

# Directions for strategy development marketing essay



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## **2. 1. Introduction**

As previously mentioned the aim of this dissertation is to examine the factors that are leading to UNIQLO's unsuccessful overseas operations. This will be conducted by analysis and comparisons of marketing and economical factors between the different countries and with its competitors.

One of the purposes of this chapter is to allow the readers to become familiar with adequate information about UNIQLO's overseas expansion. In order to allow the readers to engage with this the topic it is vital to explore the most important theories and literature that are relevant to the topic.

## **2. 2. Strategic Analysis**

### **2. 2. 1. Credit Crunch**

This is not the first time that global recession has taken effect but this sub-chapter focuses on the most recent US credit crunch of 2007 (also called subprime crises) which has affected the world economy in many different ways.

#### Causes

Lanhart, (2007) argues that this started when US mortgage lenders started to sell many inappropriate mortgages to customers with low income as they were hoping that the housing market would increase and they would be able to make the mortgage payments.

#### Effects

The credit crunch caused a decrease in consumer expenditures in most countries, principally across the USA and Europe but some countries have been affected due to its speculations, thus the retail sales fell drastically (Carrigan and de Pelsmacker, 2009).

In the UK, Hickman (2007) argues that the era of the high consumer spending would be over after the credit crunch hit the economy. In addition, Williams (2010) claims that until January 2010, the UK consumer spending has fallen 4% since the beginning of 2008, yet the worst for the UK consumer spending seems to be over and it is estimated that it will stabilize soon. In the US as well, as Reuters (2010) state, the consumer spending in January 2010 has increased 0.5% compared to the previous month, which indicates the economy is recovering from the credit crunch. In Japan, in terms of consumer confidence, described as a degree of confidence of consumers with respect with the economy (East et al, 2008), Ito (2010) mentions that the consumer confidence is recovering as its dimension climbed from 39 to 39.8 in January 2010. This means that consumers are more confident to spend money than previously despite the huge depression in the economy since 2007.

Furthermore, the financial crisis, which is today a topic of frequent debate, although having a global negative multiplier effect, the impacts amongst emerging markets and/or less developed countries has been relatively less. Schifferes (2007) states that China and India have escaped less affected by the credit crunch despite a decrease in the production sectors due to a fall in the overall world consumption.

It seems that many retailers have experienced negative effects of the credit crunch however, the downturn of the economy does not affect some companies but it rather helps them improve their sales performance.

LaMotta (2009) argues that Walmart's same store (non franchised stores) sales have risen 5.1% despite the analyst prediction of 2.4% and the company also announced that it managed to raise its dividend 14.7% up to \$1.09 per share from 95 cents per share.

In the case of the low priced clothing retailers, one absolute advantage that this specific type of industry has is that many people in the world cut down their spending in a recession, thus they start looking for cheaper products as previously explained in the case of Walmart. Independence (2008) states that clothing retailers such as Gap and Next are likely to suffer from the recession. On the other hand, retailers such as Zara and Primark which offer lower priced products than the former, are likely to thrive because many customers, especially the mid to low income (which form the largest market segments of nations, developed and developing,) will aim to spend less on their clothes or luxury goods, having less disposable income and attempting to budget, in consideration of the current financial climate. (Should this go to Findings instead?)

## **2. 2. 2. Porter's Five Forces**

Grant, (2010) states that porter's five forces framework views the profitability of an industry as five sources of competitive pressure. This sub chapter explains each of the five forces following the framework created by Karagiannopoulos et al (2005).

(Source: Karagiannopoulos et al, 2005)

### Substitutes

Grant, (2010) highlights that the threat of substitutes is the availability of a product that the consumer can get as a substitute, from the industry. In addition, the absence of close substitutes for the product means that consumers are relatively insensitive to price (e. g. cigarettes). On the other hand, Karagiannopoulos, et al (2005) argues that an existence of high availability of close substitutes for the product means that consumers are likely to switch to substitutes depending on the price, performance or “ price-to-performance ratios”.

### Potential Entrants

According to Karagiannopoulos, et al (2005), entering a new market is difficult due to many reasons such as “ the investment required to enter an industry as an efficient competitor” due to the fact that existing companies might have an advantage of being in their home countries, which allows them to gain economies of scale. (Also known as absolute cost advantage). Depending on the market of the country, some governments prefer having monopoly power in an industry other than market economy, thus they create barriers such as capital costs of entry, for new entrants to enter the market, which are advantages that established companies have over new entrants.

