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Global Strategy to Enhance Competitiveness: Findings from an Exploratory Case Study of Select Food Firms

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Abstract

The recent unexpected upheavals in the world economy have made global strategy more important than ever for firms to maintain and strengthen their competitiveness in international markets. Along with globalization, some top food and beverage companies have successfully expanded their business globally and maintained their competitiveness, sustaining their management in a metanational way. In other words, they successfully find and meet food demands all over the world regardless of the company's nationality and national borders. Japanese food companies also have been expanding their business internationally as well. However, their business scales are smaller, compared to global top food and beverage firms. What are the key obstacles to the Japanese food companies becoming global? What can we learn from global food companies for Japanese food companies? It seems that Japanese food companies need to shift from being domestic players to global players. Moreover, reforms in top management are necessary to accelerate internationalization *of Japanese food firms that wish to be metanational. Therefore, the purpose of this paper is to attempt to extract learning from the global top food and beverage company's global strategies for Japanese food and companies in order to enhance competitiveness in international markets.*

This paper consists of three sections. (for more details, see Outline) The significance of this paper is to explore role of the timing and necessity of non-organic growth e.g. M&A for Japanese food and beverage companies, in order to internationalize.

***Keywords**: Global strategy, International competitiveness, Food industry, Metanational, Japan*

1. Introduction

Japan's long recession of 1990s and adverse impact of current recession has again raised issues of competitiveness. Several issues were raised in "Can Japan Compete? (Porter, Takeuchi, Sakakibara, 2000)." They tried to explain why American assumptions about Japan have proved so inaccurate, what its journey can tell us about how to succeed in the new global economy and why Japan was competitive in some and less competitive in others. Issues of competitiveness of industries from Japan have been studied by many. For instance, opportunities and issues of competitiveness of Japan in context of an emerging industry were explored by Momaya, Takabumi and Tokuda (2006) focusing on software. However, issues of international competitiveness of Japan in context of mature yet important industries such as food seems to be less researched and is focus of this paper.

Firms can be considered to be prime vehicles of competitiveness. This can be more true for mature industries, where role of the governments is considered less strategic. Basics of competitiveness across levels (e.g. country, industry and firm) including detailed examples across industries, evaluations using different models and case studies are discussed in detail by Momaya (2001). Quick review hints that despite long and remarkable journey, several Japanese firms seem to have difficulties in enhancing competitiveness and advance to higher stages. Through international benchmarking, we hope to diagnose competitiveness opportunities for the firms on specific dimensions.

1.1 Why Global Strategies are necessary for Japanese Food Firms?

Due to aging and stagnant population in Japan, many industries in Japan that failed to internationalize have stagnated and the food industry. In such a market environment, Japanese food and beverage companies are now facing pressure under the necessity of a shift from domestic focused strategy to global strategy in order to widen their target markets and strengthen their presence globally. Indeed, Kirin Holdings Company Limited (the biggest beverage company in Japan) and Suntory Holdings Limited (the 2nd largest beverage company in Japan) have started a negotiation to merge by the end of this year in order to increase their share and presence in overseas market. (Nikkei NET, July 13th 2009) If this merger is realized, the co-company of Kirin and Suntory would become the dominant beverage company in Japan (its revenue would be 2.6 times larger than that of Asahi Breweries, LTD, currently 3rd ranking in Japan) Also, it has been analyzed that the new company's global dominance will be equal to that of Pepsi Co Inc.

However, Japanese food and beverage companies and Japanese companies in general have been behind in terms of M&A compared to global firms. Historically, Japanese companies were pessimistic against M&A resulted from antimonopoly law enacted after the Second World War, although it was removed in 1997. Since then, Japanese companies have become slightly more positive of M&A but not positive enough. As mentioned, in July 2009, Kirin Holdings has started negotiation of M&A with Suntory Holdings with the aim of becoming a leading beverage company in Asia, and ultimately, globally. Moreover, some Japanese food and beverage companies such as Ajinomoto, already have access to overseas markets, especially in Asia. Although, Japanese food and beverage have their prominent presence in their country and Asia, however, most of Japanese food and beverage companies have failed in providing and conducting innovative strategies globally. There are three main causes of this: Japanese companies drag themselves by using the same strategy of internationalization, Japanese companies` lack of global marketing strategy and Japanese companies failing to capitalize on business chances in the knowledge economy. To sum up, Japanese food and beverage companies' scope is narrower than that of top global food and beverage companies.

Therefore, it is important for Japanese food firms which are looking for an opportunity to expand their business abroad, to learn lessons from successful global food companies.

