employees. It is important for leaders in an organization to communicate such instances to reinforce a customer-oriented culture (Parasuraman,1987).

c) Do External Forces Shape Corporate Culture?

The industry in which a company operates has a major influence on its corporate culture; therefore companies within the same industry share similar corporate cultural characteristics. This is consistent with finding number eight from the AMA and the Institute of Corporate Productivity empirical study which states the economic environment is the major influence most companies stated as guiding corporate culture. It also argues that as industry demands change, certain aspects of a company's culture will also change uniformly in order for its survival in a competitive environment. Sometimes this change comes about easily with new learning or it may be more difficult requiring new people.

Firms are established on industry-based assumptions about the external environment, such as competitors, society, and customers, which shape the foundation of a firm's culture. Although the external forces shape culture, only the external environment cannot attribute to the failure or success of a firm. From these assumptions developed, values are also developed which then form into company strategies, structures, and procedures essential for its survival. Many other values will also develop from the founder's beliefs and the firm's experience. Leadership must take responsibility for their decisions during good and bad economic times (Collins, 2008). But for a firm to survive and flourish, the organizational culture, values, and assumptions must be parallel with that of industry demands (Gordon, 1991).

d) Does Culture Affects the Outcome of Mergers and Acquisitions?

Culture does significantly impact the outcome of mergers and acquisitions. The impact mergers and acquisitions have on companies with different corporate cultures. Among those companies who participated in the survey, 26 percent had been merged with another company in the past five years and only 22 percent of those mergers were successful. It was found that the single major reason why the companies failed in successful mergers and acquisitions was because of the clash in corporate cultures (American Management Association, 2008).

For example, the acquisition between Kinko's and FedEx in 2004 has not been successful thus far. Kinko's, a company which started on a college campus, was once a place individuals could go for last minute copies with helpful employees willing to help in a fun atmosphere. What customers have complained about since the acquisition is the poor customer service levels. The business model changed from a simple copy store to a company who also provides packaging and shipping among other services.

Although there is more room for growth and flexibility, FedEx has to make sure to not stray away from the core values upon which Kinko's was established (Palmeri, 2008). As it is noted in finding ten, the probability for a successful merger increases for organizations with strong corporate cultures (American Management Association, 2008). It is important for companies to examine the corporate culture of a firm they are considering acquiring before making such a decision which will drastically affect the future of their business.

e) Effect Of Implementing The Cultural Model

The cultural model looks to execute strategy through total organizational involvement. All levels are exposed to a set of values which guides their behavior and all are encouraged to contribute to developing a strategic direction and making the vision a reality for the organization. In this model, the CEO plays the part of a coach; empowering individuals make their own decisions.

The CEO is responsible for communicating and infusing the vision and mission which gives employees a sense of direction. It also encourages employees to work together and form a consensus of key managerial decisions. This notion expands the line of responsibility to all individuals because it believes all levels of employees can provide invaluable input. The cost of this model is also argued to be one of its key strengths. Instilling such a culture and having individuals' work together to achieve one common purpose takes a lot of time. But the implication of such a model has an enormous pay-off. Although the formulation takes time, the execution is almost immediate without any major glitches (Bourgeois III & Brodwin, 1984).

While there are many pay-offs to organizations who uses the cultural model, there are also some limitations. First, organizations who use a cultural model have informed and intelligent employees. Second, when a consensus is achieved from all employees all the time, employees may become uninterested and lose focus. Firms have to set a challenging environment for employees to keep them engaged.

Also, the initial creation and development of such a cultural model may wear thin on many employees who are not used to such a working environment. On the other hand, when organizations have built a strong and powerful corporate culture, or 'Type Z' organizations, they may be more resistant to change. They also tend to favor homogeneity and inbreeding.

This is also known as xenophobia. This has negative implications on an organization because it doesn't allow for new ideas and innovation to be realized. This can be damaging to any organizations competitive strength on a multinational and local level because of the many continuous changes and advancements taking place all over the world (Bourgeois III, Brodwin, 1984).

f) Does Culture Create Competitive Advantage For A Firm?

It is imperative for firms to continuously find new sources of competitive advantage. Building strengths within the culture of a firm will help build and sustain competitive advantage. Making culture less apparent for competitors to imitate makes culture that much more valuable and a source of competitive advantage (Moran, Palmer, Borstroff, 2007). With more research and studies dedicated to understand the effects of corporate culture on organizations, it can be seen that there are positive correlations associated with building and continuously managing culture.

Building a strong corporate culture is an important asset as it differentiates an organization from competitors. Positive corporate culture has become more important as studies reveal the benefits of increasing overall business performance. Culture is also directly linked to reputation. Both are intangible assets only a few firms are lucky to achieve. Culture, reputation and financial performance are all interconnected and act as a major source of competitive advantage for a firm (Flatt, Kowalczyk, 2008).

A strong corporate culture is only considered a sustainable competitive advantage when it cannot be easily duplicated by competitors (Barney, 1986). Therefore, a strong corporate culture is not a just a trend which will eventually fade away. Corporate culture is an attribute to a company which will grow stronger and stronger in relevance as firms become more knowledgeable about the subject.

Managerial Implications

The valuable practical lessons managers can draw from this study is to use the information as a starting point in developing their own unique and individual corporate cultures which will confidently enhance the internal structure of the company as well as aiding the strategic decision making process. Corporate culture is unique to each organization. Although there is no ideal formula in developing and managing a strong corporate culture, there are some features which are advantageous to all organizations.

Top management and managers need to be aware and recognize the need for developing a strong corporate culture. They need to clearly communicate values to employees which are consistent with the overall organizations mission and vision. It must be easy to understand and be visible. Such values will ultimately encourage positive and ethical behavior and increase productivity. Encouraging creativity and innovation will also lead to a flexible and responsive organization meeting the needs of current and future changing and unforeseen market demands.

Exposing employees to the values relentlessly will assure the importance of the organizations culture. Leaders also have to be sure to lead by example. As it was stated earlier, showing employees actions of others is the most unforgettable way of communicating culture. A positive corporate culture will shape strategy, structures and processes with favorable outcomes for an organization. All of these are value creating activities which will attract talent and improve the overall business performance for any organization. A strong and positive corporate culture is a reflection of an excellent management.

Conclusion

A positive and strong corporate culture has been established as having a positive effect on strategy. Culture has shown to increase productivity, increase loyalty, encourage innovation as well as increase employee retention rates. Strong cultures also attract top talent because individuals want to be a part of an organization which values their input and contributions. Even during tough economic times, companies are always on the lookout for great talent. All of these advantages allow for leadership in the marketplace with increased profitability and larger market share.

With a fast changing competitive environment, economic uncertainty, advances in technology, and globalization, culture is a critical element for an organization to distinguish itself from competitors. Very few companies are good at creating strong corporate culture. There is still a lot of room for improvement.

Clear communication is key developing culture. Top management can dramatically improve an organizations position relative to competitors if it communicates its commitment to building and managing a strong corporate culture and making such thoughts transparent to all employees. This can be the foundation of forming values and assumptions unique to a single organization shared by all of its employees.

Culture takes time to develop. Putting in the extra time and effort in developing a strong culture will pay off big dividends in the long-run; the execution of strategy will follow through smoothly giving an organization a powerful competitive advantage. Because communication is very important in developing and managing corporate culture, a suggestion for future research would be to analyze how multinational companies manage a unique and consistent culture across countries.

Defining a High-Performance Culture

A company's culture is a mixture of values, beliefs, and behaviours. A sliver of it appears in visible artifacts, such as a mission statement. Clues also exist in the ways people act every day on the job. How much time does the CEO spend with customers? How many bottom-up ideas get implemented and celebrated? Will the CEO waiting in line with other customers get served first? If he sees litter on the plant floor, will the CEO pick it up himself?

One characteristic that distinguishes high performance cultures is that people inside them can recognize and often articulate the company's authentic core—the unique soul and personality that define a company's character. An authentic core that's widely recognized creates an emotional bond between a firm and its employees. One Southwest Airlines employee captured it well when he said, "We all work hard, but to do anything else would be like letting your family down."

An authentic core provides a necessary ingredient for great teamwork and esprit, but it isn't enough to foster high performance. You can have an authentic core and still lose your way.

To turn commitment into strong performance, a company's core needs to be complemented by a set of values and behaviours that motivate people in the organization to do the right things. Through our work helping companies transform their businesses, we began to notice two important patterns. First, cultural change is often a powerful and essential catalyst for companies seeking to reach their full potential.

Second, while each company has developed its own shared values and way of doing things, tailored to its business situation, the high-performance cultures we encountered tended to have elements in common.

Six Attributes of High-Performance Culture

we examined the link between financial outperformance and high performance culture at 200 companies, and combined this analysis with case studies of three dozen high performers. The research confirmed our experience, and sharpened the common elements to six key attribute

1. Know what Winning Looks like

Many companies engender a desire to win, but people in high-performance organizations know what winning looks like, and they know how to get there. They won't accept doing the same thing this year as they did last year. They set high standards and the performance bar keeps going up. The standard Jack Welch set years ago for General Electric—No.1, No.2 or fix, close, or sell— distilled the cultural aspiration for a generation at GE. At Samsung, being a strong No.2 will not satisfy employees.

They aspire to be No.1 in every aspect. But winning in a high-performance culture is rarely focused solely, or even primarily, on financial success. Shor t-term financial victories please the markets, but a culture that measures success in those terms alone rarely builds long-term value or creates passion for results. At high performers, winning is about exceeding goals on quality, cost, or customer satisfaction—objectives that lead to profit but are more real for people on the front line.

That's important, because the desire to win is more powerful when people throughout the company are passionate about their role in making it happen.

Consider Toyota, known for its principle of continuous improvement and the quality of its products. This principle is so deeply woven into Toyota's culture that the impetus for continuous improvement often comes from workers on the assembly lines. The company aspires to high goals: 15 percent global market share, 30 percent cost reduction over three years, and shortening the cycle for developing new products from 20 months to 12.

By creating a clear picture of how Toyota wins and placing it at the center of its culture, the company makes sure that evolution and innovation are pursued and celebrated not just in the design lab but also on the factory floor and in the sales department.

2. Look out the window

Companies with high-performance cultures don't get overly distracted by looking inward.

The y focus instead on what's outside the company: customers, competitors, and communities. Enter prise Rent-A-Car, for example, has grown to be one of the largest car-rental agencies in the United States in large part by instilling the conviction among employees that attention to customers' needs leads to success.

That focus is reinforced through the company's use of clear and simple customer advocacy metrics. One of these is the "Enterprise Service Quality index" (ESQi), which measures customer satisfaction with each rental on a five-point scale. Rental branches' ESQi scores are a key variable in determining promotions for branch managers and employees.

So they're watched closely, and branch employees learn to take personal responsibility for turning customers into enthusiastic promoters of Enterprise. When it comes to ordinary day-to-day operations, the company says, ESQi is "one of many ways in which we remind ourselves to put customer needs first."As company founder Jack Taylor said, "Put customers and employees first, and profit will take care of itself."Enterprise leaders have taught that philosophy to managers and employees throughout the organization.

Performance cultures have external radar that extends beyond their customers. The competition, for example, is never taken for granted or ignored. High performers are keenly aware of their competitors' capabilities so that they can shape their own to best advantage.

High-performance cultures are also attentive to another external constituency: the communities in which they operate. One paragraph of what Johnson & Johnson calls "Our Credo" begins, "We are responsible to the communities in which we live and work and to the world community as well"—a principle that guided the company during its legendary response to the Tylenol crisis of the 1980s and again through the Procrit counterfeiting crisis in 2003.A strong community focus provides more than just good PR. It builds goodwill both inside and outside the company.

3. Think and Act like Owners

A hallmark of a high-performance culture is that employees take personal responsibility for business performance Often, they *are* owners. Like many high performers, for instance, U.K. retailer ASDA has an extensive employee share-ownership plan, the largest of its kind in Britain. Roughly 92,000 "associates," as the company calls its employees, own options in parent Wal-Mart.

4. Commit to Individuals

Sadly, the cliché about traditional corporate or bureaucratic cultures is frequently true: individuals can be treated like cogs in the machine. To the extent their contribution is valued, it is based on who they are today, not who they might become. High-performing cultures turn this notion on its head.

They make a point of investing in individuals at all levels of the organization and helping them develop their full potential. This commitment takes different forms at different companies:

The strong leadership development programs at GE, Nestlé, and Enterprise, for instance, measure leaders in part by their abilities as coaches and mentors, and promote almost exclusively from within. It requires an environment where feedback is open and honest about what people do well and where they can improve.

Performance cultures reinforce their investments in individuals by providing training programs for all employees, not simply managers. ASDA offers its associates a variety of "best in class" training programs through the ASDA

Academy and has introduced a range of innovative workplace practices, such as child care leave, flex time, job sharing, and even grandparents' leave for the birth of a grandchild. Nucor, the American steel company, provides its employees not only profit sharing, an employee stock purchase plan, bonuses, and service awards but also sizable annual stipends toward the college or vocational education of their children and spouses.

The message in all these cases is unmistakable: a company will not achieve its full potential unless its people do, as well.

5. Spread Courage to Change

Today's successful companies must be able to change and adapt to new environments quickly and continuously. But how many company leaders can truthfully say that their employees (or themselves) comfortably take risks, experiment, and challenge the status quo? How many can say they are happy for employees to make mistakes, as long as they learn from them? General Electric has managed to instill in its employees a recognition that taking measured risks is necessary in order to achieve its clearly defined business goals.CEO Jeffrey Immelt wants the company to spawn more creativity and innovation, and is asking business leaders to come up with three or more large-scale "Imagination Breakthrough" proposals every year.

Taking risks is not a goal in itself, of course. But companies with high-performance cultures find ways to make risk acceptable, within clearly defined boundaries and with the right controls in place. Steel maker Nucor, as the company declares on its Web site, "aggressively pursues the latest advancements in steel making around the world," and expects mill managers and employees to take the lead in implementing the technologies it acquires.

Companies that succeed in taking risks know how to deal with the risks. While many major global corporations have focused more on their core businesses, leading Korean Chaebols, such as Samsung, are succeeding through diversification. By working in a high-achievement environment, by having a keen sense of when to take a risk and of what the risk entails—and what countermeasures should be taken if a risk backfires—Korean conglomerates have written some of the world's biggest success stories.

6. Build Trust Through Debate

Even the most talented and energetic group can fail if its members are not aligned. Cohesive teams trust one another. They aren't afraid to engage in conflict around ideas, but once they commit to a decision, they walk out of a meeting with a common plan of action.

This principle gets tested thoroughly when two cultures merge following an acquisition. The process of merger integration can reveal a company's culture in high relief, and often provides a new understanding of that culture, even among people who have lived it for years. When Johnson Wax Professional took over Unilever's Diversey Lever unit in May 2002, for instance, some cultural differences between the companies were stark. Johnson Wax Professional had relied on an entrepreneurial, intuitive, and unstructured culture to become a world leader in floor care and housekeeping solutions. Di versey Lever, meanwhile, was highly structured, both in its communications and in its planning. The cultural gulf became apparent at the very first meeting of the integration team. Diversey executives dominated the early discussions with their formal briefs and confrontational style, catching the Johnson executives off guard.

As a first step toward a "third way" that would accommodate both cultures, Gregory E.Lawton, the new CEO of the combined firm, JohnsonDiversey, called a timeout to help members recognize their different approaches and talk about them without judgment." These differences weren't good or bad, just different," he says. The leadership group began to work through decisions in a way that both teams could accept, combining the entrepreneurial, delegating style of Johnson with the structure, discipline, and organization of Diversey Lever.

During the critical period between the deal's announcement and its close, Lawton put the new team on one compensation and incentive system that linked directly back to the success of the new company. A year later, Diversey Lever had retained most of its key executives and major accounts. The expected deal synergies had materialized. Through careful attention, the culture had knitted together into a single enterprise where differences were encouraged.

Each of these six attributes contributes to a stronger and more coherent culture. But the real measure of a high-performance culture is an organization's ability to nurture and combine all six. In our experience, the anchors are knowing what winning looks like and committing to individuals. Both of these create the confidence and the conditions within an organization to spread the courage to change.

Risk-taking becomes easier, and more important, people understand what types of risk to embrace when the company has clearly defined the picture of winning, along with the strategy to get there, and the value placed on individual effort and achievement. With these attributes in place, an organization tends to build trust, empower debate, and create ranks that can think and act like owners, which is often the first milestone in building a high-performance culture.

Leading Cultural Change

Changing a culture is often difficult because it entails influencing people's deepest beliefs and most habitual behaviors. At some companies, the culture may be so thorough in its focus on cost efficiency, for instance, or on a narrowly defined "Company Way," that the culture itself becomes a bottleneck to change.

That's why crisis—which focuses attention and breaks down resistance— can be a potent catalyst for cultural change. New competitors, new technologies, or new regulations often require organizational change on a large scale. And that kind of change is often necessary to get to the next level of performance.

Compelled by such necessities, companies have found that they *can* change their cultures, provided that their leaders are truly committed to change and that they understand the steps involved. But companies shouldn't have to wait for a crisis to precipitate cultural change. High-performance cultures rarely stand still. Indeed, cultures with strong customer focus or those that reinforce innovation often excel at inducing cultural change.

Role of Information in Building Competitiveness

Competitive Advantage in any industry or business venture is achieved when one particular organization performs more effectively and/or efficiently than the others in the same category. This Competitive Advantage does not have to be all encompassing of the industry and may only cover small segments. A Competitive Advantage is achieved when an organization can do any one thing, process, function, etc. more effectively and or efficiently than others in that industry segment or in some cases across the entire industry. Whether the organization employs a low cost strategy, cost/price differentiation, or what have you there is a Information System supporting the function.

A well planned and executed Information System is imperative in today's business world. Well planned and executed Information Systems are key tools for the task of obtaining a Competitive Advantage. Planning for and developing a successful Information System falls under the strategy step of the critical success factors(Newkirk, Lederer, & Johnson, 2009).

In most industries there is often a company that is far ahead of the game. These companies are the leaders of their field and tend to set the bar for their competitors. These companies are said to have competitive advantages. It has been argued if the result of their success is due to access to resources that others do not have or if it is "because of superior knowledge and information assets" (Laudon & Laudon, 2006). Regardless, these companies seem to have a better grasp on the principles of gaining competitive advantages.

The introduction of technology into the business community has dramatically changed business practices and how advantages are gained. Information Systems, which is comprised of hardware, software, data, people, and procedures, is used to produce information that may allow a company to gain competitive advantage by producing insights that lead to actions. These insights and actions, when used efficiently, is one possibility that allows companies like Wal-mart and Google to stand above the rest and expand its business capabilities far above the heads of its competitors.

Strategic Planning for Information Systems

Business Systems Planning began back in the 70's and continues today with an eye toward the competition and, how the system will enable the organization to improve business functions. As stated earlier good planning proceeds all system development. In an article written by Lederer & Sethi, they outlined seven steps for the planning process with one of the steps being the SWOT (Strengths, Weaknesses, Opportunities, and Threats) analysis.

A good Information System development & planning strategy should begin with a SWOT analysis of the organization. This SWOT analysis should take place rather swiftly as the market and therefore business itself is fluid and changes quickly so systems must be flexible and easily improved (1998).

One major aspect of strategic planning is planning for information systems. Proper planning relies on the appropriate integration of a company's business objectives and its plan for information systems (Thompson & King, 1997). The information system is utilized to assist an organization in reaching elements stated in its strategic plan. Having good information systems and operating data is an important part of executing a strategy successfully (Thompson, Gamble, & Strickland, 2006).

Although not spelled out in this order or context one must know the who, what, when, where, why, and how an information system will aid or benefit an organization in order for the system to work for the organization. Proper management of the information system development is critical for success. During the information system planning phase one needs to identify these critical elements to ensure system success. All business ventures begin with planning and all planning begins with a clear vision of where you want to go with the system or business process. The ultimate goal of any information system is to improve business processing or some other function which also improves profit (Phillips, 2005).

A critical step in strategic planning for information systems is the proper definition of the problem being solved. Porter's value chain model can assist with defining and analyzing areas that are likely to have a strategic impact on competitiveness (Porter, 1996). Once this definition is determined, a properly designed Information Systems can adequately execute a successful strategy that meets the planned business objectives. According to O'Brien (2005), the strategic role of information systems is to use information technology to develop products, services, or capabilities that give an organization a significant advantage over its competitors.

Aligning Information Systems Planning with the Business Plan

The alignment of information systems planning with the business plan tends to be a critical issue for organizations. The degree of alignment can determine the successes and/or failures of the actual information system. Information systems planning, also known as ISP, is described as being the process of establishing objectives for an organization's computing needs and identifying applications the organization should potentially implement (Thompson & King, 1997).

It is considered paramount that IS strategies are in align with business strategies in order for a business to not only be successful, but to survive (Cragg, & Tordova, 2011). Different views have been undertaken on how the business should reach IS/Business alignment. One perspective is to let the IS infrastructure and decisions be driven by business strategies and decisions. Another would be the enhancement of IS could provide the business with new ways to make a profit and optimize existing business strategies (Venkatraman, 1993).

Some companies, such as Proctor & Gamble, Progressive, and Vanguard Group, have taken the concept of Business/IS alignment even further with a newer approach, convergence. Convergence has employees rotate jobs between the IT and Business departments (even CFO's with CIO's) in order to facilitate an encompassing understanding of both sides of the operation.

At Progressive, IT employees are required to understand how the insurance business works in order to provide better service on customer websites and implement changes quickly if needed. Neither side of the organization drives the goals of the other in a convergence alignment, yet there is one goal that both sides work to achieve in unison (King, 2010).

Information Systems as a Competitive Advantage

According to Thompson et al (2006), a competitive advantage in an organization is defined as having the majority of buyers preferring the organization's products or services over the competition when the bias is strong.

Information systems are created to solve problems, provide information, make organizations more efficient or create a new business. It is contended that gaining competitive advantage via Information Systems is not as simple as investing in the latest IS/IT available, but rather developing the IS/business capability of the organization as a whole.

Cultivating the organizations IS capability provides long term sustainability because the company is able to better identify IS/business opportunities, implement changes according to business needs, and create information systems/process that are harder for competitors to imitate. Merely investing in the latest technology or using the newest systems is not sustainable in the long run because IT/IS is continuously and rapidly evolving. (Ward, & Preppard, 2004)

In Management Information Systems by Effy Oz, there are eight ways to gain competitive advantage:

1. Reducing cost
2. Raising barriers to market entrants
3. Establishing high switching costs
4. Creating new products or services
5. Differentiating products or services
6. Enhancing products or services
7. Establishing alliances
8. Locking in suppliers or buyers

Examples of Organizations that use Information Systems as a Competitive Advantage

- Dell has created a build-to-order system that allows customers to build and customize their computer online. They also have a process that allows them to ship the custom computers rapidly. Dell has become a low cost producer from their information systems (O'Brien, 2005).
- The one-click purchasing (customers enter shipping and credit card information only once for current and future purchases) of Amazon gives them a competitive advantage over other shopping sites. This technology was patented in 1999 and for a fee this technology is now being used by other sites such as Barnes & Noble. (Course Technology, 2009)
- Progressive enhanced services by allowing insured customers the ability to file a claim online, track the claim's progress and offering a free service called "Total

Loss Concierge Service". This Concierge Service uses their information system that contains details about the insured's totalled car. As Progressive's system is now connected with car dealerships and financial institutions, they can offer aid in the purchase of a new vehicle for their customers. (Course Technology, 2009)

- Microsoft Windows is an example of high switching costs. Most of the computer users use Windows as their operating systems when they use computers first time. It will be very time-consuming for those users to switch to Macintosh, which is another operating systems, because of the unfamiliarity.
- Hilton Hotels uses information systems to store detailed information about regular guests, in order to determine guest preferences and the likelihood of that guest being a future customer (Laudon & Laudon, 2006).
- iPhone was a new product that gave Apple a competitive advantage over other cell phone manufactures.

Global Competitiveness of Indian Industry-Status

Cause of Un-Competitiveness

Besides competitive advantages, strategic alliances can have some disadvantages. Alliances are costly, not only due to cash leaving the company's hands, but rather due to returns from which it could be denied. First, they involve the investment of managerial time resources in establishing the alliance, managing it, and resolving possible conflicts of interest between the partners over the functioning of the alliance.

Moreover, alliances can create indirect costs by blocking the possibility of cooperating with competing companies, thus possibly even denying the company various financing options. For instance, an alliance with Ericsson in the area of cellular communications could reduce the likelihood of contracts with Nokia, thereby putting the company at risk that if Ericsson is weakened, so will be all the companies that depend upon it.

Alliances also expose the company to its partners, and the unique technologies that it has are sometimes revealed to its partner company, which could later become a competitor or could utilize the fruits of the venture or the know-how better than the startup itself. In addition, strategic partners may often lead the company in directions that serve the partner company better than they do the company itself.

Although a material part of the costs of alliances such as joint ventures may be forecasted during the negotiations for its establishment, in many cases the balance of power between the parties changes during the course of the venture's life, and the parties to it may have a change of mind. For instance, many joint ventures that were signed before the stock market crises of 2001–2002 between public companies and start-ups never materialized due to the drop in the stock prices of some such public companies.

The fact that some of the private companies had meanwhile raised capital and actually had become stronger than the public companies utterly changed the balance of power. Likewise, the non-raising of capital by the start up could motivate the public company to try to renegotiate the terms of the venture, while taking advantage of the start-up's weakness.

A change in the competitive environment in the field could also affect the alternative cost of the venture. A study of alliances indicated that out of every one hundred alliance negotiations, ninety will fail to even produce an agreement. Of the remaining ten that do result in agreements, five will fail to meet the partners' expectations for the venture. Of the five that produce acceptable results, only three will survive for more than four years.

Alliances may terminate for any number of reasons. The collaborative relationship may break down. The alliance may accomplish its mission and therefore outlive its purpose. Partner strategies may change, eliminating the need for the alliance. In his paper "Strategic alliances" Richard J. Chernesky evaluate six the most frequent problem areas which lead to alliances' failure:

1. ***Poor project management***. Companies involved in alliances must continuously monitor how fast moving markets and advances in technology may modify the assumptions and expected outcomes that prevailed when the deals were signed. The trouble begins when executives underestimate how much time and energy must be committed to managing multiple partner alliances.
2. ***Strategic gridlock***. Unanticipated conflicts in objectives, business plans and operations may cause a dramatic change in the viability of a particular alliance.
3. ***Losing control of basic strategy***. In every alliance, the partners relinquish some control with the expectation of shared returns. If a participant unduly depends upon the alliance for growth, it can lose sight of its overall business strategy and fail to focus on its own business. One of the worst things that has happened with the strategic alliance concept is that a partner ends up creating a competitor.
4. ***Focus on benefits to partners***. The failure of the parties to act in unison because of a focus on what the other participant is obtaining from the alliance.

