Multinational Marketing Tactics and Strategies

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Abstract
The years since 1990 have brought a steady sequence of upheavals in economic relations among Multinational companies. Newly developing companies have seized from traditional based international companies an important share of the world market for goods and services. International/multinational marketing tactics and strategies have created this newly developed “status quo” worldwide. The multinational companies’ managers choose the objectives of the companies and the strategy which will be followed in the future. Usually, they try to create something that is unique to their company i.e. find something that they can do better than the other companies.

Cost Reduction/Leadership and the Market Power (product differentiation) are the two main strategies followed by companies in the past. John Kay (1993) argued that these strategies have to be distinctive in the sense that it will be difficult for the rivals to replicate them and consequently it will help the company to obtain a competitive advantage over the other companies. He identified four distinctive capabilities which can create sustained added value to the company. Architecture, Reputation, Innovation and Strategic Assets are those four capabilities. Sometimes, these capabilities overlap and it becomes difficult to classify them. However, managers are only interested to see if these capabilities exist and if they do then they use various performance measures, like Economic Value Added (EVA) and Return on capital employed (ROCE), to discover if the company is capable to capture market value.

Regarding the increasing business internationalization, the enhanced Global Management practices and the high level of competition between the multinational firms in the recent era, this paper aims at the presentation of the main aspects of the current global strategies on an international Business level. In order to fulfil the above expectations, a comparison of the corporate strategies of the British company Tesco plc and the American company Albertson’s Inc was realised using the latest management techniques and identifying the four distinctive capabilities which can create sustained added value to the two companies under examination. Various financial measures (Profitability and Liquidity ratios etc.) were also estimated and compared to a reference case.

Introduction
The paper is focused in the application of the multinational management tactics and strategies in the global market. In fact, the reader and any promising investor will have the opportunity to gauge useful insight into the new management techniques based on the four distinctive capabilities mentioned above. The paper contributes to the literature written on the latest developed aspects of the Global Market Tactics and provides a reliable approach over the implementation of the corporate strategies in nowadays.
Too often, international finance papers confront the readers with a bewildering array of special strategy models and assumptions from which basic lessons are difficult to extract. Because many of these special models are outmoded, readers are left puzzled about the real world relevance of the market tactics. This paper is an attempt to provide an up-to-date and understandable analytical framework for illuminating current management techniques.

Readers assimilate international market strategies most readily when they are presented as a method of analysis vitally linked to events in the world economy, rather than as a body of abstract theorems about abstract models. The main goal of this paper has therefore been to stress concepts and their application rather than theoretical formalism. Accordingly, the methodology employed is based on the deployment of the basic management axes of an economic policy to the current corporate strategy framework. In order to achieve this, there has been followed the standard practice of dividing the paper into two halves devoted to factual information of the companies and to the application of the multinational market tactics. The first part presents to the reader the main characteristics and functions of Tesco Plc and Albertson’s Inc, providing an important data base over which the paper’s thematic components will be demonstrated. The reader needs to know the production and investment process of the two companies in order to reinforce his/her understanding on important issues related to the companies. In the second part, there are explored the managers’ actions regarding the adaptation of the four distinctive capabilities into the companies’ operational framework. The Architecture, on a first step, is divided into Internal and External Architecture because facilitates the analysis regarding the relationships of the company with its employees and its main suppliers. Indeed, these two factors hold an influential position in the company’s productive chain. Moreover, reputation is regarded as an important asset in the company’s holdings. Good reputation may have remarkable effects on the company’s sales and future partnerships. The innovation, the third distinctive capability, is strongly connected with the technological advances and the development of new products. Without any doubt, the multinationals have to incorporate in their production process new facilities for pacing with the customers’ needs and new products for covering the consumers’ preferences. The last capability explored in this paper is referred as the strategic assets. The Multinationals aim to increase their market share and to reformulate, where is possible, their structure in order to obtain a competitive advantage against their main rivals.

