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GROWTH STRATEGIES OF MULTINATIONAL COMPANIES STUDY CASE: PRECIOUS METALS JEWELRY RETAIL INDUSTRY

Case studies

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Abstract

The turbulent start of the new century has brought new challenges for firms, industries and countries. This paper investigates business and growth strategies of multinational companies within the precious metals jewelry retail industry. The main objective is to identify whether a company's performance is determined by its growth strategy or not. The purposes for the research are: to understand what kind of business models and strategies global precious metals jewelry retailers pursue, what growth strategies global jewelry retailers pursue and if there is a link between a company's growth strategy and its profitability. Least but not last, the findings are reviewed on their transferability to other industries. The findings regarding the business models and growth strategies pursued are that all of them are based on Porter's generic strategies as well as internationalization and diversification but there is no specific preference given to any of the strategic elements.

Introduction

The goals for this research are to investigate if there is a connection between a company's from precious metals jewelry retail industry growth strategy and its profitability and to identify if the findings can be generalized to other industries.

To achieve the above described goals, the paper starts with the theoretical background of this research. It is presented a description of Strategic Management and its framework to define, plan and implement a company's strategic as well as assess its performance. Strategic Management Michael Porter's models on competitive strategy and competitive advantage are introduced and discussed further. Even if the models have been introduced in the 1980's they are still amongst the most popular ones used to decide on a company's strategy in today's economic environment. The information presented in the below paper provides the theoretical background to understand and assess a company's competitive, growth and internationalization strategy.

Various sources of information that were found related and important are used in this paper. The secondary data collection for this paper was obtained through the Internet from different sources, such as market analysis, press articles, journals and reports, and printed information, such as books.

The 21st century seems to have begun with events indicative of the turbulence, challenges and opportunities ahead. Survival and success in such turbulent environment increasingly depend on competitiveness. Competitiveness has been described many by researchers as a multidimensional and relative concept. The significance of different criteria of competitiveness changes with time and context. Theories and frameworks must be flexible enough to integrate the change with key strategic management processes if their utility is sustained in practice.

Precious metals jewelry has been part of human civilization for a long time. Today, precious metals jewelry is used as symbols for celebrations such as engagements, wedding, and anniversaries. It is also used as symbols for communication and symbols for identity and individualism. The precious metals jewelry retail industry has changed and exhibited growth over the past decade due to increasing income and demand from the emerging economies across the world. The USA remains as the largest consumer for precious metals jewelry, followed by China, India, the Middle East and Japan. The UK and Italy are the largest consumers in Europe. When talking about Romania, the precious metals jewelries are widely a point of interest for the majority of the medium and higher revenues population and the purchase of those kinds of products it's just starting to develop even if the price of the precious metals is still going up.

Strategic Management

In today's competitive business environments companies presents their plans how to sustain their business operations, their competitive advantage and increase their profitability using the concept of strategic management. The benefits of strategic management have already been pointed out in the 1960's when Alfred Chandler mapped out that "structure follows strategy", meaning that a long-term perspective and formulated strategy provides a company structure, focus, alignment and direction. In others opinion, such as Carpenter and Sanders (2007), strategic management is a"…process by which a firm incorporates the tools and frameworks for developing and implementing a strategy"(p.7). A comprehensive summary of strategic management definition is formulated by Lamb (1984): "Strategic management is an ongoing process that evaluates and controls the business and the industries in which the company is involved; assesses its competitors and sets goals and strategies to meet all existing and potential competitors; and then reassesses each strategy annually or quarterly to determine how it has been implemented and whether it has succeeded or needs replacement by a new strategy to meet changed circumstances, new technology, new competitors, a new economic environment, a new social, financial or political environment".

