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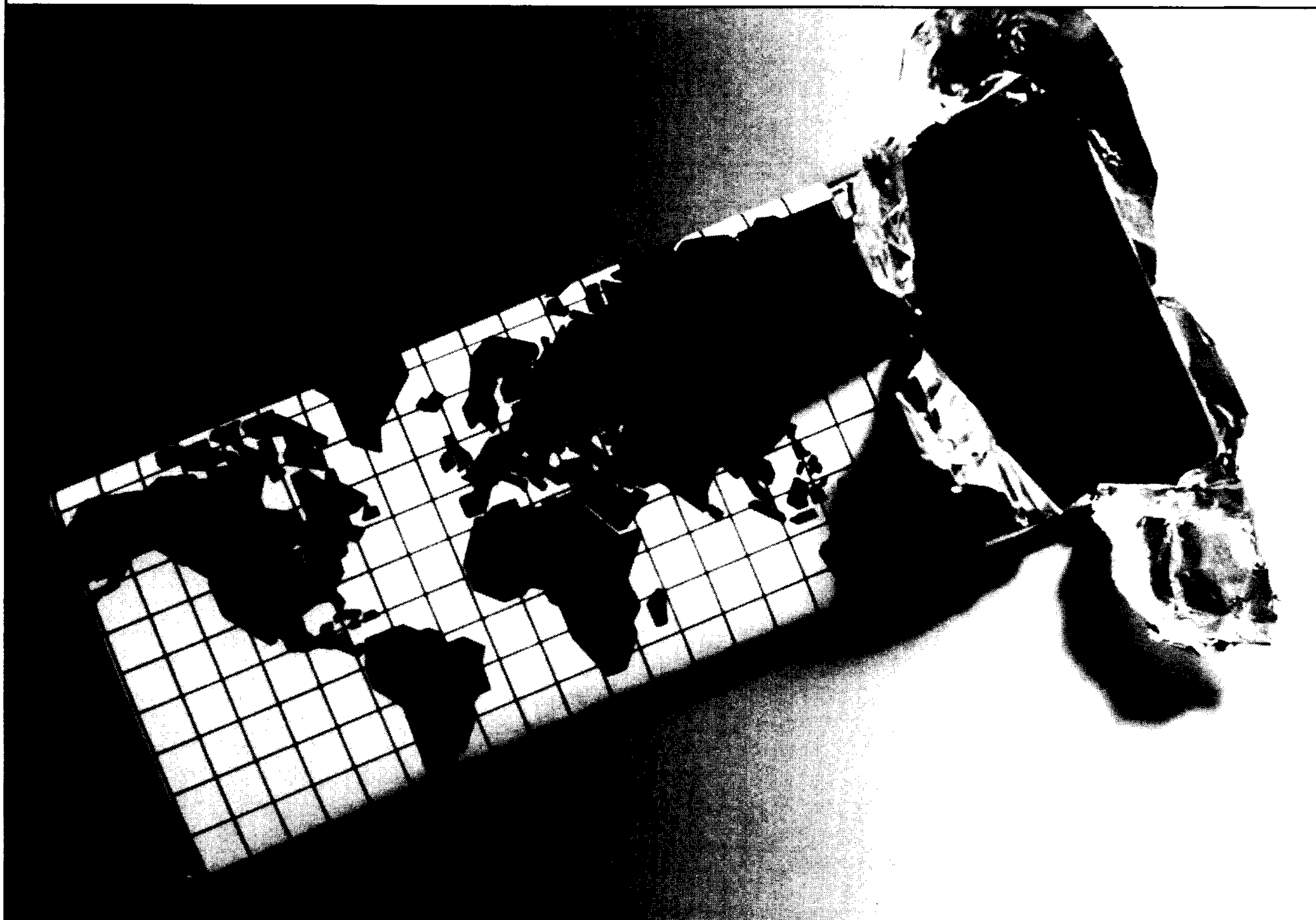
Diagnosing Global Strategy Potential: The World Chocolate Confectionery Industry
Yip, George S.; Coundouriotis, George A.
Planning Review; Jan/Feb 1991; 19, 1; ABI/INFORM Complete
pg. 4

INDUSTRY STUDY

Diagnosing Global Strategy Potential:



The World Chocolate Confectionery Industry

By George S. Yip and George A. Coundouriotis

Using the chocolate industry as a case in point, the authors show how to analyze and take advantage of industry factors that either propel or weaken the trend toward globalization.