Factual Information

As it has been reported earlier, this first part of the paper describes the companies’ operational frameworks and reveals the actual action plans where their corporate strategy is based.

Tesco Plc, the first company under examination, is incorporated in the UK (listed in the London Stock Exchange), and have existed for more than 82 years. Over the last decades, as the food retailing market has changed, the company has grown and developed, responding to new opportunities and pioneering many innovations. The company is, now, the leader in the British Food Industry and is among the 10 biggest food retailers in the world. It operates around 985 stores worldwide and its market value is £19,331.02m.
It has undergone continuous restructuring in an attempt to release the least profitable businesses and focus on key areas demanded by customers. In the Non-Food sector the company owns already 4 percent of the market share and experienced a 18 percent growth in sales in the last year. Tesco is also the leader in volume sales for Health and Beauty and recently purchased a majority stake in the Nutri Centre. It should also be mentioned that Tesco has its own bank and provides its customers with credit cards and loans.

Table 1: Tesco’s financial ratios

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<thead>
<tr>
<th>Year</th>
<th>2007</th>
<th>2006</th>
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<tbody>
<tr>
<td>Operating Profit Margin(%)</td>
<td>6.2</td>
<td>6</td>
</tr>
<tr>
<td>EPS(p)</td>
<td>17.96</td>
<td>15.28</td>
</tr>
<tr>
<td>Dividend Per share</td>
<td>6.97</td>
<td>6.345</td>
</tr>
<tr>
<td>Share Price(p)</td>
<td>305.3</td>
<td>275</td>
</tr>
<tr>
<td>NOPAT (£m)</td>
<td>1302</td>
<td>1108</td>
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Future growth is going to affect all the aspects of Tesco’s business. Increases in profits will increase EPS and NOPAT in the next two years. Investors should expect also a slight growth in dividends per share. The Board has adopted a Profit enhancing strategy and its expansion plan is expected to strengthen the company’s international position in the future. Tesco has a pipeline, which consists of food and non-food products. The forecasts are also based on the launch of a mix of products, which will deliver substantial earnings for the company in the next year.

In the last decade, Tesco has entered many Asian and European markets and new stores have been planned to be opened in the future as part of the company’s expansion plan, which was adopted recently by the company’s Board. The restructuring plan is expected to give a great boost in its sales in 2008 and 2009. Remarkably, The Asian sales figures are expected to experience a 42% growth in the next year.

Tesco is not highly affected by changes in the economy, however it is affected by variations in the interest rates. The company is exposed to production and development since its expansion plan is in progress and a new product mix is going to be launched in the future. In addition, the company as an international player faces further risks by variations in exchange rates and by changes in the regulatory frameworks of specific international markets. It should be also kept in mind that, food retailers were always exposed to fluctuations in market demand and consumers’ preferences.

The second company examined in this paper is Albertson’s and is headquartered in Boise, Idaho in US since 1939. Albertson’s is one of the largest retail food and drug chains in the United States. The company is listed in New York and Pacific Stock exchanges. On June 23, 1999, Albertson’s Inc and American Stores Company consummated a merger with the issuance of 177 million shares of Albertson’s common stock (the merger). After this transaction, the company is regarded as the third largest retail food and drug chain in United States. The company
operates 2,421 stores in 33 states across the country and has a market value equal to $11,522.89m.

Albertson’s operations are within a single operating segment, the retail sale of food and drug merchandise. The company possess a competitive advantage over its rivals due to the extended differentiation in its product pipeline and the type of stores that operates. In addition, the company is involved to the financial sector by providing its customers with high quality of banking facilities. Saving cards and Club cards have been produced to support the company’s loyalty scheme.

Albertson’s stores are located in 33 Northeastern, Western, mid-Western and Southern areas of the United States. The company has widely spread its activities from the Mexican to the Canadian borders without engaging in operations outside the country.