When entering on a market and develop a strategy each company is interested to understand what kind of competition and market conditions there are and if it is an attractive step. As response to this demand Porter developed his competitive analysis in using the framework of five forces shaping industries, markets and competition. Industry attractiveness in this model is considered as the overall profitability of the industry. The five forces impact collectively the profitability through their effects on price, costs and investment requirements. The more impact they have the less attractive the industry gets and vice versa. The five forces shaping an industry are the **threat of new entrants**, the **threat of substitute products or services**, the **bargaining power of suppliers**, the **bargaining power of buyers** and the **intensity of competitive rivalry**. According to Porter's Five Forces Model one of the tools pointed out in the strategy development process is a competitive analysis. When applying this model a company can assess whether it is profitable to enter a new industry or market and what business conditions have to be expected. Porter's five forces are interrelated and developments in one force have an impact on the remaining forces. The figure below illustrates the interrelation and summarizes the elements discussed before.

Figure 1

Porter's Generic Strategies

This model was introduced by Porter in 1980 with the publication of his book "Competitive Strategy". The purpose of the strategic positioning model and its generic strategies is to establish, sustain and grow a company's competitive advantage over its competition. Together with the competitive analysis model, the market positioning and competitive advantage model and the value chain model Porter provides a comprehensive strategic approach for a company to sustain and maximize its profitability.

The concept of competitive advantage was introduced by Porter in 1985 and describes competitive advantage as an attribute that "…grows fundamentally from the value a firm is able to create ... Value is what buyers are willing to pay, and superior value stems from offering lower prices than competitors for equivalent benefits or providing unique benefits that more than offset higher prices."(Porter, 1985, p.3)

Competitive advantage describes therefore the situation when a company is able to deliver the same benefits as its competitors but at a lower cost or to deliver benefits that exceed those of competing products (QuickMBA 1999-2010) as well as the company's ability to create value in a way that its competitors cannot (Carpenter and Saunders, 2007, p.19). In his work, Porter (Competitive Advantage, 1985) argues that from a strategic perspective, a company's strengths to create this value are either in the category cost advantage or differentiation. Both strengths can be applied strategically in a broad or narrow scope, creating three generic strategies: cost leadership, differentiation and focus. These strategies are independent from a company, market or industry and therefore generic. Using the generic strategies a company can prepare the framework for its strategy implementation on the level of its strategic business units.

The Strategic Positioning Model (Carpenter and Saunders, 2007, p.127) visualizes the merging of the categories and scope into the following two-by-two matrix shown in Figure 2.

The cost leadership strategy uses the lower production unit price as strategic key element to gain bigger market share or higher profits as the competition and probably driving some competitors out of the market (Carpenter and Sanders 2007, p.128). The cost leadership strategy's key competitive advantage is the lower price in comparison or the lowest price in the entire market and therefore appealing to cost-conscious or price-sensitive industries and consumers. In reference to the competitive analysis in these markets the buyers have significant power to bargain prices, it is easy for them to switch between manufacturers and the products are very alike. The products serve basic needs and consumers all use them in a similar way, like e.g. a tooth brush and the market size is large. To achieve and sustain the cost leadership companies pursue strategies to cut down costs to a minimum through e.g. spreading fixed cost over a large product volume to benefit from the economies of scale. Furthermore production costs are cut down producing more and more standardized products and the outsourcing of e.g. overhead activities. In addition to the companies peruse a maximum integration of their value chain to sustain low costs. Companies pursuing cost leadership have to be a step ahead of their competition to sustain the profitable cost gap and not only predict changes in customer behavior or substitute products, but also the impact of technology breakthroughs and value chain developments to their business and keep pricing aggressive but not cutting down their own profit.

Jewelry Retail Industry

The jewelry retail market includes silver and gold jewelries with precious stones mounted on them such as: diamonds, topaz, opal, rubies, emeralds, sapphires, amethyst, quartz etc.

The characteristic of jewelry retail market is a trend towards consolidation with large international players accumulating more and more market share. Market players in this industry include a variety of retailers ranging from small specialty retailers to large international retailers. The large retailers benefit from economies of scale and have the ability to compete on price more intensely. However, small retailers also can be successful by specializing in particular product ranges.

