MNB3702 Discussion class Theme 2: Competing internationally

Part 1 and 2 - Chapter 13 / Lesson 3 and Chapter 14 / Lesson 4

Define tomorrow.

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1

Theme 2 – Competing internationally

- We review the dynamic interaction between two (or more) competing organisations in global oligopolies (characterised by fewer, but larger, competitors) and explain the rules for how these companies can compete.
- We also explore the competitive advantages that a business may experience by operating globally and review mergers, acquisitions and alliances as a means to build global operations.

2

Lesson 3 – Competitive dynamics (Chapter 13)

- Explore the dynamics of interaction in international global oligopolies and explain the rules of competition.

3

Dynamics of competition

- Competitive dynamics refers to the interplay in the sequence of responsive competitive actions and initiative among organisations in a competitive setting.
  - Attack = an initial set of actions to gain competitive advantage.
  - Counter-attack = a set of actions in response to an attack
- The (AMC) framework is a conceptual framework of awareness, motivation, and capability indicating when firms are likely to attack and counter-attack each other.

4

The (AMC) framework

Awareness

- Awareness is a prerequisite for any counter-attack.
- Attackers are likely to succeed if there is a lack of awareness from competitors.
- A new competitor is more likely to be noticed when making a high-profile entry.
- There is heightened awareness between rivals with very similar operations and marketing practices.
- Blue Ocean strategy may be used to avoid retaliation.

Motivation

- Rivals will launch a counter-attack if they expect long-term benefits from doing so.
- If the market is large or important, this increases the likelihood of a counter-attack.
- Highly regulated industries see fewer competitive attacks.

Capability

- Capability is the *ability* to engage in a battle for markets – does the MNE have the *resources and capabilities* to respond?
- Government intervention can assist some MNEs .

Source: Adapted from Peng & Meyer (2019)

5

Questions

Can you think of examples of oligopolies in South Africa?

What has been the impact of the COVID-19 pandemic on the industry dynamics of global travel?

6

Competition and collusion

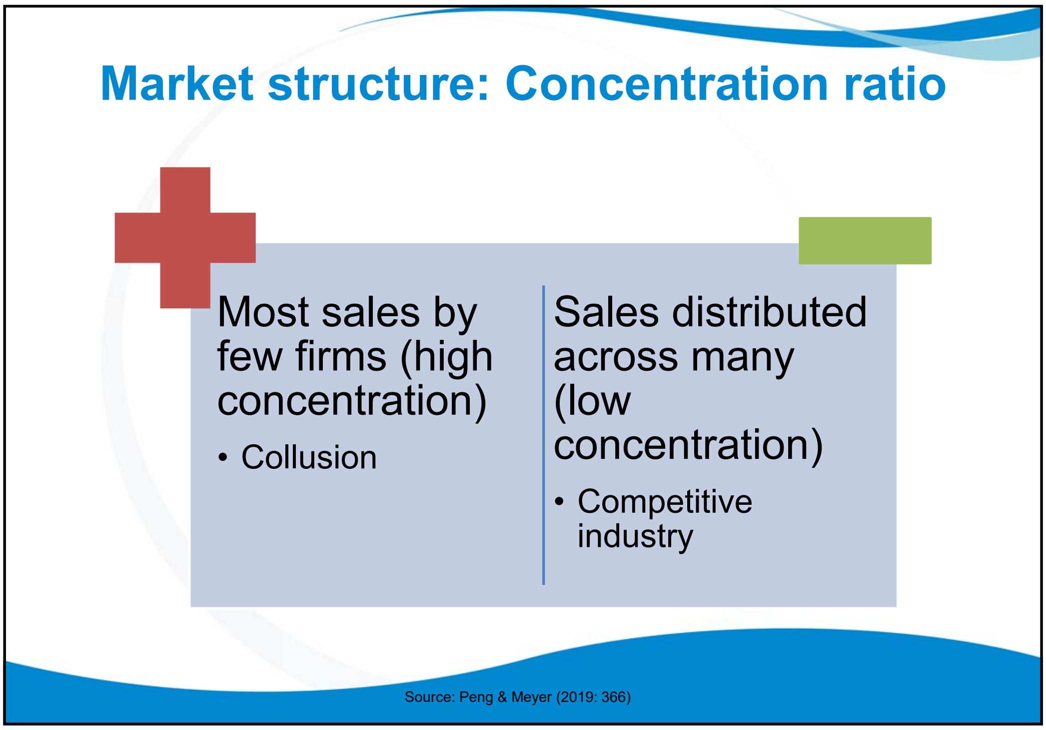
- Collusion can be tacit or explicit
  - Tacit = competitors indirectly coordinate actions by signalling their intention to reduce output or to raise prices above competitive levels
  - Explicit = firms directly negotiate output, pricing or division of markets
- Explicit collusion leads to a cartel, where multiple competitors collude to price fix

