

International business mars and ferrero analysis essay sample

[Business](#)



Every business in this world aims to be successful. Success in business can be achieved by two means i. e. through profitable operations of the existing business or through the expansion of the business within or beyond the boundaries.

Internationalisation can be defined as the process of getting involved in “beyond the border” activities or operations of business (Blomstermo and Sharma, 2003). It can be trading the products and services among nations, manufacturing the products in other countries or starting joint ventures in host countries etc. Internationalisation is a risky process for every corporation. It needs complete market knowledge of the countries in which the company aims to expand its operations and a thorough study of the cultures’ of their people as well. It also needs a bulk quantity of business resources (e. g. financial resources, human resources, technological resources etc.). (Thompson & Martin, 2010)

This research paper aims to focus on the “internationalisation strategies” of the two world- leading food manufacturers i. e. MARS and FERRERO. These two giant corporations are widely known for their confectionary products (especially chocolate products). Mars operates in more than 73 countries while Ferrero operates in 36 countries. (Scott & Riggs, 2012)

INTERNATIONALIZATION: SUCCESS FACTORS OF MARS AND FERRERO

Mars and Ferrero are not new to internationalisation. They have been operating globally since years and with great success. This section of the research highlights the most important factors that lead these multinationals towards success. (Rogers, 2009)

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Common success factors

Mars and Ferrero share two common success factors in terms of internationalisation i. e. product quality and innovation. These two factors are briefly discussed below:

Product quality

Satisfying the consumers' taste and maintains the product quality to a desired standard across the globe is not an easy task. These two companies successfully maintain their products' standard and hence protect their "brand image" around the world. Consumers believe that when they purchase these two brands there will be no issues related to the quality and nutritious value of the products. Consumers around the world, views Mars more than a chocolate. In UK, they consider it as a substitute for meals while in Europe; they take it as a refreshing snack (Kapferer, 2008) On the other hand, Ferrero (since the very beginning) focuses on the quality of its products and focuses to use the best ingredients for its products. Its internal department (Ferrero Engineering) works to improve and develop the manufacturing process so that the company can deliver maximum nutritional value to its consumers all over the world (US Business Executive, n. d.).

Innovation

Ferrero and Mars both believe that continuous product innovation is the key to success. Therefore, they are continuously making efforts to introduce innovative products globally to respond the changing needs of consumers. (Onida & Viesti , 2012) For example, Mars expanded its product line by introducing " Mars ice-cream" in the markets in response to the sluggish

demand of chocolate in summers (Needham, et al., 1999). Other innovative products of Mars include M&Ms, Snickers and Dove chocolate bars.

Similarly, Ferrero always believes in investing heavily to introduce new and innovative ideas to their products. The worth mentioning product of Ferrero in this context is “Kinder SURPRISE”. The product offers a chocolate egg along with a surprise toy for children’s fun. Ferrero’s website claims that, since its launch, the company has successfully sold nearly 30 billion eggs all over the world. Other innovative products of Ferrero include Ferrero Rocher, Raffaello, Mon Chéri, Tic Tac etc. (Ferreo, 2009). Success factors of Ferrero

Ferrero stepped into internationalization of their business in the late 1950s. Ferrero starts internationalisation with the strategy that says, “Capture the new markets with existing products and after getting success there, move to newer ones”. The strategy proved to be successful. The company sold its products through a worldwide network of subsidiaries and became global, “from America to China.” Ferrero’s internationalisation policy revolves around “differentiation” of products. Ferrero developed its products and brands according to consumers’ behaviours around the world. They believe that the key to success for internationalization is just to manufacture the best quality and unique products, so that the market share can be successfully increased (Calori, Atamer and Nunes, 2000).