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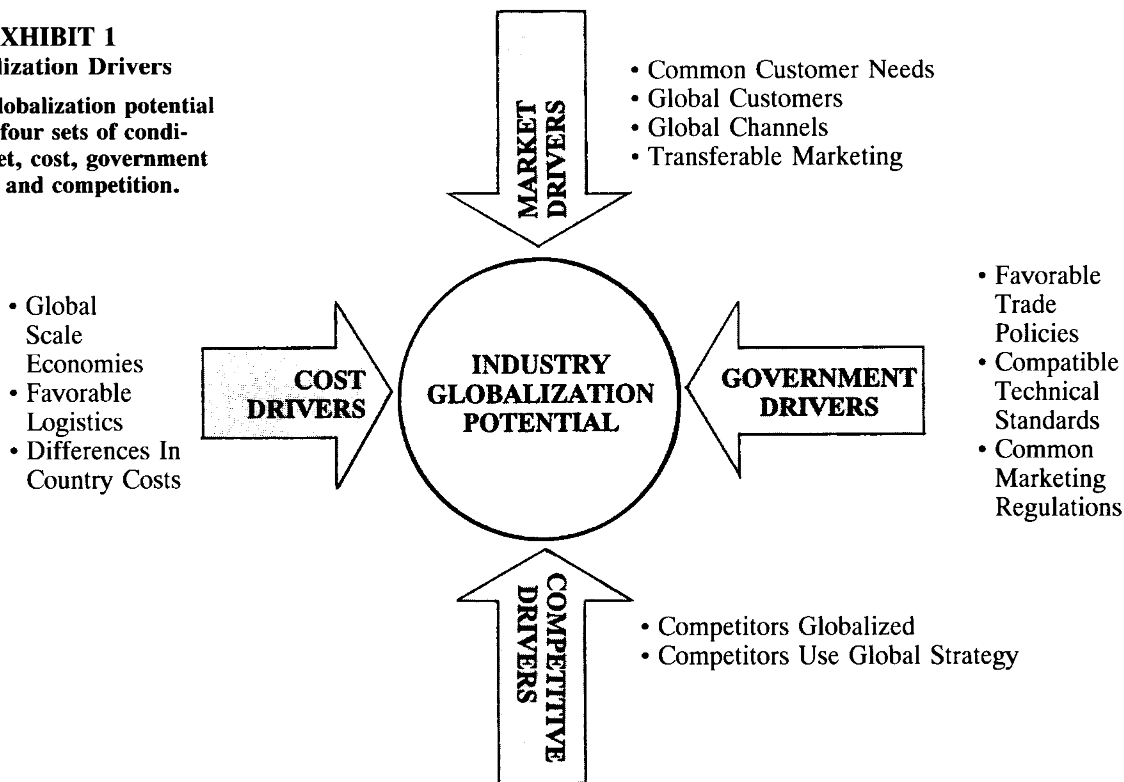
EXHIBIT 1
Globalization Drivers

Industrial globalization potential depends on four sets of conditions: market, cost, government regulations, and competition.



Opportunistic managers around the world are struggling to rationalize the issues that determine whether or not they should globalize their business. Surprisingly, the logical first step, identifying industries either as global or not global, is not a useful place to begin. For example, it's conventional wisdom that consumer electronics is a global industry (because of the universal way people use entertainment equipment), but food is not (because of national differences in taste). But such an either/or view obscures the useful idea that almost every industry has some potential for globalization or employment of global strategy.

This case presents a comprehensive framework for diagnosing industry globalization potential and explains how to develop a globally integrated strategy. It shows how even the chocolate confectionery industry—a mature food category with significant differences in national preference—has substantial potential for further implementation of global strategy, and how that potential can be successfully exploited by some of the major industry players.

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PART I
Industry Globalization Drivers

Industry globalization potential, that is, the likelihood that a global strategy will be effective, depends on a combination of four sets of conditions: market, cost, government regulation, and competition (Exhibit 1). Overall, the chocolate confectionery industry might be characterized as having only moderate globalization potential (see summary in Exhibit 3). But such an overall characterization masks the great variation among individual factors that drive the industry toward globalization. These conditions that set the direction of markets and trends are called drivers.

Market Drivers

Market globalization drivers depend on the nature of customer behavior and the structure of channels of distribution.

Common Customer Preferences. Common customer needs and tastes allow producers in any industry to market globally standardized products. Perhaps the strongest market driver in the chocolate industry is the fact that this candy appeals to people around the world—from industrialized countries where it's a common treat, to the developing nations where it's a rare luxury for most.

