Adapting and formulating a business strategy commerce essay

In an increasingly competitive world, companies have had to adapt and formulate strategies which give them advantages over their peers. The Brewery Group Denmark (BGD) is no exception to the rule. The company which has its roots in a small town in Denmark has grown to become one of the leading companies in Denmark’s brewing industry in terms of the volume of sales and profitability.

Competing with one of the world’s largest brewers of beer in Carlsberg, who has over 70% of market share in Denmark, the company has seen huge growth over the years through a clearly defined market position, and development of its core competencies, aided by mergers, acquisitions and strategic alliances.

With an exclusive focus on marketing imported beer to host countries, and a good internationalisation strategy, the company has been able to carve out a market niche for itself. It has been able to successfully enter a wide number of markets through local alliances, and spotting of opportunities for its products internationally.

This report aims to analyse the activities of BGD, focusing on the firms strategic positioning, its analysis of competency and competitive advantage, and a look at its internationalisation strategy.

2. 0 ANALYSIS OF BUSINESS STRATEGY

To maintain a competitive advantage, Porter suggests that there are three potentially successful generic strategic approaches to outperforming other firms in an industry:

Overall cost leadership Strategy: Firms using this strategy look to gain competitive advantage by having a low cost position. This is achieved through aggressive construction of efficient-scale facilities, vigorous pursuit of cost reductions from experience, tight cost and overhead control, avoidance of marginal customer accounts, and cost minimisation in areas such as research and development, service, sales force etc. (Porter M. 2004). Having low cost processes become the competitive edge these firms have over their competitors and the whole business strategy is built around this.

Differentiation Strategy: The second generic strategy is one of differentiating the product or service which the firm offers, creating something perceived as unique or different industry wide. This strategy provides marginal insulation from competition because of brand loyalty and the perception of uniqueness of the product.

Focus Strategy: This strategy involves focusing on a particular buyer group, segment of the product line, or geographic market. While the cost leadership and segmentation strategies are aimed at achieving one industry wide objective, the focus strategy is built around being able to adequately meet the needs of the brands target market.

Porter's generic strategies are depicted in figure 2 below.

DIFFERENTIATION

OVERALL COST

LEADERSHIP

FOCUS

Figure 1: Porters Generic Strategies (source: adopted from Porter, 1985)

From the case study, we can say that BDG is following a focused differentiation strategy as the company targets a niche of consumers who like their products. In so doing, the company has been able to charge a premium for their products. The company achieves this by creating a perception of uniqueness of their products in the eyes of their customers. In international markets, the company are keen to emphasise the fact that their beer originates from Denmark and is produced using the well known Danish traditional brewing techniques. The company in internationalisation decided not to compete with other big brewery firms in terms of cost or volume sales. These companies adapt their products to the needs of the countries in which they operate but not BDG. They rather concentrated on carving out a niche for themselves, targeting customers willing to pay higher prices for products seen as special. The success of such a strategy depends upon clear market segmentation that identifies opportunities based less on the size of the market but on how it might be exploited differently from other segments. The segments need to be favourable to their own offering and not be subject to the intense competition that can come from the bigger global players. Overall, the use of this strategy relies heavily upon the impression of high quality implicit in the “ imported Danish beer” approach used to market the products. Furthermore, the products are largely sold in smaller, lucrative markets which are less prone to competition from the major suppliers, such as Carlsberg and Heineken.

Porter (1996) proposed that strategic positions emerge from three sources, which are not mutually exclusive and often overlap;

Needs-based positioning – The appeal of the product to premium customers interested in the “ imported Danish” appeal of the product.

Variety-based positioning – Delivering a limited product range with the focus upon high quality, premium beers.

Access-based positioning – the choice of smaller markets, less attractive to the global players, and the use of non-competitive channels contribute a key dimension of the strategy’s sustainability.

3. 0 ANALYSIS OF STRATEGIC CAPABILITY

From the case study we can see that the global brewing industry is highly competitive. For a small firm, such as BDG to remain competitive it must develop its internal strategic capabilities. Internal capabilities of a firm are what distinguishes it from other firms competing within the same big environment. The capabilities gave a firm its source of competitive advantage, as it is the secret weapon with which they enter the market. They are those activities of a firm which are difficult to imitate, and hence, cannot be copied and utilised by competitors.

Johnson & Scholes (2008) define strategic capability as the resources and competences of an organisation needed for it to survive and prosper. It includes the organisation’s physical resources, its financial resources, human resources and its intellectual capital.