5. ***Poorly defined goals***. The failure to agree upon specific goals and objectives such as return on investment, market share, market expansion, cost containment, etc. often leads to unanticipated difficulties.

6. ***Poor partner choice***. The failure to select the right partner can make even the best deal unsuccessful. The business attributes of General Motors' alliance with the Korean company, Daewoo, to produce the Pontiac LeMans were positive and highly attractive, but the differences in management style and corporate cultures eventually resulted in the strategic alliance being discarded. To ensure the greatest likelihood of success, organizations contemplating forming an alliance need to develop a disciplined, structured and systemic strategic alliance process.

In order to achieve a competitive advantage, the process of alliance management should be very people-oriented. One key to managing the process is the personal relationship that develops between operating managers. When that relationship is based on trust and respect, differences (be they of substance or style) can be settled to the satisfaction of both parties.

When the relationship between managers is less cordial, contracts and bureaucratic methods are needed to resolve relatively minor issues. Once managers grasp the fact that an alliance is a process they build flexibility, responsiveness and process goals into the relationship. The process goals are based on the continual assessment and improvement of everything from the communication channels to the technology transfer process.

Cooperation involves both firms adapting to, and learning from, their partner's operating style. The foundation of operating style is corporate culture, and the integration of culture is an important issue in alliances. There are two steps involved in integrating corporate cultures. The first is to identify the type of culture that predominates in each firm. The second is to integrate those cultures so that the best aspects of each are encouraged in the relationship.

In conclusion, strategic alliances can be a powerful tool for achieving a company's strategic goals. Through cooperation and sharing of resources, "one plus one" may "equal three". In order to improve the chances of success, companies must follow a careful, organized process from start to finish; from strategic conception to alliance termination. It is important to take the time to properly set the strategy for the alliance, to create the optimum structure for the alliance to flourish, to set clear rules of governance, and to monitor the results on a timely basis.

As a result, strategic alliance can provide a powerful competitive advantage in new markets, cost, speed, knowledge, and technology access. Following the above framework will provide an approach to developing successful strategic alliance which has the potential to improve the organization's strategic position dramatically, perhaps even to transform the company.

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Lesson 3.2 - Strategic Alliances

Strategic Alliance Meaning and Nature

a) Meaning

There exist several academic definitions of strategic alliances. According to Gulati (1995), a strategic alliance is defined as "a purposive relationship between two or more independent firms that involves the exchange, sharing, or co-development of resources or capabilities to achieve mutually relevant benefits" (1995; p.619) while Ireland et, al (2002) describe strategic alliances as "cooperative arrangements between two or more firms to improve their competitive position and performance by sharing resources".(2002, p.413) Similarly, Wittmann, et al. (2009), look at strategic alliances as "collaborative efforts between two or more firms in which the firms pool their resources in an effort to achieve mutually compatible goals that they could not achieve easily alone" (2009; p.743) which is the same definition used by Lambe et al. (2002).

Despite the numerous definitions, one can view similarities between them in terms of having two or more parties who are cooperating with each other, looking to share their resources so as to mutually improve their performance either through learning and knowledge sharing, or through creating opportunities to build competiveness.

Strategic alliances have different structures based on the type of relationship between the firms in the alliance (Kale & Singh, 2009). They can be divided into contractual agreements which can be further broken down in terms of traditional contracts and non-traditional contractual partnerships where non-traditional contractual partnerships consist of several examples of strategic alliances such as joint R&D, joint marketing, joint manufacturing, arrangements to access mutually complementary assets or skills and standard setting.

Alternatively, there are equity arrangements which can be sub-divided into no creation of new firms, creation of separate entity which are the two areas where equity based strategic alliances fall. These areas can further be subdivided into minority equity investment and equity swaps in terms of no creation of new firms. In terms of the creation of separate entities, they can be divided into joint ventures, 50-50 joint ventures and unequal ventures (Kale & Singh, 2009).

b) Definitions of Strategic Alliance

'In the decades to come managers will either be part of an alliance or competing with one' (Paul Lawrence, Harvard Business School)

"Strategic alliances are agreements between firms in which each commits resources to achieve a common set of objectives. Companies may form strategic alliances with customers, suppliers, or competitors. Through strategic alliances, companies can improve competitive positioning, gain entry to new markets, supplement critical skills, and share the risk or cost of major development projects." (Bain and Company, 2006).

By its very definition, a strategic alliance is a partnering between businesses where there is a combination of effort and resources to achieve goals that will bring rewards to each of the entities involved. The basic idea behind a strategic alliance is to minimize risk while maximizing the utilization of financial, technical, physical and management resources with a clearly defined purpose and exit strategy.

Strategic alliances may be set up to achieve a diverse set of objectives, the most common of which are improved manufacturing capacity, distribution, R&D, product development, market entry, or marketing. Some of the obvious advantages of strategic alliances are that they are quicker and easier to form than formal partnerships, and the risks are diluted and split amongst alliance partners.

Alliances have become a core element of today's business strategies and are especially prevalent in industries where change is rapid. In this context, the phrase "entrepreneurial strategic alliance" has been used to describe those alliances that focus on exploiting novel business models to achieve strategic objectives within necessary resource constraints. This type of alliance is highly effective in competing against rivals for global market leadership.

However, the high incidence of alliances that have ended in failure is something for concern. A study by Anderson Consulting revealed that 61% of alliances were either failures or limping along (Sparks, 1999). Many reasons account for the high failure rate, from diverging objectives and priorities to an inability to work well together.

The international business literature has already acknowledged a number of positive outcomes for companies actively engaged in strategic alliances, such as higher return on equity, better return on investment, and higher success rates, compared with integration through mergers and acquisitions, or companies in the Fortune 500 list that avoid building inter-corporate relationships (Booz-Allen & Hamilton, 1999).

At the same time, it is an acknowledge fact that there is little understanding among business executives regarding the formation processes, the dynamics and evolution of inter-corporate relations, and what are the factors that determine the success rate in strategic alliances (O'Farrell & Wood, 1999). Much of the fundamentals in this field were established with the seminal edited volume by Contractor and Lorange (1988) on Cooperative Strategies in International Business, with contributions from Buckley and Casson on a 'theory of co-operation', Contractor and Lorange on 'the strategy and economic basis for cooperative ventures', Harrigan on 'partner asymmetries' - among other positional papers in the same volume.

The research in the field was marked also by contributions from Cunningham & Calligan (1991) on 'competitiveness through networks of relationships', Hamel (1991) on 'interpartner learning in strategic alliances', Auster (1994) on 'theoretical perspectives on interorganisational linkages', Gulati (1995) on the relationsgip between repeated transactions and trust', Doz (1996) on the 'learning processes in strategic alliances', Little, et.al.(1998) on 'management of collaborations in technology based product markets'.

The issues of trust, partner selection, and knowledge transfer through co-operative business ventures, complementarities and synergies between partners have dominated the scientific discourse. Some of the leading research questions explored were: why alliances are set-up (Gugler, 1992, Lei, 1993); the international context of cross—border strategic alliances (Snodgrass, 1993, Levinson & Asahi (1995), or how to achieve success in international strategic alliances (Bleeke and Ernst (eds.) 1993), Mohr and Spekman, 1994).

In general the contributions to the field of inter-corporate strategic alliances focus either on an in-depth analysis of a selected narrow issue - such as the effect of knowledge ambiguity on technological knowledge transfer in strategic alliances (Simonin, 1999), and methodological issues of construct validity in measuring strategic alliance performance (Arino, 2003), or swiping generalizations of more general magnitude – such as Bensimon's executive guidelines

8. Assimilate the competencies of your partner;
9. Think of your partner as today's ally and tomorrow's competitor;
10. Share power and resources, but share information wisely;
11. Structure your alliance carefully) (Bensimon, 1999).

To summarize, strategic alliances exist in several forms and are created in a manner that will be advantageous to the companies involved. This includes the use of either contractual arrangements or equity arrangements and they are further categorized based on the particular characteristics of the alliance.

Strategic Alliance Meaning: A strategic alliance is a formal relationship between two or more parties to pursue a set of agreed upon goals or to meet a critical business need while remaining independent organizations.

One of the fastest growing trends for business today is the increasing number of strategic alliances. According to Booz-Allen & Hamilton, strategic alliances are sweeping through nearly every industry and are becoming an essential driver of superior growth. Alliances range in scope from an informal business relationship based on a simple contract to a joint venture agreement in which for legal and tax purposes either a corporation or partnership is set up to manage the alliance.

For small businesses, strategic alliances are a way to work together with others towards a common goal while not losing their individuality. Alliances are a way of reaping the rewards of team effort - and the gains from forming strategic alliances appear to be substantial. Companies participating in alliances report that at much as 18 percent of their revenues comes from their alliances.

But it isn't just profit that is motivating this increase in alliances. Other factors include an increasing intensity of competition, a growing need to operate on a global scale, a fast changing marketplace, and industry convergence in many markets (for example, in the financial services industry, banks, investment firms, and insurance companies are overlapping more and more in the products they supply). Especially in a time when growing international marketing is becoming the norm, these partnerships can leverage your growth through alliances with international partners. Rather than take on the risk and expense that international expansion can demand, one can enter international markets by finding an appropriate alliance with a business operating in the marketplace you desire to enter.

c) Nature of Strategic Alliance

The nature of strategic alliance is very diverse, many factors are shows influence on the alliance. Building a strong relationship with another business is often the best way to grow and develop your own small business. Everyone talks about them. Executives speak of partnerships and alliances as being core to their strategies. Salespeople want to partner with their customers. Developers seek alliances to acquire technology, knowledge, and capabilities. Marketers seek partnerships to open new markets and segments. The mergermania that is sweeping business is a form of partnering. Other forms of partnerships are joint ventures, technology alliances, supplier-chain alliances, outsourcing, and virtual companies.

Countless consulting companies offer seminars on partnering. Strategic partnering is one of the “buzzword bingo” favorites. Sales people and marketers often use partnerships as an advanced form of selling, doing no more than using the offer of a partnership as just another way of “closing” the customer on the latest deal. Partnerships in this context end up being “I want you to do something for me,” not “how can we work together for mutual benefit.” Partnering seems to be the automatic answer to expanding sales, markets and growing a company.

Yet the majority of partnerships and alliances fail to achieve their objectives. Some data indicates that the failure rate of partnerships is as high as 70%. Others, while not declared failures, end up being paper partnerships and not real collaborations that produce meaningful results.

Strategic alliances are critical elements to many business strategies. No organization can do everything, so alliances become powerful means of enriching the solutions and value we provide our customers, improving our access to new markets and customers, and growing our own knowledge, capabilities, and companies. We can extend our core competencies through entering into relationships with organizations that have capabilities that complement ours. Creating relationships that produce meaningful results, for each party, requires hard work and commitment.

Based on my experience, effective partnerships can be expressed in the following manner: effective partnerships are a combination of the following factors:

- **Shared Risk:** Each partner bears a fair and appropriate share of the risk in the alliance. No partner has a disproportionate level of risk.
- **Shared Resources:** Each partner commits an appropriate proportion of the resources, whether they are capital, people, knowledge, technology or other.
- **Shared Rewards:** Each partner shares appropriately in the rewards, the partners work together to create mutual wins.
- **Shared Vision**: The partners share a common view of the objectives, results and outcomes of the alliance. They share a common vision of the importance of the relationship.

- **Shared Values:** They share common value systems and complementary cultures. This shared value system is the bedrock of the relationship, providing the means, motivation and commitment to resolve problems with the relationship and growing the relationship.

Without each of these elements, the partnership is unbalanced and unaligned. The more unbalanced the relationship, the higher the likelihood that the partnership will fail to achieve its objectives. We all know that if the all the risk is borne by one partner, that partner will feel that they are being taken advantage of. Lack of alignment in the relationship sows the seeds of distrust driving the alliance into a death spiral.

Motives of Strategic Alliance

The motivations, which are presented in several studies, are manifold. Reasons like gaining access to resources (Ahuja, 2000b; Das and Teng, 2000), the reduction of transaction costs (Kogut, 1988), organizational learning (Lorenzoni and Lipparini, 1999; Inkpen, 2000), improving the focal firm´s competitive position (Lavie 2006; Nielsen, 2003), or the position within an existing network (Gulati, 1995; 1999) are amongst them and will be introduced in the following sections.

A) Access to Resources

Eisenhardt and Schoonhoven (1996) argue that firms in strategic vulnerable positions, such as operating in highly competitive markets, following an innovative strategy, or being faced to emergent-stage markets, tend to form alliances at higher rates than those which are not.

This is probably due to the fact that in such situations additional resources, e.g. technical know-how, cash, and legitimacy, would provide a competitive advantage. In addition, the findings reveal that sample firms, which maintain only few alliances, have only few resources. The authors assume that this is either due to a lack of interest in the formation of alliances, or a reduced attractiveness to potential partners.

The latter leads to the assumption, that it requires resources to get access to new ones. However, Eisenhardt and Schoonhoven (1996) also suggest that alliance formation is not only a result of rational calculus. Social aspects like skills, status, and past relationships of the top-management team also play a vital role. Hence, organizations with large top-management teams, which are experienced and well connected, tend to form alliances at higher rates.

Das and Teng (2000) support the argument that pooling resources together produces a value creation potential. Many resources, tangible and intangible assets, a firm possesses, are neither perfectly mobile nor imitable, thus they are firm-specific. Every firm´s competitive position is determined by the set of unique resources and relationships it owns. In other words, what a firm will accomplish is strongly influenced by its resources. Hence, a firm can enhance its performance through access to diverse resources.

Additional advocates for the argument that rather firm internal resources drive alliance formation are Chung, Singh, and Lee (2000). In their study they analyze the factors, which influence U.S. investment banks to form strategic alliances. Three arguments could be verified to have a significant impact: resource complementarity, status similarity, and social capital. Regarding resource complementarity the results indicate that leading investment banks prefer to ally with partners who can balance their weaknesses. By pooling resources together synergies can be generated, this opportunity, in turn, enhances the likelihood of alliance formation.

Status similarity leads to higher rates of alliance formation because status is seen as a signalling role in inter-organizational interactions (Podolny, 1994 cited in Chung, Singh, and Lee, 2000, p. 19). Furthermore, a similar status shows investment banks that operating mechanisms are compatible and reduces free-riding problems. These results show that firm´s tangible and intangible assets play an important role in the development of alliances. Furthermore, the importance of intangible assets (status and social capital) increases with increasing market uncertainty.

A firm´s set of assets as described above aims at a characteristic, which Ahuja (2000b) analyses as well, namely organization´s attractiveness on the alliance partner market. Ahuja (2000b) argues that how interesting a firm for potential partners is, is determined by what it can bring to an alliance. In case a firm can only provide tradable factors in exchange for access to resources the partner is unlikely to accept the terms. Organizations rather form alliances if they get access to a resource that cannot be obtained from the market. The reason is that firms, which offer access to resources would be sharing their "supernormal profit-generating asset in turn for one whose current market value captures its entire future return" (p. 338). Hence, prior accumulated resources (through alliances) constrain a firm´s future partnering opportunities.

B) Reduction of Transaction Costs

Transaction costs refer to costs that arise when firms interact with other organizations. Williamson (1975; 1985 cited in Kogut, 1988, p. 320) subsumes under this term expenses, which incur for setting up contracts, negotiating its terms and enforcing rights, determination of optimal investments in order to minimize dependence on partners, and stabilizing relationships. Kogut (1988) suggests that international strategic alliances are means by which large organizations increase control over smaller companies and over each other. In other words, organizational coordination replaces markets.

Thus, with increasing coordination transaction costs drop. Project costs may be lower under cooperative arrangements due to economies of scale and rationalization gains; government incentives available; lower capital investments and overheads due to utilizing slack capacity in the partner firms; and cheaper raw materials, component inputs and more productive methods acquired through the partner (Barringer & Harrison, 2000; Contractor & Lorange, 2002-a; Mariti and Smiley, 1983; Vyas, Shelburn & Rogers, 1995; Whipple & Gentry, 2000).

C) Organizational Learning

Lorenzoni and Lipparini (1999) suggest that firms enter into strategic alliances in order to get access to complementary competencies, rather than to physical assets. They argue that it is the transfer of knowledge that enables organizations to keep up with technological development. Because proficiency is not only located internally but also externally, partners within a network are seen as some sort of intelligence unit that can be drawn of through alliances.

Establishing relationships in order to access external expertise does not only foster learning, it further makes it harder for unconnected competitors to imitate products and services. George et. al. (2001) are in support for above mentioned argument. They too see the necessity of firms for constant innovation in order to remain competitive. This is especially the case for players in the high-technology industry. However, the ability to innovate depends on a firm´s capability to assimilate and exploit diverse types of knowledge. George et. al. (2001) recommend strategic alliances as an effective way to achieve this objective. Kogut (1991) provides a similar recommendation. He argues that, in a world of uncertainty, joint ventures should be used as platforms for potential future developments.

D) Gain Access to Knowledge

Firms consist of a knowledge base that is not easily diffused across the boundaries of the firm. Cooperative agreements are a means by which firms learn or seek to retain their capabilities (Kogut, 1988). Hamel (1991) views the collaborative agreement as a collaborative membrane through which skills and capabilities flow between partners. The extent to which the membrane is permeable and in which direction it is permeable determines the relative learning. Despite all arguments, which highlight the advantages of enhancing a firm´s skill set and expertise via alliances, Inkpen (2000) points towards some limitations. For him it is crucial that organizational learning is constraint by managers´ ability to understand the consequences of newly acquired knowledge. That means that the focal firm needs to be able to exploit knowledge in a way that it leads to an improved strategy and operations (Cohen and Levinthal, 1990 cited in Inkpen, 2000, p. 1035). Consequently, in order to make alliances successful, the engaging firms need to be able to acquire and transform knowledge.

E) Improve the Competitive Position

Organizations can diversify the risk they are opposed to by operating in different marketplaces. International strategic alliances serve as means to increase own competitive position in foreign markets. Not surprisingly, the Danish firms in Nielsen´s (2003) study see market development as one of the major reasons to form international alliances. This is in line with prior findings on that matter made by Glaister and Buckley (1996 cited in Nielsen, 2003, p. 319). When establishing international strategic alliances the agendas of Nielsen´s (2003) sample firms vary with the national origin of a partner firm. When allying with European partners relational embeddedness (access to distribution channels and links with major suppliers/customers) and legitimacy (partner reputation/trust between top management) are crucial.

When partnering with US firms the most important task-related criteria are scale economies and complementarity (access to technology and relatedness of partners´ business). For partners from the rest of the world, including Asia, access to local cultural knowledge prevails. Elaborating on Barney´s (2001, cited in Lavie, 2006, p. 649) argument that firm´s need to enable themselves to exploit their competitive advantage, Lavie (2006) states that this is not only a matter of internal organization. It is rather beneficial when firms get access to complementary resources via alliances than building them up internally. Hence, an organization´s ability to achieve and preserve competitive advantages depends on "[…] their capacity to form and maintain valuable interactive relationships with alliance partners" (Lavie, 2006, p. 650).

Yet, a firm´s competitive advantage is not only influenced by its own actions. Indeed, Park and Zhou (2005) and Gimeno (2004) argue that alliances are built in order to reduce losses and react towards rival´s networks. Gimeno (2004) argues that firms respond to rivals´ alliances by either allying with rivals´ partners, thus forming intra-network competition, or by establishing countervailing alliances, which creates internetwork competition. Intra-network competition favors open networks with structural holes (see chapter 2.3.4) and is favored when rivals´ alliances involve low levels of co-specialization. In cases of high co-specialization internetwork competition is the preferred answer. In this event dense networks that lock out competitors are emphasized.

F) Network Position

Gulati (1995; 1999) argues that the likelihood that organizations establish alliances is strongly influenced by their existing network. His results show that the position a firm holds within its network has a significant impact on the frequency with which the focal firm establishes new networks (Gulati, 1999). He argues further that "[…] the extent of capabilities firms accumulated with forming alliances also positively affected the frequency with which they entered new alliances" (Gulati, 1999, p. 413). This indicates that prior alliance success coagulates the organization´s willingness to invest into alliances. Furthermore, already existing relationships provide information about partners, such as the partner´s trustworthiness as a partner, its operations, and potential synergy effects (Gulati, 1995). As a result trust increases and new alliance opportunities arise. Even though this positively affects new alliance formation, this happens only up to a certain point. Beyond that point additional alliances lead to a falling likelihood of new alliance formation. The reason is probably the risk of overdependence and that there are limits to the amount of alliances one firm can maintain (Baum and Oliver, 1992 cited in Gulati, 1995, p. 644).

G) Economies of Scale

If production is characterized by economies of scale and learning by doing, firms may attempt to decrease costs by expanding output to achieve these benefits. Low product demand and the costs of firm growth may, however, limit this strategy. Co-operative agreements allow firms in the same industry to rationalize production, thus reducing costs through economies of scale and learning by doing, without the uncertainties and difficulties of full scale mergers. Production economies of scale and learning can also be reached by such simple co-operative agreements as long term purchase contracts. The longer the term of the contract, the more extensive will be the learning induced cost reductions for the supplier (Mariti and Smiley, 1983; Barringer & Harrison, 2000; Contractor & Lorange, 2002-a; Glaister & Buckley, 1996; Hennart, 2004; Porter & Fuller,1986; Vyas, Shelburn & Rogers, 1995).

H) Risk Sharing

Cooperative ventures can reduce a partner's risk by spreading the risk over more than one firm; enabling diversification in product portfolio; enabling faster entry and payback;

and cost sub additives, i.e., the cost of the partnership is less than the cost of investment undertaken by each firm alone. A cooperative venture can lower total investment cost of a project or the asset at risk, by combining expertise and slack facilities in the parent firms. The risk sharing motive may be especially important in research intensive industries, where each successive generation of technology tends to cost much more to develop, while at the same time product life cycles might shrink, leaving less time to amortize the development cost. Another dimension could be containing the political risk by linking up with a local partner (Contractor & Lorange, 2002-a; Barringer & Harrison, 2000; Glaister & Buckley, 1996; Harrigan, 1988; Hennart, 2004; Mariti and Smiley, 1983; Porter & Fuller, 1986; Vyas, Shelburn & Rogers, 1995).

Shaping Competition & Market Power

Shaping alliances can influence who a firm competes with and the basis of competition (Porter & Fuller, 1986). Potential competition can be co-opted by forming a joint venture with the competitor or by entering into a network of cross licensing agreements, the majority of which are defensive moves (Contractor & Lorange, 2002-a). Joint ventures can defend current strategic positions against forces that are too strong for one firm to withstand (Glaister & Buckley, 1996). On the other hand, a joint venture may also be made in a more offensive vein, to put pressure on profits and market share of common competitors (Contractor & Lorange, 2002-a). Some of the major contributions are summarized in Table. Ellram (1992) has synthesized the motives under four categories:

Technological – Shorter product life cycles require rapid technological changes that exceed the capability of one firm. Technological skills are dispersed throughout the world, but improved information flow worldwide eases alliance formation.

Managerial - It is difficult to maintain competitive advantage alone, without a global perspective. Hence firms leverage expertise of foreign firms in their local markets and tailor products to local needs.

Economic / Regulatory – Firms want access to new markets to develop synergies and learning curve effects and also to utilize excess capacity given slower growth in domestic markets. However, local laws and counter-trade measures force firms to conduct business with other firms.

Strategic – Cooperative arrangements provide access to otherwise closed markets. Such arrangements may also be a tactic to defend / retaliate against competitors and share risks in certain markets. Most of the study on collaborative arrangements has been in developed countries that views the motives for such arrangements from the point of view of advantage to the developed countries. However, the motive may not be the same from the perspective of less developed / developing countries. The aim of this study is to explore the motives from the perspective of Indian firms

A strategic alliance is essentially a partnership in which you combine efforts in projects ranging from getting a better price for supplies by buying in bulk together to building a product together with each of you providing part of its production. The goal of alliances is to minimize risk while maximizing your leverage and profit. Alliances are often confused with mergers, acquisitions, and outsourcing. While there are similarities in the circumstances in which a business might consider one these solutions, they are far from the same. Mergers and acquisitions are permanent, structural changes in how the company exists. Outsourcing is simply a way of purchasing a functional service for the company.

An alliance is simply a business-to-business collaboration. Another term that is frequently used in conjunction with alliances is establishing a business network. Alliances are formed for joint marketing, joint sales or distribution, joint production, design collaboration, technology licensing, and research and development. Relationships can be vertical between a vendor and a customer, horizontal between vendors, local, or global. Alliances often are established formally in a joint venture or partnership.

Businesses use strategic alliances to:

- Achieve advantages of scale, scope and speed
- Increase market penetration
- Enhance competitiveness in domestic and/or global markets
- Enhance product development
- Develop new business opportunities through new products and services
- Expand market development
- Increase exports
- Diversify
- Create new businesses
- Reduce costs.

Strategic alliances are becoming a more and more common tool for expanding the reach of your company without committing yourself to expensive internal expansions beyond your core business.

Types of Strategic Alliances

- Joint Venture
- Equity Strategic Alliance
- Non-equity Strategic Alliance
- Global Strategic Alliance

Stages of Alliance Operation

- Strategy Development
- Partner Assessment

Contract Negotiation

- Alliance Operation
- Alliance Termination

Advantages of Strategic Alliance

- Allowing each partner to concentrate on activities that best match their capabilities
- Learning from partners developing competences that may be more widely exploited elsewhere.
- Adequacy a suitability of the resources competencies of an organization for it to survive

Disadvantages of Strategic Alliance

- Alliances are costly
- Alliances can create indirect costs by blocking the possibility of cooperating with competing companies, thus possibly even denying the company various financing options.
- Joint ventures also expose the company to its partners and the unique technologies that it has are sometimes revealed to its partner company.

McKinsey's 7S Model This was created by the consulting company McKinsey and company in the early 1980s. Since then it has been widely used by practitioners and academics alike in analyzing hundreds of organizations. The Paper explains each of the seven components of the model and the links between them. It also includes practical guidance and advice for the students to analyze organizations using this model. At the end, some sources for further information on the model and case studies available. The McKinsey 7S model was named after a consulting company, McKinsey and company, which has conducted applied research in business and industry. All of the authors worked as consultants at McKinsey and company, in the 1980s, they used the model to analyze over 70 large organizations. The McKinsey 7S Framework was created as a recognizable and easily remembered model in business. The seven variables, which the authors terms "levers", all begin with the letter "S". Description of 7Ss: Strategy: Strategy is the plan of action an organization prepares in response to, or anticipation of changes in its external environment. Structure: Business needs to be organized in a specific form of shape that is generally referred to as organizational structure. Organizations are structured in a variety of ways, dependent on their objectives and culture. Systems:

Every organization has some systems or internal processes to support and implement the strategy and run day-to-day affairs. For example, a company may follow a particular process for recruitment. Style/culture: All organizations have their own distinct culture and management style. It includes the dominant values, beliefs and norms which develop over time and become relatively enduring features of the organizational life. Staff: Organizations are made up of humans and it's the people who make the real difference to the success of the organization in the increasingly knowledge-based society. The importance of human resources has thus got the central position in the strategy of the organization, away from the traditional model of capital and land

Shared Values/super ordinate Goals: All members of the organization share some common fundamental ideas or guiding concepts around which the business is built. This may be to make money or to achieve excellence in a particular field. The seven components described above are normally categorized as soft and hard components:

- Hard components
- Soft components

Hard components are

- Strategy
- Structure
- Systems

Soft components are

- Shared values
- Style
- Staff
- Skills

Theories of Strategic Alliance

While there is plethora of research conducted on the subject of strategic alliances, it is conceptually fragmented in terms of the aspects of the phenomenon covered by researchers (Contractor and Lorange, 2002-b). A review of five theories – Market Power theory, Transaction Cost economics theory, Resource Dependence theory, Resource Based theory and Organizational Learning theory - bring out several rationales for cooperative arrangements.

