

Globalisation has
become an
increasingly important
phenomenon
marketing essay



**ASSIGN
BUSTER**

Abstract

Globalisation has become an increasingly important phenomenon that has given firms way to be internationalised. Globalization as a foundation for adopting global strategies has during recent years been given scant attention. The importance of multinational companies cannot be overlooked with globalisation in the back of the mind. Firms are constantly adopting global strategies so as to compete on the international market and to reap the enviable advantage from economies of scale. Globalization often regarded as the pathway of internationalization has led to the development of strategies shaped to face the highly competitive global environment (Levitt 1983, Baden-Fuller, Stopford 1991). Regional strategies have often been considered as a way to become a global player, but recently regional strategies have achieved high momentum to reap global sales. The assignment aims to integrate the historical development of two big companies, Ford and Diageo and the global oriented strategies adopted by each firm respectively at different stage of their development so as to get ahead in this competitive and dynamic global game.

a)

Introduction

The march towards a true global economy is going forward at a ferocious pace. Globalisation has paved the way for many firms to be internationalised. According to Hood and Young (2000), globalization is a process by which the world economy is transformed from a set of national and regional markets into a set of markets that operate without regard to

national boundaries. Porter (1985) highlighted that globalisation has urged many firms to divert production to international markets so as to achieve long term competitive advantage. Porter (1980) further emphasized that the main driver behind the move to international markets is to explore business opportunities. Multinational enterprises (MNEs) seem to have been the major players in this drama put on a world stage for all to view. It is noted that many big companies that compete internationally pin their hopes for success on a single worldwide strategy mainly to achieve lukewarm results. According to Ghemawat (2005) and Levitt (1983), developing global strategies mainly in search of new synergies and arbitrage and a global recognition has been the hype surrounding multinational corporations since the past decades. Global powerhouses such as Ford and Diageo concentrate on regional differences and then shape strategies that will match both domestic and international markets. Both Ford and Diageo have grown over the years and become active players in the global market for cars and drinks respectively. They have adopted global strategies which are at time similar. However, given that they operate in different products, some of their strategies differ.

Theoretical Background

The prominent trend in international business today concerns globalisation. This notion of globalisation has been defined by Ohmae (1995) as the removal of borders and barriers to trade between nations. Trade barriers have been lifted gradually through the GATT and WTO negotiations. The drivers behind the internationalisation of the firm in the global economy include huge developments in transport and communication which has made

the mobility of all factors of production a reality across the globe and the increasing role of MNCs through outsourcing and business networks are developing in many parts of the world. It is widely believed that the evolution of multinationals is due to domestic market maturation and home market saturation (Caves 1982; Porter 1990). It is widely assumed by Mintzberg (1989) that expanding globally provides firms with the opportunity to become more profitable. According to the continuous increase in speed, quality coupled with improvement in communication and technology has led to a significant reduction in transaction costs (Porter, 1990). Moreover, markets in farflung countries have become homogeneous making international business activities to be conducted easily (Hedlund & Kverneland 1985). Classical theories “Growth” by Penrose (1959) and Hymer model (1960), firms internalise their activities mainly for economic gains such as the profit motive. The OLI-approach by Dunning (1979, 1981) purports that ownership, location and internalisation are the factors that influence the initial act of cross border production firms. Porter (1988) suggested that internationalisation enables the transfer of some moveable resources across a national border. Many firms, on the other hand internalise for market seeking motives. This motive is related mainly to companies that are endowed with high level of technology and a good brand image that give them sustainable competitive advantage over their peers. The market seeking motive is common for European multinationals such as Nestle and Ford which have expanded their production across borders mainly in search of new markets. The aim to achieve reduced costs of production is another factor that has triggered the internationalisation process. The removal of tariff barriers has urged many companies to outsource production mainly to

<https://assignbuster.com/globalisation-has-become-an-increasingly-important-phenomenon-marketing-essay/>

benefit from low cost production and low capital cost. Moreover, the drive to benefit from scale economies and ballooning R&D have also triggered the international expansion of firms making them global companies and have brought about a new set of motivations that underlay these global strategies. Globalization characterised as the true path of internationalization has brought about the development of strategies designed to meet the needs of the global environment, where standardization has been the key message to cater for the needs of the world market with global products (Levitt 1983, Baden-Fuller, Stopford 1991).