1.2 Methodology

Systematic yet and pragmatic methodology was used for this exploratory paper. The concept and definition of global strategy are derived from orthodox theory (Porter, 1985) to a relatively modern theory of metanational. (Doz, 2001).

Top food and beverage companies in the world were evaluated on several assets and performance factors of competitiveness (Momaya, 2001). Apart from basic financial criteria such as growth, revenue and profits, attempts where made to evaluate strategy and innovation using select criteria. The top ranked food and beverage companies in Global 500 in 2009 are followed; Nestle, Unilever, PepsiCo, Kraft Foods, Coca-Cola, Tyson Foods, Groupe Danone, Inbev, Heineken Holding and Kirin Holdings. Among the companies, top global food and beverage companies were selected in terms of oversea sales over 50% of its total sales and also because they have been consistently ranked in the rankings. In accordance with this definition, 5 companies were selected as top global food companies; Nestle SA, Unilever, Coca-Cola, Groupe Danone, and Inbev. (see Table 1) These top global food and beverage companies were evaluated by mainly four perspectives in order to grasp the concrete aspect of global strategy and competitiveness and propositions, that are Basic, Operation Performance (CAGR, subsidiaries, investment), Innovation(R&D), and Strategy (M&A) and mutational six levels.

Table 1. Global Top Food and Beverage Companies in 2006-2009

No.	Company Name	2006		2007		2008		2009	
		Revenues 2005	Revenue Growth Rate	Revenues 2006	Revenue Growth Rate	Revenues 2007	Revenue Growth Rate	Revenues 2008	Revenue Growth Rate
1	Nestle SA	74,659	106.9%	79,502	106.5%	89,630	112.7%	101,565	113.3%
2	Unilever plc	49,581	99.2%	51,033	102.9%	55,006	107.8%	59,313	107.8%
3	The Coca-cola	23,104	105.2%	24,088	104.3%	28,857	119.8%	31,944	110.7%
4	Groupe Danone	16,455	96.6%	17,657	107.3%	20,128	114.0%	22,277	110.7%
5	Anheuser-Bush InBev	-	-	-	-	19,751	-	23,568	119.3%
5	Anheuser-Busch	15,036	100.7%	15,717	104.5%	-	-	-	-
5	InBev	14,483	-	16,697	115.3%	-	-	-	-

Source: “Global 500-ranking of the world’s largest corporations”, Fortune 2005-2009.

Unit: All revenue are in US $ millions.

Note: Anheuser-Busch and InBev mergered in 2008.

Therefore, the process of selecting food and beverage companies is summarized as follows;

1. The top food and beverage companies in the world were identified on the basis of their global rankings of Global 500 of 2009.

2. Global top food and beverage companies were selected in terms of oversea sales over 50% of its total sales.

3. Japanese top food and beverage companies were selected in terms of their rankings of sales.

2. Defining Capabilities to be Metanational

2. 1 What is Global Strategy?

The present international market is rapidly changing along with demands for products increased and more sophisticated technologies grew. Food and beverage companies also have been forced to have flexible strategies in order to adequately meet such demands. What is global strategy and what kind of global strategy is required in order to maintain and strengthen competitiveness in such international market?

The concept of strategy is famously described by Michael E. Porter, which is commonly adopted by firms to achieve and maintain their competitive advantages in shared market. Porter insists the necessity of adopting a global strategy that ‘captures the particular advantages of configuration/ coordination present in that industry is necessary to attain a leading position’. (Porter, 1986) He particularly focused on two competencies of product differentiation and product cost in this respect. Indeed, low cost products have high demand and it creates sustainable competitive advantage.

This global strategic concept has developed into transnational strategy. According to the Bartlett and Goshal, define the concept of transnational as ‘a complex organization, with roles and responsibilities differenciated by business, by function, and even by task’. (Bartlett, 2002)

2.2 From Global to Metanational

However, according to Doz, traditional global strategies are no longer sufficient enough to differentiate and global leading competitors. Instead, he introduces a new type of global strategy of metanational that means ‘a company that builds a new kind of competitive advantage by discovering, accessing, mobilizing, and leveraging knowledge from many locations around the world.’(Doz, 2001)

2. 3 Three Levels of Capabilities Required to be Metanational

Doz explains the three levels of metanational of sensing knowledge, mobilizing and operationalizing. (Doz 2002) Furthermore, the three levels have been divided into two dimentions. (Asakawa 2003)

Table 2. Three Levels with Six Dimensions.