A) Market Power Theory

Market Power Theory is concerned with the ways in which firms can improve their competitive success by securing stronger positions in their markets. A cooperative strategy may offer a mutually advantageous opportunity for collaborating firms to increase their market power (Child, Faulkner & Tallman, 2005). While offensive collaborations are intended to develop firms' competitive advantage and strengthen their position by diminishing other competitors' market share or raising competitors' distribution or production costs, defensive coalitions are adopted by weak firms to defend against dominant players (Porter & Fuller, 1986). Cooperation is a quicker and less expensive way to gain market power and it also possible between two partners, when one has an offensive intent, while the other has a defensive intent.

Faulkner (2003) has suggested that for cooperation to come about there needs to be at least one external force in play that challenges would-be players in the marketplace, and at least one internal perception of vulnerability or need in responding to that force. Among the most important external forces are the globalization of tastes and markets; the rapid spread and shortening life cycle of new technology and its products; the development of opportunities for achieving major economies of scale, scope and learning; increasing turbulence in international economies; heightened level of uncertainty in all aspects of life; and declining international trade barriers. The main internal motive for collaborating is based on the resources dependence view that posits the motives for cooperation as access to markets, new technology, special skills and raw materials. Apart from this, other internal motives include cost minimization, limiting the risk and increased speed to market.

B) Transaction Cost Economics Theory

While the market power theory emphasizes motives of cooperation that relate to market power and profit attainment, the transaction cost theory focuses on efficiency and cost containment. Transaction cost explanation for cooperative arrangements involves the question of how a firm should organize its boundary activities with other firms (Kogut, 2004).

Firms choose how to transact according to the criterion of minimizing the sum of production and transaction costs. Production costs may differ between firms due to scale of operations, location advantage, learning or proprietary knowledge. Transaction costs also vary and include expenses associated with arranging, managing and monitoring transactions across markets (Child, Faulkner & Tallman, 2005).

Opportunism, bounded rationality, small numbers, uncertainty and complexity and information impact have been identified as five factors that are relevant for the choice between internalizing the governance of transactions within the firm as opposed to effecting them through market exchanges. Supporters of this view posit that when two or more parties transact recurrently under conditions where there are small number of partners, market conditions are uncertain and relevant information is known to one of the parties but not others without their incurring considerable cost, then the more vulnerable partner is likely to benefit from internalizing the transaction.

Similarly, when transactions are recurrent, have highly uncertain outcomes which may take a long time to mature, and require unique or transaction specific investments, they are conducted more efficiently within organizations. A collaborative arrangement is an alternate to a market or an organization hierarchy, which helps firms avoid the cost of opportunism and monitoring that are inherent in market transactions through ownership incentives and increase the likelihood that partners will avoid opportunistic behaviour (Barringer & Harrison, 2000).

At the same time they will avoid the need for a firm to internalize an activity that may not be aligned with its distinctive competencies or may be difficult and costly to manage (Harrigan, 1988). The perspective on cooperative behavior offered by transaction cost theory views cooperative arrangements as potentially cost-reducing methods of organizing business transactions.

C) Resource Dependence Theory

Resource dependence theory focuses on resources that must be obtained from external sources for an organization to survive or prosper. The need to acquire resources creates dependencies between organizations and outside units.

Organizations try to increase their power relative to other organizations in the environment by acquiring control over critical resources to decrease their dependence on other organizations and acquire control over resource that increase the dependence of other organizations on them (Thorelli, 1986; Das & Teng, 2000).

Collaborative relationships provide access to a wider scale and scope of information, technology, manufacturing capabilities, financial resources, products, and markets than would be available if a firm operated independently. Collaboration benefits include sharing costs, acquiring tacit knowledge, commercializing complex technology, expanding into new markets, entering new industries, complementing product lines, and increasing market power (Mitchell and Singh, 2005).

D) Resource Based Theory

A firm's competitive position is defined by a bundle of unique resources and relationships, which require renewal as time, competition and change erode their value (Rumelt, 1984). A company can achieve and sustain competitive advantage by configuring its tangible and intangible assets in a manner that is difficult to imitate perfectly (Barney, 1991). A collaborative arrangement can legitimately provide access to codifiable capabilities, assets or systems without necessitating acquisition in which one firm is required to relinquish proprietary skills and resources.

E) Organizational Learning Theory

Firms form partnerships to capitalize on opportunities for organizational learning in order to enhance their competitive positions (Hamel, 1991; Doz, 1996). Conceiving of the firm as a portfolio of core competencies and disciplines suggests that inter-firm competition as opposed to inter-product competition is concerned with acquisition of skills. Thus competitiveness is a function of the firm's pace, efficiency and extent of knowledge accumulation.

Core competencies and value creating disciplines are not distributed equally among firms. Based on analysis of nine international alliances, Hamel (1991) proposed that a collaborative arrangement might develop a collaborative membrane through which skills and capabilities flow between the partners, facilitating access to people, facilities, documents and knowledge through a collaborative exchange. This may provide an opportunity for one partner to internalize the skills of the other and improve its position both within and without the alliance.

Types of Strategic Alliances:

To make you understand easier, we have classified the type of Strategic Alliances in to five areas, therefore, Strategic Alliance of Marketing, Alliance with Your Competition, Strategic Alliances with Your Suppliers, Alliances on the Internet, and Mastermind Alliances.

1. Strategic Alliance of Marketing

Examples of the type in this area would be

- **Strategic Alliance for Cross Promotion** is a popular reason for companies coming together. It occurs when one company promote for another company at the same time when they are doing their own advertisement

  Examples

  - Pacific Bell involves Round Table Pizza, Hollywood Video, Nokia and Special Olympia in its cross promotion
  - Sonoma Country Fine Furniture Association (SCFFA) which was formed by eight local fine furniture retailers to promote for each other and even print combined brochure for advertisement
  - United Airlines provide peanuts with America Online (AOL) diskette to people who use their service

- **Strategic Alliance for Co-Branding** usually alliances of trusted names created to develop marketing power. Customers believe that with two or more trusted names joined together, the product must be exceptional

  Example

  - McDonald’s co-branded with Disney. Several food producing with toys were offered.

- **Community-based Alliances** Professionals and small businesses can foster new development by doing community-based alliances. It can share marketing costs by positioning themselves with a public activity and share the expenses as well as the rewards.

  Example

  - Economic Forum which was created by John Grace. His alliance consists of a local CPA firm, a bank, a law firm, a newspaper, a university school of business, a commercial real estate brokerage firm, an insurance agent, and a restaurant

2. Alliances with Your Competition

This strategy of alliance with your competitor possible born in desperation

Examples

- Denver Alliance 1000 was formed by Marriott City Center (600 rooms) and the Hyatt Hotels (500 rooms) to improve their services and share costs

More Examples of the type in this area would be;

- **Alliances with Competitions to Open New Markets** This type of alliance create benefits to both you and your competitors in the new market

  Example

  - La Tapatia Trotilleria alliance with El Aguillea and Tia Rosa. They formulate the tortillas to exact specifications of private brand and share benefits. Also, they sell their own brand of tortillas to the stores
  - SCIB; Siam City Bank (Nakorn Luang Thai) is aligned with the AIA for the project called "SCIB Platinum Bancassurance". It offers two types of life insurance; **SCIB Platinum Life Single Premium** and SCIB **Platinum Savings 21/7** through the 407 branches of SCIB bank.

- **Strategic Alliances for Buying Parity** Buying parity goes by names such as buying cooperatives or buying groups

Example

- America Dental Cooperative (ADC) which was formed by the North American dental supply distributors. This has created powers for brands, or to make this clearer, the ADC would have more purchasing power over the suppliers. They can get discount or price for the raw materials as low as those giant companies.
- TORBSA Group, according to their website, they said that TORBSA is a Buying Group based out of Toronto, Ontario. They experience in the building materials industry. They are one of the Nations leading Buying Groups, representing 28 Independent Businesses in the Canadian market. TORBSA provides its members with a competitive edge by way of group purchasing power, information technology, as well as being a facilitator of invaluable relationships with other members, and key suppliers.

- **Alliances with Competitors to Build an Industry** This alliance strategy is based on building an industry in a specific geographical location to serve a number of competitors

Examples

- Six breweries (competitors in the craft industry) come together to formed Ale Trail. It increase the awareness of craft brewing and also they increase sales
- The Recreation Vehicle Industry Association and Recreation Vehicle Dealers Association launched a program called "Go RVing". They work together to change the perception of their target consumers (baby boomers) of RV life. And have increase public awareness of RV to 22% from 9%

- **Strategic Alliance to Beat Competition** The alliance formed between companies to share particular expertise in order to beat competition.

Examples

- Coca-Cola developed an alliance with Nestle to beat competition with Pepsi. Coke has expertise in bottling, personnel, law. While nestle experts in marketing, technical research, and finance.
- Sun Microsystems and IBM alliance to compete with Microsoft. Sun's Java operating system caught IBM's attention. The relationship benefits both in offering the market an alternative to Microsoft's Window system.

- **Strategic Alliances for Product Development** Companies collaborate to develop advance technology in which either party has limitations to do it on their own.

  Examples

  - Chrysler and Westinghouse joint together to develop multimillion dollar project of electric motor and power controller.
  - Fiat and BMW have cooperated to develop the third generation of Mini Cooper. These two companies are also considering to develop family of gasoline and diesel engines

- **Strategic Alliances for Distribution** Joint distribution channels are becoming more and more popular. This relationship delivered benefits to both parties. It maximizes marketing value to all partners.

  Examples

  - Coca-Cola vs. Nestle. Coke has an efficient distribution channels while Nestle has products that don't directly compete with Coke's products. So both of them could benefit from one another.
  - Non-exclusive agreement: Steelcase, Inc., the world's largest manufacturer of office furniture, distributes its products through independent dealers instead of itself. These dealers have other product lines from other manufacturers to better fulfil customer's needs.

3. Strategic Alliances with Your Suppliers

Unfortunately suppliers did not want develop strategic alliance with their customers. According to the example below, suppliers are afraid of being taken over by its customers.

Examples

- Sear (firm that's famous of taking over its suppliers). It done its take over technique by offering orders at an increasing pace that would require additional capital investment on the part of the suppliers, then, when the suppliers were deep in debt, Sear then slow down or stop ordering. Using this financial trouble, Sear then buys controlling shares of the suppliers.

However, some suppliers are willingly to alliance with good customers.

The Fuji Factor as a good example.

Among the major suppliers to the industry, Fuji was by far the most advanced in building quality relationships with its dealers. The Fuji Factor is a model that more manufacturers should embrace and more purchasers should demand of their suppliers because it's a supplier relationship that could grow and improve over time. The key elements to Fuji's success are as follows:

- A limited number of dealers offering their product to their market
- Manufactured products of the highest quality with zero defects as the norm.
- Build tight relationships with a limited dealer network
- Seek constructive feedback from dealers and act upon the ideas shared
- Consistency of leadership
- Accessibility- dealers could easily reach out to the president of Fuji
- Trust

4. Alliances on the Internet

This type of alliance have changed many industries on they way of doing businesses.

Examples

- Sanook and eBay are aligned to create more revenue agreement, by having a co-branded site. It will be managed and operated under a newly formed Sanook! Subsidiary. The Thai-language local site is expected to launch in approximately five to seven months.

5. Mastermind Alliances

This strategy is known as strategic alliance for individual development. It can assist you to outdo your competitors.

Examples

- Gold Coast Speakers, a geographical mastermind alliance, share their gifts and receive consultants on important business, career and personal issues. The group will be small and have geographically close.

- Palm Springs Breakfast Club. It consists of general manager from seven other deluxe hotels. They discuss issues uniquely important to the hospitality business in downtown Palm Springs. One of the people in the group said that his success comes from the networking relationship in the Palm Springs Breakfast Club.

To conclude with this presentation there are many types of strategic alliances that we can choose to apply and make it fit to the business we are planning to do. There are still many different types of Strategic Alliances other than just what we have mentioned. Strategic Alliances is a method of helping you create your new way in your business success.

Strategic alliances can be categorised, depending on the key objectives involved, using a framework provided by Doz and Hamel.

(i) ***Cooption*:** Alliances which enlist the cooperation of potential competitors to neutralise rivalry. The Airbus consortium falls in this category. Airbus was the result of desperate efforts by

(ii) ***Co specialization*:** Alliances, which combine separate specialised resources and create value by bundling them together. This is becoming more and more common as companies sharpen their focus on a few core competencies and outsource many skills/resources. Hitachi tied up with Texas Instruments for the development of a 265 Megabit DRAM chip and with GE for gas turbines.

(iii) ***Learning & Internalization***: Alliances which involve acquisition of new knowledge, possible only by working together or closely observing each other in a partnership. GM and Toyota set up a joint venture called The New United Motor Manufacturing Inc (NUMMI) in Fremont, California. GM hoped to learn more about Toyota's lean production system and Toyota about GM's design capabilities.

International Alliances

In a competitive market where there are various uncertainties, and where firms need to gain fast access to knowledge not available in-house, companies sometimes find it necessary to form strategic alliances. Essentially agreements among two or more partners to develop and pursue common interests, alliances can take different forms. These include joint ventures, joint R&D efforts, franchising agreements, distribution, tie-ups, consortia, etc. For transnational companies, strategic alliances are becoming an increasingly important tool to meet one or more of several objectives - set industry standards, gain quick access to new technology, new products and new markets or pre-empt competition.

Where there are high network externalities[2], standard-setting alliances can help influence market development and direct its course. Matsushita has tied up with Microsoft to work on digital convergence projects that involve integration of digital, audio visual and personal computer technologies.

The rising costs of product development and shrinking product development cycles are giving an impetus to strategic alliances in which the partners bring different technological strengths to the table. Texas Instruments tied up with Hitachi in 1988 to conduct joint research and later manufacture memory chips. Cooperation between two companies may also be helpful when they are trying to penetrate unfamiliar markets.

This has been particularly true in the case of many MNCs which entered India in the 1990s, the most celebrated example probably being the joint venture between P&G and Godrej. Similarly, Honda, Ford, General Motors, Gillette, Yamaha and McDonald's have all chosen the joint venture route to enter India. Companies may also come together to take on well-entrenched competitors. A good example is the Airbus consortium consisting of four major European aerospace manufacturers, who came together to challenge the industry leader Boeing.

A) Why Strategic Alliances Needed Internationally?

MNCs form strategic alliances for various reasons. A few of them are listed below.

- To access new markets – eg: Mobil's alliance with BP to penetrate European markets.
- To gain access to local distribution network – eg: P&G's joint venture with Godrej in India.
- To improve manufacturing processes and gain access to new technology– eg: HCL's tie up with HP in India.
- To gain access to management know-how – eg: Elbee's tie up with UPS in India.
- To gain access to additional financial resources – eg: Nissan's tie up with Renault in Japan.
- To achieve risk reduction – eg: collaborative research efforts between Siemens and Philips in the semiconductor business
- To pre-empt competition – eg: the recently announced alliance between General Motors and Fiat.

Globalization has been one of the main reasons for the growing popularity of strategic alliances. As companies globalize, they need various types of knowledge, which may not be available internally. Strategic alliances allow such knowledge to be acquired faster and more efficiently. When it entered India, Pepsi had global brands but needed local support to understand the country's business environment and put in place a meaningful marketing plan.

This led to the alliance with Voltas. The US multinational, Gillette has been known to enter into distribution tie-ups with local partners in many overseas markets. Most of the car makers who have entered India in recent times, have used some form of strategic alliance, at least at the entry stage.

For some multinationals, strategic alliances have been an integral part of their corporate strategy. Motorola, looked at strategic alliances as a way to catch up with formidable rivals such as Philips, Siemens, NEC, Toshiba, Hitachi, Fujitsu and Matsushita. It felt that these alliances would help it to overcome its relative weaknesses in design, research and development, and enable it to get closer to many Japanese manufacturers who consumed large quantities of semiconductors and microprocessors.

To tap the Japanese market, Motorola licensed its technology to NEC and Hitachi in the late 1970s. (The Japanese partners later broke away, teaching Motorola an important but expensive lesson). Motorola subsequently formed joint ventures with several Japanese companies to come to terms with the local *Kirietsu*[1] system.

In 1986, it set up Tokoku Semiconductor Corporation, a joint venture with Toshiba in an agreement which involved both technology and investment sharing. For its Iridium project, (which unfortunately ended in disaster), Motorola tied up with several Japanese companies including DDI, Mitsubishi, Mitsui and Sony.

Management of Strategic Alliances

Structuring the Alliance

An alliance has to be looked at from three different angles. The *strategic scope* of the alliance considers the overall impact of the alliance on the industry. The *economic scope* refers to the impact of the alliance activities on the partners. *Operational scope* is concerned with the day to day activities of people directly or indirectly involved in the alliance. All the three aspects should be examined carefully while the alliance is being structured.

Understanding the firm's strategic needs, exploring ways by which alliances can meet these needs and identifying suitable partners are obviously key issues. A part by part analysis of the value chain will reveal which activities should be retained internally and which can be shared with partners. It is also important to examine carefully the pros and cons of sharing activities all at once or in stages, over time, with the partners. A related issue is whether to choose one partner for many activities or different partners for different activities. Mechanisms by which synergies can be maximised for all the partners involved, must be explored. Ultimately, an alliance can succeed only if it creates a win-win situation for the partners. At the same time, safeguard mechanisms to protect core competencies need to be put in place, based on insights into the ways in which partners might take unfair advantage or misuse the firm's competencies.

While an alliance is being structured, the specific issues which need to be discussed in detail include percentage of ownership, mix of financing, technology and machinery to be contributed by each partner, division and sharing of activities, staffing, location and controls. The alliance should obviously be designed in such a way that it is reasonably consistent with the strategic objectives of the partners and has the potential to result in value addition, learning, development and up gradation of core competencies for them. Further, instead of taking a static view of things, the scope of the alliance should be modified as partners gain deeper insights into the structures, mechanisms and relationships needed for value creation and sharing.

The key to a successful strategic alliance is the ability to address some important questions as early as possible. How can the alliance create value? How can this value be maximised for all the partners? What sorts of mechanisms are needed to resolve conflicts? What is the network of alliances developed by each partner and the type of impact they have on each other?

Finding satisfactory answers to these questions greatly enhances the possibility of success. On the other hand, the difficulties involved in determining the amount of value created and how this value is to be shared among partners should not be underestimated. Many of the benefits created by an alliance are not only indirect and difficult to quantify but may also change over a period of time as the alliance evolves.

In any alliance, steps should be taken to prevent unintended transfer of knowledge. Many western technicians, in their enthusiasm to speak about their achievements, have passed on knowledge unwittingly to their relatively low profile Japanese counterparts. While friendly relations between the partners are desirable, excessive contacts need to be discouraged by putting in place proper systems.

Indeed, occasional complaints from the partner that lower level employees are not providing the necessary information should be viewed as a positive indication. The company which monitors systematically the type of information the partner is requesting and the extent to which these requests are being met, may well turn out to be the ultimate winner.

Managing Strategic Alliances: An overall framework

Strategic Feasibility

- Understanding the scope for generating value
- Understanding the scope for sharing value
- Examining the basic compatibility between the partners

Design

- Measuring the value added by each partner
- Defining the scope
- Defining joint tasks
- Establishing operating practices at the interface between partners

Implementation

- Identifying the gaps which exist between partners
- Understanding the scope for learning
- Monitoring the value addition and sharing process

Strategic Control

- Understanding the impact of the alliance on other partnerships.
- Making suitable adjustments from time to time.

How to make Alliances Work?

A systematic and pragmatic approach is necessary to ensure the success of an alliance. Such an approach should start right from the stage of negotiations. The executives involved should allow sufficient time to get to know each other and to develop personal equations. Free and frank discussions and realistic targets are the right way to avoid future disappointments. The partners should painstakingly identify potential problems and devise ways to solve them. Crisis situations should be anticipated and a code of behaviour prescribed for dealing with them. It may also be useful to maintain written records of informal and oral commitments and agreements. These records can be referred as and when disputes arise.

Like in many other business activities, ***top management commitment*** holds the key to the success or failure of an alliance. When senior executives of the partners are willing to invest time and effort in building strong personal relationships with each other, the chances of success multiply. The alliance between Samsung and Corning was built on the strong relationship between Corning's Amory and Jamie Houghton and Samsung's Lee Byung Chull. When Lee received an honorary degree at Boston college, Amory Houghton was a speaker. Jamie Houghton attended the important ground breaking ritual for a Samsung plant in Korea and later returned to Korea for the official opening. When Lee died, Jamie Houghton attended the funeral ceremony.

The success of a strategic alliance crucially depends on the partners' ***commitment to learning***. When top management sends out clear signals that learning is very important, employees take the message seriously. Since much of the learning takes place at lower levels, it is important that junior employees are properly briefed on what can be learnt from the partner and how this knowledge will strengthen the company's competitive position. Even when skills cannot be fully internalised or transferred, learning can take place, provided there is a right attitude. For example, employees can be trained and encouraged to ask probing questions such as, Why is their design better? Why are they investing in a technology when we are not doing so? Companies can also learn more about the competitive behaviour of their partners - how they respond to price changes, how they launch a new product, etc.

The Japanese seem to be better learners than the Americans. Not only that, they also reveal little. According to a Japanese manager[1]: "We don't feel any need to reveal what we know. It is not an issue of pride for us. We're glad to sit and listen. If we're patient, we usually learn what we want to know." This attitude of the Japanese probably stems from their fierce loyalty to their companies and their culture of working in teams. According to a Japanese executive, "Our western partners approach us with the attitude of teachers. We are quite happy with this, because we have the attitude of students."

While structuring a cross border alliance, it is important to take into account ***cultural factors.*** For example, western businessmen often have the notion that the Japanese tend to 'steal' technology. This prompts them to use legal safeguards, thereby creating an environment of distrust. The Chinese entrepreneurial tradition is built around close family ties, which foreigners often find difficult to understand.

In erstwhile communist countries, bureaucratic traditions have discouraged entrepreneurial thinking and slowed down decision making processes. So patience is extremely important during negotiations. An understanding of the cultural context[2] will facilitate cordial discussions in an environment of trust. The questions, which need to be asked, are: How important are personal relationships? Is the management style highly individualistic or team oriented? How egalitarian is the work environment? What is the importance attached to punctuality? Special efforts should be made to understand the cultural and personal sensitivities specific to the situation, instead of going by general perceptions or common notions.

Differences in management styles also need to be taken into account. One company may have an entrepreneurial style while the other could be bureaucratic. In one, decision making may be very fast while in the other, it could be slow. Power distance, (the extent to which power is perceived to be concentrated at the top) may be high in one organization and low in the other. Unless such differences are appreciated, fiction is bound to develop at some point of time.

Management of expectations is a critical issue in strategic alliances. When the expectations are too high, problems are bound to occur, leading to disappointment and frustration. Senior executives should temper the enthusiasm of frontline staff and warn everyone concerned about the hard work needed to make the alliance work. Wrong expectations often arise because the two partners may be viewing the alliance quite differently. For example, one may treat it as an acquisition while the other may believe it to be an equal partnership. Managers also tend to underestimate the differences between their past experiences and the new situation.

One way of bridging this gap is for each partner to put itself in the other's shoes. The partners could also share with each other, their past experiences in managing alliances. A careful selection of the managers who will be actively involved in the alliance will also help. Managers who are familiar with the cultural differences and carry weight in their respective organizations are likely to convey an air of credibility to their counterparts in the partner company.

There are various other factors due to which gaps between expectations and actual results may occur:

(i) When an alliance is formed, resources may be shared and duplication of activities eliminated. As dependence on each other increases, and their autonomy or importance is threatened, employees may lose their self confidence.

(ii) One partner may find that the other's skills are not as useful as assumed earlier. Often, the skills themselves may be useful but the other partner may be finding it difficult to understand the value of the skills or to assimilate the knowledge.

(iii) Partners may know what is to be done but may find it difficult to put in place operating procedures. One practical approach to this problem is to start with small, simple tasks, which will help the partners to appreciate the difficulties involved in working together. Then, through an iterative process, more complicated tasks can be taken up.

(iv) Information asymmetry can also create problems. Sometimes, it may be naive to expect all information to be shared openly, for example, that pertaining to sensitive technology related issues. Here, one partner can volunteer to give information and hope that the other will reciprocate. By sending positive signals to each other, the partners can improve trust and facilitate the process of knowledge sharing.

(v) Different time horizons of the two partners can lead to wrong expectations. One partner may attach greater importance to small, safe, immediate benefits while the other may be looking for bigger, uncertain, long-term benefits. Setting milestones and making each partner aware of the other's time dimension can eliminate mistrust and go a long way in managing expectations.

Dealing with Problems

Alliances can run into rough weather for various reasons. The size of the market may have been over estimated at the time the alliance was formed. When technology is rapidly changing, the value of the alliance for each partner may change dramatically over time. The actions of competitors can turn a potentially attractive alliance into a weak arrangement, with limited potential for generating a sustainable competitive advantage. Regulatory changes, in industries which governments view as strategic, may totally upset the initial calculations on the basis of which the alliance was structured. For all these reasons, partners may switch loyalties.

The right approach to deal with these potential problems is to think and act flexibly. Alliance partners would do well to appreciate that their objectives are bound to change with time. Clinging to the initially set objectives is often dysfunctional. Indeed, if the partners are alert, unforeseen opportunities may be thrown up for knowledge generation and sharing. According to Hamel and Doz, "Calls for commitment make good rhetoric but are a poor basis for action. Commitment increases only over time and an uncritical belief in commitment is naive and misleading. People being largely risk averse, will always be tempted to hedge commitments and keep their options open in the face of uncertainty."

One common reason for conflicts, as mentioned in the earlier section, is that one partner may be having skills that are not easily transferable while the other may be having expertise which can be more easily picked up. The design of a component or a product can normally be captured through a manual or an engineering drawing. On the other hand, manufacturing skills are more intricate. They are typically developed over a period of time and combine several competencies. Prahalad, Hamel and Doz[1] have explained the difference between a stand-alone technology and a competence, which is a bundle of skills. A discrete, stand-alone technology, such as the design of a semi conductor chip, can be more easily transferred than a process competence.

