

Glo-bus: developing winning competitive strategies

[Business](#), [Company](#)



GLO-BUS Developing Winning Competitive Strategies Welcome to GLO-BUS.

You and your co-managers are taking over the operation of a digital camera company that is in a neck-and-neck race for global market leadership, competing against rival digital camera companies. All digital camera makers presently have the same worldwide market share, although shares vary by company across the four market regions – Europe-Africa, Asia-Pacific, Latin America, and North America. Currently, your company is selling close to 800, 000 entry level cameras and 200, 000 multi-featured cameras annually.

Prior year revenues were \$206 million and net earnings were \$20 million, equal to \$2. 00 per share of common stock. The company is in sound financial condition, is performing well, and its products are well regarded by digital camera users. Your company's board of directors has charged you and your co-managers with developing a winning competitive, marketing strategy, one that capitalizes on growing consumer interest in digital cameras, keeps the company on the ranks of the industry leaders, and boosts the company's earnings year after year.

Some Background Information Your company began operations five years ago and maintains its headquarters in Lisle, Illinois, USA. It assembles all of its cameras at a modern facility in Ha Noi, Vietnam and ships them directly to cameras retailers (multi-store chains that sell electronics products, local camera shops, and online electronics firms) located in Europe-Africa, Asia-Pacific, Latin America, and North America.

The company maintains regional sales offices in Milan, Italy; Singapore; Sao Paulo, Brazil; and Toronto, Canada to handle the company's sales and promotion efforts in each geographic region and help support the

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merchandising efforts of area retailers who stock the company's brand. Retailers endeavor to maintain ample inventories of camera models in their own stores and warehouses to satisfy shopper demand. Seasonal Production and Seasonal Demand. Camera demand is seasonal with about 20 percent of consumer demand coming in each of the first three quarters of each calendar year and 40 percent coming during the fourth quarter holiday season.

Retailers place orders for digital cameras roughly 90 days in advance of expected sales, so as to have ample numbers on hand to satisfy camera buyer demand in the upcoming quarter. Thus, during Quarter 1 they place orders for the cameras they expect to sell in Quarter 2; during Quarter 2 they place orders for the cameras they expect to sell in Quarter 3, during Quarter 3, they place orders for the cameras they expect to sell in the peak holiday season fourth quarter; and in Quarter 4 they order the number of cameras they expect to sell in Quarter 1 of the following year.

Assembly and Shipping. The company has a staff of people engaged in new product R&D, engineering, and design; this group has the capability to develop new and improved camera models as directed by top management. Once co-managers settle on the desired specifications and performance features for the company's line-up of camera models, the needed parts and components are obtained from suppliers having the capabilities to make deliveries to the company's Ha Noi assembly plant on a just-in-time basis.

Cameras are assembled by four-person product assembly teams at well equipped workstations. Shipping department personnel ready retailer's orders for shipment and stack them on the loading dock for pickup by

independent freight carriers. The cameras are delivered anywhere from 3 days to 3 weeks later, depending on a retailer's location and the means of transportation. The cost of boxing the cameras, packaging them for shipment, and freight averages \$3 per camera. Many countries have import duties on cameras.

Import duties in each of the four geographic regions currently average \$5 for entry-level cameras and \$10 for multi-featured cameras. Import duties are subject to change in upcoming years. Competitive Efforts. To capitalize on advances in digital technology and keep its cameras appealing to consumers, the company from time to time introduces new and improved models, adds performance features, restyles its camera bodies or housings, and upgrades the internal camera software.

Aside from company efforts to make its cameras lines appealing and competitive with those of rival companies, the company's sales volume and standing in the marketplace is affected by the prices at which it sells its cameras to retail dealers, advertising expenditures, the number of retail dealers it is able to attract to carry its brand, the number and length of quarterly promotions, the size of the price discounts offered to retailers during these promotions, the length of the warranty periods on its cameras, brand image and reputation, and the caliber of the technical support provided to its digital camera users.

Stock Listings. The company's stock is publicly traded on the NASDAQ exchange in the United States and on several other stock exchanges. The closing price in Year 5 was \$30 per share. The company's financial statements are prepared in accord with generally accepted accounting

principles and are reported in U. S. dollars. The company's financial accounting is in accord with the rules and regulations of all authorities where its stock is traded.