### Industry Competitors

Karagiannopoulos, et al (2005) outlines that for most industries, the major determinant of the level of profitability is competition along with the companies within the industry.

Porter, (2008) argues that the intensity of industry competition can be determined by several factors such as the number of companies within the industry and the level of power between them as well as slow growth of the industry can precipitate competition for larger market share. On the other hand, Grant, (2010) states that if the industry is in a market economy, the price competition will be more intense than in the case of monopolistic competition.

### Buyers

Porter, (2008) explains the most important determinants of bargaining power of buyers is the economic power of the buyers, in other words, price sensitivity, which can develop from several circumstances. One such circumstance is ratio of buyer concentration to industry participants, which is when there are few buyers for a group of suppliers. Another circumstance is when the buyer's purchasing volume is high.

### Suppliers

According to Karagiannopoulos, et al (2005), the major determinant of the bargaining power of supplier is on the relative size and the ratio of supplier concentration to industry participants. Another major determinant of bargaining power of supplier is the level of differentiation in the products supplied.

## **2. 2. 3. PESTEL**

### Political

Politically, Grant (2010) mentions that for overseas expansions multi-national companies can suffer from the governmental restrictions especially when the government in the host country prefers to sustain the economy by supporting the local companies, thus political changes can ease or create difficulty for such companies. More over Wall, et al (2010) also points out the impact of political changes in international business for whether the company adopts export, licensing/franchising, joint ventures or FDI.

### Economic

Wall, et al (2010) asserts that economic factors such as a change in the Gross National Product (GNP) can also influence the company's performance. Wall, et al (2010) explains that " GNP is a widely used measure of economic well-being reflecting the total value of output (or income) attributable to nationals of that country in a given year". In addition, economic growth or recession can affect the company as the consumer spending can be affected by economic growth or recession. On the other hand, Johnson, et al (2010) define the impact of inflation as the change of which can impact the price strategy of the company.

### Social

In terms of social aspects of key drivers of changes, Johnson, et al (2008) points out that key drivers of change vary depending on the industry. For example, for a clothing retailer, trends are very important because the

retailer does not want to sell clothes which are out of fashion. Also depending on what kind of customers the company targets, the population of the targeted customers in terms of age and gender can decide the company's success or failure, and also determine the company's strategy. Furthermore, Wall, et al (2010) argues that social changes can affect the company's workplace due to differences in national cultural characteristics.

### Technological

Johnson, et al (2008) states that technological changes have influenced many businesses recently as the technological changes made logistics easy because the transports have become more cost and time efficient as well as other aspects of logistics such as inventory, information integration and security. Also online retailing has become an option for many businesses including clothing retailing thanks to the internet.

### Environmental

Johnson, et al (2010) argues that environmental changes often affect the places of production rather than the places of sales. Many MNE's recently are very supportive of environmentally-friendly activities as a result of pressure from the media and organizations such as the United Nations. However, Brooker, et al (2007) points out that environmental changes force a clothing retailer to alter the types of products they sell depending on the climate condition.

### Legal



Wall, et al (2010) states that legal changes can affect a company as the company has to respect the rules and laws such as competition law, employment law, health and safety, and product safety. Employment law, and health and safety in particular have been discussed often lately as underage employment and their working conditions are not in favour of the health and safety laws, especially in 3rd world countries.

## **2. 2. 4. Key Drivers of Changes**

Johnson, et al (2008) define key drivers of changes as “ environmental factors that are likely to have a high impact on the success or failure of strategy”. As an example of key drivers of changes for clothing industry is the trend, consumer tastes and behavior. Also political changes can affect the industry as some governments tend to subsidize such industries. Further legislative change can affect any industries but especially a company that is entering the new market or planning to.

## **2. 3. Competitive Analysis**

### **2. 3. 1. Strategic Clock**

Johnson, et al (2008) explains that “ in a competitive situation, customers make choices on the basis of their perceptions of value for money, the combination of price and perceived product/service benefits”. The strategic clock represents different positions in a market where different customers have different needs in terms of value of money. for the company to be able to build a competitive advantage over its competitors. It is explained that 8 different positions that focus on different elements in terms of price and perceived product/service benefits.

## **2. 4. Directions for Strategy Development**

### **2. 4. 1. Entering Foreign Markets**

#### Pull vs. Push

Entering foreign markets can be achieved in various ways. Briefly there are two ways of marketing to be driven by pull and push marketing. According to Daniels, et al (2008), pull marketing is defined as a form of marketing, altering depending on the demand from the market of the host country. The advantage of this form of marketing is that the product or the service are often accepted by the host market as for pull marketing companies often conduct more accurate research than push marketing. And its disadvantage is that it is unlikely to catch customers that are innovative which implies that it is likely that there will be more competition for the service or product.