7

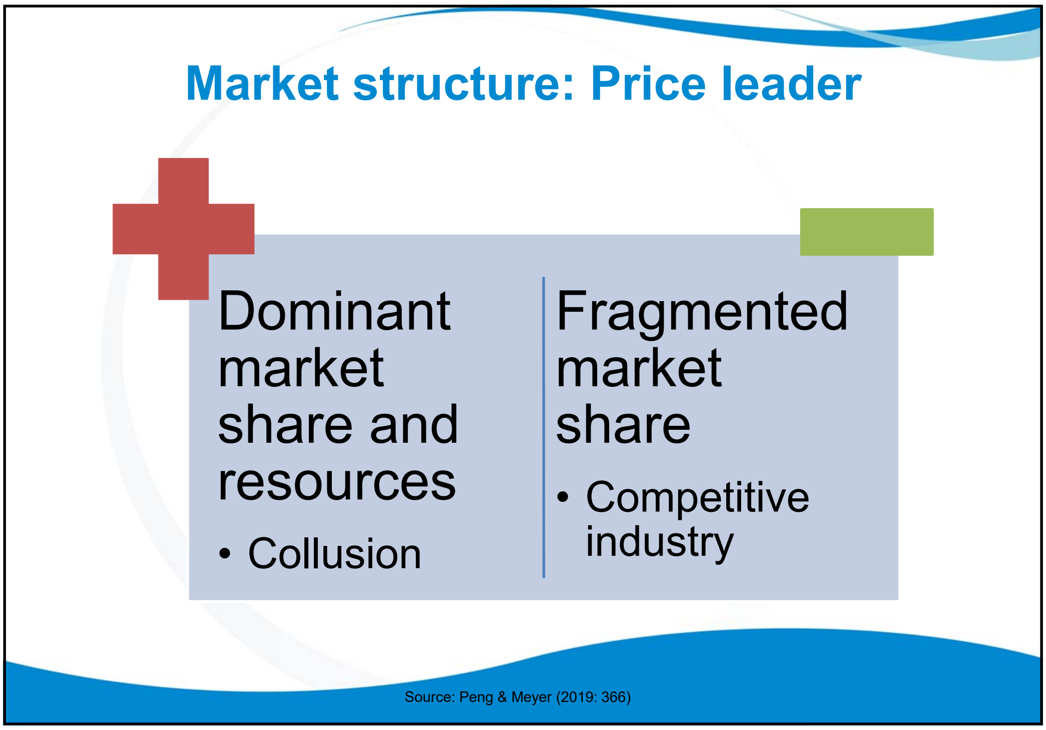
ACCOMMODATIVE/ACCOMMODATIVE Both keep price the same **COLLUSION** A: R5 million B: R5 million	ACCOMMODATIVE/AGGRESSIVE Airline A drops price **AIRLINE A WINS** A: R6 million B: R0
AGGRESSIVE/ACCOMMODATIVE Airline B drops price **AIRLINE B WINS** A: R0 B: R6 million	AGGRESSIVE/AGGRESSIVE Both compete on pricing **COMPETITION** A: R3 million B: R3 million

Source: **Adapted from** Peng & Meyer (2019: 365)