Producers have found chocolate consumption to be closely related to national income. Though the Far East

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has been an exception to this rule, recently Japan's consumption has been increasing rapidly. But other factors clearly affect the market, since chocolate consumption varies dramatically in major markets in developed countries. As illustrated in Exhibit 4, Northern Europeans, such as the Swiss and the British, consume almost twice as much chocolate per capita as Americans, and much more than the Italians or Japanese. The traditional preference for other types of sweets in Southern Europe and Asia probably explains most of the difference in consumption patterns. A minor factor may be the incidence of lactose intolerance (difficulty in digesting dairy products) among a percentage of both Asians and Southern Europeans.

Each of the major chocolatiers gains a large percentage of its chocolate revenues outside its "home" country: Nestlé 98 percent, Jacobs Suchard 95 percent, Cadbury-Schweppes 50 percent, M&M Mars 50 percent, and

What Is Global Strategy?

Global strategy is a process of worldwide integration of strategy formulation and implementation. In contrast, a multi-domestic approach allows the independent development of strategy by country or regional units. Global strategy has five dimensions: market participation, products and services, location of value-adding activities, marketing, and competitive moves (Exhibit 2). A worldwide business can choose to be more globally integrated in some dimensions than in others. Because these five dimensions measure corporate global policy initiatives, we call them "global strategy levers." Companies need not apply these aspects of global policy to 100 percent of their markets in order to achieve a powerful effect. However, global policy is the most effective when it is applied in core countries.

Lever 1—Global Market Participation: Using the first lever requires selecting and investing in countries on the basis of global strategic importance as well as the attractiveness of the opportunity in an individual country. This could be implemented by entering a market that is unattractive, but has global strategic significance (for example, the home market of a competitor). This policy could also be implemented by concentrating resources on building share in a limited number of key markets rather than attempting more widespread coverage.

Lever 2—Global Products and Services: Using the second lever requires designing and producing products with global needs in mind, instead of designing products for individual countries. Effective use of global products does not mean that headquarters should attempt to force 100 percent standardization. The ideal global product is designed for maximum worldwide acceptance, and has the capability to be tailored to gain full acceptance by important local markets.

Lever 3—Global Location of Activities: To use the third lever, companies create one global network of activities on the value chain (instead of reproducing the value chain in many countries). They select one, or a few, best locations for each activity. Concentrating key activities in the prime location cuts duplication, exploits economies of scale, and provides focus.

Lever 4—Global Marketing: To use the fourth lever, a company adopts the same brand name, advertising, and other marketing elements in different countries. As with the other global strategy levers, a business can make some elements of its marketing mix more global and others less so.

Lever 5—Global Competitive Moves: This lever integrates actions against competitors into a worldwide plan, rather than fighting separate country battles. A company could, for example, employ the same tactic in a number of different countries at the same time or in systematic sequence. Or it could attack a worldwide competitor in country A in order to drain resources from that competitor's efforts in country B. Or it could counter a competitive attack in country C by its own attack in country D. Perhaps the best example is a counterattack in a competitor's home market by a company intent on parrying a competitor's attack on its home market. □

EXHIBIT 2
Global Strategy Levers

	MULTIDOMESTIC	GLOBAL
Market Participation	No Particular Pattern	In Globally Strategic Countries
Products and Services	Customized in Each Country	Standardized Core
Location of Value Adding Activities	All Activities In Each Country	Concentrated - One Activity in Each Different Country
Marketing	Local	Uniform Worldwide
Competitive Moves	Stand Alone by Country	Integrated Across Countries

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Hershey the least with about 10 percent. (Defining "home" country is problematic. The Suchard company, for example, was originally German; it relocated in Switzerland for tax reasons.)

The commonality of some customer preferences has contributed to the success of many globally standardized products, such as Swiss chocolates in the premium segment. Many mass market products, such as Cadbury's Milk Chocolate bars and M&M Mars' well-known Mars Bars are sold around the world.