During the early years, there was much complexity over the design and technology of the motorcar. The beginning of the 20th century marked the coming of cars with the latest design and technology. It was the 'Fordism' which was the first revolution in the process technology followed by Toyota afterwards. Ford is a US automobile company which was founded in 1903 by Henry Ford in Michigan and it made its first shipment in that year itself. which produced 1708 cars in the first year. Ford is a pioneer in the automobile industry and has a portfolio of brands such as Ford, Lincoln, and Mercury. It also provides financial services. The business is divided into different segments mainly North America, Ford Europe, Ford South America and Ford Asia Pacific Africa designed to serve the different markets.

Diageo is the leader in premium drinks across the world. It resulted from the merger of Grand Metropolitan and Guinness in 1997. This merger has led to a complete rebranding and reimagining of the company. It took over the wine business of Seagram in 2001. In 2006, Johnnie Walker Blue Label and King
<https://assignbuster.com/globalisation-has-become-an-increasingly-important-phenomenon-marketing-essay/>

GeorgeV Edition made its appearance in duty free channels of Europe. The company is now seen as an ethical company which contributing effectively to corporate social responsibility. As per the Financial Times, Diageo formed part of the 150 largest companies in the world in 2008. To increase its market, Diageo made a joint venture with and made the Diageo Kirin. The company is listed on both the London Stock Exchange and the New York Stock Exchange. For Diageo, sustainability refers to the long term success of the business while taking into consideration the needs of stakeholders, community and at the same time protecting the environment. Compared to its competitors, Diageo was among the 100 most sustainable companies in the world for their concern for the environmental and society. During the financial year 2011, the company earned revenues of £13, 232 million representing an increase of 2. 1% in 2010.

Strategies

Ford produces a more varied product range of vehicles to attempt to tailor the needs of the different customer groups. For instance, the Ranger was designed to meet the needs of Asia pacific, Africa and South America. This new hybrid vehicle tailor-made for these regions has made Ford gone ahead of other overseas manufacturers. Ford has been able to use their window of opportunity to the full by satisfying the segments of consumers which they are targeting by providing them with the latest technology and convenient vehicles. Conversely, Diageo is involved in the production and distribution of a range of standardised products including beer, wine and spirits geared to satisfy every market in the world. Thus, compared to Ford which aims to

produce a different kind of vehicles for each geographical area, Diageo on the other hand produces one type of drink to satisfy all its markets.

Both firms aim towards sustainable development. Ford contributes significantly to the environment by making maximum use of recycled and renewable materials in its vehicles. It was highlighted that about 85% of materials that Ford use are recyclable. The use of recyclable and renewable materials is a prerequisite in Ford's sustainability strategy mainly to decrease environmental footprint and increase the use of fuel-efficient vehicles and hence be more environment friendly. Ford has even merged with its previous rivals – Chrysler and General Motors mainly to produce a car that will use less energy, cause less pollution.

Diageo also contribute to a sustainable platform across its range of products through its ' Sustainability and Responsibility' strategy. As part of this strategy, Diageo focusses on the benefits of alcohol in the society, preserves the natural resources and promotes good governance. Additionally, encouraging good drinking habits and working collaboratively with other stakeholders to combat the misuse of alcoholic drinks is of key importance in Diageo's strategy. Diageo also concerned about the fact that most of its resources it uses are scarce. As a result, to contribute effectively to its environment, more water efficient, reduced use of carbon dioxide and innovative forms of packaging that is sustainable to the environment were adopted. However, what distinguishes Ford and Diageo on the sustainability issue is that Ford mainly focusses on the use of renewable and recyclable materials to undertake its production while Diageo mainly places emphasis

on its community and how to promote responsible drinking as part of its sustainability programme.