Level 1. Sensing Knowledge:Being the first to identify and capture new knowledge emerging all over the world.		
	Dimension1	Prospecting Capabilities
	Dimension2	Accessing Capabilities
Level 2. Mobilizing Sensed Knowledge:Mobilizing imprisoned knowledge to generate innovations.		
	Dimension3	Moving Capabilities
	Dimension4	Melding Capabilities
Level 3. Operationalizing Sensed Knowledge:Turning innovation into value by producing, marketing and delivering efficiency on a global scale.		
	Dimension5	Relaying Capabilities
	Dimension6	Leveraging Capabilities

Source: Capabilities adapted from Asakawa (2003)

In this paper, global strategic strength is evaluated from four perspectives; Basic (Headquarters, Foundation, Revenue, CEO, Employee), Performance (CAGR, factory, products), Innovation(R&D center and rate of investment on innovation), and Strategy (M&A). Moreover, a top global food and beverage company and Japanese top food and beverage company will be compared by using the three levels of metanational with fixed criteria.

3. Macro Analysis of Top Food and Beverage Companies

In this section, top food and beverage companies in the world will be examined to clarify their position, characteristics and get clue of their global strategies.

Proposition 1: European Companies have been Global Top Food and Beverage Companies at Conducting and Evolving Global Strategy

Overall, Top Global Food and Beverage Companies selected in this paper consist of four European companies and one American company. The top 2 ranking of Global 500 of Nestle SA and Unilever have not changed their ranking for at least the last 5 years (see Table 3). Nestle SA has maintained its position as the No.1 global food company in the world throughout this time period. There was only one Japanese company ranked in 2009. This is Kirin Holdings which has been negotiating to merge with Suntory Holdings by the end of 2009. Therefore, European food and beverage companies have been at top for the last few years in food industries.

Table 3. The Ranking of Top Food and Beverage Companies in 2005-2009.

No.	2005			2006		2007		2008		2009	
	Rank	Company Name	Revenues 2004	Rank	Company Name	Rank	Company Name	Rank	Company Name	Rank	Company Name
1	43	Nestle SA	69,826	53	Nestle SA	56	Nestle SA	57	Nestle SA	48	Nestle SA
2	81	Unilever plc	49,961	106	Unilever plc	120	Unilever plc	122	Unilever plc	121	Unilever plc
3	172	PepsiCo Inc.	29,261	175	PepsiCo Inc.	184	PepsiCo Inc.	184	PepsiCo Inc.	175	PepsiCo Inc.
4	257	The Coca-cola	21,962	267	The Coca-cola	285	The Coca-cola	195	Kraft Foods, Inc.	177	Kraft Foods, Inc.
5	307	Sara Lee	19,566	326	Sara Lee	354	Coca-Cola Enterproses	275	The Coca-cola	259	The Coca-cola
6	332	ConAgra Foods	18,179	346	Coca-Cola Enterproses	412	Groupe Danone	403	Coca-Cola Enterproses	387	Anheuser-Bush InBev
7	334	Coca-Cola Enterproses	18,158	407	Groupe Danone	439	InBev	431	InBev	413	Groupe Danone
8	351	Groupe Danone	17,040	434	ConAgra Foods	478	Anheuser-Busch	423	Groupe Danone	422	Coca-Cola Enterproses
9	411	Anheuser-Busch	14,934	448	Anheuser-Busch			431	Anheuser-Bush InBev	442	Heineken Holding
10	497	Heineken	12,444	472	InBev			491	Heineken Holding	498	Kirin Holdings
11								493	SAB Miller		

Source: "Global 500-ranking of the world's largest corporations", Fortune 2005-2009.

Proposition 2: Top Food and Beverage Companies have maintained or increased their Revenues consistently over the last few years.

Despite economic downtown, top global food and beverage companies have succeeded in increasing their revenues in 2008 and had been consistently over the last few years as showed in Table 1. For example, Nestle SA and the Coca-cola Company both recorded an increase in revenue continually over the past 4 years. Although Groupe Danone's Revenue fell by 3% of previous revenue in 2006, the company then increased its revenue through until 2009. Anheuser-Bush InBev achieved a remarkable increase in financial year 2009 by 19% increase one year after the merger. (see Table 1) The merger was conducted across border, between USA and Belgium. Japanese firms also need to consider about across boarder M&A in order to be leading global company.

4. Micro Analysis of Global Top Food and Beverage Companies

The top global food and beverage companies will be examined by main four perspectives (Basic, Performance, Innovation and Strategy) to get insights and grasp the aspect of global food and beverage companies' strategy and their competitiveness.