The jewelry retailers include some large department stores, supermarkets, hypermarkets and smaller specialty stores. There are a lot of potential buyers/ customers in the jewelry retail market as well as retailers. Therefore, brand loyalty is important in this market. The brand identity is a major factor in determining the price of a product. Most buyers are willing to pay more for brand name jewelry. The retailers also can differentiate their product by offering products made of varying metals and stones, working with well-known designers or launching exclusive branded merchandise. Jewelries may be produced in-house or purchased finished ones from manufacturers. Retailers/ companies may purchase gemstones and precious metals used in making jewelry from several.

The jewelry retail industry is highly competitive and fragmented. There are many companies, including small and large, exist in the industry, but there is no real market leader. This leads to increasing the overall competition within industry. The characteristic of retail markets are varied dependent on country. But generally the trend is towards consolidation despite a huge number of small retailers. Large and international retailers accumulate more and more market share, e.g. Wal-Mart. Large retailers usually benefit from economies of scale as they have the ability to negotiate better deals with suppliers and compete on price. For the retailers in the industry to stay in business, they need to be innovative, look for a new ways to attract new customers and keep old ones coming back. Additionally, customer service, product differentiation and value creating are also important factors.

Inbound and Outbound Logistics

Inbound logistics activities includes receiving raw jewelries/materials from suppliers, storing these raw jewelries, and cutting and polishing some or all of these raw jewelries before these materials are developed into finished jewelries within company. Inbound logistics also includes jewelries sent for exchange or return from the customer. Outbound logistics includes activities concerning inspection of finished jewelries before sending to customers, order processing, documentation handling, and scheduling/ delivering of shipment to foreign customer/ the company's final customer.

Not all companies handle their inbound and outbound logistics, for example, the Blue Nile Inc. Most of the inbound and outbound logistics operations are outsourced to independent companies which are specialized in logistics. Depending on the total value of the shipments, different logistics providers, such as UPS, DHL, and FedEx, will be used.

Operations

Operations activities are related to the production of the jewelries. The production starts with design concept as different customers are looking for different products. In order to differentiate the products from the competitors, the jewelry retailers create their own designs through customization or markets. For the uniqueness/differentiation purpose, the company then brands the new design jewelry. For example, Tiffany legacy- patented cushion-cut diamond ring.

Many companies are investing or expanding their business by not only selling jewelry, but also taking jewelry back in for modification or repair. By doing so, they can provide excellent service and create long-term relationships with customers.

Marketing and Sales

Marketing and sales activities are important for all jewelry retailers. Advertising tools such as websites, catalogs, and TV commercials are often used mediums to attract customers. Direct mail and e-mail are mostly used for existing customers. Companies create value to customers by assisting them in all aspects of a purchase. They create informational guidance; provide call centers and online guide. Customers who do not know about type of jewelries or products will find it helpful and educating.

After-sale Services

Companies offer many services to customers after purchasing such as acceptance of returned items which damaged during transit or required repair. There is a proper service provided whether it is a cheap ring or an expensive necklace. For example, Tiffany's and Blue Nile provide information on how to maintain the value of the jewelry from how to clean it to how to store it which can be found online. Most companies offer financial service to customers when it comes to purchasing an expensive jewelry. This service allows customer to make the purchase of an expensive item without having the money in full. There is also insurance service provided for the jewelry being purchased which extremely expensive. If the insured item is broken or stolen, the customer can have it replaced. And finally, companies also offer phone lines support and online support that customers can question about their jewelry.

Firm Infrastructure

The firm infrastructure is the organizational structure, control systems and company culture (Netmba.com). In order to stay in business, a lot of corporate or strategic planning and measuring have to be done continually. Otherwise the company will not last very long unless this part is in place. Therefore, this can be viewed as the "back bone" of a company.