The World Market for Digital Cameras The industry your company competes in consists of 4 companies. All companies are on an equal footing from a global perspective, but there is one essential difference in the competitive positions of the rival companies – the percentage of cameras being sold in the four geographic regions (Europe-Africa, Asia-Pacific, Latin America, and North America) are not identical from company-to-company as follows:

Percentages of Company Sales Volume in (unit sales)

	North America	Europe-Africa	Asia-Pacific	Latin America	Your Company
Competitor A	40%	30%	20%	10%	
Competitor B	20%	10%	40%	30%	
Competitor C	30%	20%	10%	40%	

In effect, each company presently has a strong market position in one region, intermediate market positions in two regions, and a weak market position in one region. So there are market share differences among the companies in the industry within each geographic region of the world camera market. In upcoming years, company managers can undertake actions to alter their sales and market shares in all regions, opting to increase sales and share in some and to decrease sales and share in others. Market Growth.

The global market for digital cameras is projected to grow 8-10% annually for the next five years (Years 6-10) and then to grow at a slower 4-6% annual rate during the following five years (Years 11-15). These projected growth rates apply to all four geographic regions and to both entry-level and multi-

featured cameras. However, in any one year, the growth rate in each region can deviate from the 9% average for Years 6-10 and the 5% average for Years 11-15 by as much as 1% in either direction, with different size deviations for each region. The same goes for the projected growth rates for entry-level and multi-featured digital cameras.

Hence, there is an element of uncertainty surrounding just where within the 8-10% range and the 4-6% range the growth rate for a particular year will actually fall, for either a given geographic region or a particular type of camera. Ratings of Digital Camera Performance and Quality. The World Digital Camera Federation, a well respected affiliation of camera industry trade groups and camera experts, tests the performance and quality of the camera models of all competitors and assigns a performance-quality or P/Q rating of 1 to 5 stars to each company's entry-level camera line and multi-featured camera line.

Currently, both the entry-level and multi-featured camera lines of all competitors have a 3 star P/Q rating. Spirited competition among rivals is, however, likely to result in different P/Q ratings in the forthcoming years. Digital Camera Retailers. Worldwide, there are some 50, 000 retailers of digital cameras scattered across the world; each of the four major geographic regions of the world market has 12, 500 retailers, some of which are multi-store retail chains (100 per region), online electronic retailers (400 per region), and local camera shops (12, 000 per region).

Retailers with store locations that also sell cameras on their websites are not included in the online category. Multi-store chains account for the biggest percentage of entry-level camera sales, with online retailers second; local

camera shops account for the biggest share of multi-featured digital camera sales, with online retailers second. Retail markups over the wholesale prices of digital camera makers run 50% to 100%; thus an entry-level digital camera wholesaling for \$160 could retail for \$300 or more and a multi-featured camera wholesaling for \$360 might carry a retail list price of \$700.

Such markups give retailers the latitude to put digital cameras on sale from time-to-time at 10% to 20% off regular price and still make a decent profit margin. Retailers typically carry anywhere from 2-4 brands of digital cameras and stock only certain models of the brands they do carry, but in all four geographic markets there are around 20 ‘full-line’ camera retailers that stock most all brands and models. Chain store retailers are drawn to carry the best selling brands and mainly stock entry-level cameras.

The makers of weak selling camera brands have difficulty convincing major retail chains to devote display space to their models. Local camera shops and online retailers are, however, more amenable to stocking and promoting low-volume brands, especially those with above average P/Q ratings and respected brand images. Local camera shops and online electronics retailers devote much of their merchandising effort to multi-featured digital cameras because of their bigger profit margins.

In the multi-featured camera segment, local camera shops enjoy an advantage over online retailers because many multi-featured camera shoppers prefer to “touch and try out” the functioning of the multi-featured cameras they are considering and seek out the opinions of camera savvy personnel in local camera shops before finalizing their purchase. In choosing which brands of multi-featured cameras to carry and feature in their local

ads, local camera shop owners put a fairly heavy weight on P/Q ratings, warranties, brand image, and the number, length, and price discounts of manufactures' promotional discounts.