Japanese companies often tend to learn more from their American partners because their manufacturing skills are less transferable than the design skills of western companies. As Hamel, Doz and Prahalad explain[2], "Manufacturing excellence is a complex web of employee training, integration with suppliers, statistical process controls, employee involvement, value engineering and design for manufacture. It is difficult to extract such a subtle competence in any way but a piecemeal fashion." While picking up such skills, partners should be patient and play the waiting game. Trying to learn too much in a hurry may lead to frustration.

Contrary to popular notions, absence of conflicts may not necessarily imply success. It is quite possible that the two partners have 'given up' or one partner is unduly dominating the other. Occasional conflicts may reflect a more normal situation. The trick obviously lies in managing these conflicts tactfully.

During the initial negotiations, many companies often specify termination procedures, covering details such as time, mutual obligations and valuation of assets and liabilities. The termination of an alliance may take place either on a pre-determined date or may be linked to some events or circumstances. Mutual obligation implies that one partner continues to operate, while the other leaves. Whether the parting is pleasant or bitter depends on various factors - the extent to which exit strategies have been pre planned, specification of pre-determined termination dates, financial considerations and the difficulty involved in separating the two parties. In many of its alliances, Toshiba insists on clauses in the agreement to specify clearly how assets will be shared in the event of dissolution.

Conclusion

Strategic alliances have the potential to yield tremendous benefits for the partners involved. However, they have to be managed carefully, as various difficulties may arise. Companies forming strategic alliances would do well to remember the following:

- Resolve all the important differences right at the start. If major differences exist at the start of the collaboration, the partners may find it difficult to identify what to learn, may fail to define the tasks clearly, or may be unable to communicate clearly and effectively. Due to suspicions and misgivings, the degree of cooperation will remain inadequate.
- Often, the failure of an alliance is not due to lack of potential, but due to the inability of the partners to bridge the gap between reality and expectations. If realistic expectations are maintained, new learning opportunities can be created.

Strategic Alliances in Indian Context

Case Studies

Financial technologies international and hcl perot systems announced on friday a strategic alliance aimed at leveraging the latter's consulting, product implementation and support expertise in fti suite of products. "the two firms would work together on migration, and the infrastructure and support services offered to various fti clients," a hps company release said here. as fti expanded its product set beyond high performance business engines and into the market for pre-packaged portfolio accounting and reference data solutions, hps would play an integeral role in the product quality assurance process of fti solutions by providing a dedicated group of trained professionals. as software engineering institute-capability maturity model level 5 certified company, hps would augment fti's development and quality testing practices.

Huawei Enters into Strategic Alliance with Intel

Tags:Share Market|Intel|Huawei|Cloud computingBANGALORE: Huawei, a leading global information and communications technology (ICT) solutions provider, announced the signing of a Memorandum of Understanding (MoU) with Intel Corporation a t Huawei Cloud Congress 2012 (HCC2012), signaling the will of both companies to strategically cooperate in enhancing joint engineering efforts and bringing new IT solutions to the market.

The collaboration will include enhancing engineering cooperation and building competitive products and solutions for server, storage, data center and cloud computing as well as jointly going to market in China and other geographic areas.

The combined advantages of both Intel and Huawei promises to bring significant value to customers in various industries by delivering compelling information technology that provide customers with new user experiences that can produce business return.

Making an official statement for the first time on the issue, Ranbaxy CEO and MD Malvinder Singh said Solrex, which bought 14.7% cent equity in the Chennai headquartered company, was a wholly owned subsidiary of Ranbaxy. Singh told reporters in the Capital: "We have signed a global alliance with Orchid, which is a win-win for both the parties. The multi-faceted agreement will be mutually beneficial and synergistic, allowing both to leverage each others inherent strengths.

Ranbaxy was looking at a business alliance with Orchid, similar to the ones reached with mid-sized companies over the last year. When asked whether the company had plans to raise its stake further in Orchid, which would have triggered the takeover code, he said "no comments, adding "we do not believe in hostile takeovers, and follow the policy of live and let live".

Talks have been on for a while between the two parties to work out an agreement; with the alliance being signed a couple of days back. Sources said that Orchid promoter K Raghvendra Rao, left with little support from institutions, had no option but to agree to the alliance. He had earlier taken a firm stand against Solrex's gradual acquisition of equity in his company early this month, and vowed to ward off "takeover attempts. Commenting on the business alliance, Rao said: "Ranbaxy's global scale and market reach and Orchids state-of-the-art development and manufacturing capabilities would expand the business of both companies."

Singh said the companies were looking to leverage on each other's strengths with Orchid having strong presence in antibiotic cephalosporin formulations. He said that Ranbaxy is open to both alliances and acquisitions. "On a macro point, I see more alliances happening, consolidation happening. Partnership is one way, acquisition is another driver, and Ranbaxy is active in both." Singh added the company plans to finalise a strategic alliance for drug discovery next month, similar to the one reached with GlaxoSmithKline.

CASE STUDY

The P & G - Godrej – Best Corporate Marriage & Divorse

In late 1992, the American FMCG (Fast Moving Consumer Goods) giant, Procter & Gamble (P & G) and a leading Indian business group, Godrej set up a marketing joint venture, P&G -Godrej (PGG) in which P&G held a 51% stake and Godrej the remaining 49%. David Thomas, P&G's country manager in India was appointed as CEO while Adi Godrej, the head of the Indian company, became the chairman.

P&G paid Godrej roughly Rs 50 crores to acquire its detergent brands, Trilo, Key and Ezee. Godrej became the sole supplier to the joint venture on a cost plus basis. P&G, on its part, gave a commitment that it would utilise Godrej's soap making capacity of 80,000 tonnes per annum. Godrej was allowed to complete its existing manufacturing contracts for two other MNCs, Johnson & Johnson and Reckitt & Coleman, but could not take up any new contracts. P&G, on its part, would not appoint any other supplier until Godrej's soap making capacity had been fully utilised. Godrej transferred 400 of its sales people to the joint venture.

For both sides, the joint venture seemed to make a lot of sense. P&G got immediate access to Godrej's soap making facilities. It would have taken P&G at least a couple of years to implement a greenfield project. Godrej also had expertise in vegetable oil technology for making soaps. This expertise was useful in a country like India, where beef tallow could not be used and soap manufacturers had to depend on vegetable oil such as palm oil and rice bran oil. P&G also gained immediate access to a well connected distribution network consisting of some two million outlets. Even though P&G had been around in India for some time, its Indian operations were essentially those of the erstwhile Richardson Hindustan, which dealt primarily in pharmaceutical products such as Vicks. The non-pharma distribution network of Godrej, acted as a fine complement to P&G's existing pharma network. Godrej, on the other hand, was struggling with unutilised capacity. Godrej also hoped to pick up useful knowledge from P&G, in areas such as manufacturing, brand management and surfactant[1] technology. In short, it looked as though the joint venture had created a win-win situation, with tremendous learning opportunities, for both partners.

The P&G Godrej alliance became operational in April 1993. Around this time, P&G increased its stake in its Indian subsidiary P&G (India) from 51% to 65%, while Godrej, after having operated for several years as a private company, went public. P&G engineers introduced new systems such as Good Manufacturing Practices and Material Resources Planning in Godrej plants. The two companies seemed to show a considerable amount of sensitivity to the cultural differences between them. For about a year, it looked as though things were going fine. Thereafter, elements of distrust began to surface and the two companies found the differences in management styles too significant to be brushed aside. By December, 1994, rumours were rife that P&G and Godrej did not see eye to eye on many key issues.

One of the main problems that the joint venture faced was that performance did not match up to expectations. In 1992, Godrej had sold 29,000 tonnes of soap. After increasing to 46,000 in 1994 the figure declined sharply to 38,000 tonnes in 1995. While sales volumes did not pick up as expected, costs began to rise. Due to the cost plus agreement, Godrej had little incentive to cut costs. Informed sources felt that Godrej was charging ₹ 10,000 more per tonne than the accepted processing costs. Godrej, on its part, was unhappy that P&G was not doing enough to promote brands like Key and Trilo that it had nurtured over the years.

It was also uncomfortable with P&G's methodical and analytical approach as opposed to its own instinctive method of launching brands at breakneck speed. P&G, on its part, felt that there was little logic or coordination in Godrej's brand building exercises. Its multinational, worldwide policy set its own priorities, as explained by a P&G executive[2]: "We believe in introducing long-term brands with sustainable consumer propositions. Without that, we just don't know how to sell." By mid 1994, sharp differences had developed between P&G and Godrej. A senior Godrej executive, H.K. Press, on deputation to the joint venture, was quietly eased out and sent back to a Godrej group company.

A report in a leading Indian magazine[3] aptly summed up the situation: "In an atmosphere of fraying trust, the advantages of the alliance faded into the background." P&G realized it had gained distribution strengths but found itself locked into an unsustainable manufacturing agreement and a loss making joint venture. Godrej felt let down on two counts. "The capacity was not being utilised as guaranteed and more crucially, P&G's manufacturing process was not delivering any benefit to Godrej's painstakingly built portfolio of brands."

In late 1996, P&G and Godrej announced that the alliance was being terminated. The two companies would have little to do with each other, except for Godrej continuing to make Camay on behalf of P&G for two more years and providing office space to P&G at its Vikhroli complex. PGG would be taken over by P&G, which would also retain the detergent brands, Trilo, Key and Ezee. Most of PGG's 550 people and the distribution network consisting of some 3000 stockists would stay with P&G. Godrej would absorb about 100 sales people and get back its seven soap brands, which had been leased to PGG.

Both P&G and Godrej felt that the amicable parting of ways made sense. Adi Godrej remarked[4]: “This will enable us to pursue business expansion opportunities that have occurred as a result of liberalization.” David Thomas explained that the parting of ways would enable2 “both parties to independently pursue the broad array of growth prospects offered by the strong pace of economic reform.”

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[1] Surfactant is a key chemical ingredient in soaps and detergents to facilitate the cleansing action.

[2] “Why P&G and Godrej broke up”, Business India, July 15-28, 1996.

[3] “Why P&G and Godrej broke up”, Business India, July 15-28, 1996.

[4] Business India, July 15-28, 1996

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UNIT - IV

Unit Structure

Lesson 4.1 - International Retailing

Introduction to International Retailing

The term 'retailing' is derived from the old French word "word "retailler" meaning 'a piece of' or 'to cut'. Retail is "Any business that directs its marketing towards satisfying the final consumer based upon the organisation of selling goods and services as a means of distribution". Internationalisation is a process by which firms increase their awareness of the direct and indirect influence of international transactions on their future, and establish and conduct transactions with other countries. Retail business is now opening great opportunities of international expansion. Retailers are crossing domestic borders with various motives. International operations in retailing are different from other business formats. Retailing is directly concerned with the end consumers.

In retail business it becomes important to understand many aspects from customers' perspectives. International retailing is the worldwide tendency towards concentration in retailing and creating huge buying power in the big international retail chains. International retailing has got several aspects which in accumulated form the International Retailing, there are several dimensions of the trade that needs to be considered before attempting to come up with an apt description of the business. First and foremost is the invisible aspect of financial investments. Companies get into joint ventures and invest in the foreign retail company with or without management control. Secondly we must look at the areas where the retail company is transferring knowledge or processes to the new set up. In retail sector there can be many aspects of retail business, the knowhow of which are transferred to the new establishment.

Meaning of International Retailing

- International Retailing can be define as, All activities involved in selling products and services to final international consumers for their personal consumption and worldwide tendency towards concentration in retailing and creating huge buying power in the big international retail chains.
- International Retailing is a process of selling the goods or services to the consumers either by the department store, shopping malls, online retailing. In the supply chain, the retailers are always at the end.
- International Retailing is, "the management of retail operations in markets which are different from each other in their regulation economic development, social conditions, cultural environment and retail structures".
- David Gilbert define, retail internationalization as, "the process of a retailer transferring its retail operations, concept, management expertise, technology and / or buying function across national borders".

The business model, the management and operational policies and processes, financial accounting systems, supply chain model as well as the retail store design and layout concepts, merchandising processes and more importantly the systems and processes that are used to manage multi retail stores and outlets can be transferred by the parent company to ensure an identical setup at the new location. The term 'retailing' is derived from the old French word "word "retailer" meaning 'a piece of' or 'to cut'. Retail is "Any business that directs its marketing towards satisfying the final consumer based upon the organisation of selling goods and services as a means of distribution".

The internationalization of retailing is 'the transfer of retail management technology or the establishment of international trading relationships, which bring to a retail organisation a level of international integration which establishes the retailer within the international environment. By international retailing we are referring to both the two major categories of international grocery retailing as well as fashion retailing segments. Internationalisation of retailing business is not as easy to set up when compared to the other kinds of businesses.

Internationalisation of operations which is the most important aspect of the business is faced with several challenges in terms of local socio economic environment coupled with political and lifestyle as well as cultural environments in the foreign markets. The international retailers have had to understand the local dynamics and respond to the challenges in a bid to be successful.

Therefore it may also be said that internationalisation of retailing grew with experience and the process of internationalisation evolved over a few decades. International retailers in the initial stages have chosen to expand and set up business in the foreign markets which are geographically closer and in the neighbourhood. Over the period of a few years, they have understood the market dynamics and the challenges and accordingly developed market intelligence as well as the processes and operational methods suited for foreign operations.

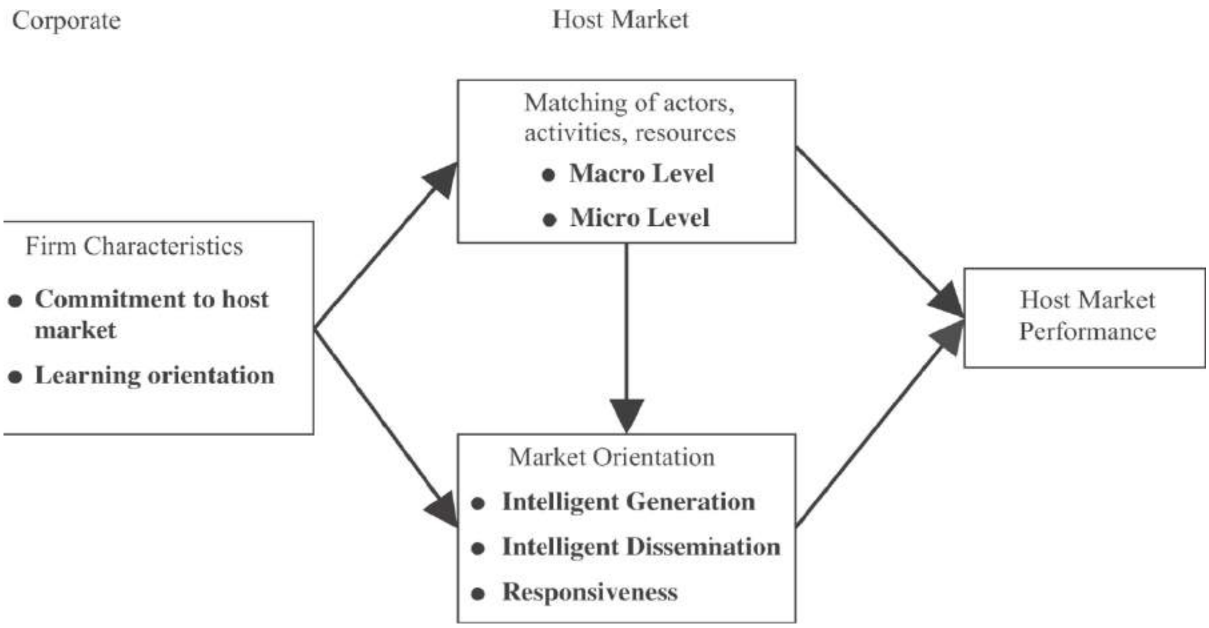
These then have been internalised and helped the Companies develop an international operations strategy and understanding that enabled them to make entries into culturally diverse and geographically distant markets.

With time and experience the Companies gained experience and expertise which gave them the confidence to explore unchartered territories and set up business operations. Another point to be noted is that the internationalisation of retailing turned out to be the long term and strategic direction that these companies chose to take.

Internationalising therefore became a part of the engine that fuelled future direction and growth of business for most of the successful international retailers. Retailing has been regarded as a localised commercial sector composed of small-scale operations. Undoubtedly, small retail operations remain an important element in the retail structure of developed economies, but in the 1990s large retail operations rank among the largest business enterprises in the economies.

Increasingly, major retail operations are developing international operations. If major retailers are to remain important commercial entities, they are no longer able to remain in the boundaries of their domestic market. For such organisations, international retailing is no longer simply an option it had become a necessity. International operations provide valuable growth opportunities and allow for the information gathering as a result if commercial experience.

The Role of Market Orientation and Matching in International Retailing. Source: Based on Ghauri et al. (2004).



International trade and commerce has existed for centuries and played a very important part in the World History. However International Retailing has been in existence and has gained ground in the past two to three decades. The economic boom in several countries, coupled with globalization have given way to Organisations looking at setting up retailing across borders. The advent of internet and multimedia has further changed the dimensions as far as International Retailing is concerned.

Who are the International Retailers

When you think of International Retailers the names that come to one's mind would be the Wal-Mart, Gucci, Ralph Lauren, Mango, GAP etc. All of these are International Retailers. However we can broadly classify the International Retailers under two categories. The first category would be the global grocery retailers and the second category belongs to the International fashion Brands.

International Grocery Retailers

The Companies namely Wal-Mart, Carrefour, Metro, Tesco and Ahold etc are the leading international grocery retailers who have multi country presence. Major portion of their total revenue comes from foreign sales. Wal-Mart operates in over 8,500 stores in 15 countries with foreign sales contributing to 18% of its $405,046 billion net sales (2000). Carrefour, a French international retailer has presence in 32 countries with foreign sales amounting to over 48% of its net sales.

These international grocery retailers follow a multi brand and multi product business format which includes all products like food encompassing all types of fresh vegetables, fruits, juices, chocolates etc, fashion and clothing including bed linen etc, grocery, all types of branded consumables, as well as liquor and many more household goods under one roof. They generally follow a format that allows for selling to whole sellers, retailers as well as general public at the mega stores.

Traditionally these International Grocery Retailers have operated mainly in US and in Europe. Specifically in Europe the largest markets have been in Germany, France and UK. With globalisation and with several countries opening their markets to FDI in retail, these Organisations are moving into other parts of the world and into emerging markets.

There is yet another group of International retailers like IKEA, Lego, Toys 'R'Us etc who have chosen to focus and specialise in a particular segment like furniture etc.

International Fashion Retailing

Names like Ralph Lauren, Gucci, Zara, Hugo Boss, JC Penny, Benetton, Jimmy Choo, Swarovski, Dolce & Gabbana etc belong to the second category of International Fashion Retailers. Originally these Companies catered to domestic markets in the countries of their origin. Fashion and Luxury brands have always been known by their label and brand value across countries, through word of mouth and sought after by the rich and famous from all over.

Over the years, these companies have realised the opportunity in expanding their product mix and promoting their brands internationally. Thus we see the emergence of international fashion brands, luxury product brands dealing exclusively with branded clothing including sportswear, casual and formal wear, party wear, foot ware and accessories, luxury items including watches, perfumes, jewellery and many more items of personal use.

In the earlier times, the nova rich and the business class were the main customers who sourced these branded products from abroad. However in the recent times we see the educated and economically empowered youth demanding fashion and going in for branded items. International brands have thus established a niche for themselves in domestic markets aided by the increasing demand for branded fashion products. International grocery retailers have expanded their business in emerging markets by virtue of their investments and procurement strategies.

International Retailing and branding has been one of the sectors that is seeing exponential growth. With increase in standard of living and disposable income, people in developing countries are getting exposed to international brands. Rise of internet and multi-media has further provided impetus to the dream of people to aspire for branded consumer goods. Along with the rising awareness and aspirations of the people, the opening up of economies and foreign direct investment opportunities have fuelled the growth of international retailing business.

International Retail business consists of two groups of businesses. The biggest value and volume business happens to be the International Multi brand grocery Retailers like Wal-Mart, Tesco, Metro and Carrefour etc. The second group of international retail business refers to the fashion brands mainly in fashion, luxury brands and personal product category of businesses.

In this topic we aim to explain some of the characteristic features and challenges of the second group of International retail business dealing with fashion and brands. Brands such as Ralph Lauren, Hugo Boss, GAP, Dolce & Gabbana, Gucci, Escada, Armani, Versace, Louis Vuitton and many more are known all over the world and are available at exclusive showrooms in various countries.

In the past two to three decades all these brands have grown to become Global brands, and this has been made possible by their strategic branding, multi product range expansion and innovative merchandising methods.

Though International Retail Companies are Global businesses, the business and products are hugely influenced by the multi cultural and pan country specific product requirements. The product categories largely comprise of fashion clothes, food, gadgets as well as personal and luxury products. Each country and each market is characterised by different fashion trends and consumer behaviour. While the products are fast moving and have very short shelf life, the local culture and outlook has a large part to play in the localisation of the international brands in domestic markets. These global companies therefore are forced to work on global branding as well as local brand promotion and have international as well as domestic-country specific customer reach programs and marketing as well as promotional methods.

International Retail Companies have several inherent challenges that they face in their line of business. Product innovation and product mix happen to be the biggest challenges for these companies both at global as well as country specific domestic levels. The survival and growth of the brand is directly dependent upon these challenges.

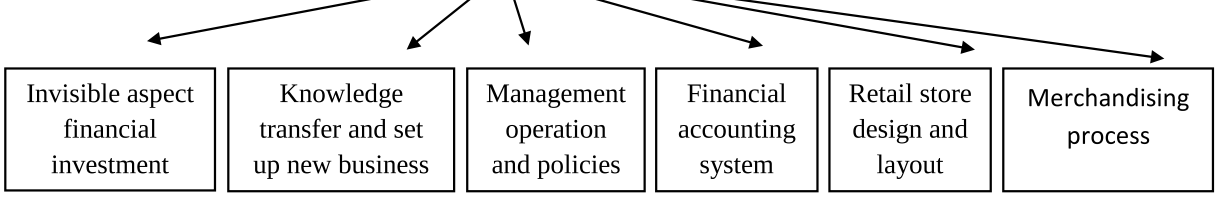
The global retailers have to be tuned in to the international as well as domestic specific fashion in each of the countries and get their product mix right for each of the markets. Service quality and merchandising methods too, play an important role in the brand visibility and reputation. Pricing of products is yet another challenge faced by the brands.

Developing and emerging markets are highly price sensitive. When the international brands are trying to make an entry into the new markets, they have got to have an entry strategy that takes into account the price sensitivity and profitability as well. Procurement and Supplier reliability as well as quality marks one of the challenges that these companies face as they happen to source materials and products from several countries.

Quality and reliability as well as in time supplies and logistics is always a challenge that can make or break the business which is highly seasonal in each country. In the recent years we have seen the emergence of ethical practices playing a vital role in the procurement policies of these international companies. The companies have got to ensure that their sourcing partners do not employ child labour or employ unethical methods in manufacturing the products and as principle buyers these companies are held responsible. Ethical buying has gained global visibility and these companies have had to be watchful to ensure compliance or risk unwanted publicity and public outcry.

International retailing business is high volume business. To be a successful international brand, the Companies have got to adapt the right strategies, be aware of the local cultural as well as political environment in the market and more importantly manage the brand promotion and supply chain perfectly. The challenges faced by the business are several but so are the business opportunities.

Dimensions of international retailing



What for Internationalisation of Retail?

Retail internationalizationis the strategy of unlocking sales opportunities in new markets through a mix of exporting best practice and modifying existing models to suit local needs. As modest growth and mature conditions continue in domestic markets, overseas operations will become increasingly important for the world's leading grocery retailers. However, new opportunities are being considered more carefully than ever before, with the focus more on building scale in key markets rather than broadening operations by entering additional markets.

Who are the Main International Retailers?

By turnover, Walmart, Carrefour, Metro and Tesco rank as the major global grocery retailers. Together, the grocery sales of these four retailers exceeded US$600 billion in 2011. Walmart is leading the way with grocery sales alone of almost US$440 billion, dwarfing the combined grocery turnovers of Carrefour, Tesco and Metro. Walmart's grocery sales are almost 2.5 times greater than those of the world number two, Carrefour.

IGD's Grocery Turnover League

Turnover ranking 2011	Retailer	Country of origin	Total net sales 2011 $m*	Net grocery sales 2011 $m	Net grocery sales 2011domestic currency millions	% annual change, 2010-11 domestic currency
1	Walmart Stores	US	447,548	338,307	338,307	+7.1
2	Carrefour Group	France	158,940	143,533	102,579	-9.0
3	Tesco	UK	105,411	102,632	63,821	+6.2
4	Metro Group	Germany	93,266	15,720	11,235	-2.3

* Includes non-grocery formats

NB. Carrefour figures are inclusive of franchise operations

. Excludes DIA discount business which Carrefour spun off in 2011

Source: IGD Retail Analysis Datacentre, calculated in 2012

Top 10 Grocery Markets to 2015

Examining growth potential by geography, Brazil, Russia, India and China will all be among the top five global grocery markets by 2015. We expect China and India to stand out with the highest rate of development, offering the biggest scale opportunities for retailers. By 2015, China will lead the way, with India also steadily advancing up the ranks. In fact, China has already overtaken the US as the world's biggest food and beverage retail market, according to our research. This expansion has been fuelled by three main factors:

rapid economic growth, a rising population and higher food inflation. Despite its various logistical and bureaucratic challenges, China is a crucial growth market for many of the world's largest grocery retailers. Even beyond the major cities there are huge opportunities and forecasts suggest there will be more than 200 Chinese cities with a population in excess of a million people by 2025. But businesses operating there must remember that, given China's size and diversity, it is essential not to treat the country as one homogenous market.