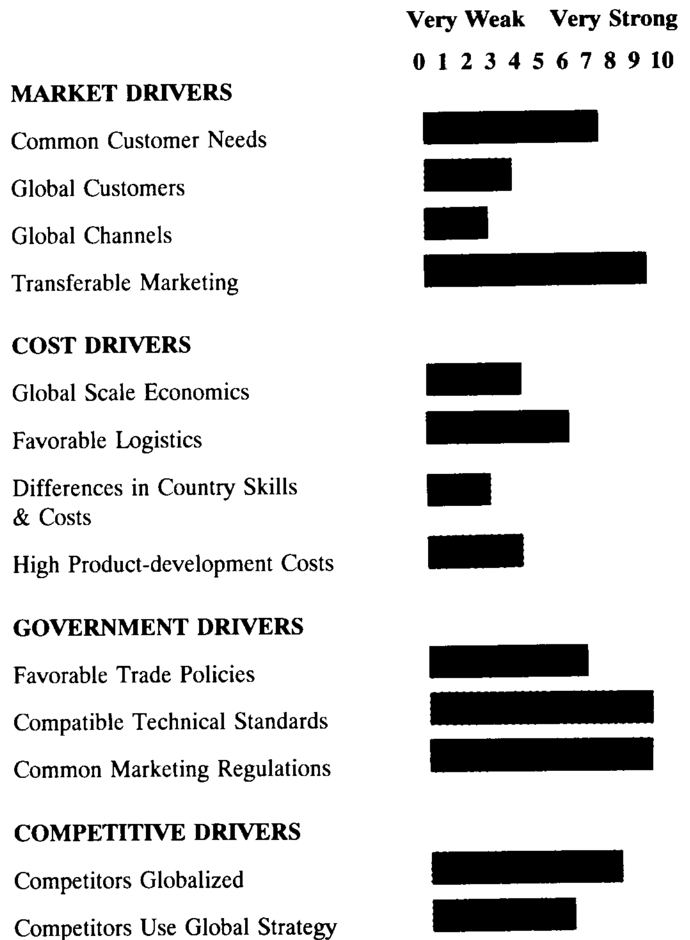
Global Channels. The existence of global or regional channels of distribution spurs producers in any industry toward global marketing uniformity. However, the main distribution channels for chocolate—grocery, drug, and department stores, confectionery/tobacco specialists, and vending machine operators—are almost all local or national. As a result, chocolate producers have little need to appeal to global channels through globally uniform marketing programs, although some international expansion and globalization of channels is starting to occur. For example, in 1989 the U.S.-based A&P grocery chain (now German owned) made a $3 billion bid for Britain's third largest retailer, Gateway Corporation. Safeway, another U.S. chain, operates stores in Canada, Britain, Germany, and Saudi Arabia. The 1992 European integration will also develop and extend channels of distribution, especially for grocery and department stores. These global channels may expand the international scope of chocolate manufacturers while reducing the costs of distributors.

Transferable Marketing. Some chocolate marketing advertising appeals to universal themes of taste enjoyment or giving presents to loved ones. But much chocolate promotion is aimed at children, and may rely on locally fashionable themes and fads, such as the latest TV hero. On the other hand, the chocolate business is experiencing the same trends toward globalization that are affecting most consumer products. These trends include global cultural convergence largely caused by satellite television and other multi-country media. For example, the global success of the movie "E.T.," in which the appealing extra-terrestrial was fond of Reese's Pieces, gave Hershey Foods the opportunity to promote that product worldwide, although Hershey did not mount such a campaign.

The response of chocolate producers to the advent of globally transferable marketing is mixed. Their premium products, brand names and packaging already tend to be globally uniform. However, mass market products often use different brand names from country to country, even when the product is the same. Chocolate producers are beginning to recognize the increasing need for globally uniform brand names. For example, M&M Mars recently changed the name of a chocolate bar it sells in the United Kingdom from Marathon to Snickers, the name it uses in the U.S.

EXHIBIT 3

Summary of Chocolate Confectionary Industry Globalization Drivers



Cost Drivers

Cost drivers for globalization in any industry depend on the economics of the individual businesses; they particularly affect how a business configures its network of activities.

Global Scale Economies. High manufacturing economies of scale in an industry encourage global market expansion, globally standardized products, and globally centralized production. The making of chocolate is highly automated, involving heavy machinery, and large containers which usually requires an initial investment of at least several million dollars. To build a world class facility an investment of $100 million or more might be required. Hershey's U.S.A. factory, the