In contrast, push marketing is defined as a form of marketing when the company pushes itself into the foreign market by providing the services or selling the goods that have been provided in its home country and are unfamiliar to the host market. The advantage of push marketing is that if the product is accepted in the market, the company can set the price high as it can take advantage of power of supply and other economies of scale, implying that the product or service could generate a larger market share as there will be less to no competitors in the market, resulting in a possible monopolistic situation. On the other hand, the disadvantage is it is more risky as the consumer in the host country might not like the products.

#### Adaptation vs. Standardization

The pull-push theory can apply to standardization-adaptation theory as adaptation is defined as the “ extent to which a company’s products and services are adapted for each market, meeting the particular needs of the customers” which is similar to pull marketing. Standardization is defined as the “ extent to which a company sells exactly the same product in its domestic and international markets” which is similar to push marketing, (Sitkin and Bowen, 2010).

### Ethnocentrism, Geocentrism and Polycentrism

According to Margaret, et al (2005) there are three basic approaches MNEs follow when they face the issue of standardization and adaptation of their products or services outside their home countries, which are ethnocentrism, geocentrism and polycentrism.

However, Sitkin and Bowen (2010) assert that ethnocentrism can be thought to be an arrogant approach, as it derives from the idea that the company’s ethnic or cultural group is centrally important. By contrast, the polycentric approach is that the company associates with the specific nature of the host markets. In addition, geocentrism is where the company takes the most suitable strategy according to its values while its target market remained, thus it can be said to be a balanced mixture between ethnocentrism and polycentrism.

According to Alexander et al (2009), many MNE’s tend to accept the fact that it is difficult to be accepted in their host countries in the same way as their home countries. Hence, a large number of them adopt an adaptation

strategy until the market starts to understand or accept the company’s  
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products or services. The choice of the strategies vary depending on how well the products or services will be accepted by the market and also the company's approaches (ethnocentrism, geocentrism and polycentrism) which can affect their choice of strategic direction.

Many companies seem to choose one of the strategies, however as Vignali (2001) points out that in the case that the company tries to adopt both strategies, this is believed to resemble a more geocentric approach. The example he has used is McDonald's which adapts an international marketing strategy "think local, act global" which is sometimes put in one word as "glocal". Vignali, (2001) defines the term which in this case means, adapt where it should be and standardize where it should be, whereas Svensson (2001) argues that the "glocal" strategy entails local and global strategic approaches. It is different from standardizing globally because it distinguishes the value of local adaptations and adjusting in the host market.

## **2. 4. 2. International Marketing 4P's Mix**

### International Product

The company chooses whether to adapt its product or service to the host market or standardize the market for its product or service. Cateora and Graham (2006) claim that the decision between adopting adaptation or standardization is often based on the company's market research on the market. The market research is likely to be focused on cultural background, consumer behavior, and level of personal income and spending.

### International Pricing

For pricing there is also adaptation and standardization as Wall, et al (2010) mention that price adaptation is when the company sets the price for its product/service to the standard that the host market is expecting.

Conversely, price standardization is when the company sets the price which is relatively close to what it is in its home market.

However, Daniels, et al (2008) argue that not only depending upon the factors such as cultural background, consumer behavior, and level of personal income and spending but there are cross-border payments, tariffs and other taxes, government regulations and strategic objectives to consider.

On the other hand, Hill (2008) discuss the importance of price discrimination as consumers in different countries are used to different prices or they might expect higher prices for imported goods with or without knowing the fact that the goods are sold cheaper in the home countries.

### International Promotion

Wall, et al (2010) explain that the recent improvement in technology has increased the range of advertisements and it is important to know the technological infrastructure of the country. The main reason is that the advertisement has to be seen by those who the company targets and in some countries, where there is a lack of technological infrastructure, it would be very difficult for them to see the advertisement on TV or Internet, especially for low income earners. In addition, Daniels et al (2008) state that the company has to understand how the appeal of certain advertisements can differ in cultural terms and thus require adaptation.

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On the other hand, Sitkin and Bowen (2010) point out that different rules and regulations can also differentiate international promotion from promotion within one region. (Not including consumer reaction)

### International Place

Wall, et al (2010) argue that this is one of the most difficult decisions to make in international marketing. Many aspects can influence the company's decision where to place its distribution channels such as the value and type of product, the cost and speed of alternative types of transport, how a channel can be managed and to compare what the competitors are doing about these three aspects.