Success factors of mars

The success of Mars is heavily relied on the coordination among their product sectors of each region. Mars has a president for each product sector, who look after all the operations of the sectors in each region and is free to

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take appropriate decisions because of Mars' decentralized structure (Calori, Atamer and Nunes, 2000). Mars has become successfully global because initially it focuses on only a few products and brands to be universal. Mars says that there six brands are truly global which include Snikers, Mars, M&Ms, Whiskas, Chum, Uncle Ben's Rice. Mars believes that, if the world's 15% population consumes 85% of our products and sales than the remaining population will gradually start consuming our products in near future (Calori, Atamer and Nunes, 2000). Mars internationalization strategy states that if a new market is dominated by small number of competitors, than a company should not enter that particular market. It should enter such segment if and only if the market has an irresistible consumer benefit. (Disselkamp, 1995)

COMPETITIVE INTERNATIONALISATION

The research, of top five global confectionary companies for 2012, puts Mars Inc. on the " 2nd" number while Ferrero Group appears at " 4th" place. Mars Inc. has 1, 353 factories worldwide while Ferrero Group has just 18 (Scott and Riggs, 2012). This research reveals that, in terms of internationalisation Mars is more competitive than Ferrero. This section of the paper focuses on reasons that make Mars more competitive and successful. (Needham et al., 1999)

The competitiveness of Mars Inc. can be evaluated in terms of its product sectors, product diversification, uniqueness of its raw materials, partnerships for growth etc.

Diversified Product lines around the globe

Mars offers a huge variety of products under the product lines that are named as follows:

- Petcare
- Chocolate
- Wrigley
- Food
- Drinks

The study of Mars' product lines shows that Mars not only restricted itself to related diversification but also took bold steps for un-related diversification. Mars' diversification into chewing gum proved to be most successful in the history of Mars. Mars purchased "Wrigley" for \$23 billion in 2008. This purchase not only increased the size of the company but also enhance its brand's image (Thompson and Martin, 2010).

On the other hand, Ferrero restricted itself to related diversification only. Its product lines include Ferrero Rocher, Raffaello, Mon Chéri, Nutella, Kinder Surprise, Kinder Chocolate, Tic Tac. It appears that the company is avoiding risks associated with diversification and hence, makes a company less competitive in terms of internationalisation. (Disselkamp, 1995) Stage Approach to Internationalization

This approach says that companies start serving their home market first and then gradually approach the newer markets. Under this approach, "The

Uppsala Internationalization Model” can be applied on Mars Inc. This model states that, “ firms move to international markets by following a step by step process”. They first starts to satisfy the local demand, then move their business operations to those markets that possess characteristics similar to home markets, and then finally move to markets that show greater psychic distance (Baronchelli and Cassia, n. d.). Mars has followed the same path. After the successful introduction of products like Milky Way and Snickers in United States of America, Mars entered the United Kingdom. This is because the markets of UK more or less have similar characteristics than USA’s markets and are attractive enough to generate profits. (Calori, et al, 2000)

Defensive Strategy for Euro Brands

For expansion of euro brands, Mars believes in two precautionary ideas that make it competitive (Disselkamp, 1995):

1. Avoidance of highly seasonal or short duration markets
2. Avoidance of markets that requires dependence on unique raw materials

In order to make better relations with European retailers, Mars introduce a program “ partnership for growth”. The underlying aim of this program is to revolutionize the development of products, pricing policies and advertising strategies. The company negotiate the prices of the products with European retailers and meanwhile launch some new flavours for its existing products. This partnership proved to be fruitful for both the European retailers and Mars (Disselkamp, 1995).

Comparative Advantage Theory

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According to Ricardo, an exporting country should focus on the production efficiencies of commodities and make only those goods that it can produce most efficiently (Ajami, et al., 2006).

Mars is greatly aware of the fact that production efficiencies leads towards greater profit margins and provides a competitive edge. Mars always pay greater attention to make its supply chain efficient and effective.

Inexpensive but quality raw material offers greater efficiency. For this reason, Mars has developed a Commercial Department, which is responsible for all the supply-chain issues. Mars was the first U. S. company that starts purchasing cocoa beans directly from Africa and South America while its competitors rely on the brokers for the purchase. It saves time and lowers the cost of production as well. This offered Mars a comparative advantage over its competitors and helped the firm to increase its exports for its most cost-efficient products (Rogers, 2009).