8


Market structure: Concentration ratio
Most sales by few firms (high concentration)
• Collusion
Sales distributed across many (low concentration)
• Competitive industry
Source: Peng & Meyer (2019: 366)

9


Market structure: Price leader
Dominant market share and resources
• Collusion
Fragmented market share
• Competitive industry
Source: Peng & Meyer (2019: 366)

10

Market structure: Homogenous

Price-based makes it easy to observe

- Collusion

Differentiated products/services

- Competitive industry

Source: Peng & Meyer (2019: 366)

11

Market structure: Barriers to entry

High barriers prevent new entrants

- Collusion

Low barriers make it easy to enter

- Competitive industry

Source: Peng & Meyer (2019: 366)

12

Market structure: Market commonality

Same competitors in many markets
- Collusion

Different competitors in each market
- Competitive industry

Source: Peng & Meyer (2019: 366)

13

Competition and collusion continued…cooperation and signalling

For tacit collusion to occur, competitors will signal their intention to cooperate. They can do this by:

- Entering new markets (reducing the intensity of competition and allowing the other to lead)
- Send an open signal for a truce (through media)
- Pricing schemes (match price)
- Using government to signal dissatisfaction with competitor action
- Establishing an alliance/JV

14

Institutions governing competition

Price-fixing cartels
- Collusive price setting by companies (monopolies/collusion parties)
- Collusion across borders necessitated collaboration between country watchdogs

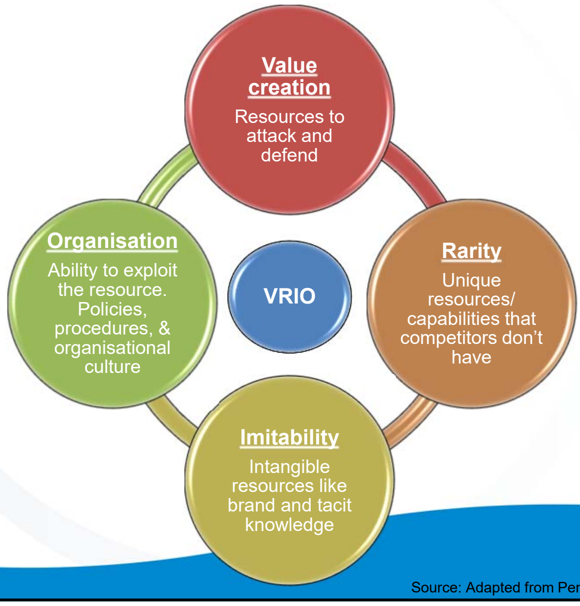
Market-dividing agreements
- Companies divide markets between each other (leaving home markets to the resident competitor)
- How to assess if it is because of tacit collusion or because of a lack of resources?

Anti-competitive practices (dominant firms)
- Leverages market power to dominate
- Raises barriers to entry
- Common in industries where the firm has control over important infrastructure (internet, for example)
- Predatory pricing

Source: Peng & Meyer (2019: 369)

15

Resources influencing competition



Source: Adapted from Peng & Meyer (2019)

16

Debates and extensions

- **Competing in a recession**
  - Ensure survival, not prosperity, by ensuring liquidity and positive cash flow
  - Conventionally, businesses try to look into the future by economic forecasting: a technique using econometric models to predict the likely future value of key economic variables.
  - An alternative is scenario planning: a technique generating multiple scenarios of possible future states of the industry.
- **Local versus big MNE**
  - Defender strategy: Leveraging local assets in areas in which MNEs are weak.
  - Extender strategy: Leveraging home-grown competencies abroad.
  - Dodger strategy: Cooperating through joint ventures with MNEs and sell-offs to MNEs.
  - Contender strategy: Engaging in rapid learning and then expanding overseas.

17

Summary Lesson 3

- Competitive dynamics between firms is complex
- Once organisations are motivated, aware and are able to engage in competitive interaction with their competitor, they are able to track and respond to each other's moves.
- Only resources that are valuable, rare, hard-to-imitate and that are organisationally embedded and exploited can lead to sustainable competitive advantage.
- Organisations need to become gurus in relation to both confrontation and cooperation with rivals, but also experts in government regulations and institutional environment of the host country.

