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Managing the Global Firm

New Roles of Brand and Technology

Professor Mauro Guillén

The Multinational Firm of the Future

- Brands
- Technology
- Virtual channels
- Customer centricity
- Uncertainty and flexibility
- The end of distance

Brands

- Functional, sensory and/or peer-approval
- The relationship between the buyer and the brand is being redefined
    - Consumers demand that the brand be everything: functionality, value, status
    - New technologies make brands more malleable
    - Advertising is no longer a game of “hit or miss”

Technology

- Increases the buyer’s bargaining power
- May lead to disintermediation
- Reduces barriers to entry
- Has spoilt certain types of consumers
- Can become a competitive weapon for the firm

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Case Studies in Brand and Technology Redefinition: Swatch and Apple

Professor Mauro Guillén

An Illustration

- Let’s see the effects of the redefinition of brands and technology with a comparison:
  - Swatch (wristwatches)
  - Apple (wearable computers)

The Wristwatch

- A 19th-century invention
- Swiss watchmakers became the leaders worldwide
- It was a mechanical watch

Technological Change & the Wristwatch

Components	mid-19th C.	1950s	1960s	1970s	1980s
Power:	Spring	Battery	Battery	Battery	Battery
Case:	Metal	Metal	Metal	Metal	Plastic
Materials:	Gold, metals, jewels	Metals, alloys	Metals, alloys	Plastic, metals, alloys	Plastic, metals, alloys
Movement:	Escapement	Escapement	Tuning fork	Quartz	Quartz
Transmission:	Gears	Gears	Gears	Gears	Circuit
Face:	Analog	Analog	Analog	Digital or Analog	Digital or Analog
Dominant firms:	Swiss watchmakers	Timex	Bulova	Seiko, Citizen, Casio	Swatch

In 1980…

- Japanese manufacturers had consolidated themselves as the largest and most profitable in the world
- The market share of Swiss watchmakers fell below 15% in 1983

The Swatch Revolution

- Plastic outside, electronic inside
- Swiss Made (10-20% price premium)
- Fashion accessory
- Reduction in production costs
- Switzerland staged a comeback and reached more than 50% of global exports

The Smart Watch

- Every large maker of watches has pursued this new product
  - Seiko, Samsung, LG, etc.
- As well as startups
  - Martian, Pebble, Wimm, i´m watch
- Apple Watch

What Should Swatch Do?

- Swatch must decide whether to enter the market for smart watches
- It’s a segment in which the Swiss Made label does not play an important role
- Perhaps it should sign an alliance with a tech company

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Physical and Virtual Channels

Professor Mauro Guillén

Digital Marketing

Important characteristics:

- Specific
- Interactive
- Measurable

Elements of Digital Marketing

- Website must be consistent for all electronic devices
- Search engine optimization
- Click-based advertising
- Digital social media
- Email marketing
- Price comparison channels
- Localized marketing
- Content marketing: blogging, digital journalism, opinion leaders, etc.

Inter-Modality

- 90% of all transactions start in one electronic device but end in another
- Some devices are better than others for certain types of products and services depending on their complexity, size or number of options

Global Dimension

- Many people like searching and comparing in English but purchasing in their own language
- Others prefer to search, compare, and buy in their language
- Be careful with automatic translation engines

Localization

- Website
  - In addition to language, one must be careful with symbols and colors
    - Red conveys danger or audacity in Europe, but symbolizes purity in India and luck in China
- Uploading and downloading speed
- Search engine
- Search engine optimization
  - Is it better to search for “economical flights,” “low-cost flights,” or “cheap flights?”