Table 1: Albertson’s financial ratios

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<tr>
<th>Year</th>
<th>2007</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Profit Margin (%)</td>
<td>4.4</td>
<td>3.5</td>
</tr>
<tr>
<td>EPS($)</td>
<td>1.9621</td>
<td>1.271</td>
</tr>
<tr>
<td>Dividend Per share($)</td>
<td>0.8227</td>
<td>0.776</td>
</tr>
<tr>
<td>Share Price($)</td>
<td>61.9762</td>
<td>39.1</td>
</tr>
<tr>
<td>NOPAT($m)</td>
<td>987.95</td>
<td>686.8</td>
</tr>
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Slight increases in EPS and dividends per share are expected in 2008 due to small changes in profits. However, in 2009, after the successful completion of the second phase of the restructuring plan these ratios will increase significantly.

The company has already achieved high economies of scale due to the merger with ASC and its efficiency levels follow an upward trend. The next year will be very important, as the second phase of the restructuring program will be completed. Albertson’s follows mainly a cost reduction policy through market exits and reductions in operating expenses in order to limit the gearing ratio and gain again the investors’ confidence. The company is expected to deliver significant growth in the future and increase its market power in the most influential markets of the United States.

It is evident from the previous analysis that the two companies possess an important share in the world market of the industry where they operate and build up their strategies following specific processes according to the established management tactics.

**Application of the multinational marketing tactics and strategies**

The second part of the paper will reveal the four distinctive capabilities inside the corporate strategies followed by the two companies and will underline the significance of the establishment of a core management techniques into the companies action plans.

**Architecture**
The Multinational Companies, in the framework of their market strategy, invest each year a significant proportion of their budget in the production and consumption process. They need to strengthen their relationships with important suppliers, key customers and of course their employees in order to safeguard (or to raise) their market share in the global economy.

**External Architecture**

External Architecture represents the company’s relationships with main suppliers and key customers.

For Tesco, this type of architecture is mainly based on joint ventures and collaborations. The company has incorporated them in all aspects of the business. Tesco invested £150 million in a joint venture with Sime Darby to open 15 hypermarkets in Malaysia at the beginning of 2002. The company launched its first credit card in 2002 through its joint venture with Royal Bank of Scotland, which offered points towards its loyalty program. In addition, Tesco and British Land formed recently a £175 joint venture in which they pooled a number of retail properties, in a type of sale and leaseback agreement which unlocked some of Tesco’s capital. Furthermore, the company launched an internet banking service in partnership with the Royal Bank of Scotland.

As it was mentioned earlier, Tesco has its own bank and provides its customers with credit cards and loans. Its Clubcard is connected with the credit card and the customers can gain significant reward points and vouchers. The Clubcard loyalty scheme was mainly launched in order to attract higher spending customers, and offer new rewards such as holidays and flights.

Albertson’s Inc and American Stores (ASC) consummated a merger in 1999 for financial purposes only, because the two companies were always working together. After this event, the Group has been able to efficiently supply its stores with merchandise through its distribution centres, outside suppliers or directly from manufacturers in an effort to obtain merchandise at the lowest possible cost. The company believes that it is not dependent on any one supplier, and considers its relationships with its suppliers to be satisfactory. The company has historically, serviced all of its retail stores from company distribution centres. However, it has established close and long term relationships with some key suppliers. Albertson’s also provides its customers with various types of vouchers and Clubcards. The company recently expanded its financial services by launching a saving card in order to develop one-to-one relationships with key customers, to monitor shopping patterns and offer in-store discounts or incentives based on specific shopping behaviour.

Obviously, both companies prefer the long term relationships with key suppliers and both invest towards the expansion of their market loyalty by providing sufficient financial services and Clubcards with their brand names on them. However, Tesco’s main target is to cut costs and reduce risks by signing important agreements with influential partners or investing in joint ventures while the Albertson’s principal supply chain is based on its own distribution centres. The different types of agreements in which the two companies have been involved in the last years are strongly connected to reputation because suppliers and
customers know what their partners (Tesco or Albertson’s) stands for, which is the reason for choosing them.