18

Discussion topic 3

Evaluate the case study in the Discussions to draw conclusions about the market structure and likelihood of collusion in West Africa's banking industry.

For each of the five factors that contribute to collusion, you must (1) explain the factor, (2) provide evidence from the case study that supports/does not support this factor, and (3) conclude the possibility of collusion for that factor. You must then summarise your argument with your conclusion about the likelihood of collusion in West Africa's banking industry.

19

Discussion topic criteria

- Explain each factor that contributes to collusion **(5 marks)**
- Provide evidence from the case study that supports/does not support each factor **(5 marks)**
- Conclude the possibility of collusion for each factor **(5 marks)**
- Conclude the possibility of collusion for the industry **(1 mark**

20

Lesson 4 – Global strategies and acquisitions (Chapter 14)

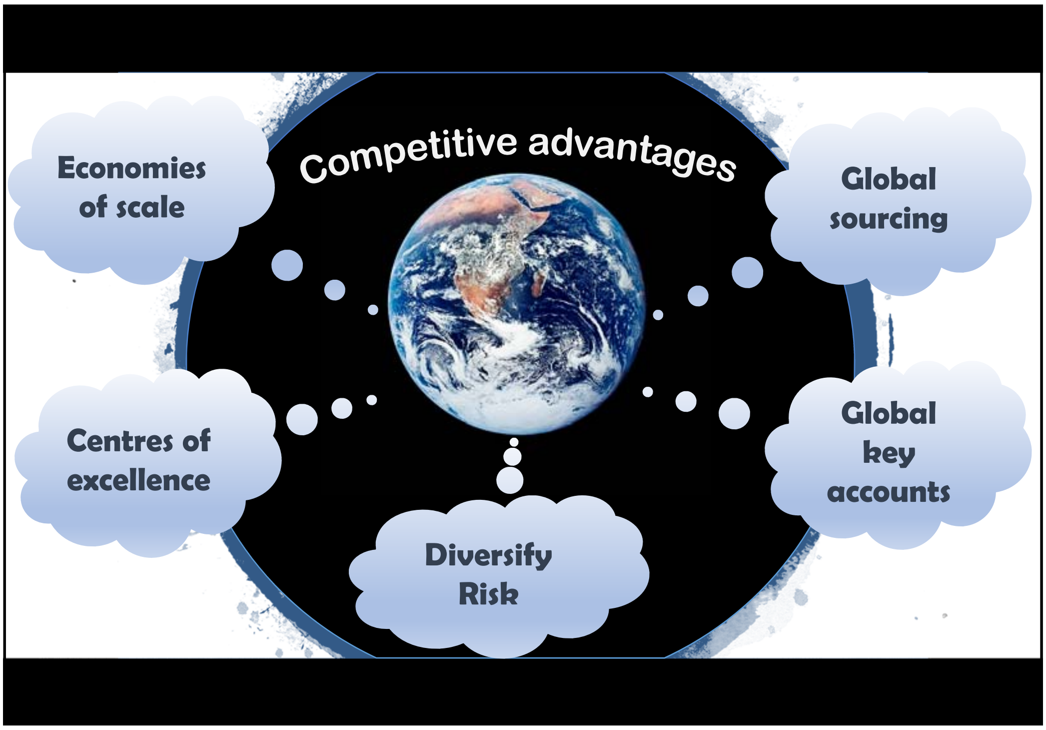
- Global organisations have to make decisions about the strategies they will use to manage their business as they spread their operations and engage with competitors across the world. We first explore the competitive advantages that a global business may experience by taking its operations globally and then go on to explore mergers, acquisitions and alliances as a means to build these global operations.

21

Why go global?