Global and Local Search Engines

- Google is #1 in almost all markets, except China (Baidu, Haosou)
- There are other important search engines
  - Japan (Yahoo!)
  - Russia (Yandex)
  - South Korea (Naver)
  - Czech Republic (Sesnam)
- There are local search engines in all countries, although most have a small market share

Other Issues

- Payments
  - Transfer systems
  - Time lags
  - Currency risk
- Deliveries
- Exchanges and returns

Biggest Obstacles

- Language
- Culture
- Legal and regulatory aspects
- Logistics: distribution, exchanges, returns
- Distance and the need to localize

Four Kinds of Products

- Global Commodities: Books, music, games, industrial components, etc.
- Local Commodities: Perishable goods, local services, etc.
- Cultural Goods and Services: Wine, information, analysis, etc.
- “Look ‘n’ Feel” Goods and Services: Used cars, art, etc.

Consider the Case of Netflix

- Offers streamed entertainment on a global basis
- Initially, Netflix expanded into Europe, the Americas, and a few Asia-Pacific countries, offering local-language content in about 60 countries
- The user interface was only localized for French, Spanish, Portuguese, German, Italian, and Japanese
- When entering a new country, a company must spend on language localization and on marketing

The Big Bang

- In 2016: Netflix went live in 130 new countries.
- Syria, North Korea and Crimea are excluded (to comply with U.S. policy), and China, which presents regulatory issues
- Added localized versions only for Arabic, Korean, and Chinese
- They have a global catalog with Netflix-owned originals and third-party content under global licenses
- It will add local content and more languages depending on the country

The Huffington Post

- “A blog-empire on the backs of thousands of citizen-journalists”
- “A galley rowed by slaves and commanded by pirates”

Source: *New York Times*, February 12, 2011.

Market Entries

- May 2011: Canada
- July 2011: UK
- October 2011: France (JV with *Le Monde*)
- February 2012: Québec
- May 2012: HuffPost Voces in the U.S.
- May 2012: Spain (JV with *El País*)
- September 2012: Italy (JV with *L'Espresso*)
- May 2013: Japan (JV with Ashahi Shimbun)
- June 2013: Maghreb
- September 2013: Brazil (JV with Abril Group).
- October 2013: Germany (JV with Focus)
- 2014: South Korea (JV with Hankyoreh)
- 2014: Greece (JV with 24Media, a digital company)
- 2014: India (JV with *The Times*)
- 2015: Australia (with Fairfax Media)
- 2015: Arabic Edition (with Wadah Khanfar & Integral Media Strategies)

Master Plan

- Tier 1
  - High broadband penetration, vibrant advertising market, interesting news market, no legal restrictions on ownership
- Tier 2
  - Don’t meet all of the requirements
- Tier 3
  - Don’t meet any of the requirements

Global Online Reach, 2015

Region:	% homes with Internet	% of population using Internet	Fixed broadband per 100 population	Mobile broadband per 100 population
Europe	82.1	77.6	29.6	78.2
The Americas	60.0	66.0	18.0	77.6
CIS	60.1	59.9	13.6	49.7
Arab World	40.3	37.0	3.7	40.6
Asia-Pacific	39.0	36.9	8.9	42.3
Africa	10.7	20.7	0.5	17.4
Developed world	81.3	82.2	29.0	86.7
Developing world	34.1	35.3	7.1	39.1
Poorest countries	6.7	9.5	0.5	12.1
World total	46.4	43.4	10.8	46.1

Source: International Telecommunication Union.

Smart Phones

- 2011: 9.6% of world’s population
- 2015: 28.2%
- Most advanced country: South Korea, with more than 75%

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The Role of Customer Centricity in Internationalization

Professor Mauro Guillén

The Firm and the Customer

- The expression, “The Customer is King,” may turn the firm into the customer’s servant
- Being nice to the customer and being customer centric are not the same thing
- Some customers deserve special treatment, but others don’t
- The firm must decide how to treat each type of customer

Source: Peter Fader, *Customer Centricity* (Wharton Digital Press, 2011).

Requirements

- Understand each type of customer
- Segment the market according to the lifetime value of the customer
- Offer differentiated goods and services
- Use different channels, offers, and after-sale services
- New technologies enable the firm to acquire and analyze tons of information

Source: Peter Fader, *Customer Centricity* (Wharton Digital Press, 2011).