**Internal Architecture**

Internal Architecture is related to the company’s relationship with its employees. The ability of firms to invest in and manage their people, equipment, facilities and financial capacity determine their ability to operate at maximum efficiency. Tesco and Albertsons both have internal processes in place to train and measure the performance of their employees. All companies in the industry want to attract the most talented people so the competition is very intense because the total workforce of the European Union and the United States is shrinking.

Energized associates is the Albertson’s fifth strategic imperative. The company will strive to become the employer of choice in the food and drugstore industry, and in addition plans to reduce bureaucracy and lawyers of management, build stronger communication systems, improve training programs and implement new performance-based reward programs. The company recently announced that all store directors and pharmacy managers are now eligible for stock options while many of its employees will be covered by collective bargaining agreements. Albertson’s Accelerated Management Development Program is to attract new or recent college graduates into the retail food and drug industry. The program seeks potential leaders and is designed to prepare trainees to become part of Albertson’s retail management team.

Tesco is the UK’s biggest private sector employer and implements many development and training programs. In addition, the company signed a partnership deal with the Usdaw shopworkers union that will result in forums being set up in all of its stores to get staff more involved in commercial decisions. Tesco tries to create close ties with its associates by launching a strong share ownership scheme. Last year, £116 million was paid out to 37,000 staff when two Save-As-You-Earn share schemes matured.

The previous features underpin what both firms are trying to achieve in terms of a common corporate identity. They are trying to create a work environment that is challenging, exciting and supportive in order to maximise employee contributions. Both companies attract many talented and energetic people because these people want to be part of a company that genuinely respects its customers, has significant market power and a promising production process.

**Reputation**

The reputation of the company is very important to attract influential customers and partners. Therefore, if the company’s reputation is good this will give the company an edge in front of competitors. In this industry, companies gradually become renowned for their cost-effective solutions, and the quality of service and products that they provide. Albertson’s and Tesco have exited many under-performing markets (Albertson’s in a much greater extent) in order to concentrate on the most significant areas of the industry and reduce costs.

Albertson’s strategic advantage in today’s marketplace comes from the company’s unique heritage in two independent market places - food stores and drugstores. Albertson’s is a leader with decades of experience
serving customers in both industries. This unique position in the market has enabled the company to bring together separate retail brands, creating the dual brand combination stores that leverage the company’s separate food and drug experience and brand equity. The company maintains an influential series of brand names as Albertson’s – Osco, Jewel-Osco, Acme, Sav-on Drugs, Max-Foods, and Super Saver (Albertson’s 2006 annual report).

In addition, Albertson’s contributes to the quality of life in many diverse communities that serve. With main focus on hunger relief (the company donated more than 20 million pounds of food and non-food items to America’s Second Harvest food banks and other local hunger relief programs), health and nutrition, and education (partnering with Campbell’s to give one million Labels for Education to Emerald Park Elementary in Kent, Washington). In total, Albertson’s has provided more than $67 million in cash and in-kind support to assist in meeting community needs.

Albertson’s also continues to receive accolades for its resource conservation and sustainability efforts. Some of the rewards obtained by Albertson’s last year:

- Salt Lake Organizing Committee Winter Olympics 2002 Spirit of the Land for Outstanding Achievement in Environmental education.
- The Pennsylvania Governor’s Environmental Excellence Award.
- The Businesses for the By 2001 Excellence Award for reducing negative impacts upon the Chesapeake Bay watershed.
- The King County, Washington, Green Globe Award.

Tesco also produces a wide range of brand name products and has a quite long experience in the retail food service sector. The company is officially UK’s largest food retailer, and according to a report by Strategic Vision Tesco has become the leading European grocery retailer in terms of sales. Moreover, the company made significant contributions (£9 million) in cash and in-kind in the last year and provided students with important voucher schemes. Tesco’s Charity of the Year for 2001 was The Alzheimer’s Society and Alzheimer Scotland – Action on Dementia received over £2 million. Furthermore, Tesco builds its image also outside the UK borders. Recently, in South Korea the company has been recognised by the Ministry of the Environment as being the leading retailer for the promotion of environmental products while in Thailand it supports a wide range of community projects including agriculture, vocational training and development of small suppliers.