- **Access to the global market**
- **Globally competitive organisations can overcome trade barriers**
- **Regulatory problems can be avoided**
- **Sustainable competitive advantages**

22



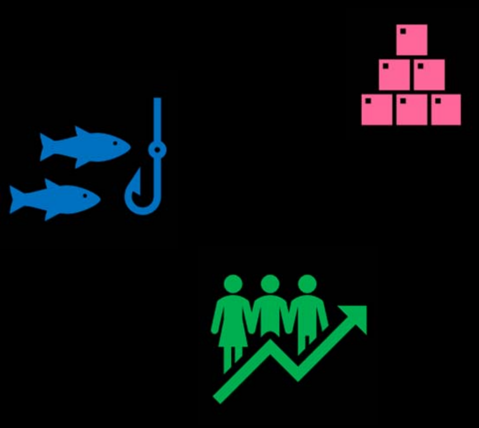
23

Economies of scale - The advantage of SIZE

Reduces costs in production, product development and marketing

24

Global sourcing



Access to a wider selection of inputs and resources at the best quality and lowest price

25

Centres of excellence

Global knowledge management enhances innovation for the entire span of the organisation

- Prevent disconnect and replication between subsidiaries by creating centralisation and consistency of standards.
- Act as a central point for R&D units at different locations, bringing people together – enhances creativity and idea generation and thus innovation.
- Allow exploitation of comparative advantages
- R&D centres around the world provide interactions with different customers and lead to projections on future market trends

26

Global key accounts

Better servicing of global customers through global operations

- Globally operating customers need globally operating suppliers
- The MNE supplier can offer the same product at multiple locations
- Distinct competitive advantage allows for contracts with global key accounts

27

Risk diversification

Reduction of the risk profile of a company by investing in different countries and industries

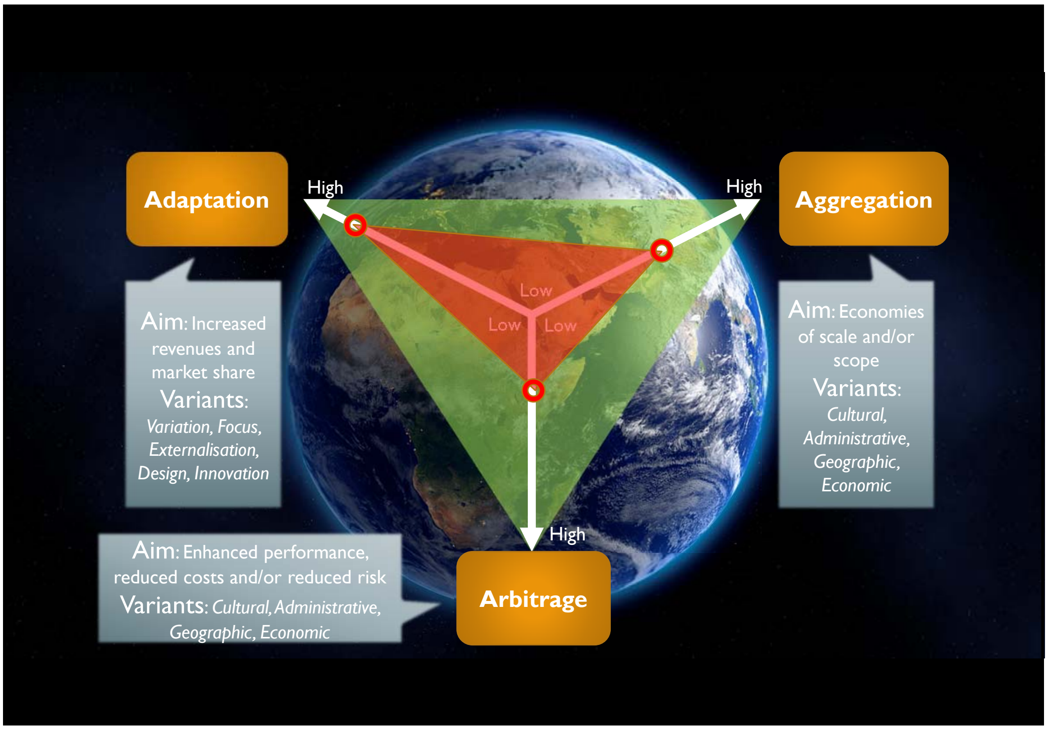
- Drawing sales revenue from multiple locations creates a stable company
- A recession is likely to only hit a small number of countries
- The advantage of agility