Customer Lifetime Value

- The maximum amount of money the firm would be willing to pay today to acquire that customer
- It equals the net present value of:
  - The cost of acquisition
  - The stream of future revenue, minus variable costs
  - The cost of retention
  - The probability of retention
  - The share of wallet

Customers with High Lifetime Value

- Customers who are willing to pay more if the firm offers them a value proposition that fits their needs and wants
- They tend to be customers with:
  - Low cost of retention
  - High probability of retention
  - Potential for increasing share of wallet

Customers with Low Lifetime Value

- Customers who are not willing to pay more even if the firm offers them an attractive value proposition
- The firm should acquire and retain this type of client only if:
  - It needs to reach economies of scale or accelerate the learning curve
  - Losing it might erode the firm's competitive position relative to other firms
  - There is a tipping point dynamic
  - There is a network effect or peer approval

Family Firms and Customer Lifetime Value

- Family firms that self-fund themselves tend to have a lower cost of capital
- Lifetime value of any of its customers is higher than for a firm with a higher cost of capital

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Uncertainty, Flexibility, and Adaptability

Professor Mauro Guillén

Global Uncertainties

- Macroeconomic magnitudes
- Regulatory change
- Political change
- Demographic change
- Monetary turbulence
- Uncertainty, unlike risk, cannot be reduced to a probability

Ways to Cope with Uncertainty

- Diversification
- Incrementalism
- Keeping options open
- It all depends on the type of firm

Diversification

- Involves not placing all the eggs in the same basket
- Example: Diversification by product line or by market, related or unrelated, etc.
- It's the most common response to uncertainty and risk
- It might degenerate into a purely financial strategy

Incrementalism

- Involves spacing decisions over time so as to make adjustments as new information becomes available
- Example: Instead of making a big investment all at once, the firm breaks it down into several incremental investments over time
- Danger: The firm may miss some important opportunities, such an attractive acquisition

Keeping Options Open

- Involves maximizing the value of the future options of the firm
- Examples: Launch a modified product, enter a new market, buy out an equity partner, sign a new collaborative agreement, etc.
- Like financial options, real options increase in value with uncertainty
- Danger: All options involve a cost

Types of Firms

- Not all firms respond equally to uncertainty
- Classic example: Driving through a foggy stretch of highway
- It all depends on the firm's:
  - Resources and capabilities
  - Level of risk aversion
  - The decisions and actions of its competitors

Managing Uncertainty and Chaos

- Established firms have a preference for their comfort zone, always avoiding excessive risks
- Today the line separating “safe” from “dangerous” markets is not as clear as in the past
- For firms from emerging markets, chaos is something familiar:
  - They feel equipped to expand into any market
  - They are used to doing more with less
  - The lack of resources and infrastructure is not an impossible barrier for them
  - They are used to dealing with discretionary and unpredictable governments

Example: Orascom Telecom

- An Egyptian construction firm with no experience in the field of telecommunications
- Their capabilities included dealing with governments and undertaking large-scale projects
- Decided to get a telecom license
- Expanded into African and Middle-Eastern countries that established multinationals did not dare to enter
- Concluded agreements with local governments that enabled them to gradually increase their commitment to the market
- They did not hesitate to divest if conditions took a turn for the worse

North Korean Deal

- First step: Project to modernize a cement plant in exchange for permission to use North Korean labor for projects in China
- In 2008 Orascom was given a 25-year telecom license for free and with 4 years of exclusivity
- Later, Orascom diversified towards other activities, setting up a bank and undertaking construction projects, such as Hotel Ryugyŏng

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The End of Distance?