Apparently, the two companies have been committed to support local people and communities and protect the environment. They have a clear strategy focused on championing environmental issues and conducting business ethically. Their endeavours in this respect will help shape the picture of admired and trusted companies in the public’s perception.

Innovation

Innovation is a vital differentiator in the retail food and drug industry. Discoveries in science and technology often have the potential to transform products, businesses, and even societies. The companies have to be at the forefront of technology in order to be competitive and develop new products which will cover the customers’ needs in each era.
Albertson’s has actively pursued a restructuring program of enlarging and remodelling existing stores, and exiting under performing markets. The company announced that 88% of its current retail square footage has been opened or remodelled during this period. Albertson’s plans to invest mainly to markets that experienced high profitability rates in the past.

Albertson’s board sees information technology as an investment priority. This investment increases the quality of service and consequently the company’s revenue. A private wide-area network of phone lines and satellites, coupled with the internet and local area networks at each store, helps serve the company’s information needs. This information system links all large scale computers, in-store processors and personal computers to customers, suppliers and associates.

Tesco owns a similar information system, The Continuous Replenishment system, where goods are ordered automatically based on continuous information flows from the company’s checkouts, raising availability, promoting operating activities and increasing efficiency standards. The company also announced the extension of its supply chain by the establishment of new distribution centres around the world (expansion plan).

It is also noteworthy that the company is investing £0.7 million in an organic farming research project at Newcastle University, and is already funding a similar scheme at Aberdeen University.

Undoubtedly, both companies use technological applications in their front-end systems to give customers at their check stands the most positive experience possible, with the proper balance of efficiency and customer service. They have increased customer convenience and checkout speed by using systems that allow customers to pay with debit cards, credit cards or electronic benefit payments. The two companies maintain advanced web-sites and internet facilities in order to service on-line customers. Tesco.com is the biggest online supermarket operator in the world and had a turnover of £356 million in the last financial year.

Strategic Assets

In the retail food industry, companies may obtain strategic advantage through their market position or structure. Due to recent consolidation in the industry, companies require large-scale production capability to capture greater market power. Tesco and Albertson’s face the same fundamental challenge, become larger and more capable or risk losing the competitive edge needed to survive at the highest levels of the industry.

Tesco has already adopt a strategy of acquisitions on a worldwide base. The company acquired a 51% stake in Nutri Centre, a controlling stake in Lotus (the Thailand based retailer), Sanders Supermarkets, and Quinnsworth Supermarket chains from Associated British Foods. Tesco promotes a plan for widening its market access by opening new stores in Malaysia and China in 2005/2006. Moreover, the company has a promising product pipeline including many food and non-food products. It is the UK’s largest organics retailer and plans to grow sales to £1 million in the next five years. Tesco aims to gain a competitive advantage over its
rivals in the production of organic food as it has already invested £0.7 million in organic farming research projects in Newcastle and Aberdeen Universities. Furthermore, the company launched a major price-cutting campaign that will reduce prices on 240 key items by up to 25%. Moreover, Tesco increased its sales figures in the past years by separating its TescoDirect e-commerce operations from its main supermarket business and targeted TescoNet at families who want an easy-to-use low-cost service.