While the overall strategic capabilities of a firm are important, they do not on their own create competitive advantage. A firm is more likely to achieve its competitive advantage, because it has distinctive or core competencies, which are the skills and abilities by which resources are deployed through an organisation’s activities and processes. The fact that BGD has been able to grow steadily over the years is a clear indicator that it appreciates and utilises its core competences to the fullest. The strategic capabilities of the company are analysed below.

2. 1. Product Quality

This is largely dependent upon the capability of the organisation to brew and maintain the distinctive qualities of its premium beers. One way in which this has been achieved is by maintaining separate production facilities, despite the merger with Faxe. Keeping the breweries in the towns of Faxe, Ceres and Thors, meant that the drinks were exclusively brewed in this towns, thereby maintaining the unique tastes of these brands, as altering the raw materials such as water and yeast would have ultimately lead to the loss of their unique taste.

Also in maintaining separate production facilities the group was able to keep hold of seasoned staff that have developed skills, specific to the independent breweries. These qualities cannot be understated as these staff know the working of the breweries to produce the distinct quality and taste of the beers that enable BDG position itself as a premium brand.

2. 2. Intellectual Capability

It is one thing to recognise opportunities in a competitive environment, but being able to filter through a host of opportunities and select that which matches the firm's strategy and objectives has been a major growth driver for BDG. The company has been able to grow internationally by carefully selecting markets favourable to it. A typical example in this case is the botched move to Spain as the market was considered saturated. The company instead moved to Portugal where it had less competition and it recognised it could focus on a small niche of about 10 million people whom they could sell their products to.

Another demonstration of the company's intellectual capability can be seen in the area of research and development as it continuously churns out products which are distinct as seen in the development of the malt beer for the Caribbean market.

2. 3. Relationship with Distributors

Through its strong brand name, achieved through the differentiation of its products the company has been able to swing the balance of power between manufacturer and distributor in its favour. Also by creating special alliances with distributors the company was able to cut cost that would have been incurred in moving their products globally. A clear example is the use of the empty containers of their distributor in Brasil, Cafe Bom Dia to ship their products into Brazil.

4. 0 SWOT ANALYSIS

The SWOT analysis below outlines the strengths, weaknesses, opportunities and threats which BGD has to contend with;

4. 1 Strengths

The main strengths of the strategy followed by BGD include:

A distinctive position in each of its markets, branding its product as ' imported Danish beer' and having the know-how to maintain this position;

Small, flexible and innovative sales organisation;

Partnership relationships with " non competitive" agents to act as sole suppliers of BGD's beers, so preventing internal brand competition within the distribution chain;

Strong position in markets selected as it avoids markets where the big players have a stronghold;

Maintaining the human resources necessary for its special brews, while also having a strong and well developed sales staff.

4. 2 Weaknesses

Possible weaknesses include:

Lack of integration between the different production sites;

Modest financial capital;

Vulnerability from rapid expansion

4. 3 Opportunities

Development of new product to maintain its position as an innovative company

Continuous identification of processes that can help the firm to cut costs

Moving into new countries in which it is not present

Continuous development of economies of scale and scope

4. 4 Threats

Changing of favorable economic and legal situation;

Changes in consumer behavior;

The big global players remain a threat to the company as they have the resources to try to emulate the companies sources of competitive advantage;

There is always the fear that their business concepts can be copied by competitors.

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5. 0 VALUE CHAIN ANALYSIS

We have analysed above the strategic capabilities of BGD, the company's generic strategies, and worked out a SWOT analysis for the company. To further understand how the organisation uses the resources available to it, the concept of the value chain and the value system will be applied. The value chain shows how the organisation can be understood as a series of activities and linkages that create value in the products it produces. The value chain is also embedded in a larger value system that opens up a series of decisions about the scope of the organisation (Johnson and Scholes, 2008).

In value chain analysis, the activities within the organisation are divided into the primary activities (inbound logistics; operations; outbound logistics; marketing and sales; service) and support activities (firm infrastructure; human resource management; technology development; procurement).

Figure 1 overleaf shows a value chain for BDG

Infrastructure

Flat Structure, symbiotic relationship with distributors.

HRM

Having experienced staff in both sales and production departments, merged sales force

Technology

Maintaining the individuality of the breweries

MARGIN

Procurement

Nearness to raw materials needed to produce its beers

Production is carried out in individual breweries

Use of special relationship with distributors to get its products to the market at lower costs

Creates a niche market for its products.