Conclusion

To conclude, it is important to note that both businesses are operating in a globalised world where economic activities are very dynamic. Even if they operate in completely different lines of products, their global strategies should be similar in the sense that they have to study and react to any changes that definitely occur on this ongoing global business environment. PEST and SWOT analysis must be regularly conducted so as to analyse the changes occurring and to develop the right strategies that will strengthen the position of each business and eventually ensure sustainability in their performance.

b)

Introduction

According to (Worthington 2003, p. 466), in a global, fast changing competitive environment, accessing international markets have become increasingly important for companies to benefit from reduction in costs and to increase their demand. Globalisation has brought about a new competitive landscape referred to as 'hypercompetitive markets' where companies face enormous threats from their peers. So, accessing international markets has become the strategic instrument for many companies to ensure their further development. As highlighted by the OECD (2004), by moving to international markets bring about a host of opportunities such as economies of scale and technological know-how. As a result, almost every firm, be it automobile

industry or alcoholic industry, are engaging their business outside the boundary of their home country. This is the case for Ford and Diageo which are deeply integrated in the process of internationalisation. The development of strategic attributes represents the centrepiece of the internationalisation process by which a company build its position in the market. There are different modes of entry in international markets. It is argued by Root (1998) that the choice of entry mode is a crucial strategic decision for multinational firms. It was also pointed out by (Root 1998, p. 15) that once a firm has set its foothold in the international markets, the modes of entry decisions will change in fairly predictable fashion. According to Hill (2007, p. 486), firms are engaged in exporting when they have just started to expand their business globally and will shift to other modes in the future. Joint venture refers to an entity formed by two parties to carry out economic activities together. This is a popular form of market entry. Under licensing, an organisation gives another organisation with the right to use its intangible property in a specified geographical area for given amount of time by paying some amount in return, known as the royalty fee. In a wholly owned subsidiary, 100 percent of stock is owned by the firm. According to (Hill 2007, p. 493), the firm can start a new business in that country known as greenfield investment or it can take over another business in the host country. The proliferation of mergers and acquisitions (M&As) were mostly fuelled by globalisation and increased competition. M&As are created by firms mainly to increase their global reach and competitiveness.

Modes of entry of the two companies

Export was considered as an indispensable complement to the development of the automobile industry, but usually the manufacturer designs a car with its home country in mind. Initially, Ford was engaged in the export of cars to Europe, but with high transportation costs and tariff barriers, it started operation in Manchester. This marked the global expansion of Ford. Ford's entry in the international market corresponds to a great extent by the great waves of international mergers and acquisitions. It had many alliances with local and overseas companies. The intention behind Ford's collaboration with other automobile companies in the product development was mainly to share costs. It acquired Hertz and Jaguar in 1987 and 1990 respectively. Its 100% stake in Hertz in 1994 clearly shows Ford as a wholly subsidiary. It also acquired the BMW and Land Rover and expanded to China under the form of joint venture. The ChanganFord then became operational in 2003 with the production of Fiesta. In 2005, it made several acquisitions mainly reacquisition of Visteon's 23 to protect its supply of components. By 2009, the automobile industry became a network of collaborative arrangements. So, we can say that Ford is a growing company expanding into the global automotive market.

Moreover, another factor that can classify Ford as a global company is that it is engaged in the production of a standardised vehicle, which can be sold in multiple markets. According to WILKINS and HILL (1964), Ford's trajectory can be seen as a model especially to the high position that it occupies in the industry and its allegedly outstanding process internationalisation. Ford is a pioneer in the automobile industry given the vast number of overseas

manufacturing it handles and also since the very beginning of its operation it had developed strategies that were applicable worldwide. In addition, Ford source suppliers and choose assembly locations depending on costs. An increase in competition in the automobile industry has further increased the quest to reduce costs. The intention behind Ford's collaboration with other automobile companies in the product development was mainly to share costs. The production system at Ford was backward integrated. Ford possessed rubber plantation in the amazon basin. Outsourcing of materials and components were the main trend for the past 30 years. The main objective behind this was to be cost effective and more flexible in its operations. The executives at ford have in mind to implement a strategy that involves three important elements such as globalisation, reengineering and market expansion. They are to develop vehicles platforms that can serve the needs of different markets. The objective behind this is a reduction in design and product development costs, to avoid repetitions and inefficiencies and to continue maintain their activities globally. Furthermore, Ford's market share increased from 14. 2% in 2008 to 16. 5% in 2011 in the US. It is also a leader in other markets such as Canada with market share of 17. 1%, Turkey with 15. 8% amongst others. The high market share enables it get competitive advantage over its peers and as such it can increase its bargaining power and makes it a global company.