Albertson’s followed the latest industry’s trends and consummated a merger with American Stores Company in order to increase its market value. Indeed, the combined group became the third greatest food retailer in US and the sixth worldwide. The new Board adopted a cut-cost policy and many market exits took place in the last two years. The main target for the company now is to remodel and increase the competitive power of its stores in key markets of United States. Its Directors believe that when the restructuring plan will be completed, the company will have a competitive advantage over its rivals in US. The company intends to re-direct non-value added dollars saved from the expense and process control programs back into the marketplace in order to impact customers and drive growth. Albertson’s is intending to implement new programs for increasing customers’ loyalty and raising the sales figures. A company-wide “Service First, Second to None” program is reinvigorating the employees’ focus on customer service. A “Focus on Fresh” initiative is improving the delivery of fresh foods throughout the company’s fresh departments. In addition, the company innovated its web site in order to facilitate on-line shopping.

Both companies innovated their Development Systems and enhanced the technological capabilities of their stores. The companies invested heavily on information and technology systems for improving operating efficiencies. Undoubtedly, technological support is becoming a growth opportunity in the retail food and drug industry, so the firm that emerges with a superior system in this area will possess a strategic asset. The other strategic assets that the two companies possess are their brand name products that have build up over the past decades.

Conclusion

As it became clear from the previous arguments, Tesco and Albertson’s possess all four distinctive capabilities which they overlap in most of the cases. This overlap is vital for the extraction of additional value. For example, the value of innovation is extracted by using a combination of architecture (employees and suppliers) and strategic assets (market power). Of course, Reputation also has an important role for customers when buying products (Brand name products).

The two main competitive strategies that the companies can use are (Palepu et al., 2000):

• Cost Reduction / Leadership
• Profit enhancing / Market Power

These strategies can give a significant competitive advantage i.e. distinctive and can therefore earn shareholders a superior return.
Tesco has a very clear-cut goal strategy, which is described by the following quote:

“Our world class team of people is building a world-class business by working harder to deliver great value for customers, in every store, in every country, every day.”
(Tesco plc Annual Review and Summary Financial Statement 2005).

Tesco announced that raised its market share worldwide during the last year and plans to exploit new markets (China and Malaysia). The company invested £280 million in price. Price comparisons on over 70% of everything it sells show it offers the cheapest products for customers compared with its main competitors. Its Management claimed that the company has improved its price position against every major retailer more than in any other year. Tesco, recently, announced that it expects high growth rates in sales and profit figures in 2007/2008. It is obvious that the main strategy applied by Tesco is a Profit Enhancing / Market Power strategy, however it has also (into a less extent) tried to follow a Cost / Reduction Strategy by engaging in joint ventures and collaborations.

Albertson’s strategy follow mainly an aggressive cost and process control. Its Board approved a restructuring plan that included a Voluntary Separation Plan and Involuntary Severance Plan resulted in a 20% reduction in corporate and administrative staff above store level. In addition, the company adopted a policy towards the exit of underperforming markets in order to reduce losses and concentrate its activities in the most important US markets. It should also be kept in mind that the company consummated a large merger with American Stores in 1999. According to the previous arguments, Albertson’s has employed a Cost Reduction / Leadership strategy. However, the company’s concentration policy over influential markets, it could be seen also as a profit enhancing strategy as the company plans to expand its activities and market share in these areas.

Obviously, both companies have strategies that take place on similar dimensions, which is normal for rival companies, because they focus on beating their competitors in the business segment in which they operate. Tesco has adopted mainly a profit enhancing strategy while Albertson’s seems to prefer the Cost Reduction solution. This does not imply though that the companies reject the second type of strategy which exists in the industry. It has been observed in the past that in some cases they used a mix of these two strategies (Profit Enhancing and Cost Reduction) generating sustainable profits.

It is evident that, International marketing tactics and strategies are the main instruments for the managers of the multinational companies in the recent era. The companies need to possess a significant share of the global market power in order to develop additional market value and increase the earnings of their shareholders. The incorporation of distinctive capabilities in the market strategy can increase the market share of the Multinational Companies.

This paper covered some of the most important recent developed market tactics in international economics without short-changing the enduring theoretical insights that have traditionally formed the core of the subject. There has been achieved this comprehensiveness by stressing how
the new management techniques have been established in response to the evolving corporate strategies in the world economy.

References