However, Hill (2008) state that “ place” in the marketing 4P's mix also involves logistics, transportation, delivery and points of sales. In international business, logistics, transportation and delivery can be very difficult due to different laws and regulations and the company also has to take into account the costs of them, thus they have to make the right decision on them in order to operate efficiently. Moreover, for points of sales they will have to take into consideration that consumers in different countries prefer different points of sales in terms of both location and scale of the store. Also technological infrastructure has to be taken into consideration for points of sales as online shopping is preferred in only certain countries.

### GAP Analysis

Daniels, et al (2008) state that it is often forgotten that international marketing mix is not only about standardization and adaptation but there are

often gaps between the marketing mix in the home country and the host countries due to different gaps. First of all, the company might encounter usage gaps which are when the host country does not demand the product that the company produces as much as in the home country, or at all. Further, distribution gaps can also be encountered. Distribution is a major issue in international business. Finally, there are competitive gaps which can be caused by the fact that the competitors in the host country might prevent the company from maximizing its profit.

### **2. 4. 3. International Strategy**

There are various approaches for international strategy. This sub chapter will discuss four different approaches based on Wall, et al (2010). These approaches will be discussed in order of the risk, in other words resource commitment, (Grant, 2010).

On the other hand, Johnson, et al (2008) regard the order of the stage as “staged international expansion” which means that in the early phase of the company’s international expansion it is likely to adopt licensing and exporting because they allow it to obtain local knowledge without having too much risk.

#### **Export**

According to Sitkin and Bowen (2010) export is when a company remains within its home country but sells its product to overseas buyer. On the other hand, Wall et al (2010) distinguish between indirect exporting and direct exporting. Moreover, direct exporting requires more commitment and risk

than licensing and franchising because the company has to export on spot, meaning the company does not rely on intermediaries such as agents.

According to Johnson, et al (2008), export entails less cost than the other three approaches below due to the fact there is no operational cost needed in the overseas, and economies of scale can be exploited in case of mass production at one place. By contrast, Grant (2010) points out the advantage of exporting is the transaction costs due to tariffs and restriction.

Furthermore, Johnson, et al (2008) explain that exporting limits chances to gain knowledge and experience of the host market and competitors, and it can create difficulty of responding to customer demands promptly.

#### Licensing/Franchising

Sitkin and Bowen (2010) describe both licensing and franchising as a “ firm gives permission to an agent to manufacture/retail abroad on its behalf,” while Grant, (2010) explains that many small companies adopt this strategy when they do not want to commit too much to the foreign market but their products are not tradable due to transportation constraints or import restrictions.

According to Johnson, et al (2008), the advantages are that it limits economic and financial exposure and sale of production and marketing rights are agreed on the terms of contracts. On the other hand, the main disadvantage of both licensing and franchising is that there is difficulty of finding a suitable partner who would agree with the appropriate contractual terms.



Wall, et al (2010) suggests that licensing requires less commitment and risk, however franchising has an advantage over licensing as the franchiser can give full support to the franchisee which is likely to result in more control of the business.

#### Joint Ventures (Form of FDI)

According to Wall, et al (2010), joint ventures entail generating a new identity in which both initiating partners take active roles in critical activities such as developing strategy and decision making for it.

Grant, (2010) states that the main advantage of joint ventures is that by sharing resources and capabilities between the companies, they do not only gain economies of scale but also access to improved resources and capabilities than one of them could generate by itself. Further still, by sharing resources and capabilities they share the cost of high risk. In contrast, Johnson et al (2008) point out the disadvantages of joint ventures, firstly it is difficult to spot a partner who would agree with the contractual terms that the company wants and it is difficult to manage the relationship with the foreign partner due to language and cross-cultural barriers.

#### Direct Investment and Foreign Manufacture (FDI)

Daniels, et al (2008) describe FDI as an approach that a company makes its own equity investment overseas. On the other hand, Grant (2010) suggests that many MNE's are forced to adopt FDI because of trade barriers such as tariffs, taxes and quotas.

As stated by Johnson, et al (2008) FDI has full control and capabilities as an advantage and it allows the company to integrate to and coordinate with activities overseas. In addition they suggest that FDI gains an advantage of being visible to the host market as well as gaining higher profit, and it allows the company to gain more knowledge of foreign markets.

## **2. 4. 5. Cross Cultural Business Behavior**

### Individualism/Collectivism Dimension

Schneider and Barsoux (2003) mention that individualistic people tend to only care about themselves and do not emotionally get emotionally involved with the group while collectivistic people consider the group they belong to as something more important than themselves.