2011 grocery sales			2015 forecast		
Rank	**Country**	**£ bn**	**Rank**	**Country**	**£ bn**
1	China	607	1	China	918
2	US	572	2	US	675
3	Japan	254	3	India	385
4	India	244	4	Russia	292
5	Brazil	212	5	Brazil	287
6	Russia	198	6	Japan	263
7	France	187	7	France	206
8	Germany	144	8	UK	162
9	UK	143	9	Germany	148
10	Italy	113	10	Indonesia	147
11	Indonesia	100	11	Italy	116
12	Spain	84	12	Mexico	92
13	Mexico	74	13	Spain	88
14	Canada	69	14	Canada	82
15	Australia	63	15	Turkey	74

Source: IGD Research

Global Retailing Outlook

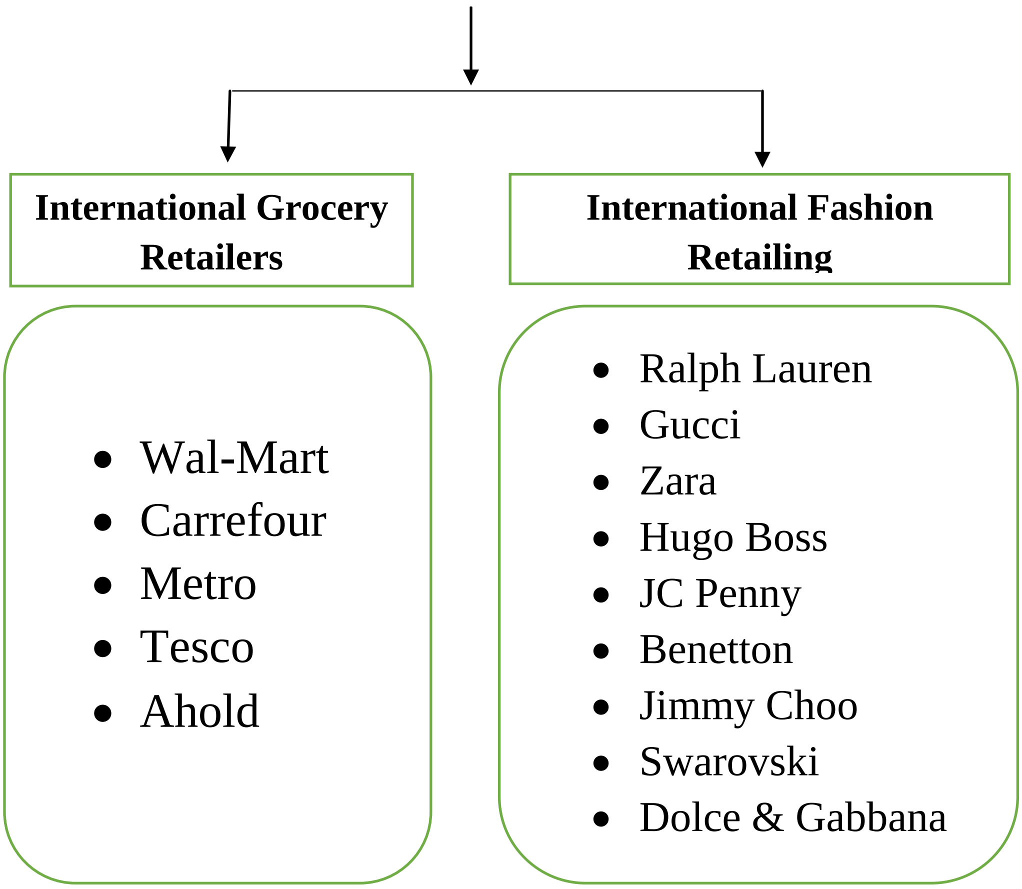
At this stage, there are no easy wins. Retailers cannot afford to take their eye off their domestic markets, as success at home underpins international expansion.

There have been a number of interesting developments recently:

- The **new Carrefour** chief executive has inherited a business that has been through some challenging times, but now has an improving outlook.
- **For Tesco,** driving domestic performance is key but strong international growth is also targeted.

- **Metro** made a good start to 2012, with evidence of a turnaround in performance after a slowdown in 2011.
- Sales and profit growth at **Walmart** has been underpinned by improvement in the US market.

Kinds of International Retailers



International Grocery Retail

The Companies namely Wal-Mart, Carrefour, Metro, Tesco and Ahold etc. are the leading international grocery retailers who have multi country presence. Major portion of their total revenue comes from foreign sales. Wal-Mart operates in over 8,500 stores in 15 countries with foreign sales contributing to 18% of its $405,046 billion net sales (2000). Carrefour, a French international retailer has presence in 32 countries with foreign sales amounting to over 48% of its net sales.

These international grocery retailers follow a multi brand and multi product business format which includes all products like food encompassing all types of fresh vegetables, fruits, juices, chocolates etc., fashion and clothing including bed linen etc., grocery, all types of branded consumables, as well as liquor and many more household goods under one roof. They generally follow a format that allows for selling to whole sellers, retailers as well as general public at the mega stores. Traditionally these International Grocery Retailers have operated mainly in US and in Europe. Specifically in Europe the largest markets have been in Germany, France and UK. With globalisation and with several countries opening their markets to FDI in retail, these Organisations are moving into other parts of the world and into emerging markets.

International Fashion Retailing

Names like Ralph Lauren, Gucci, Zara, Hugo Boss, JC Penny, Benetton, Jimmy Choo, Swarovski, and Dolce & Gabbana etc. belong to the second category of International Fashion Retailers. Originally these Companies catered to domestic markets in the countries of their origin. Fashion and Luxury brands have always been known by their label and brand value across countries, through word of mouth and sought after by the rich and famous from all over. Over the years, these companies have realised the opportunity in expanding their product mix and promoting their brands internationally.

Thus we see the emergence of international fashion brands, luxury product brands dealing exclusively with branded clothing including sportswear, casual and formal wear, party wear, foot ware and accessories, luxury items including watches, perfumes, jewellery and many more items of personal use. In the earlier times, the nova rich and the business class were the main customers who sourced these branded products from abroad. However in the recent times we see the educated and economically empowered youth demanding fashion and going in for branded items. International brands have thus established a niche for themselves in domestic markets aided by the increasing demand for branded fashion products. International grocery retailers have expanded their business in emerging markets by virtue of their investments and procurement strategies.

Indian Retail Market

Indian retail industry is one of the sunrise sectors with huge growth potential. According to the Investment Commission of India, the retail sector is expected to grow almost three times its current levels to $660 billion by 2015. However, in spite of the recent developments in retailing and its immense contribution to the economy, retailing continues to be the least evolved industries and the growth of organised retailing in India has been much slower as compared to rest of the world. Undoubtedly, this dismal situation of the retail sector, despite the on-going wave of incessant liberalization and globalization stems from the absence of an FDI encouraging policy in the Indian retail sector.

As per the current regulatory regime, retail trading (except under single-brand product retailing — FDI up to 51 per cent, under the Government route) is prohibited in India. Simply put, for a company to be able to get foreign funding, products sold by it to the general public should only be of a _single-brand‘; this condition being in addition to a few other conditions to be adhered to.

India being a signatory to World Trade Organisation's General Agreement on Trade in Services, which include wholesale and retailing services, had to open up the retail trade sector to foreign investment. There were initial reservations towards opening up of retail sector arising from fear of job losses, procurement from international market, competition and loss of entrepreneurial opportunities.

All Indian households have traditionally enjoyed the convenience of calling up the corner grocery "kirana" store, which is all too familiar with their brand preferences, offers credit, and applies flexible conditions for product returns and exchange. And while mall based shopping formats are gaining popularity in most cities today, the price-sensitive Indian shopper has reached out to stores such as Big Bazaar mainly for the steep discounts and bulk prices. Retail chains such as Reliance Fresh and More have reportedly closed down operations in some of their locations, because after the initial novelty faded off, most shoppers preferred the convenience and access offered by the local kirana store.

So how would these Western multi-brand stores such as Wal-Mart and Carrefour strategies their entry into the country and gain access to the average Indian household? Wal-Mart has already entered the market through its partnership with Bharti, and gained opportunity for some early observations.

The company's entry into China will also have brought some understanding on catering to a large, diverse market, and perspectives on buying behaviour in Asian households. Carrefour on the other hand has launched its wholesale cash and carry operations in the country for professional businesses and retailers, and will now need to focus more on understanding the individual Indian customer.

As such, these retail giants will try to gain from some quick wins while reaching out to the Indian consumer. For one, they will effectively harness their expertise with cold storage technologies to lure customers with fresh and exotic vegetables, fruits and organic produce. Secondly, they will also emphasise on the access that they can create for a range of inspirational global foods and household brands. Thirdly, by supporting domestic farmers will try ensuring supplies of essential raw materials to them.

Surely, these should engage shoppers' and farmers interest–but what needs to be seen is whether they can effectively combine these benefits, with the familiarity, convenience and personalised shopping experiences that the local "kirana" stores have always offered.

Retail Industry – Divisions

The retail industry can be divided into (i) organized large, (ii) unorganized and (iii) informal sector enterprises. The first category retailers comprise traders who possess legal permissions or licenses to undertake the activity, are registered with sales tax/VATetc. Such enterprises are supermarkets, hypermarkets, retail chains, and also the privately-owned large retail businesses. Their presence on scene, though of a recent origin, is gradually gaining in importance, and slowly eating into the business of second category of retailers. By unorganized retail trade enterprises, we mean all those local kirana &general shops, family managed –OwnAccount trade enterprises (Mom-Pop shops), registered under the Shops and Establishment Act (s), administered by the local authorities.

Their number is very large and this category of enterprises dominate Indian scenario. At this juncture, they, apparently, are providing tough competition to large retail outlets. The third category of retailers include small shops such as tiny grocery and vegetable shops run from a room of a house, paan/beedi kiosks (often selling a variety of items, like small toothpaste tubes, tooth brushes, soaps, pouches of shampoo, etc), way-side vendors, and hand carts operating without any licences. This is not any past-time activity for owners, but is an economic necessity.

The Indian retail sector is highly fragmented with 94 per cent of its business being run by the unorganized retailers. The organized retail however is at a very nascent stage. This sector is the largest source of employment after agriculture, and has deep penetration into rural India generating more than 10 per cent of India's GDP. The total retail market in India is estimated at US$ 470 Bn in 2011. The Food & Grocery segment is the largest retail category and accounts for about 70% of the total retail market.

Challenges to be Addressed

To become a truly flourishing industry, retailing in India needs to cross the following hurdles:

- Automatic approval is not allowed for foreign investment in retail.
- Regulations restricting real estate purchases, and cumbersome local laws.

- Taxation, which favours small retail businesses.
- Absence of developed supply chain and integrated IT management.
- Lack of trained work force.
- Low skill level for retailing management.
- Lack of Retailing Courses and study options
- Intrinsic complexity of retailing rapid price changes, constant threat of product obsolescence and low margins.

Retail Reforms

Until 2011, Indian central government denied foreign direct investment (FDI) in multi-brand

Indian retail, forbidding foreign groups from any ownership in supermarkets, convenience stores or any retail outlets, to sell multiple products from different brands directly to Indian consumers.

The government announced on 24 November 2011 the following:

- India will allow foreign groups to own up to 51 per cent in multi-brand retailers, as supermarkets are
- known in India, in the most radical pro-liberalization reform passed by an Indian cabinet in years;
- Single brand retailers, such as Apple and Ikea, can own 100 percent of their Indian stores, up from the previous cap of 51 percent.
- Both multi-brand and single brand stores in India will have to source nearly a third of their goods from small and medium-sized Indian suppliers.

Indian market has high complexities in terms of a wide geographic spread and distinct consumer preferences varying by each region necessitating a need for localization even within the geographic zones. India has highest number of outlets per person (7 per thousand) Indian retail space per capita at 2 sq. ft. (0.19 m2)/ person is lowest in the world Indian retail density of 6 percent is highest in the world. 1.8 million Households in India have an annual income of over 45 lakh (US$68,850.00). While India presents a large market opportunity given the number and increasing purchasing power of consumers, there are significant challenges as well given that over 90% of trade is conducted through independent local stores. Challenges include: Geographically dispersed population, small ticket sizes, complex distribution network, and little use of IT systems, limitations of mass media and existence of counterfeit goods. A number of merger and acquisitions have begun in Indian retail market. PWC estimates the multi-brand retail market to grow to $220 billion by 2020.

Notable Indian Retailers

- Future Group
- Mahindra Group
- Reliance Industries
- Aditya Birla Group
- Bharti Enterprises, including joint venture with Walmart
- Fabindia: Textiles, Home furnishings, handloom apparel, jewellery
- The Bombay Store: Indian Artifacts, Home furnishings, jewellery
- Shoppers Stop, Crossword, Hyper City, Inorbit Mall

Case Tom Ford and Gucci

When Tom Ford assumed the position of Creative Director for Gucci in the 1990s, his main priority was to end the many product-licensing agreements that Gucci had made in the previous two decades. Under the stewardship of the third generation of the Gucci family, the Gucci brand name had been indiscriminately licensed to over 13,000 product lines. Consequently, Gucci products were available within 18,000 outlets worldwide. For a brand that had sought to convey an image of exclusive sophistication, it is perhaps no surprise that the profitability of the company was adversely affected by this explosion in product licensing. Ford recognised that as a result of their promiscuous licensing strategy, Gucci no longer had control over its brand image and identity.

By rescinding as many of the licensing agreements as was possible, Ford then embarked on a ruthless brand control campaign that was to become legendary in the fashion sector. Every aspect of Gucci's brand image across the company's international store portfolio came under the personal control of Ford and his staff at the company's HQ in Italy. By retaining full control over the positioning of the brand and radically reducing its avail-ability, Tom Ford had successfully re-engineered the Gucci brand to become one of the world's most profitable and respected fashion brands.

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Lesson 4.2 - International Retailing Trends

Trends in International Retailing

Trends are the general direction in which something is developing or changing. The retail industry has seen its share of ups and downs over the past years. And as consumers begin to slowly claw their way back from the depths of the recession, retailers are responding looking for new ways to grow their businesses and opportunities that will help them leap past the competition.

As companies strive to understand the new consumer and there are variety of trends occurs to the retail industry-

- Both U.S. & European retailers expanding internationally
- Consolidation & acquisition among retailers
- Television Home Shopping Popular in North America and Europe, and becoming increasingly popular in Asian markets.
- Direct selling firms are most active in the growth markets (in emerging markets, in particular).

- Network marketing is growing rapidly, especially in emerging markets. Involves signing up sales representatives to go into business for themselves with minimal start-up capital and sell more “distributorships” and merchandise.

a) Trends in Retailing of Food Consumption

Euro monitor 2009, (Table) reveals thatthe trends in food consumption patterns across countries, packaged food products account for large shares of total food expenditures among consumers in high-income countries where the demand for convenience is growing. The United States, the European Union, and Japan account for over half of total global sales of packaged products. In developing countries, intermediate products-such as vegetable oils, dry pasta, and other dried products-account for the bulk of retail sales. However, market trends indicate strong growth in sales of packaged food products among developing countries. This growth involves three-fourths of the world’s consumers and is partly due to rapidly growing income levels.

Retail sales, 2008, and sales growth of selected food items, 1998-2008					
	2008 retail sales				
Country 1/	**Oils and fats**	**Dried food**	**Dairy products**	**Breakfast cereals**	**Ready meals**
	Million U.S. dollars				
High income					
Czech Republic	725.5	347.4	2072.9	44.5	160.4
France	2964	1481.9	19198.5	800.9	5186
Germany	3741.4	2310.7	23567.2	833.6	3474
Japan	3069.6	23346.3	21225.7	419.9	13340.8
Singapore	49.2	198.7	232.7	24.9	30.7
South Korea	762.9	5233.4	5229.1	187	296
United Kingdom	2879.5	1863.2	14938.8	3166.1	11067.6
USA	6381.6	11008.5	65374.4	9620.4	23407.9
High middle income					
Bulgaria	221.4	105.4	519.1	13.8	11.2
Chile	495.5	468	1871.6	126.9	27.1
Hungary	423.9	214.8	1982.1	73.9	99.1
Mexico	1545.8	2320.6	10389.9	1718.5	194.8
Romania	763.7	445.7	1306	96.5	10.6
Russia	6243.2	2307.9	12259.2	368.6	3650.9

South Africa	1018.7	1282.7	2535.5	331.9	475.5
Turkey	3864.7	1106.3	2593.8	60.3	47.9
Low middle income					
Brazil	7336.2	8239.1	20936.7	429.3	836.8
China	6975.9	9908.4	20120.7	120.6	603.8
Colombia	1313.3	1426.4	2547.9	108.6	38.0
Indonesia	747.8	4030.1	1781.7	33.5	4.5
Morocco	498.4	155.4	898.6	10.3	0.4
Philippines	890	713.1	1449.4	67.7	74.2
Ukraine	1073.3	448.9	3040.2	74.8	272.9
Low income					
India	2521.8	1032.2	6230.8	46.2	28.5
Vietnam	725.6	360.9	714.8	0.5	14.3

Source: Euromonitor, 2009

b) Trends in Retailing of Soft Drinks

Analysis of soft-drink retail sales data (table) indicates a rapidly expanding sector with large sales growth in Eastern Europe and Asia. Markets in developed countries, however, are sluggish, particularly for carbonated drinks. Carbonated drinks face strong competition from fruit juices and various health and ethnic drinks. In many developing countries such as India, where growing affluence has spurred the demand for clean drinking water, increased demand for bottled water has further boosted total soft drinks sales.

	2008 sales of	**Carbonates' share**	**Average annual growth rate, 1999-2008**	
Country 1/	**all soft drinks**	**of 2008 sales**	**All soft drinks**	**Carbonates**
	Million liters	*Percent*		
High income				
Czech Republic	1972	23.5	3.2	0.8
France	10940	17.7	1.1	1.5
Germany	19577	28.4	3.6	4.0
Japan	17339	13.3	2.6	0.9
Singapore	234	36.4	3.5	-0.3
South Korea	3305	25.6	4.0	0.4
United Kingdom	8932	41.1	4.4	1.7

United States	78839	47.5	2.4	-0.5
High middle income				
Bulgaria	1009	34.9	10.1	4.3
Chile	2336	78.6	5.2	4.6
Hungary	1513	32.9	6.8	0.0
Mexico	38876	32.5	7.8	3.3
Romania	2770	40.4	12.5	10.8
Russia	9837	35.2	7.8	1.6
South Africa	3382	70.3	6.2	5.0
Turkey	8250	25.9	10.8	9.4
Low middle income				
Brazil	17237	66.7	4.7	2.6
China	44467	18.6	15.5	8.6
Colombia	3453	59.1	3.3	1.5
Indonesia	13961	3.8	19.6	5.7
Morocco	1033	57.6	7.3	5.6
Philippines	6228	36.1	7.5	-0.8
Ukraine	4249	39.7	16.3	12.6
Low income				
India	4347	27.7	13.2	3.7
Vietnam	357	19.1	7.8	-2.9

Source: Euromonitor, 2009.

c) Trends of Private Label Strategies

In many markets, shoppers 'attitudes towards private label ranges have changed dramatically over the past five years, and retailers are increasingly using their private label strategy as a key tool to differentiate their offer and build brand identity ***are—***

Interacting with Shoppers

Retailers are investing more resources in new campaigns and products that interact with shoppers, adopting a 'personal touch' to promote their private label ranges and their company brand as a whole. A great example from The Co-operative in the UK, who recently ran an innovative "Tweet for a table" campaign to engage younger shoppers as it looks to establish relationships with them early on in their lives.

Only a tweet was needed to enter for the chance to win a gastro-style meal in a pop-up restaurant. The winning meal was then created using a variety of The Co-operative's private label products, allowing the retailer to showcase its capability.

Pushing the Boundaries of Core Brands

Across the industry, there are many more examples of retailers taking their core private label ranges a step further as they look to differentiate their offer and build shopper loyalty. This is taking a variety of forms. One example is by creating a distinctive umbrella brand, targeting specific shoppers. For example in Norway, NorgesGruppen's Ultra Sandvika has created a new range of healthy products for children called Jippi. This has been promoted around store with life-size characters to add a sense of fun and attract interest from children and parents in-store.Another approach is the introduction of more targeted ranges within retailers 'core brands.

A great example of this is from Spain, with Eros Ki's new 'Cooking' range. Launched in July 2013, the range is split into three sections to create a complete meal; #1 meat or fish, #2 side, #3 sauce. The range makes it easy for shoppers to create a complete meal of their choice, actively encouraging them to buy-in to the concept and purchase from all three sections. By allowing shoppers to pick and choose various combinations, shoppers feel they are scratch cooking, effectively targeting shoppers looking for the combination of a fresh, healthier option and a convenient solution.

Extending Brand Frontiers

The third private label trend that really stands out to me at the moment is retailers using private label ranges in new ways, broadening the reach of their brands. One such strategy is the collaboration of global retailers to bring private label to new shoppers and markets. For example, Waitrose is leveraging its reputation for high quality products to bring its private label ranges to Dairy Farm's premium fascia, Market Place, in Singapore. Products from both its essentials and core ranges were merchandised alongside local ranges. Meanwhile French retailer Casino is collaborating with Rustan's fascia Shopwise, Philippines, and with A S Watson's fascia Taste, Hong Kong, to bring its core private label range to the Asian market.

Private label ranges are relatively underdeveloped in Asia compared to Europe and America. Casino and Waitrose are using their own ranges, but positioning them as brands within the core offer of these Asian retailers. This will help build their brand presence, reach new 4customers, drive incremental sales, as well as deliver mutual benefits for A S Watson and Dairy Farm.

Top Retail Trends for 2012

1) Continuing to Invest in Mobile

The speed with which mobile has transformed retail is staggering. In just a few short years, QR codes, cutting-edge apps, and the ability to search for product information, reviews, or even just store locations – all from a mobile phone – have had an enormous impact. A recent Shop.org survey found that nearly half of retailers have an optimized mobile site or smartphone app, with 16 percent planning to increase their investment in mobile technology.

Though mobile retailing has come a long way, there are still plenty of growth opportunities. Retailers view mobile commerce not as only a sales driver, but also as a way to engage with a specific audience. When it comes to where mobile ranks as a priority for retailers, the NRF Foundation's 2011 Retail Horizons report found 69 percent of retailers identified mobile commerce as a top strategic initiative, up 28 percent from 2010.

2) Embracing the Emergence of Millennials

For a significant portion of consumers, the challenging economy is becoming accepted as something of a norm. Born between 1982 and 2000, Millennials are a generation raised on high-speed Internet, cell phones, digital music and instant messaging. They're massive multi-taskers who simultaneously use Web-based search, social networking and gaming sites, wikis and personal blogs.

Who are Millennials?

Millennials are savvy shoppers who expect more value for their dollar. They're not afraid to spend, but they expect more than a good deal.

3) Making the Best of a Tough Economy

Troubled times spark innovation. Despite the slow economic recovery, retailers have found ways to make do with less, present their shoppers with savings and promotions, and even create mobile and Web platforms that have successfully engaged a new group of customers. With consumers once again focusing on necessity purchases, such as gas and food, retailers have been developing ways to create emotional connections with consumers and make discretionary purchases feel like necessities. Apple's iPhone is one of the best examples. This year, retailers will find ways to differentiate themselves beyond just price.

It is expected that more focus will be on value in bringing together service, merchandise quality and even selection in the purchasing decision. These types of initiatives demonstrate that retailers are listening to consumers and making the most of the challenges presented by tough economic times.

4) Expanding Abroad to Find New Market

Adjusting to the new consumer will continue to be a challenge for retailers as US shoppers still weigh needs versus wants more than they did pre-recession – using coupons, comparison shopping online for the best deal, and being extremely value-driven. Increased competition and tighter spending in the US have sent a rising number of retailers abroad, hoping to grow by moving into markets where shoppers spend more freely. China, Latin America and India have all become very attractive markets for retailers.

5) Retailers are Entering New Markets, Both Developed and Developing, Through Various Channels

Retailers are entering new markets, both developed and developing, through various channels. ***For example***, one may open an online store overseas to test the market before committing to a physical presence.

6) ***Retailers are going across multiple channels***

Most retailers have a presence across multiple channels (e.g., stores, catalogues, online, call centres, social networking, and digital displays, mobile). Few, however, truly understand how consumers are using and shopping across each of their channels (e.g., using social media sites to get discounts, going to the store to test the product and then purchasing the product online), and even fewer have a seamless, consistent and comprehensive multi-channel strategy.

However, having a comprehensive multi-channel strategy will become more important than ever. (e.g., stores, catalogues, online, call centres, social networking, digital displays, mobile). Few, however, truly understand how consumers are using and shopping across each of their channels (e.g., using social media sites to get discounts, going to the store to test the product and then purchasing the product online), and even fewer have a seamless, consistent and comprehensive multi-channel strategy. However, having a comprehensive multi-channel strategy will become more important than ever.

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Lesson 4.3 - Classification of International Retail

Classification of International Retail

In today's world if internet and communication boundary has erased geographical boundaries, international retailing has brought the world market to the local store near you. Any international brand of fashion or product that you desire can be easily found in the city in your country. The rapid urbanisation, globalisation coupled with economic freedom enjoyed by the youth has helped fuel their ambition and dreams to live a lifestyle that is global and stylish. Thus the international brands and retailers are in for a good time expanding their operations in international markets all over the world.

When one refers to International Retailing, the term denotes a variety of fashion retailers as well as luxury brand retails and general grocery and merchandise retailers as well. Going into the details of what constitutes International fashion Retailing provides us with the following categories of fashion retailing:

1. Product Fashion Retailers

The retailers who focus on a narrow product range and cater to a particular customer group are categorised into Product fashion retailers. The brands like Nike, Reebok, Puma who cater to Sports Shoes or Jockey who cater to Men's inner garments etc fall under this category. The customer group may be specific to children's garments, mens shoes, women's lingerie or such specific sectors.

2. Fashion Design Retailers

Fashion firms that promote their brand or label and merchandise the exclusive creations of designers who sell by their name through Company owned exclusive boutiques come under this category of international retailers. Such fashion designers normally take part in the fashion shows and unveil their creations at such industry marked events. Gucci, Channel, Prada, Giorgio Armani, Diesel etc are the well known designer owned brands under this group.

3. Merchandise Retailers

The department stores that engage in fashion retailing as well as general merchandise retailing of different brands and multi products are covered under this category. Departmental stores like Marks & Spenser as well as Dunnes store etc that sell general merchandise and assorted products along with fashion and accessories can be grouped under Merchandise retailers.

4. General Fashion Retailers

This group is categorised by the international fashion brands that sell a variety of products under the brand and have extended their product variety under the brand. GAP, Mango, Hugo Boss and JC Penny are some of the fashion labels who have strong brand identity as well as product mix aimed at particular customer segment.