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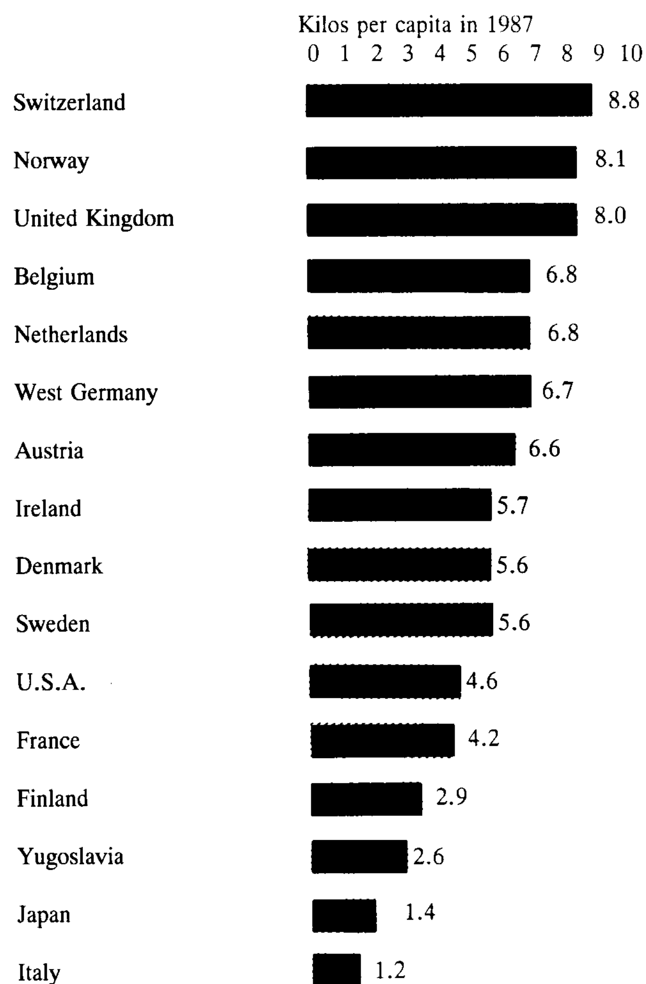
largest chocolate plant in the world, occupies more than two million square feet of space. Nestlé operates some twenty-three plants around the world. On the other hand, Jacobs Suchard, which a few years ago had almost as many plants as Nestlé, is consolidating production.

Logistics. In any industry, low transportation cost relative to value favors global market expansion, centralized global manufacturing, and competition among global rivals. In the chocolate industry, the high cost of transporting bulky raw materials (particularly milk and sugar) motivates companies to locate near their sources of supply. The substantial cost of transporting finished mass market candy from the U.S. to Japan, for example, must be weighed against any economies of scale produced by massive production facilities.

EXHIBIT 4
Chocolate Confectionary Consumption



Source: International Office of Cocoa, Chocolate and Sugar Confectionary, Brussels, 1988.

Differences in Country Skills and Costs. In some industries large differences among countries in skills and costs determine where manufacturers locate. Producing chocolate, however, is not labor-intensive, nor does it require hard-to-find skills. (Machinery suppliers are eager to teach new market entrants what they need to know.) Also the bulkiest raw material, milk, can be obtained in large volumes in many countries. This means that chocolate producers have many options in siting their plants.

High Product-Development Costs. In any industry, high product-development costs spur companies to develop a small number of global products rather than many national products, and to centralize the development effort. Physical product-development costs in the chocolate industry are relatively low, at least for the development of a local product. The development process consists primarily of mixing different combinations of standard ingredients. (However, the investment in the technology to combine the basic ingredients in a appealingly novel way, the mass production facilities, and the marketing to sell internationally could total $100 million.) In fact, recipes that lead to widely popular new products are rare. For example, before its acquisition by Nestlé in 1988, the English firm of Rowntree had developed only three successful products in forty years. Consumer testing and development of the total marketing package (positioning, brand name, packaging, pricing, advertising theme, and execution) is a process with a high failure rate. In actuality, national brand development in the chocolate industry is economically unfeasible for small companies and highly risky for major firms. This encourages the major producers to globalize existing brands rather than start new ones in each country.

Government Drivers. The strength of government globalization drivers depends on the effect of rules set by national governments regarding trade, activities by foreign firms, and marketing regulations.

Trade Policies. Nationalistic trade policies can greatly constrain companies' use of global strategy, particularly in terms of where the product is manufactured. In the chocolate industry, although tariffs are falling, they're still high enough to be an issue, given the competitive price ranges. In the U.S., which has one of the lowest tariffs, chocolate bar prices range from about 35 cents for mass-market chocolates to about $2.50 for some premium brands. However, if the tariff causes even a five cent difference between competing brands, it may be the decisive purchase factor for many consumers. Around the world, duties present a significant governmental issue for chocolate makers.