Online retailers use essentially the same criteria in deciding which multi-featured camera brands to give top-billing and search priority on their websites. Digital Camera Buyers. Digital camera shoppers are generally quite knowledgeable; many do extensive Internet research to educate themselves about the features, performance, and prices of competing digital camera brands and models. The World Digital Camera Federation's much publicized P/Q ratings are trusted by camera shoppers; its frequently visited website has detailed information concerning the results of its performance tests and the basis for its P/Q ratings of each camera brand. Both camera makers and online electronics retailers have extensive information on their websites about currently available models. Numerous websites and publications review new and improved camera models as they are introduced by manufactures.

The buyers of entry-level digital cameras are considerably more price sensitive than multi-featured camera buyers and many do comparison shopping on price in selecting which brand to purchase. The purchasers of multi-featured cameras are much more particular about camera performance and picture quality. Many price sensitive consumers shopping for their first digital camera are inclined to wait to make a purchase until electronic retailers have special sales promotions and offer entry-level camera models at sizable discounts off the regular retail price.

It is common for camera retailers to also have special sales promotions for overstocked multi-featured models. The Competitive Factors That Drive Market Share Competition among rival camera makers centers around 11 sales determining factors:

- How each company's wholesale selling price (for both entry-level and multi-featured cameras) compares against the corresponding industry-wide average price in each geographic region.
- P/Q ratings.
- The number of special promotions each quarter.
- The length of the special quarterly promotions (in weeks).
- The size of the discounts off the regular wholesale price during these promotions.
- Advertising expenditures.
- Product selection, as measured by the number of models in each line of cameras (entry-level and multi-featured).
- The number of retailers carrying the company's brand.
- The length of the manufacturer's warranty period.
- The ease with which users of a company's digital cameras can obtain responsive technical support when they encounter difficulties.
- Brand reputation among buyers and retailers.

With these 11 competitive determinants of sales and market share in play in each camera segment in each geographic region, you and your co-managers have many options for crafting a strategy capable of producing good profits and return on investment and keeping your company in contention for global market leadership. For example, you can

- Employ a low-cost leadership strategy and pursue a competitive advantage keyed to having lower costs and selling your digital cameras at lower prices than rivals.
- Employ a differentiation strategy that sets your company's digital cameras apart from rival brands based on such attributes as a higher P/Q rating, more models/styles to select from, and such marketing attributes as more

advertising, longer warranties, more promotions, better technical support for owners of your digital cameras, or a bigger network of retail outlets carrying the company's brand. - Employ a more value for themoneystrategy (providing 4-star digital cameras at lower prices than other 4-star brands) where your competitive advantage is an ability to incorporate appealing attributes at a lower cost than rivals. Focus your strategic efforts on being the clear market leader in either entry-level or multi-featured cameras. - Focus your company's competitive efforts on gaining sales and market share in those geographic markets where your company already has high sales and deemphasize sales in those areas where your company has a comparably low market share or where profit margins are relatively low. - Pursue essentially the same strategy worldwide or else have regional strategies tailored to match the differing competitive conditions and actions in North America, Europe-Africa, Asia-Pacific, and Latin America. Focus your company's competitive efforts on those regional markets where sales are highest or most profitable and either deemphasize or withdraw from one or more geographic areas where market share is low and/or profit margins are small. Thinking Strategically: The Importance of Trying to Out-Maneuver Rivals Making Decisions. The following areas should be the basis of your decision making process. They are as follows: Product Design Marketing Assembly Compensation, Training, and Labor Force Special Order Bids SocialResponsibilityand Citizenship

FinanceWhat Your Board of Directors Expects. The Board of Directors has given you and your co-managers broad strategy-making and operating authority to pursue the achievement of performance objectives, subject to

two primary constraints: (1) Your company may not merge with another company; the Board wishes the company to remain independent. And (2), company co-managers are expected to comply fully with all legal and regulatory requirements and to conduct the company's business in an ethical manner. Good Luck. R. G. Revers PhD