With opening up of new markets as well as globalisation, the complexities faced by the International retailers in terms of the standardisation, quality and new fashion trends as well as new product mix is increasing. Brand promotion and positioning too is undergoing a lot of changes in the face of technology and media being the change agents. The trends in the markets as far as the perception of style and fashion is fast changing. In keeping up with business realities and confronted with need for expansion, new International Retail formats can be expected to emerge pushing the fashion boundaries further and to new frontiers

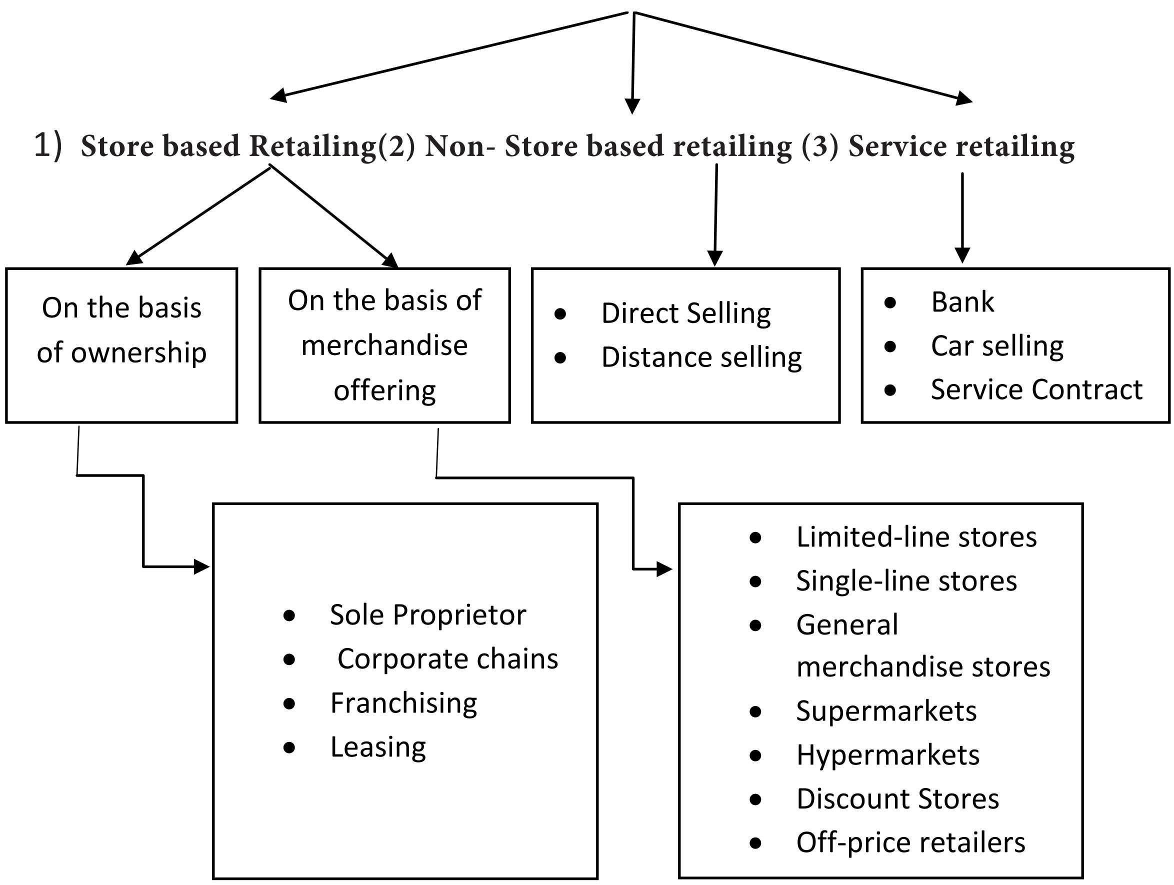
The internationalisation of operations is the most visible dimensions of retail internationalisation. Typically, it is this dimension that identifies the international retailer. The others, such as the internationalisation of financial investments, of know-how and of product and service sourcing, serve as dimensions of the internationalisation process within retailing. Dawson (1994) stated that the internationalisation of operations can be described as 'the operation, by a single firm, of shops or other form of retail distribution, in more than one country' (p. 268). There are a number of important issues which surround the internationalisation of stores, such as the internationalising retailer having to face cultural differences in terms of consumer, employee and general business practices.

Burt (1989) in a review of the key trends affecting the European consumer, suggested that demographic, socio-economic and lifestyle changes would provide significant challenges to retailers, not least with respect of required modifications to their store formats, merchandise assortments and the methods of promotion that they used.

The challenges and difficulties experienced by retailers, such as Wal-Mart in Germany, C&Ain the UK and Marks and Spencer in Canada and the USA, all serve to illustrate the difficulties inherent to managing store operations within diverse trading markets. The examination of the internationalisation of retail operations has emerged as the central focus of much of the research in this area. These studies have tended to focus upon motivations for choosing to establish operations within a foreign market; the methods of market entry that are used; as well as the strategies that retailers adopt in order to respond to local market differences.

Over the years, the retailers have adopted several unique strategies and ways of dealing with the challenges. We shall briefly discuss the two major strategies adapted by the international retailers in their areas of global operations.

Classification of Retail Format



Classification of Retail

The retail format can be classified into three categories-

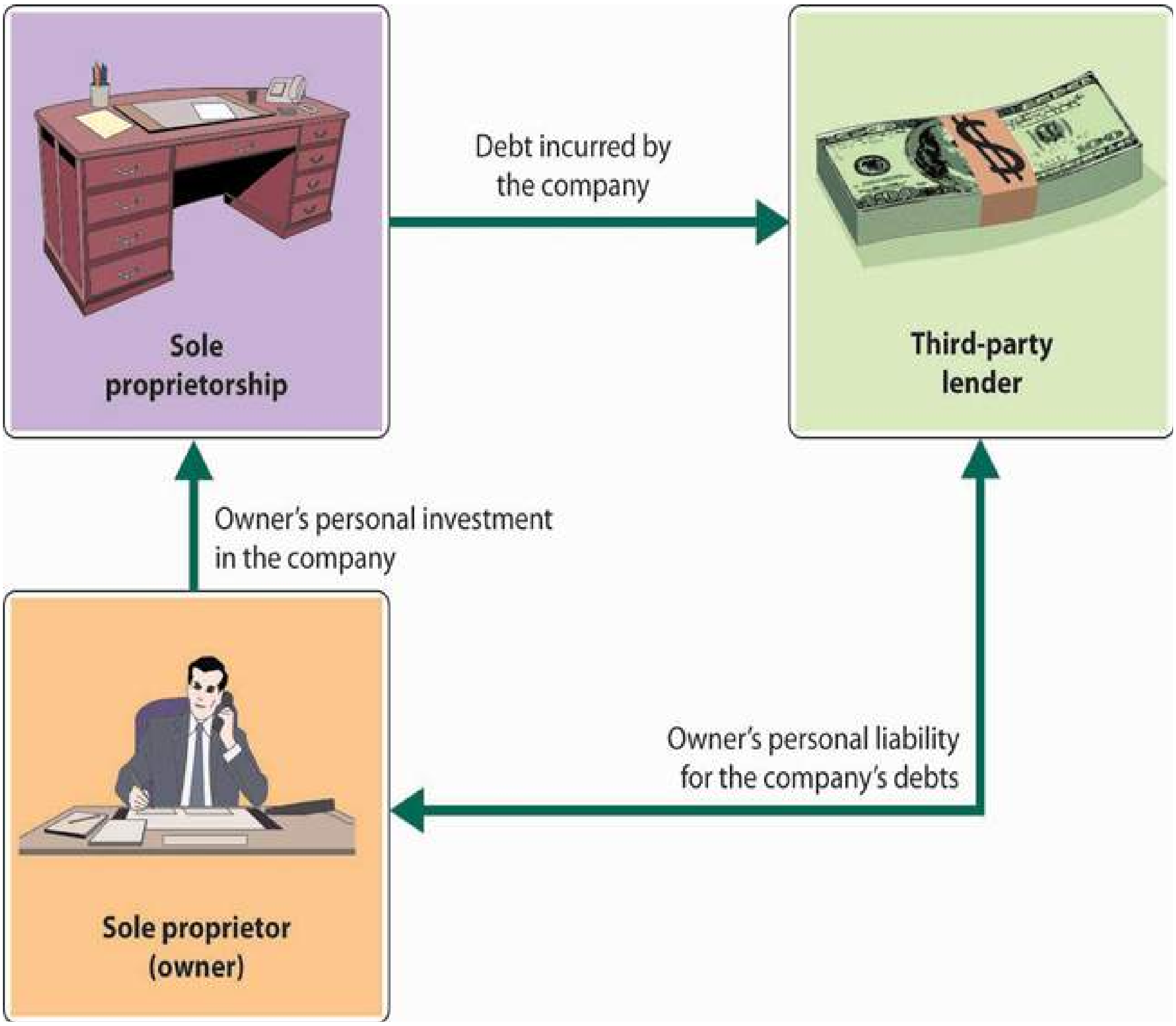
1) ***Store based retailing:*** The retailers whose stores are having physical existence are called store based retailer. Store based retailing can be sub – categorised into two categories-

A) On the Basis of Ownership

There are several forms of ownership in the retail format—

a) Sole Proprietor

A sole proprietorship, also known as the sole trader or simply a proprietorship, is a type of business entity that is owned and run by one individual and in which there is no legal distinction between the owner and the business.



Source: http://2012books.lardbucket.org/books/an-introduction-to-business-v1.0/s08-02-sole-proprietorship.html.

Advantages of Sole Proprietors

- It is easy to organize the needs only small amounts of capital needs to start and run a business.

- It permits a high degree of flexibility for the owner since he/she is the boss of the business establishment.
- Due to the owner's unlimited liability, some creditors are more willing to extend credit.
- The owner receives all the profit of the business.

Disadvantages of Sole Proprietors

- Has limited resources. Banks are reluctant to grant loans to single proprietorship considering its small assets and high mortality rate.
- Unlimited liability for business debts. The single owner is responsible for paying all debts and damages of their business.
- If the firm fails, creditors may force the sale of the proprietor's personal property as well as their business property to satisfy their claim.
- When the owner dies, the continuation of the business is difficult, because a new owner must typically accept all liabilities of the business.

b) Corporate Chains

Corporate chain are the multiple retail outlets under common ownership, usually with national coverage. When a chain is corporate owned, the parent corporation owns all of the stores or units. The corporation runs the day-to-day operations and the profits or losses of each unit belong to the corporation.

Benefits of Corporate-Owned Chain

A corporate-owned chain retains total control of each unit. It can set all policies and procedures in each unit. The corporation also retains all of the profits from each unit.

c) Franchising

Franchising is a business model in which many different owners share a single brand name. A parent company allows entrepreneurs to use the company's strategies and trademarks; in exchange, the franchisee pays an initial fee and royalties based on revenues. The parent company also provides the franchisee with support, including advertising and training, as part of the franchising agreement.

d) Leasing

Leasing is a process by which a firm can obtain the use of a certain fixed assets for which it must pay a series of contractual, periodic, tax deductible payments. There are two parties to leasing—***Lesser and Lessee.***

B) On the Basis of Merchandise Offering

Limited-Line Stores

It carry only one product with few related items. These can be identified by the names of the individual products they feature like food stores, shoe stores, furniture stores, hardware stores, and the like.

Single-Line Stores

Single-Line Store a retail store selling a wide assortment of goods in a basic line and Concentrate on one/few related product lines such as women's clothing, hardware, cosmetics etc.

General Merchandise Stores

General merchandise stores is a rural or small town store that carries a general line of merchandise. It carries a broad selection of merchandise, sometimes in a small space, where people from the town and surrounding rural areas come to purchase all their general goods. The store carries routine stock and obtains special orders from warehouses. Such as Macy's, Strawbridge & Clothier etc.

Super Markets Stores

A supermarket, a large form of the traditional grocery store, is a self-service shop offering a wide variety of food and household products, organized into aisles. It is larger in size and has a wider selection than a traditional grocery stores. The supermarket typically comprises meat, fresh produce, and dairy, and baked goods aisles, along with shelf space reserved for canned and packaged goods as well as for various non-food items such as kitchenware, household cleaners, pharmacy products and pet supplies.

Hypermarkets Store

Hypermarket is a superstore combining a supermarket and a department store. The result is an expansive retail facility carrying a wide range of products under one roof, including full groceries lines and general merchandise. In theory, hypermarkets allow customers to satisfy all their routine shopping needs in one trip.

Discount Stores

A discount store is a type of department store, which sells products at prices lower than those asked by traditional retail outlets. Most discount department stores offer a wide assortment of goods; others specialize in such merchandise as jewellery, electronic equipment, or electrical appliances. Discount stores are not variety stores, which sell goods at a single price-point Discount stores differs from variety stores as they sell many brand name products, and offers a wide price range of the products.

Off-Price Retailers

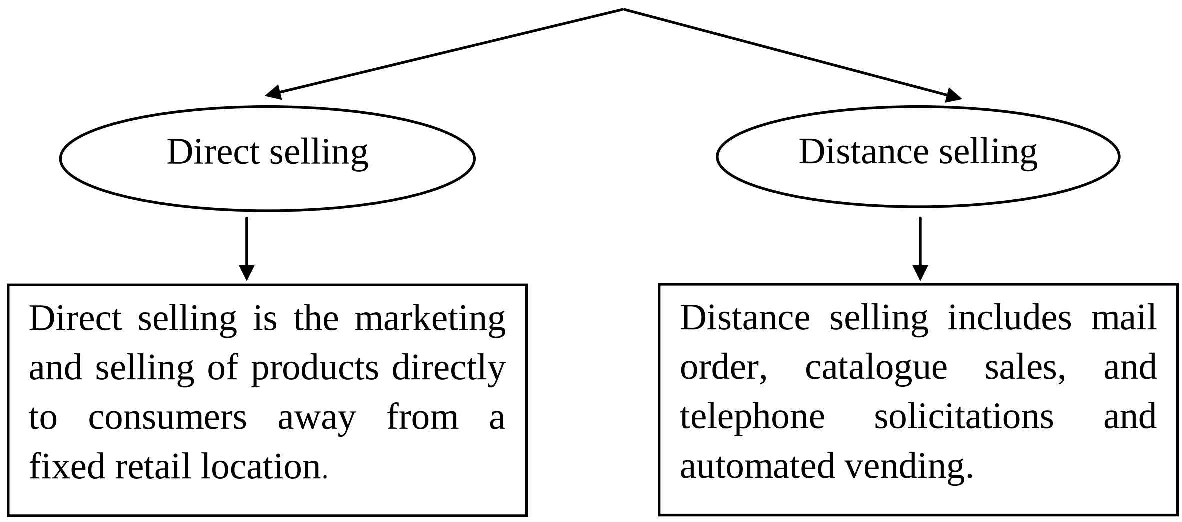
Off-Price Retailer are the retail store specialising in buying leading brand items in bulk for resale at discount prices. Retail stores offering merchandise at prices less than other retail stores. They acquire out-of-season products and distressed merchandise from other retailers, including bankruptcies, and from manufacturers having production over runs.

2) Non- Store Based Retailing

Non-store retailing is the selling of goods and services outside the confines of a retail facility. It is a generic term describing retailing taking place outside of shops and stores that is, off the premises of fixed retail locations and of markets stands. The non-store distribution channel can be divided into —-

- Direct selling
- Distance selling

Non- Store Based Retailing



3) Service Retailing

It includes bank, Car selling, Service Contract and others.

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Lesson 4.4 - Motives of International Retailing

Internationalisation of Retail

Retailing is predominantly a domestic market activity. The total business of the vast majority of retailers is done within one particular country and in many cases, within one specific region or district. Consequently, when compared to other sectors, the proportion of foreign assets to total assets within retailing is low. As such, it has been noted that international retailing is still a minority activity for the majority of retailers. Internationalization of retailing is a process, not a series of events.

It a complex process that has changed in recent years. It has become more widespread. The internationalization process has an increasing influence on corporate strategies and has extended its effect on development of retail sector. Prior to the 1980s, retailing was essentially a localized, domestic industry and thus retail operations were long considered poor candidates for international expansion.

However, for the past two decades, retailers in mature markets have expanded their operations into overseas markets as a means for strategic growth. Retailers from Europe, the United States, and Japan are now breaking into the developing markets of Asia, Eastern Europe, and South America as the next step of their retail format expansion.

A number of U.S.-based retail giants, including Wal-Mart, Sears, Gap, and Home Depot, have entered the international markets in recent years. The most perfunctorily review of the structure of the retailing sector indicates that an increasing number of retailers no longer confine their trading activities to the home market. For example, fashion retailers, such as The Gap, Gucci, Escada, Ralph Lauren, H&M, Benetton, Mango and Zara have recognised the international appeal of their brand image, product ranges, and merchandising methods and have sought to exploit these advantages through the development of extensive international store networks.

For many of these fashion retailers, their international performance has been impressive in terms of the speed of their expansions, the breadth of their foreign market coverage and the contribution of foreign sales to their total sales income levels. Furthermore, many of these retailers have become household names on a global scale and this is a further testament to the depth of their international success. However, by virtue of the fragmented nature of the ownership characteristics of fashion retailing, both domestically and internationally, the international sales of each of the leading participants is relatively insignificant in the grand scheme of international fashion expenditure and none of them currently have the capability to disrupt the structure of any significant foreign market in Europe or elsewhere. For example, one of the world's best recognised and most prolific brands, Ralph Lauren, reported sales for the period 2002/2003 of $2.4 billion, of which just over $520 million (21 per cent) was derived from foreign markets.

Showing Different Notable International Retailers

International Retailers	Country
Wal-Mart	USA
Carrefour	France
Ahold	The Netherlands
Kroger	USA
Metro	Germany
Albertson's	USA
Kmart	USA
Tesco	UK
Safeway	USA
Rewe	Germany

Source: Retail Planet

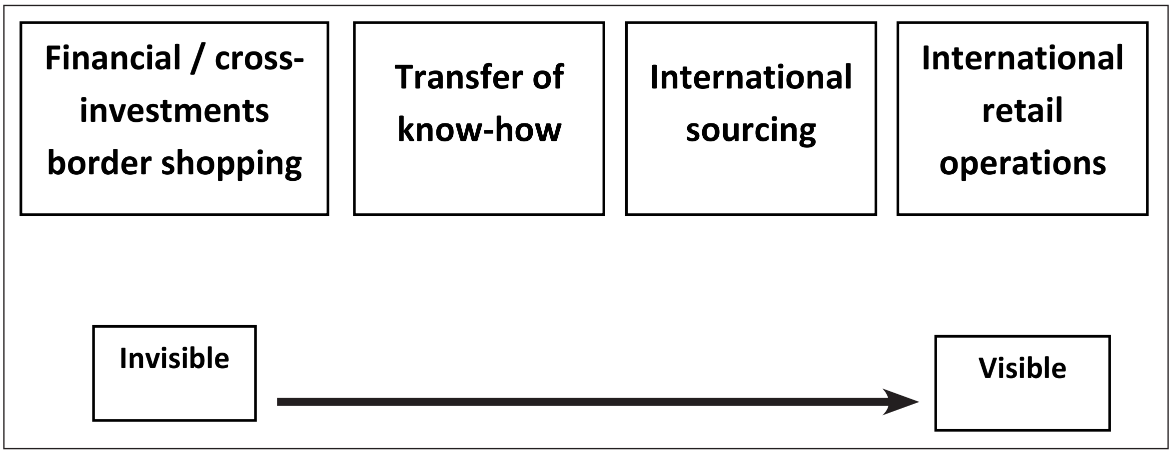
Motives for Internationalisation of Retail

The motives for internationalisation of retail have been studied through several surveys in several studies. It is necessary to measure the situation of the firm both internally and within the environment of its home market. It is necessary to identify the following—

- What constitute sufficient condition?
- What are triggers to action?
- What constitute the discriminating success factors that underpin?

The trigger action will be within the firm and in the target country and needs to be align such that action are stimulated. There are unlikely that there are clear quantitative measures of these conditions but there are likely to be qualitative measures that related to the resources of firm.

Dimensions of Retail Internationalisation



Financial Investment and Cross- Border Shopping

The least apparent dimensions and the factors less obvious to external parties are those which relate to the internationalisation of financial investments. Examples of international investments include the acquisition of shares in a retail company based in one country by an investing institution (such as a pension fund) that is based in another market. Other inconspicuous examples of retail internationalisation include cross-border shopping, which is often motivated by a consumer's desire to acquire goods from an adjacent country that are perhaps scarce or more expensive within the home market. For example, the movement of day-shoppers from the UK to France in the search of less expensive, good quality wines, illustrates this invisible form of internationalisation in retailing.

Transfer of Know-How

A variety of studies have considered the transfer of retail know-how from one market to another. The most influential term is 'know-how' that is used to signify the 'business concepts, operating policies and techniques employed in a retail business in a given environmental setting' Furthermore, he identified two dimensions of retailer know-how: the managerial, which includes concepts, policies and systems, and the technical, which refers to matters related to location planning, visual merchandising, as well as buying and merchandising. The flow of know-how can be unplanned and may occur whenever a firm decides to replicate the practises of another company – perhaps a foreign retailer – without any formal collaboration with that retailer. Conversely, the flow of expertise can be planned, whereby 'there is a purposive transfer of an established technology or innovation from one country to another'. This flow of expertise may arise as a result of a franchise arrangement or as a consequence of a joint venture arrangement between the two firms.

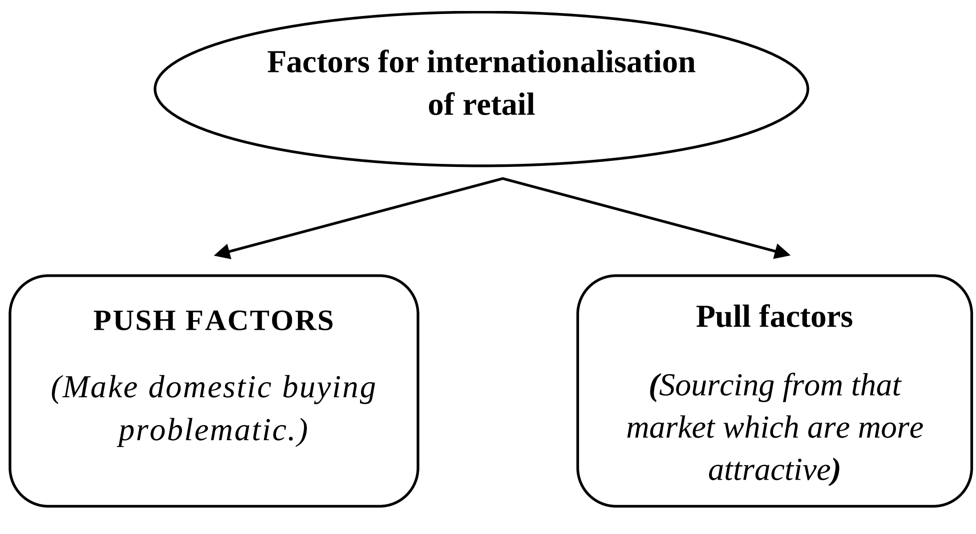
Internationalisation of Sourcing

The internationalisation of sourcing is the most common and widespread form of retail internationalisation. Often driven by the globalisation of manufacturer brands and/or the desire tosource cheaper, but better value products from foreign markets, retailers are increasingly sourcing goods and services from markets other than the home market. For example, since the late 1990s, the British retailer Marks and Spencer has radically altered their sourcing strategy. While in the past, Marks and Spencer extensively promoted the fact that the vast majority of their clothing ranges were manufactured in the UK, increased price competitionin the clothing sector, as well as escalating manufacturing costs has meant that the majority of Marks and Spencer's clothing ranges are now manufactured outside the UK.

International Retail Operations

The internationalisation of operations can be described as 'the operation, by a single firm, of shops or other form of retail distribution, in more than one country'. There are a number of important issues which surround the internationalisation of stores, such as the internationalising retailer having to face cultural differences in terms of consumer, employee and general business practices.

Factors to the Retail Internationalization



1) Push Factors

Push factors relate to those features of the home market that serve to make domestic buying problematic and less viable. Push factors are –

- Perceived /Imminent saturation in domestic market.
- Spreading of risk
- Consolidation of buying power
- Public policy constraints
- Economic conditions
- Maturity of format

2) Pull Factors

Pull factors are those features of the foreign market that make sourcing from that market which are more attractive, such as —

- Unexploited Markets
- Pre-emption of rivals
- Higher profit potential
- Consumer market segments not yet exploited
- Access to new management
- Reaction to manufacturer internationalisation
- Following existing customers abroad

Reasons for Internationalisation of Retail:

There are some broad facilitating factors for the retail internationalisation as follows –

- Use of surplus capital/access to cheaper sources of capital
- Entrepreneurial vision
- Inducements from suppliers to enter new markets

Self Assessment Questions

1. Do we have a strategic architecture which employees understand?
2. a) Are we constrained by resources but not lacking in ambition?

   b) Are our managers determined to make the best use of the limited resources?
3. Do we have a collaborative culture, as opposed to a highly competitive culture which pits one employee against another?

4. Do we have the flexibility to respond to the changes in the environment?
5. How good are our communication skills?
6. Do we encourage group learning?
7. Will we allow managers to put in long stints in the alliance and provide a degree of stability?
8. Are we prepared to pay constant attention and respond suitably to potential problems which may crop up in the alliance?
9. What is Internalisation of Retail ? Explain its facets.
10. What are the dimensions of retail?
11. What are different kind of retailers? Name top ten international retailers.
12. What are the top trends in international retailing?
13. Who are Millennials in international retail?
14. What is store based retailing? Explain with suitable example.
15. What is hypermarket? Explain with live example in the market situation.
16. Why retailers internationalize?
17. Who are the international retailers?
18. What are the factors for retail international?

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UNIT - V

Unit Structure

Lesson 5.1 - Evolution of Retailing

Lesson 5.1 - Evolution of Retailing

Evolution of Retail

(Late 1800's – The creation of the Department Store)

The late 1800's saw the creation of many department stores, including Macy's, Bloomingdale's, Marshall Field's, Hudson's, and Wanamaker's. Wanamaker has been credited with creating price tags, the first in-store restaurant, and the first retailer to use newspaper advertising.

In 1846, A.T. Stewart opened the first department store at 280 Broadway in NYC. Also known as the 'Marble Palace', the building has been designated a National Historic Landmark. Photo: Ralph Selitzer, DCAS

1846 - Alexander Stewart built the largest retail store in the world at that time, in New York City, and the building's design was highly influential in the style and design of the department stores that would be built in the following years.

1858 – R.H. Macy & Co. opened in New York City. The original Macy's was opened in Massachusetts in 1851, but was unsuccessful. The Macy's flagship Herald Square location opened in 1902 and is advertised as "the world's largest store".

1879 – The cash register was invented by James Ritty, and patented in 1883. The following year, NCR was founded and saw the introduction of a paper roll to record sales transactions, thereby creating the receipt. By 1910, almost every store had a cash register and were becoming a necessity for most retailers.

Mail-Order Businesses

At the turn of the century, retailing was dominated by the mail-order business. The Homestead Act of 1862 allowed catalogs to be shipped at a postage rate of one cent per pound to aid the westward expansion.

In 1896, the advent of rural free delivery made the mail-order business quite economical.

1872 - Montgomery Ward sent out their first mail-order catalog consisting of a single sheet of paper with a price list.

1888 – Richard Sears sent out a printed mailer to advertise watches and jewellery.

1894 -The Sears, Roebuck and Co. catalog was introduced with 322 pages, and in the following year the company produced a 532 page catalog. Starting in 1896, a spring and fall catalog were issued.

1900 – 1945: The Beginning of the Modern Retailing Era

The department stores in the major American cities were thriving and became the shopping destination for affluent American consumers. As automobiles became more commonplace, shopping centres were starting to be built all over the U.S. to meet the growing needs of the 20th century shopper.

J.C. Nichols purchased 55 acres of land at a cost of over $1 million to be able to build the Country Club Plaza, the first shopping mall in the U.S. Photo: Highwoods Properties Inc.