28

Strategising globally – strategies for expansion

- **Adaptation**
  - The aim is increasing revenues and market share by changing elements of the organisation's offer or business model to suit local requirements or preferences
- **Aggregation**
  - The company takes what they are good at and offers the same in other markets, leveraging their existing competitive resources and capabilities while localising other aspects of their operations.
  - Will typically involve standardising a large portion of the value proposition and grouping together development and production processes
- **Arbitrage**
  - Seek to exploit economic or other differences between national or regional markets, usually by locating separate parts of the supply chain in different places and allowing the organisation to diversify their levels of production costs and expertise

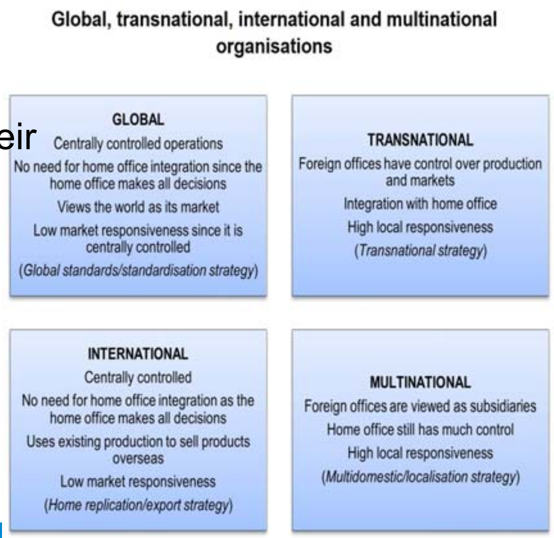
29



30

Question

Which strategy do you think Starbucks is following, based on their use of the AAA framework?



31

Growth by acquisitions – mergers, acquisitions and partial acquisitions

- **Mergers**
  - Equals
- **Acquisitions**
  - Full acquisition where equity stake is increased to majority/full ownership
- **Partial acquisitions**
  - Minority stake without strategic control
  - Majority stake taking strategic control

32

Growth by acquisitions – Types of M&A

Horizontal	Vertical	Conglomerate
• Organisations in the **same industry and at the same stage of the production process** • Reduces their costs, expands their product offerings, or reduces competition. • Achieves economies of scale	• Organisation buys another organisation in the **same industry** involved in **an earlier or later stage** of the production or sales process. • Gives the acquiring organisation more control in the supply chain	• Organisation buys another organisation in an **unrelated business** to reduce risk • More stable sales from combining products with different responses to business cycles and seasons.

33

Reasons for M&A

SYNERGISTIC

- Reduced costs
- Remove overlapping/duplicate operations
- Tax avoidance
- Improved market power
- Leverage superior organisational capabilities
- Access to complementary resources

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- Managers' overconfidence in their own capabilities – they think the value of acquiring the company will result in exceptional value because they can manage it best. The result is they overpay unknowingly

MANAGERIAL

- Self-interested actions, such as prestige, empire building and bonuses. They knowingly overpay for ego reasons.

Source*: Adapted from Peng & Meyer (2019: 393)*

34

Challenges of M&A

PRE ACQUISITION	POST ACQUISITION
Due diligence • Assess target organisation's financial status and resources • Do the two organisations fit together well? (organisational fit) • Are there any hidden liabiltiies associated with the target organisation? **Strategic fit** • Achieve more together, or at a lower cost **Organisational fit** • Compatible cultures, systems and structures	**Integrating two formerly independent organisations** • Realise the synergies that were the aim of the acquisition – added value or efficiency gains • Shedding employees, offices, business units etc can result in loss of key people and low morale. Needs to be done with sensitivity • International M&As present unique challenges: national cultures ON TOP of organisational cultures