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Distances are Becoming Shorter

- Transportation costs
- Mass media
- Information and telecommunication technologies
- Tourism
- Cosmopolitan mentality
- Companies' experience curve

Transportation Costs

- Dropped exponentially over the last 300 years
- Container shipping and inter-modality have accelerated the process
- The cost of delivery is very low and access by the customer is immediate
- For some tangible goods digital distribution is now possible, thanks to 3D printing

Mass Media

- Printed media, radio, movies, and television made it possible to create national markets
- Modern multinationals exploited these technologies
- Facilitated the evolution, and in some cases convergence of consumer tastes and preferences
- Enabled market segmentation

Information and Telecommunication Technologies

- Instantaneous
- Low cost
- Interaction in real time
- Mobility
- Personalization

Tourism

- Global segments have also emerged thanks to tourism because of the contact with other cultures
- Tourism also creates distribution channels

Cosmopolitan Mentality

- The idea of the “citizen of the world”
- A consumer that:
  - Tries everything
  - Likes variety and change
  - Has global reference groups
- Local roots are still important, but now they need to be reinterpreted from a cosmopolitan perspective

Firms’ Learning Curves

- Firms have learned to operate in a globalized world
    - Examples of H&M, Zara and Uniqlo
- Companies now launch products in multiple markets more quickly
- Product cycles have been shortened
- Consumers expect the firm to be extremely dynamic

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New Global Markets

Professor Mauro Guillén

New Markets

- Technology driven
- Emerging economies
- Socio-demographic segments

Technology Driven

- New patterns of consumption
- New ways of reaching customers
- New ways of satisfying customers
- New possibilities for establishing a global or comprehensive relationship with customers

Emerging Economies

- Countries:
  - China and India
  - Other Asia-Pacific nations
  - Middle East
  - Africa: Nigeria, South Africa, Kenya, etc.
- Regions: Indian Ocean rim
- Urban markets

Socio-Demographic Segments

- By age:
  - Millennials, 60+
- By gender:
  - Women who are affluent or millionaires
- Behavioral:
  - Digital natives, Global elites, etc.

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Historical Waves: Countries of Origin

- 19th century: Britain, France, Belgium
- Second industrial revolution: Germany, Sweden, Switzerland, Holland, Italy
- From the 1920s: United States (plus all the others)
- Natural resources: Canada, Australia
- 1950s onwards: Argentina, Brazil, Mexico
- 1970s & 80s: Japan
- 1980s & 90s: Upper-middle-income economies: Spain, Ireland, Portugal, South Korea and Taiwan
- 1990s onwards:
  - Emerging economies: Argentina, Brazil, Mexico, Chile, Turkey, China, India, Indonesia, Thailand, Egypt
  - Oil-rich countries like the United Arab Emirates, Nigeria, Russia or Venezuela

Traditional vs. Emerging-Market Multinationals

TRADITIONAL

- Gradual internationalization
- Intangible assets
- Unidirectional process of growth
- Whole ownership
- Political weaknesses
- Bureaucratic organization

EMERGING-MARKET

- Accelerated internationalization
- Few intangible assets
- Dual process of growth
- Alliances and acquisitions
- Strong political capabilities
- Organizational flexibility

Source: Mauro F. Guillén y Esteban García-Canal. 2009. "The American Model of the Multinational Firm and the 'New' Multinationals from Emerging Economies." *Academy of Management Perspectives* 23(2) (May 2009):23-35.

Competitive Advantages of the Emerging-Market Multinationals

- Technology adaptation
- Early adoption of new technology
- Ethnic markets
- Efficient project execution
- Product innovations
- Institutional entrepreneurship
- Acquisition management
- Network creation
- Political capabilities

Source: Mauro F. Guillén y Esteban García-Canal. 2009. “The American Model of the Multinational Firm and the ‘New’ Multinationals from Emerging Economies.” *Academy of Management Perspectives* 23(2) (May 2009):23-35.

In Sum

- Identify attractive markets
- Formulate a sustainable strategy
- Choose appropriate entry modes
- Adopt a coherent organizational structure
- Exploit resources and capabilities
- Take advantage of new technologies
- Learn from the new multinationals

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