1902 – James Cash Penney joins a partnership for the Golden Rule store that would be the first store for JC Penney. By 1924, JC Penney had expanded to 500 stores and opened their 1,000th store in 1928.

1915 – The first supermarket, Upham's Corner Market Co. is founded in Dorchester, Massachusetts

1923 – The first shopping mall, the Country Club Plaza opens near Kansas City, Missouri. The mall still exists and has the longest life of any planned shopping center in the world. The oldest store to remain is Jack Henry which opened in 1931.

1928 – The Grandview Avenue Shopping Center in Grandview Heights, Ohio was the first shopping center to integrate parking into the design of the mall

1936 – Sylvan Goldman, the partial owner of the Piggly-Wiggly chain of grocery stores invented the first shopping cart by adding two wire baskets and wheels to a folding chair. It was not until 1946, that the telescoping shopping cart was invented, creating the cart design we use today.

1945 – 1975: 'Baby Boomers' Create Retail 'Boom'

Following World War II, the 'baby boom' era caused an expansion in retail as retailers tried to keep up with the increasing demand of consumers. Improvements in infrastructure created major new highways and large shopping centers were built across the United States.

The introduction of credit cards increased consumer spending and television advertising created a new way for retailers to connect with consumers.

The Diners Club card may have been the first credit card, but the BankAmericard and the Interbank Card group were the first credit cards to gain wide acceptance.

1946 – The rapid creation of suburban malls, starting with shopping centers in Bellevue, Washington and in Sacramento, California.

1956 – Southdale, the first regional-sized enclosed shopping mall opens in Edina, Minnesota (The first enclosed mall, the Valley Fair Shopping Center opened in Wisconsin a year earlier).

1958 – Bank of America launches its BankAmericard credit card program. The program would later be merged with various international networks and would become known as Visa in 1976.

1959 – The first ATM was installed at the Kingsdale Shopping Center in Upper Arlington, Ohio.

1962 – The Year that Changed Retail

The launch of the 'discount store' – Target, Wal-Mart, Kmart, and Woolco open their first stores

- The first Target store opened in Roseville, Minnesota. Target began as a division of the Dayton Hudson Corporation, founded in 1902 and was renamed the Target Corporation in 2000. In 2013, Target expanded to Canada, opening 135 stores.

- Wal-Mart stores opened their first store under the name Walmart Discount City. Sam Walton had previously owned a Ben Franklin franchise, including the Walton's Five and Dime in Bentonville where he focused on selling at low prices and selling at a higher volume. Within five years the company had expanded to 24 stores.

1966 – Creation of the debit card by the Bank of Delaware. By the 1970"s, several banks were piloting similar programs. Debit card usage became more prominent in the 1980s as ATMs were being installed.

1974 – The first use of the Uniform Product Code (UPC) bar code, and the bar code scanners to read them. Although, the bar code was patented in 1952, bar codes were not used commercially until 1966, and it was not until 1973 that the UPC was invented. The first product to include a UPC code was a packet of Wrigley's gum.

1975 – 2000 – Rise of the Big Box Stores

Big Box stores emerged onto the retail market providing an extensive assortment of one category of goods. Everything from electronics to sporting goods to office supplies, these stores would dominate their respective categories. Walmart became the market leader, and together with the rise of the big box stores, started the decline of the department store.

1981 – West Edmonton Mall opens in Edmonton, Alberta in Canada with over 800 stores and an amusement park, starting the creation of megamalls

1983 - Costco Wholesale Corporation formed and the first location opened in Seattle. Costco became the first company to reach $3 billion in sales in less than 6 years of operation.

1990 – Walmart officially becomes the world's largest retailer with sales of $32.6 billion. 2 years earlier, Walmart launched its supercenters, creating their rapid growth in sales.

1992 – Mall of America opens in Bloomingdale, Minnesota. With 520+ stores and 40 million visitors annually, the Mall of America is the most visited shopping center.

1995 – The world's largest online retailer, Amazon.com went online. The company started out as a online bookstore and issued its IPO on May 15, 1997. Amazon did not produce a profit until the fourth quarter of 2001 on revenues of $1 billion. Since then sales have skyrocketed, with sales in 2012 exceeding $61 billion, up from $48 billion in the previous year.

2000 – Present: E-tailing vs. 'brick and mortar' retailers

The launch of the 'World Wide Web' in 1991, created the next revolution in retail, with the introduction of online retailing. With a growth of five times the rate of traditional retailing, online retailing has forced most retailers to adapt their business models and create online and mobile sites in order to stay competitive. Social media and technological advancements have enabled retailers to connect with consumers in ways that were not available a few years ago. The inability to adapt, caused the collapse of many established retailers.

2000 – Confinity and X.com merge to form PayPal, and in 2002 became a subsidiary of eBay. In 2008, PayPal's total payment volume reached $60 billion and as of 2012 has reached $145 billion.

2001 – Apple opens their first retail stores. Apple sets the new standard for the retail store, doubling the sales per square foot of the next highest retailer. In 2013, Apple has grown to over 400 stores worldwide and has 250 stores in the U.S.

2003 – Sales at big-box stores surpass department store sale in the U.S. for the first time.

2005 – Federated Department Stores (Macy's) acquires May Department Stores for $11 billion. The acquisition created the second largest department store chain in the U.S. with annual sales of over $30 billion and over 1,000 stores.

2006 – Facebook opens up to the public. By 2007, Facebook had 100,000 business pages with plans to add company pages to the website, starting the usage of social media for many retailers.

2007 – CompUSA announces closing and liquidation of 126 stores.

2008 – Apple and iTunes becomes the largest music retailer passing Walmart and Best Buy in sales

2008 – Joining the list of companies that failed, Linens 'N Things, Mervyn's, and Circuit City file for bankruptcy protection.

2009 – Debit card usage hits 37.6 billion transactions.

2010 – There were 19 retail bankruptcies including Blockbuster Inc., although much less than the 32 bankruptcies in 2009.

2010 – Starbucks hits 10 million fans on Facebook. As of 2013, Starbucks has topped 30 million likes and has been widely recognized for their usage of social media to improve their sales.

2011 – Zara launches their U.S. e-commerce site. The largest global retailer was also recognized as International Retailer of the Year by the World Retail Congress.

2012 – Online retail sales surpass 5% of the total of the retail industry's sales

As interesting as the history of retail is, the future of retail with mobile apps, interactive displays, and an increased integration of technology will be so much more exciting. The way consumers shop is changing, and many retailers that are successful today will not be in a few years if they do not adapt to the advancements in retailing.

Methods of International Retailing

As the global economy continues to stumble, retailers are struggling to achieve growth domestically. While there are pockets of opportunity, many retail sectors in the United States are saturated and not expected to grow much, if at all. Growth may be heavily dependent on winning share from competitors, typically a taxing effort. Consequently, many retailers are looking beyond their borders for potential growth. Foreign markets offer attractive growth rates fuelled by burgeoning middle classes, lower competitive intensity, and greater pricing flexibility. Additionally, a global presence may help retailers lessen their risk exposure to an economic downturn in any one market.

The growing focus on retailing as a process rather than an activity, and upon the organisation and management of value chain activities as a framework for understanding retail internationalisation is no different. At a macro level, the value chain approach emphasises differences in retail contexts which influence how activities and behaviours are shaped throughout the value chain. In the search for order and simplification we may, however, ignore significant variations in behaviour and outcomes.

Some of the biggest historical barriers to entering foreign markets have eroded. Many foreign governments have opened their countries to outside investment. Technological advances have revolutionized consumers' and companies' ability to communicate and share information. Similarly, enhancements in infrastructure around the world have made producing and transporting goods considerably more feasible.

However, entering new countries is not as simple as signing a lease and opening the doors. Market entry requires careful consideration of external risks and internal parameters in order to understand market dynamics, requisite competencies, and financial implications. There is no "one size fits all" model. Based on these considerations, retailers should select a method of entry that balances two critical but often conflicting interests: speed and control.

Each of these methods presents trade-offs between speed and control. International expansion typically entails an inverse relationship between speed and control — the faster a company wants to expand, the less control the company can exercise, and conversely, the more control they want to retain, the slower expansion is likely to proceed.

At one end of the spectrum, franchising typically enables the fastest expansion, but often with less control. At the other extreme, owned expansion typically allows retailers to retain the most control, but usually at the slowest pace. In the middle of the continuum, franchising may offer the most significant flexibility, and joint venture permits a blended agreement.

Patterns and Processes in Retail Internationalisation

There have been numerous attempts to classify retail internationalisation. The terminology used is, however, inconsistent and at times contradictory (Helferich et al 31997). Despite this, within the various frameworks proposed over the last two decades of research, two themes consistently emerge. First, the geographical spread of markets, related to the number of countries entered and the concepts of geographical and cultural distance. Secondly, the degree of responsiveness or adaptation to local market conditions, whether at the level of the firm, format or brand. These considerations have structured much of the study of retail internationalisation and attempts to codify patterns and processes.

Geographical Spread: Direction and Sequence

The geographical dimension of retail internationalisation is a common theme in the academic literature, typified by studies measuring who went where, when, and how. Studies have charted specific geographical flows (eg Kacker, 1985; Hamill and Crosbie, 1990; and Muniz-Martinez, 1998), or the activities of individual companies (eg Wrigley 1997a; 1997b; 2000; Laulajainen 1991a, 1991b). Geographical spread is typically measured by the number of markets in which a retailer operates. Attempts to explain these geographical patterns have led to explorations of related issues such as: the motives for internationalisation (e.g. Williams, 1991; Alexander 1990, 1995, Quinn 1999, and Vida 2000); the role and choice of entry mechanism (Burt 1991, 1995; Quinn 1998; Doherty 2000); and most recently patterns and explanations for divestment (Alexander and Quinn, 2002; Burt, Dawson and Sparks, 2003; 2004; Alexander, Quinn and Cairns, 2005).

Research into the patterns of retail internationalisation has suggested that companies move first into geographically or culturally close markets. As familiarity with international markets and the operational issues involved increases over time, they then move further afield into more culturally, often geographically, distant markets. This spreading pattern, based on the concept of psychic distance, mirrors the stages approach to internationalisation in the international and export marketing literature.

In a retail context, Treadgold (1990) proposed a three stage model of expansion in geographical presence over time. Retailers passed through stages of reluctance, caution and ambition, as they became more pro-active in their response to international market opportunities and experience curve effects influenced managerial perceptions of risk.

A link to the Uppsala school is also explicit in the work of Vida and Fairhurst (1998), who suggest that the decision to enter a market will be determined by a company's capacities (firm characteristics) and management perceptions (decision maker characteristics). As experience grows, retailers overcome these inhibitors and become more ambitious in their strategic outlook.

Although intuitively appealing, the concept of psychic distance is loosely defined and often lacks empirical support. Evans and Mavondo (2002) differentiate between distance and uncertainty, and suggest evidence of a psychic distance paradox, whereby performance is enhanced in more "distant" countries.

This builds on the observations of O'Grady and Lane (1996, 1997) who found that in the case of Canadian retailers operating in the USA, cultural "closeness" did not guarantee success. Despite this evidence base the concept of staged expansion related to cultural proximity is still widely advocated.

Market Entry: Managing Risk and Control

Broad strategic issues such as entry method, with its implications for cost and control, have also been integrated into existing frameworks. The choice of entry method is viewed as one way of minimising risk and overcoming perceptions of cultural distance. Treadgold (1988) used geographical presence (defined as concentrated, dispersed, multinational and global), and entry and operating strategy, (represented by levels of cost and control), to identify four types of international retailer: the cautious internationalists, who use high cost entry mechanisms (internal growth or acquisition) to expand in one or two markets; the emboldened internationalists, also with high cost entry mechanisms but operating in a wider spread of markets; the aggressive internationalists, who have high cost entry methods over a very wide spread of markets; and the world powers, characterised by low cost entry mechanisms (franchising) and a large international presence.

Method of Entry	**Definition**	**Illustrative models**
Franchising	An Agreement to allow a partner to operate stores under the retailers brand-Area Development	➢ Master Franchise ➢ Individual Franchise ➢ Hub and Spoke
Joint Venture	A shared ownership agreement with a partner agreement through a joint venture.	➢ Joint venture ➢ Franchise
Owned A company	Owned and Funded Expansion	➢ Acquisition ➢ Multichannel (e-commerce) ➢ Brand statement store ➢ Shop-in-shop ➢ Pop-up-shop

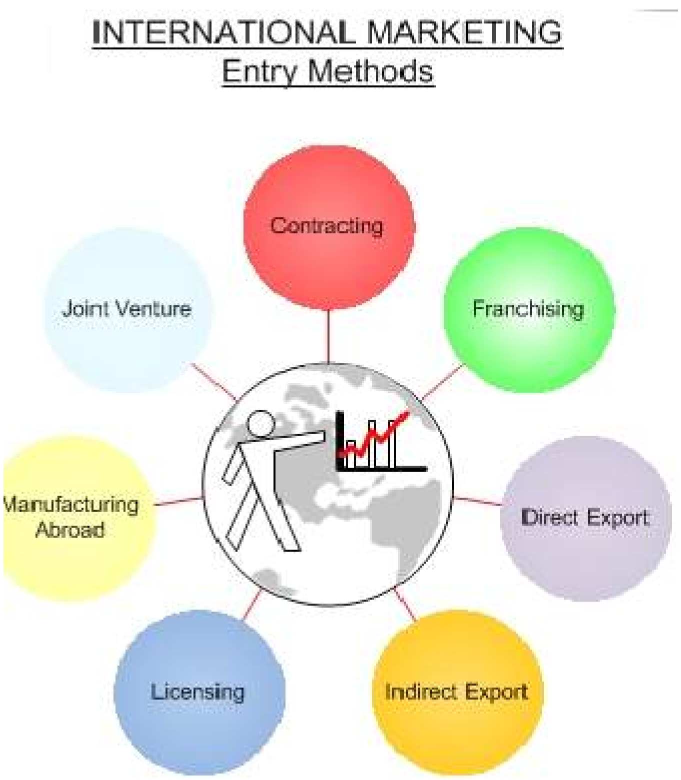
International Retailing industry being one of the most modern phenomenon, has been the subject of study by various academicians in Europe, US and in Asia. The entire community has put forth several theories supporting the reasons for Companies to set up International Retail operations.

In any international business, the market conditions in the foreign market as well as the political, economic and social environments and their stability happens to be the common factors that shape the expansion strategies of the Companies. In case of international retail business, there are several more complexities including local culture and outlook of people coupled with lifestyle as well as the existence of supplier network that plays an important role in the business plans.

While the international retail Companies choose to expand their operations across foreign markets, they do so as a part of their strategic growth plans. However the methodology adopted for making the entry into the market is dependent upon several factors including the strategy as well as the foreign market conditions as described above.

The retailer's internal expertise and management capability coupled with the amount of financial exposure that the Company wishes to have as well as the kind of control that the Company wishes to exert in the foreign operations decide the entry mode and strategy of International Retailer.

Methods of Market Entry for International Retailers



Methods of International Retailing

There are some methods of international retailing as follows-

- **Direct Export**

The organisation produces their product in their home market and then sells them to customers overseas.

- **Indirect Export**

The organisations sells their product to a third party who then sells it on within the foreign market.

- **Licensing**

License means to give official permission for the operation of business which is of critical nature and of great importance. So, this is another less risky market entry method is licensing. Here the Licensor will grant an organisation in the foreign market a license to produce the product, use the brand name etc. in return that they will receive a royalty payment. In particular; a license may be issued by authorities, to allow an activity that would otherwise be forbidden. It may require paying a fee and/or proving a capability. The requirement may also serve to keep the authorities informed on a type of activity, and to give them the opportunity to set conditions and limitations.

A licensor may grant a license under intellectual property laws to authorize a use (such as copying software or using a (patented) invention) to a licensee, sparing the licensee from a claim of infringement brought by the licensor. A license under intellectual property commonly has several components beyond the grant itself, including a term, territory, renewal provisions, and other limitations deemed vital to the licensor.

- **Franchising**

Franchising is another form of licensing. Here the organisation puts together a package of the 'successful' ingredients that made them a success in their home market and then franchise this package to overseas investors. The Franchise holder may help out by providing training and marketing the services or product. McDonalds is a popular example of a Franchising option for expanding in international markets.

This model of business has been the most favoured model with the majority of international fashion brands. Under this model, the International retailer engages a local business partner in the foreign market under franchise agreement. Under the said agreement the franchisee is provided with the foreign brand and the marketing formats and ideas for product, brand promotion and sales are guided as per the parent company. The success of the franchisee model is dependent upon the success in engaging the right partner who is interested in growing the business and is able to project the brand as desired as well as the relationship management between the two entities.

- **Contracting**

Another of form on market entry in an overseas market which involves the exchange of ideas is contracting. The manufacturer of the product will contract out the production of the product to another organisation to produce the product on their behalf. Clearly contracting out saves the organisation exporting to the foreign market.

- **Manufacturing Abroad**

The ultimate decision to sell abroad is the decision to establish a manufacturing plant in the host country. The government of the host country may give the organisation some form of tax advantage because they wish to attract inward investment to help create employment for their economy.

- **Joint Venture**

To share the risk of market entry into a foreign market, two organisations may come together to form a company to operate in the host country. The two companies may share knowledge and expertise to assist them in the development of company, of course profits will have to be shared between the two firms.

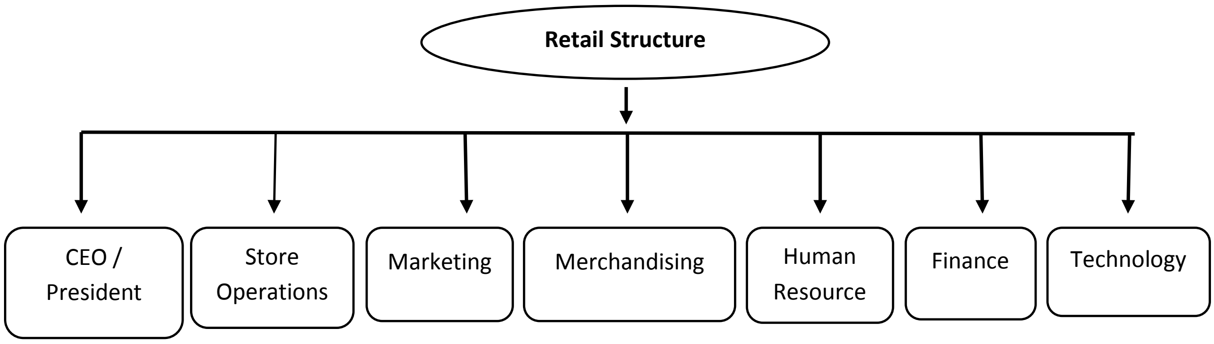
In markets where there exist suitable trade partners who are established and made a mark for themselves, the International Retailer might choose to enter into a Joint venture which works in both the parties favour. The foreign brand is able to access and leverage on the local companies presence and reputation while the local company is able to expand its business and product portfolio based on the brand name of the foreign brand. The nature of JVs varies from case to case.

The long term success of this format is dependent upon the relationship of the two parties as well as the business objectives and vision and financial strength of both the parties. Successful JVs are far and few and in most cases after a few years in business the partners tend to grow apart and end their JV for various reasons.

Retail Structure

The organizational structure of a retail will vary by the size and type of the business. Most tasks involved with operating a retail business will be the same. However, small or independent retail stores may combine many sectors together under one division, while larger stores create various divisions for each particular function along with many layers of management.

For example, the small specialty shop may have all of its employees under one category called Store Operations. A large department store may have a complete staff consisting of a manager, assistant manager and sales associates for its Sporting Goods department, Home and Garden, Bed and Bath, and each additional department.



Source: http://retail.about.com/od/staffingyourstore/a/organization

Chief Executive Officer

A chief executive officer (CEO) is the highest-ranking corporate officer (executive) or administrator in charge of total management of an organization.

Store Operations

Store Operations examines the issues and challenges facing today's store operators. From workforce management to merchandising and new store openings, this section is designed to help retailers improve the bottom line while holding the line on costs.

E.g. Cashier, Sales, Receiving, Loss Prevention

- **Marketing**

Marketing is the process of creating, communicating and delivering value to customers through Visual Displays, Public Relations, and Promotions.

- **Merchandising**

Merchandising the activity of promoting the sale of goods, especially by their presentation in retail outlets.

- **Human Relations**

It is the relations with or between people, particularly the treatment of people in a professional context.

- **Finance**

It is the sources of funds and allocation of funds by the retailer. It involves Accounting, Credit etc.

- **Technology**

Technology is the making, modification, usage in existing resources.

Market Concentration

Meaning of Market Concentration

Market concentration means extent or degree to which a relatively small number of firms account for a relatively large percentage of the market. It is related to economic and business situations, market concentration has to do with the number of firms that account for the total production within a given industry. Sometimes referred to as industrial concentration, the idea is to identify how many firms account for the majority of the product that is produced within a given market, and whether there is room for new firms to compete within that market.

Alternative Definition

Market concentration is a criterion that can be used to rank order various distributions of firms' shares of the total production (alternatively, total capacity or total reserves) in a market.

Example of Market concentration — A Case of Toyota

Toyota has had exceptional success with this strategy because of its brand name that reminds people of reliability. Toyota began its hybrid market share 10 years ago with Prius as its first vehicle (in 2000). Ever since then, it began expanding its selection of hybrid vehicles by including the Toyota Camry (America's top selling mid-size sedan), and the Toyota Highlander. By introducing a selection of different hybrid vehicles, Toyota was able to capture more customers, thus making it the World leading Hybrid System. Customers have a lot of discretion in choosing their vehicle preference. Whether they prefer a small size efficient vehicle (the Prius), or America's favourite mid-size sedan (the Camry), or even the Hybrid SUV (the Highlander); it caught many consumers thinking about TOYOTA.

Assessing Market Concentration

One of the more common way for assessing market concentration is the **Herfindahl-Hirschman Index**, which can help determine dominance in a market by one or a select few of the firms operating in that market. With the Herfindahl-Hirschman Index, the process for determining market concentration involves looking at the performance of the top four contributing firms, and how much of the market share those four firms currently control.

At the same time, this approach also considers the amount of market share held by all remaining firms in the market. In situations where the four top firms control an overwhelming percentage of the market, then the concentration is said to be high. Should the top four account for less than half the market, then the rate of concentration is said to be low.

What is Herfindahl-Hirschman Index?

A commonly accepted measure of market concentration. It is calculated by squaring the market share of each firm competing in a market, and then summing the resulting numbers. The HHI number can range from close to zero to 10,000. The HHI is expressed as:

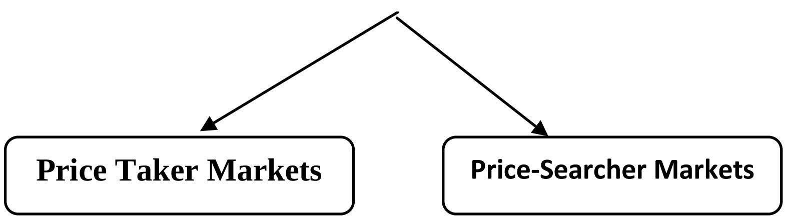
$$HHI = s1^2 + s2^2 + s3^2 + \dots + Sn^2$$

(Where Sn is the market share of the ith firm).

The closer a market is to being a monopoly, the higher the market's concentration (and the lower its competition).

If, for example, there were only one firm in an industry, that firm would have 100% market share, and the HHI would equal 10,000 (100^2), indicating a monopoly. Or, if there were thousands of firms competing, each would have nearly 0% market share, and the HHI would be close to zero, indicating nearly perfect competition.

Types of concentration market



Price Taker Market

A purely competitive (price taker) market exists when the following conditions occur –

- ***Low Entry and Exit Barriers***

  There are no restraints on firms entering or exiting the market.

- ***Homogeneity of Products***

  Buyers can purchase the good from any seller and receive the same good

- ***Perfect Knowledge***

  Knowledge about product quality, price and cost.

- ***No single Buyer or Seller***

  Buyer or seller is large enough to influence the market price.

- ***Price-Searcher Markets***

  A price searcher market is a market where the seller influences the price of the product by the number of units he sells. Price searchers can either raise or lower their prices in the market because they sell differentiated products.

Organic Growth

Meaning of Organic Growth

Organic Growth means Expansion of a firm's operations from its own (internally generated) resources, without resorting to borrowing or acquisition of other firms.

Perspectives of Organic Growth in Retailing

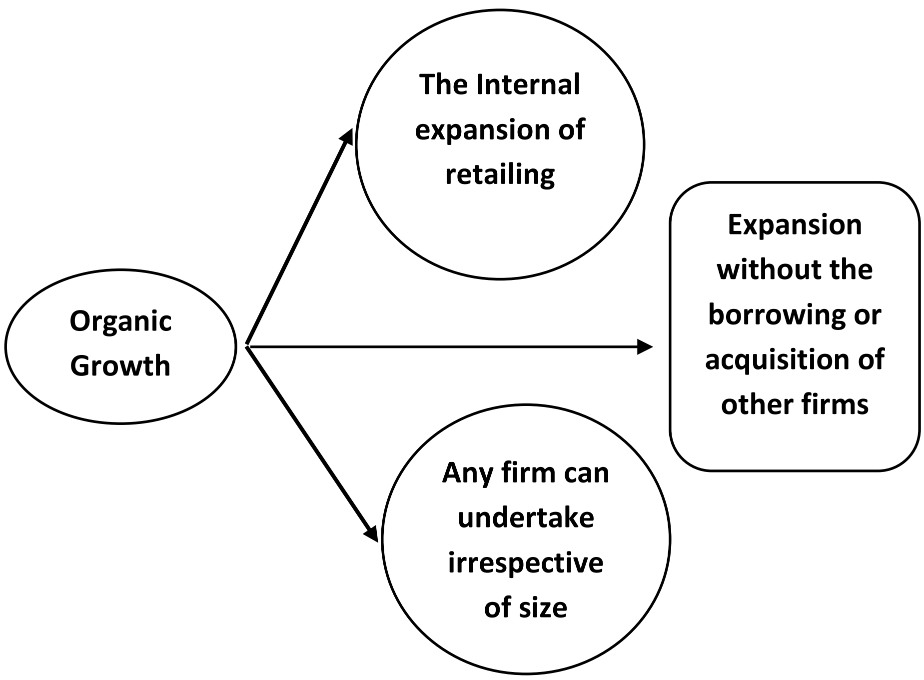
When retailers consider international expansion, they are faced with N numbers of opinion for their market entry and organic growth is one of them among the many. Organic growth is the process of business expansion due to increase in the overall customer base. It comes from a company's existing businesses, as opposed to growth that comes from acquiring new businesses. Organic growth is the process of business expansion due to increasing overall customer base, increased output per customer or representative, new sales, or any combination of the above, as opposed to mergers and acquisitions, which are examples of inorganic growth. Typically, the organic growth rate also excludes the impact of foreign exchange. Growth including foreign exchange, but excluding divestitures and acquisitions, is often referred to as core growth.