***Source**: Adapted from Peng & Meyer (2019: 395)*

35

Growth by acquisitions – strategic alliances

- **Business unit Joint Ventures (JVs)**
  - A JV in which existing business units from two firms are merged.
  - Happens in specific industry segments between competitors or organisations with complementary resources
- **Research and development collaboration**
  - Joint ventures aiming to develop next-generation technologies
  - Formed with direct competitors or with technology specialists
  - Especially useful when it comes to developing industry standards or new ecosystems
  - Core players in new product development collaboration tend to make long-term commitments to each other
- **Joint production, marketing or distribution arrangements**
  - A form of strategic alliance that includes collaboration in operations, marketing or distribution (airlines, Discovery)
  - No equity investment

36

Growth by acquisitions – managing acquisitions continued

JVs are appropriate when the joint activity draws on the capabilities of two or more organisations and when:

- Together, the two organisations can achieve something they could not do independently (new innovations)
- Inputs (like technologies) from the two organisations are needed in a single unit. It may be too expensive to work independently.
- A full takeover is not possible eg. Competition authorities object

37

Institutions governing M&As

Three types of M&A to be assessed

- **Horizontal M&As**
  - Does the merger result in a dominant market share? Will consumers benefit? Will prices increase now that a competitor is gone?
- **Vertical M&As**
  - No direct loss of competition, but does the merger give power over the value chain and prevent or control competitors in accessing supplies or getting to market?
- **Conglomerate M&As**
  - See table 14.7 (p399). Similar questions to vertical

38

Institutions governing M&As

What can the regulator do? (Remedial actions)

- **Prevent/prohibit the merger**
  - Easiest, but works against the growth of the companies
- **Divesture**
  - Ask the organisations to sell a business unit (independently viable) to keep competition level in the affected market
  - Independent unit then becomes a competitor
- **Behavioural constraints**
  - Commitment to give rivals access to critical infrastructure on a non-discriminatory basis
  - License technologies

39

Resource-based view

- **Value is not a given**
  - Most M&As fail and the only group that benefits is often the shareholders of the acquired organisation who are able to sell their shares at an increased value because of the market hype (acquisition premium).
  - Those that do succeed are the ones that create value through operational synergies and efficiency gains (the merged unit is worth more than the independent organisations)
- **Rarity, imitability and organisation**
  - Capabilities to manage acquisition (especially post-acquisition process) are rare (proof in the low success rate)
  - Therefore they are not easily imitable
  - Organisational capabilities to manage the process of acquisition are complex and embedded (making them hard to identify and imitate)
  - Experience of the teams and individuals in managing post-acquisition is tacit knowledge

40

Debates and extensions

- **Hidden champions**
  - Medium size organisations who compete on the global stage with niche market strategies while keeping a low profile (https://www.itweb.co.za/content/Pero37Zl9yZqQb6m)
  - Often family-owned and operating in B-2-B markets
- **Global focusing**
  - Strategic shift of an organisation facing increasing competition in its home market. These organisations make use of divestments, as well as acquisitions, in order to create an organisation skilled at a niche product or business model and thus transform themselves into a global specialist.
  - Likely to become a target for acquisition because of their capabilities

41

Summary Lesson 2

- Determine the business model from the outset – it is expensive to rearrange
- Perform due diligence to ensure strategic and organisational fit
- Do not neglect post-acquisition capabilities. Integration is problematic and the MNE must balance clashing national and organisational cultures, keep the best talent, and address concerns from multiple local and foreign stakeholders
- Each country, and even region, comes with its own unique set of regulations governing M&A and it is necessary to undertake thorough research into these laws prior to investing in that country.

42

Discussion topic 4

Evaluate the case study in the Discussions. Explain what the ACCC and the FIRB would have been looking for when assessing the partnership between BP and Woolworths and the remedial action that the ACCC chose in order to ensure a competitive market.

You should incorporate the following items in your discussion:

- Explain the type of acquisition being assessed by the regulator. **(4 marks)**
- Incorporate evidence of this type of acquisition in your explanation. **(2 marks)**
- Explain the remedial action chosen by the regulator. **(3 marks)**
- Incorporate evidence of remedial action in your explanation. **(1 mark)**

43

Thank you

Define tomorrow.

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44