The operational network of Ford is a highly diversified one with a variety of sectors such as assembly facilities, distribution centres and warehouses. It also has about 11, 790 dealerships worldwide. In addition, in order to increase its production capacity, ford is investing in other countries mainly

china, Thailand and India. This diverse range of operations enables it to meet the needs of customers round the world profitably.

Similarly in the alcoholic drink industry, the creation of the global economy at the end of the 1960's helped to boost up the consumption of alcohol consumption and the expansion in sales in new geographical markets. Improvement in technologies captured scale economies which then translated in more effective distribution of alcoholic drinks. Mergers and acquisitions in this industry arose mainly because of competition. The large companies were competing mainly in the local market by producing a single product but along a portfolio of brands. The stagnation of the western market and increasingly global competition, firms felt the need to engage into mergers and acquisitions. In 1997, Diageo company following the merger of Grand Metropolitan and Guinness. The result of this merger was attributed not only to get the ownership of successful brands but also the rationalisation of costs. This merger has led to a complete rebranding and reimagining of the company. It took over the wine business of Seagram in 2001. Diageo made several acquisitions mainly with the Chalone Wine Group and the Whiskey business of Bushmills in 2005, Rosenblum Cellars a US firm producing wine in 2008. In 2006, Johnnie Walker Blue Label and King George V Edition made its appearance in duty free channels of Europe. In 2008, Diageo was involved in a licensing agreement with Korea to conduct its operation in the country and it also got involved in a joint venture in the same year with Namibia Breweries. Diageo was also engaged in partnership. Moreover, what makes Diageo a global company is that it is involved in several acquisitions to expand its market. Recently, it has invested about £

1 billion to establish a market in Africa. Moreover, in order to meet the growing demand for Vodka in Vietnam, Diageo has acquired a stake of 45.52% in June 2012 Halico. By taking over other companies around the world enable Diageo to increase its market position. Moreover, its wine market has experienced high growth recently. For instance, in 2011 the market grew by 3.1% and it is expected that there will be an increase of 17.9% in 2016 from that of 2011. 65% of the wine market is in Europe which helps the company increase its presence in the market. Furthermore, Diageo has 106 production facilities in different countries like the UK, Ireland, Italy, the US, Canada, Jamaica, Australia, and Philippines. This wide range of production facilities situated in different countries provides Diageo with the opportunity to cater for the needs of the market more efficiently. So we can see that Diageo company is highly polarized between different markets of the world such as North America, Western Europe, Eastern Europe, Africa, Latin America, and most of Asia Pacific. By making a presence in these markets, Diageo was able to gratify the benefits of scale economies and contribution. As per the Financial Times, Diageo formed part of the 150 largest companies in the world in 2008. This indeed makes Diageo a global company. We can say that Diageo has a specific strategic direction which has enabled it to achieve success in the European markets, established a foothold in North America and other international markets and gain a global recognition in Asia-pacific. The strategy of Diageo's included selective acquisitions of popular brands coupled with a strong customer base and retaining current brands.

Conclusion

Hence, being both global, create conditions for both companies to become highly vulnerable to any slight change in the global economic environment. Following the recent economic crisis, Ford Company has faced severe downturn in Europe with a drastic fall in sales which seems to have no end in sight to the slump which is of great concern to the economy. As per the financial times in September 2012, Ford had experienced a fall of 29 per cent in its sales in Europe and a slowdown in the market for the 11th consecutive month. This has led to a fall in its market share by 1.6 percentage points to 6.5 per cent. According to the chief executive officer of Ford, the only way Ford to restructure its business and continue its investment is to cut production capacity to keep with demand. This in turn entails closing one of its plants to reduce costs. Last October 2012, Ford has decided to close two plants in the UK which it hoped to improve the profitability of the company amid of the crisis. On the other side, Diageo seems to be less affected by the economic crisis because alcoholic drinks have inelastic demand compared to cars. The recession usually causes consumers to cut their demand of luxury items first and in the long run may attempt to reduce their consumption of drinks. So, I believe that global changes might have less adverse effects on Diageo as compared to Ford.