Organic growth does include growth over a period that results from investment in businesses the company owned at the beginning of the period. What it excludes is the boost to growth from acquisitions, and the decline from sales and closures of whole businesses. Contrary to common belief, organic growth has little to nothing to do with organic material or produce. It is simply one of the way of expansion in international retailing. Organic growth reflects long-term commitment and, when supported by a variety of formats, it helps the firm get bigger, become a more forceful competitor, and achieve adequate profit levels.

The president of Wal-Mart International, a subsidiary of Wal-Mart, which is ranked as the largest retailer in the world (Deloitte, 2007), have said that "we have very aggressive organic growth plans at Wal-Mart international".

Also, the chairman of the French conglomerate company Pinault-Printemps-Redoute have stated that the firm would concentrate on organic growth (Pinault, 2005, cited in Murphy, 2005).

Moreover, attempting to explain why year-over-year sales growth for the top 10 retailers on Ernest & Young's list of the 100 Largest Retailers in the World Ranked by Sales was 10%, compared with 14.8% for the remaining 90 retailers, McIntosh et al. (2005) opine that smaller retailers are better at identifying and executing growth strategies, which usually involve some combination of organic growth, acquisitions and innovation.



Retail Positioning

Concept of Positioning

Positioning is a concept in marketing which was first introduced by Jack Trout ("Industrial Marketing" Magazine- June/1969) and then popularized by Al Ries and Jack Trout in their bestseller book "Positioning - The Battle for Your Mind." (McGraw-Hill 1981). This differs slightly from the context in which the term was first published in 1969 by Jack Trout in the paper "Positioning" is a game people play in today's me-too market place" in the publication Industrial Marketing, in which the case is made that the typical consumer is overwhelmed with unwanted advertising, and has a natural tendency to discard all information that does not immediately find a comfortable (and empty) slot in the consumers mind. It was then expanded into their ground-breaking first book, "Positioning: The Battle for Your Mind," in which they define Positioning as "an organized system for finding a window in the mind.

It is based on the concept that communication can only take place at the right time and under the right circumstances". Positioning is about how you differentiate your product or service in the mind of your prospect. The rapid growth of communication methods has given us a new disease: Information Overload Syndrome. In today's over communicated society, to be successful, you must touch base with reality. And the only reality that counts is what's already in the prospect's mind. In the communication jungle out there, there are just too many products, too many companies, and too much marketing noise.

The mind, as a defence against the huge volume of today's communications, screens and rejects much of the information it offered. The only hope to score big is to be selective, to concentrate on narrow targets, to practice segmentation in a word, "positioning". The basic approach of positioning is not to create something new and different, but to manipulate what's already up in your prospect's mind, to retie the connection that already exist. The advertising people spend their time and research money looking for positions, or holes, in the marketplace.

What most will agree on is that Positioning is something (perception) that happens in the minds of the target market. It is the aggregate perception the market has of a particular company, product or service in relation to their perceptions of the competitors in the same category.

It will happen whether or not a company's management is proactive, reactive or passive about the on-going process of evolving a position. But a company can positively influence the perceptions through enlightened strategic actions. A company, a product or a brand must have positioning concept in order to survive in the competitive marketplace. Many individuals confuse a core idea concept with a positioning concept.

A Core Idea Concept simply describes the product or service. Its purpose is merely to determine whether the idea has any interest to the end buyer. In contrast, a Positioning Concept attempts to sell the benefits of the product or service to a potential buyer.

The positioning concepts focus on the rational or emotional benefits that buyer will receive or feel by using the product/service. A successful positioning concept must be developed and qualified before a "positioning statement" can be created. The positioning concept is shared with the target audience for feedback and optimization

Positioning Process

Positioning process involves -

- Defining the market in which the product or brand will compete (who the relevant buyers are)
- Identifying the attributes (also called dimensions) that define the product 'space'
- Collecting information from a sample of customers about their perceptions of each product on the relevant attributes
- Determine each product's share of mind
- Determine each product's current location in the product space
- Determine the target market's preferred combination of attributes (referred to as an ideal vector)
- Examine the fit between the product and the market

Retail Positioning

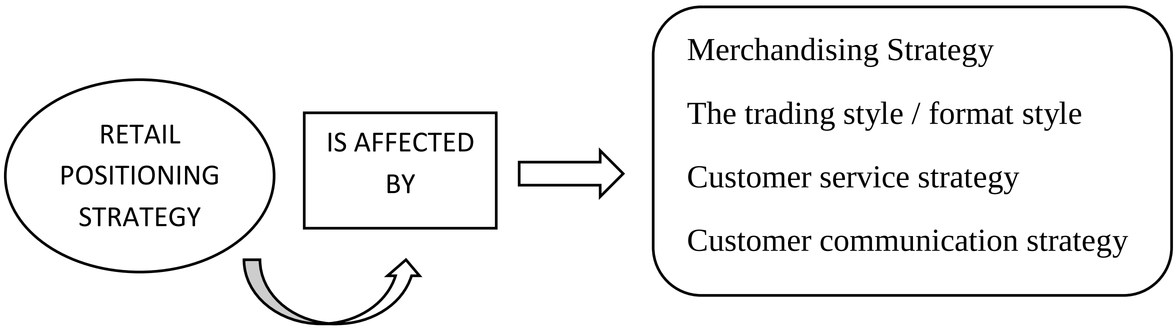
Retail positioning aims to provide competitive advantage by differentiating the retailer from its competitors through a retail offering that appeals to and is readily identifiable by its specific target markets. Positioning starts with product, a piece of merchandise, a service, a company, an institution, or even a person. Positioning is not what is done to product but it is what is done in the mind of prospects.

The concept of positioning needs to look as from the perspective of environment that it operates in. it is about how the products are perceived in the market place of the competitors. In retail environment is constantly changing, thus the concept of positioning g is bound to change.

In the UK fashion sector, for example, the intense competition in the marketplace insures that price inevitably plays a part in the retail positioning of stores. Retail positioning strategy is an integrated activity, which comprises key management decision areas such as merchandising, store format and design, customer service dimension, and marketing communications. The overall strategy of firm largely affects the positioning strategy adopted by the retailer.

There are four main areas that effects the retail positioning strategy Merchandising Strategy

- The trading style / format style
- Customer service strategy
- Customer communication strategy



- **Merchandising Strategy**

Merchandising strategies are a valuable component of any retailer's success, but a "one size fits all" approach will not work in today's competitive environment. Strategies should vary by category and sometimes by segment depending on the overall objective for the brand, category and retailer. Each strategy should be carefully crafted to target a specific objective such as increasing foot traffic, inviting new customers to try your brand, developing loyal committed customers or increasing sales.

Developing and managing merchandising strategies should be a collaborative effort shared between the retailer and the manufacturer. Manufacturers are the true experts in their brand's categories. A smart retailer should take full advantage of the manufacturer's knowledge and expertise to help grow the category and sales.

The category captain role is a key factor in a savvy retailer's success. This person is a trusted business partner and ally to the retailer. Together, the retailer and manufacturer can help satisfy a greater number of consumers, grow the category, increase consumer takeaway and beat the competition. Strategies include a variety of components: pricing, promotion, product placement, ad support, consumer education, etc. Together, the different components help achieve the retailer's goal.

There are seven strategies in this regard —

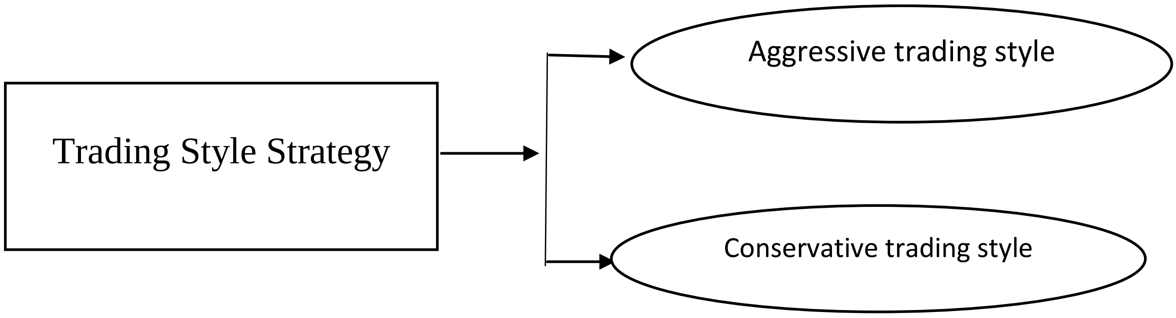
1. **Traffic Building:** High volume share, frequently purchased items, high percentage of sales. This strategy focuses on drawing consumer traffic into the store and/or into the target category.
2. **Transaction Building:** Higher ring/transaction size, impulse purchases. This strategy focuses on increasing the size of the average category transaction.
3. **Profit Generating:** Higher gross margin and higher turns. This strategy focuses on theability of the category to generate profits. Margins can be higher in this area due to the value added, higher-quality products in these categories.
4. **Cash Generating:** Higher turns, frequently purchased items. This strategy focuses on the ability of the category to generate incremental cash flow.
5. **Excitement Creating:** Impulse, lifestyle-oriented and seasonal items. This strategy communicates a sense of urgency or a limited-time sensitive opportunity to the consumer.
6. **Turf Defending:** Used by retailers to draw traditional consumers. This strategy focuses on aggressively positioning the category to appeal to the consumer by highlighting comparable items with key competitors. This strategy also focuses on keeping your existing customers happy and returning. Loyalty cards, aggressive pricing and promotion strategies, consumer education, high value coupons, etc. are all designed to help maintain a loyal customer base.

For example: Pacific Foods Organic Chicken Noodle Soup priced aggressively compared to target retailers.

Image Creating: Frequently purchased, highly promoted, impulse, unique and seasonal. This strategy communicates an image to the consumer in one of the following areas: price, service, quality, specialty items or assortment.

- **Trading Style / Format Style Strategy**

Trading or format style strategy has effect on the retrial positioning, as there are two types of trading style and the individual retailer if adopts any one it will have different effects on the positioning of the retail. There are two types of trading styles as follows-



The company selects its market positioning in response to the understanding the needs, desires and behavioural characteristics of the target consumers. Hence in nut shell retail positioning is designing and implementation of retail mix to create an image of retailers in the consumers' mind relative to the competitors.

- **Customer Service Strategy**

Customer service strategy effects the retail positioning strategy as it is the important part of any business plan. Since business relies on customer satisfaction, any good business should develop a strategy that not only draws in customers, but keeps them happy so they are not tempted to try out a competitor.

- **Customer Communication Strategy**

Communication is an integral part of the retailer's marketing strategy. Primarily, communication is used to inform the customers about the retailer, the merchandise and the services. It also serves as a tool for building the store image. Retail communication has moved on from the time when the retailer alone communicated with the consumers. Today, consumers can communicate or reach the organizations.

Examples of this include toll free numbers, which retailers provide for customer complaints and queries. Another example is the section called Contact Us on the websites of many companies. It is believed that every brand contact delivers an impression that can strengthen or weaken the customer view of the company. The retailer can use various platforms / channels for communication. The most common tools are:

- Advertising
- Sales Promotion
- Public Relations
- Personal Selling
- Direct Marketing

Cs of Retail Positioning

The successful positioning is based on four ***Cs***–

1) Clarity

The position must be clear to the target market by the way it communicated to the customer and in the way it offers a differential advantage.

2) Consistency

Consumers must get market communication which should not change year to year.

3) Credibility

The positioning must be credible to the target market especially when retailers are trying to change market positioning.

4) Competitiiveness

There are two factors that is important to retailers –

- They need to have a stylish image to distinguish the brand from the competitors.
- They need to have a reputation for the product quality which ids acknowledge by the consumers.

Retail Image

Retail image refers to the way in which the retailer is perceived by the public. The perception people have of the business when they hear company name. A business's image is composed of an infinite variety of facts, events, personal histories, advertising and goals that work together to make an impression on the public. It has become essential for retailers to develop, maintain, and communicate a compelling, positive image to foster and sustain competitive advantage. Retail Image is an independent product merchandising service offering a high quality resource for retailers, manufacturers and suppliers. Retail image can thus create a point of difference between one retailer and its major competitor or competitors.

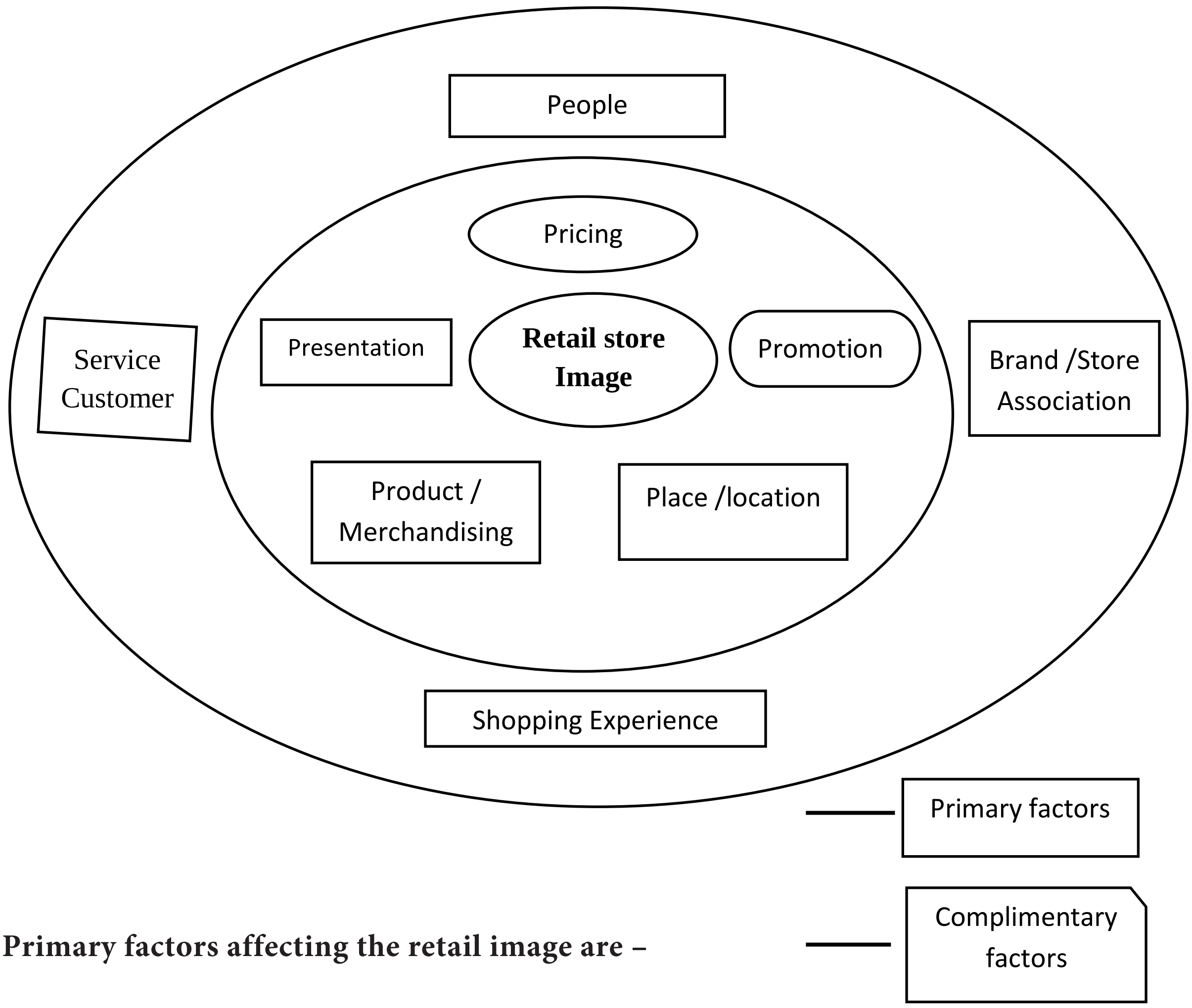
A good example of this is the way in which most grocery retailers during the late 1980s and early 1990s chose to trade through a single trading format, the superstore. This strategic choice was a major factor in developing and maintaining a clear image to the customer. It is, however, difficult to say precisely to what aspects of a retail structure retail image refers, and to what extent the retailer's store(s) feature in defining this image for the customer. As the store environment is the interface between the customer and the retailer, customers' perceptions are, by and large, based on what transpires in the store.

On the other hand, bad publicity and media reports that stem from outside the store environment create impressions of the retailer for existing and potential customers that read them (Newman and Cullen, 2002). One of the earliest definitions, specifically in relation to retail stores, was provided by Martineau (1958), who describes retailer image as: "*the way in which the store is defined in the shopper's mind*, partly by its functional qualities and partly by an aura of psychological attributes." This early store-focused definition illustrates that a customer's image of a retail store is made up of both functional (such as price and merchandise) and psychological (e.g., aesthetically pleasing and inviting or otherwise) attributes.

A complete definition of retail image must therefore include a wide variety of factors that guide target market perceptions, so it is possible for customers to mentally position the retailer's store in relation to other similar retail offerings. For example, where a retailer decides to locate is just as important as the internal fittings and fixtures employed to create an appealing shopping environment. Both of these strategic decisions must be aligned to the customer's mental image of the retailer. In another situation, the price of the goods sold in the store can be used to reinforce the retailer's image. This happens when the internal layout of a discount store gives the impression of low value-for-money prices. The retail image has to be created keeping the target audience in mind i.e. the kind of environment that they would like to shop in and the services they expect.

For Example, *the kind of ambience that would be there in the Switzerland watches store would be different as compared to an HMT store or Titan Store.*

Factors to Retail Image



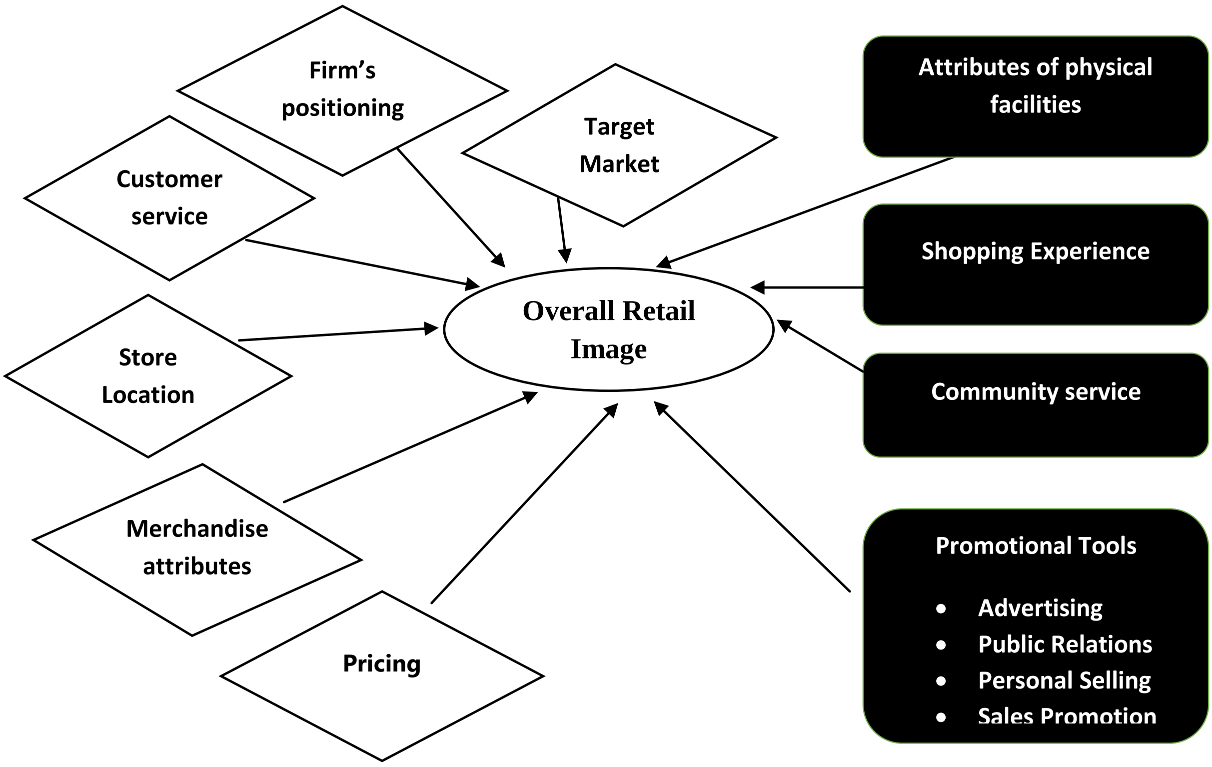
Primary factors affecting the retail image are –

- Product itself
- Merchandise features
- Location of the store
- Pricing of the products
- Promotion
- Manner presented to customer

Complimentary factors affecting retail image are –

- Shopping experience
- Store associations
- Brand associations
- People
- Customer Service

Elements of Retail Image:



Store Image

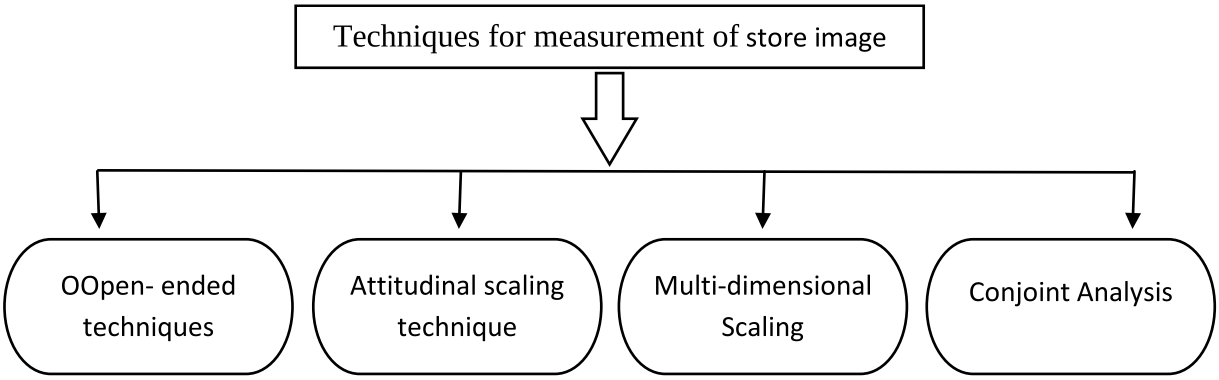
Meaning of Store Image

The customer's impression of a retail store or a department, i.e., products carried, advertising, promotion, decor, and service-level.

Store image is the image or impression of a store in the minds of customers. Good overall impression of this nature in terms of products available in the store, the store itself and the experience they expect when shopping at the store. So it can be said that the store image is actually a reflection of the overall customer to store environment. Store image has been identified as one of the most important marketing mix variable. Understanding store image is the complicated process is important for the retail managers.

Measurement of Store Image

Store image has been measured by several techniques such as open ended techniques, attitude scaling, multi- attribute scale, MDS, Conjoint analysis etc.



1) Open- Ended Techniques

Open-ended techniques are ones that require more than one word answers. The answers could come in the form of a list, a few sentences or something longer such as a speech, paragraph or essay. Open-ended questions require a response with more depth and a lengthier response. Open-ended questions are also helpful in finding out more about a person or a situation. The store image are measured through open ended questionnaire techniques.

2) Attitudinal Scaling Techniques

Attitudinal Scaling techniques are used to measure attitudes that are related to self-image and social acceptance (i.e. attitude functions). Attitudinal scale are of three types –

- Likert scale
- Thrustone Scale
- Guttman Scale

3) Multi-Dimensional Scaling

Multi-dimensional scaling is the series of the techniques that help the analyst to identify key dimensions underlying respondent's evaluation of objects. It is often use in marketing to identify key dimensions underlying customer evaluation of products at the retail store or of any company. Multidimensional scaling (MDS) is a means of visualizing the level of similarity of individual cases of a dataset. It refers to a set of related ordination techniques used in information visualization, in particular to display the information contained in a distance matrix. The goal of the analysis is to detect meaningful underlying dimensions that allow the researcher to explain observed similarities or dissimilarities (distances) between the investigated objects.

4) Conjoint Analysis

Conjoint analysis, also called multi-attribute compositional models or stated preference analysis, is a statistical technique that originated in mathematical psychology. Conjoint analysis is a statistical technique used in market research to determine how people value different features that make up an individual product or service. Conjoint analysis, also called multi-attribute compositional models or stated preference analysis, is a statistical technique that originated in mathematical psychology.

Today it is used in many of the social sciences and applied sciences including marketing, product management, and operations research. It is not to be confused with the theory of conjoint measurement. Conjoint analysis requires research participants to make a series of trade-offs. Analysis of these trade-offs will reveal the relative importance of component attributes. To improve the predictive ability of this analysis, research participants should be grouped into similar segments based on objectives, values and/or other factors.

The exercise can be administered to survey respondents in a number of different ways. Traditionally it is administered as a ranking exercise and sometimes as a rating exercise (where the respondent awards each trade-off scenario a score indicating appeal).In more recent years it has become common practice to present the trade-offs as a choice exercise (where the respondent simply chooses the most preferred alternative from a selection of competing alternatives - particularly common when simulating consumer choices) or as a constant sum allocation exercise (particularly common in pharmaceutical market research, where physicians indicate likely shares of prescribing, and each alternative in the trade-off is the description a real or hypothetical therapy). Analysis is traditionally carried out with some form of multiple regression, but more recently the use of hierarchical Bayesian analysis has become widespread, enabling fairly robust statistical models of individual respondent decision behaviour to be developed. When there are many attributes, experiments with Conjoint Analysis include problems of information overload that affect the validity of such experiments.

CASE STUDY

Customer service is the whole activity of identifying customer needs in all their complexity, satisfying them fully, and keeping them satisfied. Customers are people who buy products and services from other people (usually companies of one sort or another). This Case Study shows how Home base, one of this country’s best known retail chains, places customer service at the heart of its values, demonstrating practical examples of how customer service can be applied to the benefit of shoppers. Home base became part of Argos Retail Group (ARG) in November 2002. Home base is No.2 DIY retailer in the UK. It serves 1.5 million customers weekly in nearly 300 stores countrywide. For more than two decades, consumers - and businesses - have trusted Argos and Home base to provide consistently top-quality products at competitive prices.

Today, Home base offers more than DIY; it is a contemporary home and lifestyle store. Customers can choose from thousands of products. There is everything you would expect and more - for example, practical yet stylish furniture and exclusive, designer-led product lines such as the Linda Barker range of bed linen and wallpapers. The acquisition of Home base was an important step for ARG as part of an overall strategy of growing the business, including building up a bigger customer base through customer service

Self Assessment Questions

1. What do you understand by “Retail Positioning”?
2. Explain the factors that affect store image
3. Explain the techniques used for measurement of store image
4. Explain “Organic Growth”
5. Explain in detail the methods of market entry for International Retailer

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