Table 4. Global Top Food and Beverage Companies' Strategy and Competitiveness

No.	Company	Basic					Performance					Innovation		Strategy
		Headquarter	Foundation	Revenues 2008	Executive Board (CEO)	Employees	Profit Margin 2008	CAGR Revenue (2005-2009)	CAGR Profit (2005-2009)	Factories	Approx. No. Products / Brands	R&D Centre	Ratio of Investment on Innovation	M&A
1	Nestle SA	Switzerland	1886	CHF 109,908 millions. ·Outside of Europe: 55.9%, CHF 50,264millions.	Paul Bulcke	283,000	16.4%	9.8%	32.5%	456 ·Outside of Europe: 291, 63.8%.	10,000	1 Nestle Research Centre. 27 R&D Centre. ·5,000 people.	1.8% ·CHF 2 billion	Active
2	Unilever plc	Netherland/ UK	1930	€40,5 23 millions. ·Outside of Western Europe: 64%, €26,052 millions.	Paul Polman	174,000	12.4%	4.4%	33.3%	270	22,000 ·400 brands.	5 Laboratories	2.4% ·.€927millions	Active
3	The Coca-cola Company	USA	1886	$31,944 millions. *Net Operating Revenues ·Outside of North America: 76%.	Muhtar Kent	92,400 ·Out of North America: 79,100, 82.7%	18.2%	9.8%	4.6%	-	3,000 ·500 brands.	-	-	Active
4	Anheuser-Busch InBev	Belgium	2008 . Anheuser-Busch was established in 1852. . InBev(mergered) in 2004.	€16,102 million ·Outside of Western Europe:79.4 %, €12,379millions.	Carlos Brito	120,000	0.7%	-	-	151 ·Out of Western Europe:135, 89.4%.	. 300 brands.	-	0.32% ·€52 millions.	Mergered in 2008
5	Groupe Danone	France	1919	€15,220millions. ·Outside of Western Europe: 52%, € 7.94 billions.	Franck Riboud	80,143 ·Outside of Western Europe: 60,773,76%.	8.6%	6.9%	48.6%	160 ·Outside of Western Europe:124, 77.5%.	(Dairy products, water, baby foods)	2 main centres in Paris and the Netherlands.	0.34% of Revenues. ·€52millions.	Active

Sources: Annual reports of each firms & web sites.

In regard to basic, the scale of top international food and beverage companies is tremendously large compared to Japanese food firms. For example, the revenue of Nestle SA is almost 10 times larger that of Japanese company of Ajinomoto. Also, there is a big difference in the number of employees; Nestle SA had 283,000 and Ajinomoto had 26,948 in 2008. Therefore, in order to establish global dominance, the scales of finance and human resources need to be prominence in the international market.

Interesting contrasts in corporate governance between firms from large and small countries became apparent. For instance, top global food and beverage companies tend to elect Chief Executive Officers (CEO) of nationalities other than that of the company itself. They do not limit themselves to individuals of the home country to strength their competitiveness. For example, Nestle CEO is Paul Bulcke, who is Belgian. Not surprisingly, 3 out of 6 CEO of selected global food and beverage companies are non-natives. (see Table 5) Having foreign CEOs, some good aspects that helping restructuring organization in order to increase its competitiveness in unforeseen international market.

Table 5. Glimpse of Patterns of Corporate Governance in Select Top Food and Beverage Firms

No.	Company Name	CEO	Board of Directors 2008					Executive Board 2008				
			Members	Outiside of Country	Ratio	Female	Ratio	Members	Outiside of Country	Ratio	Female	Ratio
1	Nestle SA	*Belgian	15	5	33%	2	13%	11	9	82%		
2	Unilever plc	Dutch	12	5	42%	-	-	7	-	-	1	14%
3	The Coca-cola Company	USA	14	-	-	3	21%	-	-	-	-	-
4	Anheuser-Busch InBev	*Brazilian	13	7	54%	-	-	14	-	-	-	-
5	Groupe Danone	French	14	5	36%	-	-	12	-	-	1	8%
6	Heineken Holding	*Belgian	8	3	38%	2	25%	12	6	50%	0	0%
7	Kirin Holdings	Japanese	9	0	0%	0	0%	6	0	0%	0	0%
8	Ajinomoto	Japanese	15	0	0%	0	0%	-	-	-	-	-

Source: Capabilities adapted from Asakawa (2003)

Note: CEO whose nationality is different from Headquater's nation is marked with '*'.

In regard to innovation, research and technological advantage also can be observed in the list. For example, Nestle SA has its 27 R&D Centres all over the world including North America, Asia and Africa. In this respect, scattered researching centers encourage dialogue, knowledge sharing and creativity and consequently meet local demands across the world. This helps company to reduce the investment on innovation.