Product innovation

Inbound

Operations

Outbound

Marketing & Sales

Service

Fig 1; BDG Value chain (Source: Author, 2010)

Operations: BGD has been able to achieve growth through a series of mergers and acquisitions. In managing its growing portfolio, the firm recognised the need to keep the production activities of its contributing firms separate in order to maintain its competitive advantage of product quality. Keeping the facilities apart meant the firm maintained quality through its human resources who have developed their knowledge on the special techniques of the beers produced. It also meant that the raw materials needed for the specific production of each product was close to each production site.

Marketing and Sales: The symbiotic relationship the company enjoys with its distributors means that it has been able to cut costs involved with distribution of its products globally. We have already highlighted the contribution of its human resources in the uniqueness of its products. This has helped the company maintain its niche market.

6. 0 INTERNATIONALISATION DRIVERS

With the world becoming smaller as a result of globalisation, it has become imperative for organisation to revisit the ways in which they compete. Globalisation has brought about the falling of import barriers, reduced travelling cost, increased migration of people, increased flow of capital resources across borders etc. The evolution of events due to globalisation has changed the ways in which companies go about their business.

Yip (2003) developed a model that describes internationalisation drivers. The model consists of four internationalization drivers; market drivers, government drivers, cost drivers, and competitive drivers. These drivers and the way in which they affect the activities of BGD are discussed below.

Fig 2: Drivers of Internationalisation (source: Johnson and Scholes, 2008)

6. 1 Government Drivers

These drivers arise from policies set by governments of different locations in which a business operates. These include tariff barriers, technical standards, subsidies to local firms etc. The experience of BDG in various markets in which it operates have been varied in terms of government regulations. Initially, the Brazilian market was considered a no go area due to the protectionist approach of the government towards local firms. But due to a combination of inflation and GATT negotiations, the beer market in the country was thrown open, giving BDG the opportunity to move in and carve a niche for itself.

In the same vein, the change in the political dynamics of the countries of the former Soviet Union helped open up an untapped market, which the company duly exploited.

6. 2 Market Drivers

One of the biggest drivers of internationalisation is the similarity of consumer needs, making it possible to standardise products for a global market. The popularity of the Danish beer gave BDG an advantage, as it marketed its product based on its identifiable roots. The use of a differentiation strategy to show its beer as unique enabled it to charge a premium for its products. Also, with its strong brand image, the company can market its products in a similar way across most markets

6. 3 Cost Drivers

In its internalisation process, BDG pursues an export based strategy, keeping all its manufacturing in the home country while exporting to markets all over the world (78 countries). The merging of the companies to form the BDG group was done in order for the companies to pull together their resources and therefore reduce cost. Although maintaining separate production facilities is not considered a cost saving strategy, the company has been able to cut its costs through the strategic alliances it builds with its distributors globally. The use of the containers of its distributor in Brazil to transport its products to the Brazilian market is a typical example.

6. 4 Competitive Drivers

The global brewing industry is very competitive as there are many brewers that sell beer worldwide. The BDGs rivals such as Heineken and Carlsberg are also competing with it in other markets and not just in Denmark, hence the need for the company to develop strategies that will enable it remain in the market. The company decided that it was not going to be in direct competition with these big players in the industry, but rather, will compete for market share based on a differentiation strategy.

7. 0 CONCLUSION AND RECOMMENDATIONS

This case study has shown how a small company can survive in a highly competitive environment by pooling its resources in such a way to achieve competitive advantage. The company has been able to survive and remain profitable through the right mix of resources available to it. Strategic alliances with distributors had proven to be a key success factor for BGD. The approach taken by choosing distributors, complementing each other instead of competing, had helped the company to successfully compete in the different markets, furthermore, had helped the company to cut cost in transportation, distribution and promotion

However, with BGD's operations management involving its focus on its core competencies with market position following its resource base, they will be put into a disadvantageous position should they choose to neglect both the macro as well as the beer industry environment. Therefore, the company has to be aware of the latest operations management changes, as well as changes in political, economic, legal and even demographic trends in order to keep it abreast with changes within its business environment such as market sensing, customer linking, channel bonding and technology monitoring.

Knowing what the market demands and the latest trends could help the company fully exploit its research and development capabilities to come out with beer products which are not only cost-effective but also high in quality. This can even be used as marketing tool where the focus is on staying close to their customers and listening to their demands and requirements.