### Power Distance Dimension

According to Schneider and Barsoux (2003) power distance dimension indicates the extent to which the less powerful members of society that power is dispersed unequally. Further Soares, et al (2006) argues that it influences hierarchy and dependence relationships in the family and organizational contexts.

### Masculinity/Femininity Dimension

As explained by Picke and Van (2009), this dimension refers to the values that are more likely to be held in a society. A masculine society is identified to emphasize the importance of things and money. In contrary feminine

culture is “ characterized by concerns for relationships, nurturing, and quality of life”.

### Consumer Behavior

Between different countries, even between different regions of the same country, consumer behavior can be greatly different. According to Soares, et al (2006), consumer behavior in different countries is affected by cultural factors such these dimensions discussed previously. De Mooij (2010) argues that people from a country being both collectivistic and very high on power distance, have the need to conform, and luxury brands provide social status sensitive. He continues as “ when combined with low masculinity, harmony and relationship orientation prevail, and luxury brands mainly serve a social function. When combined with high masculinity, status needs are reinforced to enhance group identity, to show that you belong to an important social class”. Further he states that people from individualistic cultures combined with high masculinity think that luxury goods help to enhance the unique self whereas people from individualistic cultures combined with low masculinity have low status needs, which means they want to be unique but do not have to have luxury goods to be unique.

## **2. 4. 6. Product Development**

According to Wall, et al (2010), product development is where companies deliver adapted or new products to existing markets. On the other hand, Grant (2010) argues that product development is fairly risky as consumers are not familiar with new products but also expensive as developing new

products might require the company to acquire resources that it did not have before.

## **2. 5 TOWS Matrix**

Johnson, et al (2010) explains that the TOWS matrix is “ a method of identifying strategic options on the basis of a SWOT analysis”. The TOWS matrix can also “ provide an assessment of the strengths, weaknesses, threats and opportunities relating to the strategic position of the organization”. Moreover Worthington and Britton (2009) state that “ the true value of the SWOT approach lies not in the listing of influences but in their contribution to the formulation of appropriate organization matrix which matches the firm’s opportunities and threats against its internal strengths and weaknesses”. O’Brien and Dyson (2007) discuss that strength and opportunity are considered as a pair to be SO or offensive strategies while strength and threats would form ST or defensive strategies. In contrary forming weakness and opportunities would generate WO or speculative as external environments cancel the company’s weakness whereas weakness and threats would form desperation as the company does not have the capabilities to avoid the threats.

However, argued by Gilligan and Wilson (2009) the weakness of the TOWS matrix is that for external factors can change frequently today that the threats and opportunities can vary due to immediate changes in a combination of social, technological, legislative and other forces.

## **2. 6. Methods for Strategy Development**

### **2. 6. 1. Internal Development**

As stated by Johnson, et al (2008), is “ where strategies are developed by building on an developing an organization’s own capabilities”. Highly technical products in terms of design or method of manufacture come from acquiring the necessary capabilities of production. Also internal development enhances knowledge and capability development as the company has to have the knowledge of the market and customers’ needs, and the capabilities to meet the customers’ needs. Moreover internal development includes the capability of spreading investment overtime for new activities internally which is said to be more favorable than acquiring other companies. Further, O’Brien and Dyson (2007) mentions that internal development also entails minimizing the disruption to other activities and avoid political and cultural difficulties of acquisition that can take place. Finally the nature of markets can affect internal development as in many cases when a company enters a new country, the company may not be in a position to develop by acquiring or joint venture since they are the only ones in the field or there might be few opportunities for acquisitions.

### **2. 6. 2. Mergers and Acquisitions**

An acquisition is where a company takes ownership of another company, whereas a merger means a mutually agreed decision for joint ownership between the companies (Grant, 2010). Both acquisition and merger involve the management of one company exerting strategic influence over the other company. There are several reasons why companies want to acquire or merge with other companies. According to Johnson, et al (2008) acquisition

or merger enable a company, which has never entered the market before, to speed up the process of the entry and the company can gain the knowledge of the market and capabilities to compete with the competitors in the market.

### **2. 6. 3. Strategic Alliances**

Grant (2010) argues that the main difference between strategic alliances and, acquiring and merger is that strategic alliances do not entail acquiring the partner's ownership or share. Basically the two or more companies share their resources and activities to pursue a strategy. One of the motives for strategic alliances are often for the companies to gain accesses to resources that they do not have, which can lead to them gaining competitive advantage.