Nestlé's strategy of producing in many countries was spurred in large part by the fear of the effects on its

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competitive position caused by actual and potential trade barriers. But as in most industries, the trend is toward reduced trade barriers for chocolate. In 1987, Japan reduced its tariffs on imported chocolate from 20 percent to 10 percent. Korea and Taiwan followed suit. The United States remains the most open market—solid chocolate duty is only 5 percent, and for all other chocolate confectionery the duty is 7 percent. The European Community in theory is eliminating all remaining internal trade barriers on chocolate (internal duties were eliminated decades ago), but is retaining its 12 percent duty on imports from outside the EC.

Compatible Technical Standards. Differences in technical standards pose a barrier to globalization in any industry, but food regulations in most countries can be met by chocolate industry producers. Japan, however, prohibits sale of chocolates containing U.S.-approved additives BHT and TBHQ. The U.K. and Ireland allow the substitution of 5 percent vegetable oil in place of cocoa butter. Such regulations have a significant competitive impact and must be taken into account when planning global moves.

Marketing Regulations The special marketing regulations of individual countries affects the extent to which uniform global marketing approaches can be used. Sophisticated advertising agencies can produce advertising themes that can be transferred from country to country. But it would be naive to assume that the only modification needed to transfer ads from country to country is language dubbing. Localization of ads can be a crucial marketing factor. Another problem is that critical cultural and regulatory barriers can thwart an international TV campaign. In Britain, for example, television ad regulators do not allow scenes of children asking parents to buy a product for them. Comparative advertising and lotteries are forbidden by a number of countries, so campaigns with those themes would have limited scope.

Competitive Drivers

Competitors Globalized. In all industries, as competitors globalize by participating in more markets, rivalry increases. Powerful competitors intrude on each other's turf. Growth imperatives increase competitive pressure. Global initiatives in the chocolate industry—once spurred by the lure of international opportunities—have become increasingly defensive and preemptive. The recent spate of foreign acquisitions, which proved the quickest route to global growth, has particularly heightened the need for industry players to have a global strategy for market participation. The 1990 acquisition of Jacobs Suchard by Philip Morris, has introduced a potentially aggressive new player into the industry. As Philip Morris has demonstrated in the beer industry, it is

The World Chocolate Confectionery Industry in 1990

An amazing amount of chocolate melts in mouths around the world: four million metric tons a year, amounting to about $20 billion wholesale. The business is growing over 10 percent in worldwide volume each year. A few multinational companies dominate the chocolate confectionery market. Hershey Foods and M&M Mars in the United States, and Nestlé and Jacobs Suchard based in Switzerland (acquired by Philip Morris in 1990), and Cadbury-Schweppes in the United Kingdom, together account for over 40 percent of the world market.

This industry is particularly interesting from the viewpoint of global strategy because of the diversity of the competitors and their international strategies. Nestlé's chocolate business ($4.5 billion wholesale) is an integrated part of a giant $27 billion company, often cited as the world's most multinational. Jacobs Suchard (about $4 billion in sales; half in coffee and $1.8 in wholesale chocolate) is a recent acquisition of Phillip Morris. And Hershey ($2.2 billion wholesale) is a relatively smaller company with heavy reliance on chocolate products. M&M Mars ($4.5 billion wholesale in chocolate) is part of a large private company, Mars, Inc., with over $7 billion in revenues. Cadbury's chocolate business, between $1.8 and $2 billion wholesale, is about the same size as Suchard's.

The entire confectionery industry is undergoing a period of transition. Its teenage customer base is shrinking in the U.S. and other developed nations. The customers are being replaced by older, wealthier, and more sophisticated chocolate aficionados who favor higher quality candies. In the developing nations there is no lack of candy-hungry youths, but low disposable income is a barrier to growth. Growth in a number of major markets is slow or static when measured by per capita consumption. In the Nineties, these firms expect to grow primarily through mergers and acquisitions or by expansion into new markets, such as Japan and Latin America. Gaining a substantial share of the mature markets is extremely difficult. Even gaining entry can be tough, since most distributors prefer to carry only well-known brands, or promising new brands from established companies. Another barrier to market penetration is the expensive promotion necessary to drive sales of both new and established brands. Some of the major firms are trying to develop international marketing campaigns that will give them a sustainable competitive advantage in local markets.

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willing to fight fiercely for market share for the businesses it acquires.

Competitors Use Global Strategy. The more some competitors use global strategy—affecting global products, marketing, integrated competitive moves, and location of activities, as well as global market participation—the more need there is for other competitors to match them. One reason is that countries become strategically interdependent. When a competitor shares any value-adding activities across countries—such as central R&D or manufacturing—its market share in any one country affects its scale and overall cost position in the shared activities. This, in turn, affects its competitive position in other countries. In the chocolate industry, production can be shared across countries. Though some work in process is perishable and must be performed quickly, bulk milk chocolate can be transported with little risk of spoilage. However, the trend is for major companies to concentrate production in medium- to large-sized plants to capture economies of scale. But as the companies consolidate their manufacturing facilities and concentrate production in fewer countries, interdependence among countries, and the need for a global strategy to manage it will increase.