Human Resource Management

This activity involves with recruiting, hiring, training, developing, and compensating employee (Netmba.com) as employees are an expensive and vital resources for the company. Companies are investing substantial amounts of money to provide training or development training for managers and employees. If the operations, such as cutting and polishing, are doing in house, training need to be provided. Additionally, sales training and training for customer services are provided so that the employees can create long-term customer relationships and provide excellent customer service skills.

Technology Development

This activity includes technologies to support value-creating activities (Netmba.com) such as managing information processing, research and development of new practices that could add knowledge to a firm. Innovative new knowledge helps companies to reduce costs and sustain competitive advantage by improving a firm's product or increasing efficiency and effectiveness of the production and operating process within a firm. Technology development can improve the information flow of inventory between company and supplier, quality control, waste management, shipping monitoring, invoices and order documentation, market or product research, buyers' data development, repair or assessment of damaged products, and improve existing products and develop new or new techniques for creating new products.

Procurement

Procurement involves the activities in purchasing inputs such as materials/ raw jewelries needed to produce the final products, component for production, and fixed assets such as production and office equipment, and building. In the jewelry retail industry, a company may either assemble the items produced by other manufacturers, or design and produce the product itself. Some companies operate a combination of these options. Companies are also dependent on computer, other office equipment, transportation service, and buildings needed for the daily operations of its business.

Conclusions

The hyper-competitive era in the last few decades has created the need for an explicit management of competitiveness. Firm growth is related to economic expansion due to processes taking place within the firm (Penrose, E.T, 1959). The more firms grow the more resources they can access, thus firm growth is considered as a path dependent process (Akpinar, 2009). The resource-based view considers a firm's own set of resources and capabilities as the driver of growth and states that a firm predicts the growth strategies based on its resources and competencies (Otto & Low 1998). A firm's strategy is at its best continuously reviewed to be able to act, react and adapt to the movements in a company's business environment and sustain its competitive advantage. Diversification and internationalization are the two major types of growth vectors, and are alternative routes for expanding a company's portfolio in terms of growth. Growth also improves the effectiveness of the company. Larger companies have a number of advantages over smaller companies such as economies of scale resulting from marketing or production synergies. The company may pursue one or both types of growth strategies or the company may prefer diversification over internationalization except the firm's objectives cannot be met through diversification. The reason is because internationalization is much more difficult, risky and costly than diversification.

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FIGURE 1. The Five Forces of the Competitive Analysis and their interrelation
Source: 'The Five Competitive Forces That Shape Strategy' by M.E.Porter, Harvard Business Review

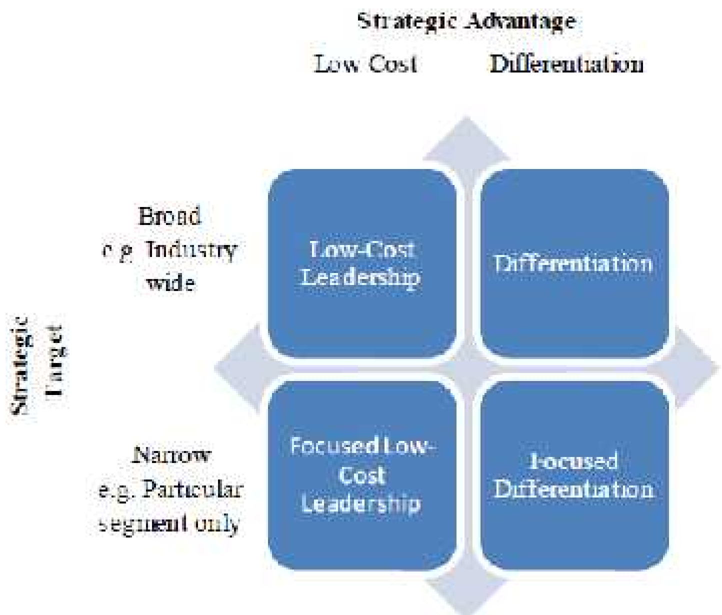

FIGURE 2. The Strategic Positioning Model
Source: Carpenter and Sanders (2007), p.127