In regard to strategy, global top companies took a positive attitude for M&A after their foundation of company, which helps companies pursue rapid grow and create new business entries to expand their competitiveness. For example, Unilever acquired Thomas Hedley Ltd of Newcastle (UK) in the same year Unilever was officially established in 1930. Unlike Japanese global automotive and electric top companies such as Toyota and Sony which gain global leadership with their organic growth, Japanese food and beverage are unlikely to be able to become top global company without M&A.

4.1A Comparison between Global and Japanese Top Food and Beverage Companies

In this section, we make a close comparison between Nestle SA and Ajinomoto to grasp the difference and to what extent these companies are metanational. Three criteria are set for dimensions of melding, relaying and leveraging. (see table 6)

Firstly, Dimension 1 of prospecting capabilities was measured by the number of subsidies all over the world to measure to what extent both companies have capacity to collect knowledge and information scattered regardless of border. The two companies have relatively a large number of subsidies (more than 100). Dimension 2 was measured by the number of area that own research center. Nestle SA has its research center across the world including North America, Asia and Africa. On the other hand, Ajinomoto's centers have not extended into Africa while expanding its business into Asia. Overall, both companies have capability to identify and capture new information by scattering their basements internationally.

Secondly, Dimension 3 was measured by the nationality of Board of Directors who has the responsibility for the direction of company and management. There is a clear difference between the two company that Nestle SA's Board of Director are multi-national, however, Japanese Board of Director is consisted of only Japanese and no females. Although it is too simple to conclude by this limited information, however it can be said that Ajinomoto has little platform and flow of information to move and exchange information across the world. The number of researchers was set for examining melding capability. It is researchers' role that new ideas have feasibility and have a critical role in innovation that new ideas are proved as feasibility. Nestle has around 5,000 researchers around the world, while Ajinomoto has 1,200 mainly in Asia. This shows that Nestle has more capability to integrate scattered ideas into than Ajinomoto.

Lastly, the accumulated number of patents proves to what extent the two companies have actual ability to develop new ideas into technology proven by country. In this regard, Nestle has obtained 454 patents a year and Ajinomoto has obtained 655 patents through 2004-2008. It can be said that Ajinomoto has put its efforts on research and development than Nestle. Furthermore, the capability of leveraging is measured by constant annual growth rate (CAGR) over 2004-2008. This proves that to what extent technology and products have provided values to customers. Nestle has 7.8% and Ajinomoto 3.2%.

Although Nestle has less patents, it has succeeded in creating and maintaining, it has more its capability of metanational than that of Ajinomoto.

Table 6. Example of Criteria for Quick Benchmarking

Dimensions	Capability	Criteria	Nestle	Ajinomoto
1	Prospecting	the number of subisidies around the world	more than 100	101
2	Accessing	the number of countries research and development centre are stationed	17	10
3	Moving	the number of nationalities in Board of Directors	5(out of 15)	0(out of 15)
4	Melding	the number of researchers around the world	5,000	1,200
5	Relaying	the number of PCT patents granted over 2004-2008	454	655
6	Leveraging	jump in sales over 2004-2008	€11,935(113.3%, 2008)	¥58.062 (5.0%, 2008)

Source: Capabilities adapted from Asakawa (2003)

Note: The number of patents shown is the average number of patent 2004-2008.

Note: the number sited in 6 is the biggest jump in sales over the past years.

5. Concluding Remarks and Implications

This practice-focused exploratory research can have very limited conclusions and contribution to theory at this point, since it is work in process. Still, summary of emerging findings and implications may add value. Implications are focused on Japanese firms, who are hoping to strengthen their competitiveness and revenues in international market. Japanese food firms can learn best practices and lessons from their competitors at metanational stage in order to strengthen their strategy and consequently enhance competitiveness.

The indicative best practices that Japanese food and beverage companies could learn from this paper are below.

1. Capabilities to attract and leverage best available international talent in top management team to advance internationalization on different facets is a weakness for many firms in large countries and particularly Japan. Japanese firms should try to rapidly enhance their governance practices to attract women and foreigners, if they are very keen to leverage their metanational capabilities.
2. Capabilities to facilitate two way transfer of knowledge (e.g. in metanational style) demands lots of collaborations among home office and plants, R&D centres spread across countries. Innovative human resource development and technology transfer practices need attention.
3. The scale of business of Japanese firms are much smaller than that of global top firms which obtained their dominance in international market through non organic growth. Accelerating M&A is required to Japanese firms in order to scale up business and become a major player in international market.

Japanese companies have their potential to become global dominant by using its accumulated knowledge and technology. In order to make it practice, Japanese companies need a shift from domestic dominant leader to global by creating international working place (including hiring foreigners) and be positive with M&A with foreign companies to scale up their business and strengthen their competitiveness.

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