Summary of Industry Globalization Drivers

Clearly, market and competitive drivers provide the strongest spurs to globalization in the chocolate confectionery industry. Government drivers do not pose significant barriers, nor are cost drivers crucial.

PART II
Use of Global Strategy

Each of the four major global competitors—Nestlé, Hershey, M&M Mars, and Jacobs Suchard—are using global strategy. The extent to which the four firms use each of the five global strategy levers is summarized in Exhibit 5.

Global Market Participation

In global strategy, countries selected for entry or expansion should be chosen based on their potential contribution to globalization benefits. Gaining significant market share in each of the globally strategic countries leads to competitive leverage. Firms that are following a global strategy could have a number of options like widespread coverage and a very large share in a single country or a balanced and powerful position in several key countries. The industry's globalization drivers exert quite strong pressure on the major players to expand market participation.

Nestlé (like its rival Mars) has built a strong and balanced market participation over many years. Its 1988 acquisition of Rowntree helped boost its global market share to over 10 percent. In Switzerland, Nestlé is the market leader with 1988 sales of $534 million, roughly a third of the market. Nestlé/Rowntree also controls 24 percent of the British market. The company holds strong positions in all five continents and many countries. Nestlé's latest acquisition in the chocolate industry—the 1989 purchase of RJR Nabisco's Baby Ruth, Butterfinger, and Pearson confectionery businesses for $370 million—helped Nestlé boost its 7 percent share of the U.S. market to 12 percent. Although its global share is less than that of Mars, Nestlé's better geogaphic balance boosts its global market power roughly to parity with Mars.

As the global market leader, M&M Mars has close to a 15 percent share. The company also controls 36 percent of the U.S. market and 26 percent of the U.K. market, running a vigorous second in both. Mars has a strong presence in Europe and has been capturing an increasing share of the Asian market. In 1988 Hershey gained the top position in the U.S. market. Mars attacked in the countries where Hershey was relatively weak. Within a year of entering the Mexican market, Mars had gained more of a share (12 percent) than Hershey had managed to establish in decades. Mars has also supplanted Hershey in Japan. These international forays have kept the company financially strong: Mars' 1989 worldwide sales were over $7 billion, with estimated profits of $1 billion.

Hershey holds about 7 percent of the global market share. Although its foreign market penetration is increasing, its market participation is relatively unbalanced. The company continues to focus primarily on the North American market. For example, in 1988, Hershey acquired the U.S. confectionery business of Cadbury-Schweppes. (Cadbury's surprising willingness to sell off its U.S. business may suggest that it does not view global coverage as critically important.) Hershey's sales from foreign operations (joint ventures, licensing agreements, as well as exports and the Canada plant) accounted for only 9 percent of total sales in 1987. The company controls 44 percent of the U.S. market and is the market leader.

Jacobs Suchard (owned now by Philip Morris) was growing primarily through foreign acquisitions and had gained a global market share of about 6 percent; like Mars, its foreign market coverage was relatively well balanced. Between 1986 and 1988, the company purchased over $1 billion worth of companies, became

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the market leader in Belgium (with the purchase of Cote d'Or) and Greece (with the purchase of Pavlides), and enhanced its competitive position in Italy and Germany.

Presently, there are rumors in the industry that Jacobs Suchard will make a bid for U.K. Cadbury. With its strong balance sheet, over $1 billion in cash reserves, Jacobs Suchard can certainly offer a handsome price for Cadbury. This acquisition would give Jacobs Suchard 30 percent of the British market. The deep pockets of its new parent, Philip Morris, should certainly help.

Global Product

In global strategy, the ideal global product has maximum worldwide acceptance with minimum local adaptation. A global product policy would offer many global products but few local specialties. In the chocolate industry, the major players differ widely in their use of global products.

Nestlé makes the most use of global products, and expands national or regional successes quickly. For instance, responding to a worldwide demand for consumer specialty chocolates, Nestlé introduced "Noir," a dark chocolate with "specially selected cocoa" in Europe in 1988. Introduction in the United States is planned for late 1990. In another example of global product policy, Nestlé is trying to convert what is a small segment niche market for premium white chocolate in Europe, into a new mass market product in the United States, and Japan. Nestlé has expanded its sales of Nestlé White and is the worldwide leader in this growing segment.