CHANGES IN INTERNATIONAL STRATEGY

For the year 2012, Mars Inc. claims the net sales of around \$16. 2 billion while Ferrero Group's net sales are \$9. 61 billion. This shows that Mars is operating more successfully throughout the world than Ferrero. The management of Ferrero needs a revision of their internationalisation strategies more than Mars. This is because Mars is the second largest confectionary company. (Ferrero, 2009)

Ferrero

Following changes are suggested to revolutionize the international strategy of Ferrero group:

Licensing and Partnerships

The main drawback in the international strategy that researches reveal is the licensing issues. From its very beginning, the company's policy revolves around the avoidance to issue licenses and trade marks to foreign firms. This policy has been adopted in order to secure the products' quality and to keep aware of the company's operations as well (Onida, and Viesti, 2012). The company should developed relationships based on trust and hope. It should negotiate its terms and conditions with the second party and then generate profits. (Baronchelli & Cassia, n. d.)

Similarly, Ferrero should develop profitable partnerships around the globe with retailers, suppliers and adverting companies etc. This will strengthen the relationships and also offer cost efficiencies.

Unrelated Diversification

The entire product line of Ferrero Group offers confectionary products. Ferrero should take initiatives and diversify its product line. Like Mars, Ferrero has the option to enter in the food sector and starts manufacturing products like sauces, jams, pre-cooked foods etc. Ferrero should follow a "Born Global Approach" for its new product lines. This is because Ferrero possesses a reputable brand identity. It should cash its image and take some bold steps. The global markets have substantial consumers that trust the

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brand. Therefore, Ferrero will not have to make additional efforts to develop markets for its new products(Ajami, . et al., 2006).

Production efficiency

Ferrero should focus on increasing the operating profits for the company. It should find innovative ways to decrease its production cost. It should find ways to obtain inexpensive raw material for the products but not on the cost of quality. Ferrero should cut its advertising expense as the brand is widely recognize around the globe and unnecessary advertisement will only increase the expenses and eventually the profits will decline. (Scott & Riggs, 2012)

Investment in R&D

Going global requires a lot of information related to the markets in which the firm aims to enter, its competitors, and most importantly the characteristics of the consumers in that market. The knowledge related to needs, wants and preferences of the consumers play an important role in making decisions and operate profitably in newer markets.

In order to explore new markets and identify opportunities, Ferrero should invest heavily in “ research and development sector”. This will help to find out the un-served but profitable segments. (Needham et al., 1999)

Mars

Following changes are suggested to Mars in order to make the international strategy more successful:

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Segmentation

Ferrero's market segmentation strategy is tremendous. Mars should follow some of the key points from its strategy. For example, for a specific age of children Ferrero offers its really innovative product by the name "Kinder Surprise". Mars should also target this segment and introduce innovative and unique products that will not only provide taste but also have an entertainment element in them. (Ajami, . et al., 2006)

Advertising globally - move towards consumers

Mars should promote its products by moving close to consumers. It should advertise its products door to door. Distribution of pamphlets and brochures (that contains information regarding the entire range of the brands and their nutritional values) will result in greater awareness among consumers around the world and hence increases profitability of the company.

CONCLUSION

The process of internationalization is requires substantial input in terms of time, money and efforts. Clever management of internationalization issues will result in success and profitability.

The two organizations that have been discussed in this paper are Mars Inc. and Ferrero Group. They have their roots in USA and Italy respectively. The study (of these two world-leading food manufacturers) focuses on their internationalisation strategies and their effectiveness. It is clearly evident that Mars is operating more profitably around the Globe than Ferrero. Ferrero

needs a little more improvement in its strategies to stand equal to Mars.

While Mars is the second largest confectionary company, it should also make slight changes in its strategies to be on the top of the confectionary industry.

(Disselkamp, 1995)

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