

Arcor case essay



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Arcor: Global Strategy and Local Turbulence Globally the confectionary industry is a highly competitive industry and attractive in the emerging and developed markets. While North America and Western Europe accounted for over two-thirds of sales, the newer markets in less developed countries are still looked at as high profile targets by chocolate and candy companies.

Confectionary companies are looking to expand more into emerging markets because of the fact they believe the life cycle of their product has begun to mature and plateau in the developed countries, meaning there will be fierce competition and not as much market share, while they can go to emerging markets and flourish. For emerging markets the consumers are more price conscious because of there are many low income households in these budding countries, while the US and U. K. were more brand sensitive.

For these emerging markets the ingredients of the product were usually slightly less quality because the companies would be able to sell the chocolate or candy for cheaper. The chocolate industry is more concentrated than the candy market with the top four companies taking up 86% of the market share while the top four companies in candy only took up 17% of the market. Arcor was 13th on for worldwide confectionary sales. The confectionary industry has many constraints due to consumer's different tastes and preferences. Chocolate is described as an appealing snack for industrialized countries where it is a luxury for others.

The brand for chocolate is more important than it is for candy. This is because there are luxury chocolate manufacturers like Godiva while for candy it isn't looked at as a high quality good. For Americans their

preference for candy and chocolate is to have a saltier taste, while Mexicans want a spicier taste, and Europeans want a sweeter taste. In terms of suppliers the confectionary industry had traditionally long term contracts. For chocolate, inputs included milk, cocoa, and sugar and for candy it was sugar glucose and flavoring. Many supplies such as cocoa were very volatile and expensive while some were inexpensive.

As for production of confectionary, transporting raw materials such as milk was at a high cost. Therefore manufacturers located near their suppliers to cut costs. Since milk can be easily obtained it was possible for the companies to have multiple plant locations in most countries. The investment however for these plants was enormously expensive. A world-wide chocolate plant would require an investment of \$100 million or more. But a large chocolate plant could produce 60, 000 tons per year with highly automated heavy machinery, which would not involve labor intensive work, nor hard-to-find skills.

Channel and distribution centers in emerging markets were primarily supermarkets responsible for 55% of sales by value followed by convenience stores and independent retailers. While in Argentina, an emerging market, 70% of confectionary goods were bought in mom and pop shops or kiosks. Large manufacturers such as Nestle have exclusive distribution while smaller manufacturers carry various brands and distributors lack incentive to push one brand over the other. Regarding marketing, in developed markets depend heavily on advertising and second came price competition. Mars' annual global advertising was approximately \$400 million.

For many countries there are regulations and constraints on how to advertise a product, and therefore poses some issues on how to build brand awareness. As mentioned earlier, gaining a substantial share of the mature market is difficult and even gaining entry can be tough since distributors like to carry only well-known brands. For this industry it seems to be challenging for new entrants since but potentially profitable in the long haul. Given all the challenges Arcor face in foreign market expansion, Arcor needs to evaluate three major strategic options for the company to succeed.

These options are the localization, transnational, and international strategy. The localization strategy is to increase profitability by customizing goods or services so that they match tastes and preferences in different national markets. Since different areas have different preferences with chocolate and candy, Arcor could make products that appeal to the needs of a specific country and make a product more salty if in America or spicy in Mexico. This would make it easier for them to become more a more international company. But this strategy is very common because most of the top companies have been doing this for years.

The backlash of making different confectionary goods in different markets would be higher production and distribution costs since there would be a bigger variety of designs and components, shorter production runs and added inventory handling and logistic costs. The second potential strategy would be transnational strategy. This strategy tries to instantaneously achieve low cost through location economies, economies of scale, and learning efforts while at the same time, differentiate the product offering across geographic markets to account for local differences.

The benefits of transnational strategy include both local responsiveness and global integration, transfer and sharing of resources and capabilities across borders and also provides the benefits of flexible coordination. The downside of this strategy is it is difficult to implement, costly and time consuming. For Arcor this strategy would mainly be beneficial since they are ultimately trying to achieve low cost production and they said even Nestle and Kraft admit they are efficient. But it would cost a lot of money to research and implement, and many companies such as Ford have failed in the past.

Thirdly an international strategy could work. International or home replication strategy means taking products first produced in the domestic market and selling them internationally with only minimal local customization. Since Argentina and the rest of South America is still emerging they know how to enter other potential markets. Since the most appealing growing confectionary markets are mostly in the Asia-Pacific regions which are all emerging countries, they have a general idea how to do business there and can tweak the chocolate or candy a little to appeal to consumers in these countries.

This would pose a problem because there are high transporting costs and it would make the product more expensive than making a plant in the countries overseas. So Arcor would need to make manufacturing plants in these countries which of course poses a high risk. I believe that a transnational strategy would be best because a localization strategy requires a shift into a transnational strategy as competition and price pressuring would inevitably increase. After 2003 when this article was published, Arcor successfully went into what they call "stage 5", which was to go global.

This is where they set up commercial offices in Bolivia, Venezuela, South Africa, and China. They have also established numerous partnerships worldwide and are still the leading confectionary brand in Latin America.

[pic][pic] These graphs are still showing Arcor's compounded Annual Growth Rate. It is showing low growth but it at least shows the company will still be growing for years to come. Work Cited 1. " Arcors 5 Stages. " Arcor. N. p. , n. d. Web. 21 Feb 2012. . 2. " Arcor Sociedad Anonima Industrial Y Comercial (Argentina). " Mergent Online. N. p. , n. d. Web. 21 Feb 2012. .