Jacobs Suchard also offers global products for many markets. The company's long-standing successful brands, Toblerone, Tobler bars, and Milka are aimed at the same premium market in the United States, Europe, and the Far East. In 1989, CEO Klaus Jacobs sent a hundred salespeople to Tokyo to push sales of its Milka brand. Jacobs pointed to the rising population, income level, and a strong fascination with Western customs as reasons for targeting the Far East with this global product.

Increasing its efforts toward global product standardization, Jacobs Suchard plans to drop more than half of its 500 chocolate products now being sold in Europe in order to focus its marketing on brands with greater international appeal. These selected brands also carry more appeal for older, wealthier, and more sophisticated customers.

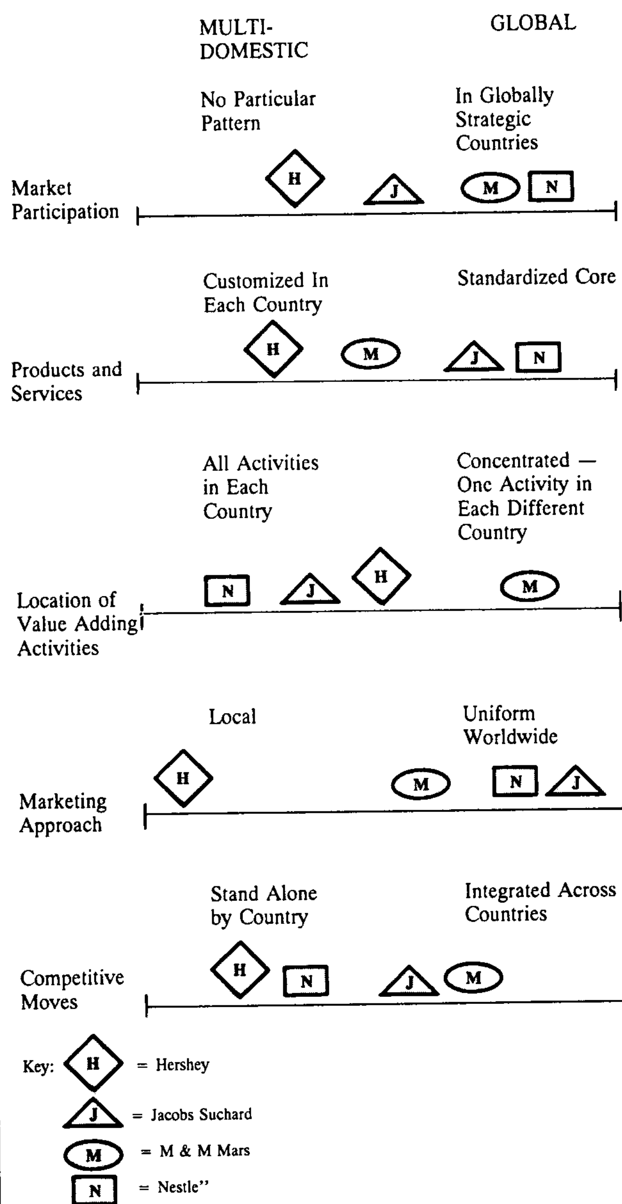
The Brachs line of chocolates in the United States, retained by Klaus Jacobs in the Philip Morris deal, provides another example of line shrinkage. When it was first taken over by Jacobs Suchard, Brachs slashed its 500 to 600 product line by half and had plans to make further cuts. A case in point: Brachs' Starlight Mints used to come in twenty-seven formats; that number was cut to four. But distributor complaints forced the company to reintroduce some products. In three years, Brachs' balance sheet flipped from $70 million in retained operating income to a loss of $50 million. Insiders in the chocolate industry note that Brachs is the only significant Suchard confectionery property that Philip Morris would not buy.

M&M Mars makes considerable use of global products. The company relies on a few core products to build and maintain market share.

Hershey has been the exception in the chocolate industry. The company's marketing focus has been

EXHIBIT 5

Use of Global Strategy by Major Chocolate Producers



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consistently aimed at North America. Ignoring the high cost of product development and market share gain, Hershey still works hard to capture market share in the mature North American markets by introducing new brands. Strong believers in variety, managers at Hershey proudly assert that they have the industry's largest inventory of new products waiting to be introduced. Hershey also has one of the best innovation records, with three successful introductions in the United States and Canada during the 1980s—Skor (1983), BarNone (1987), and Symphony (1989).

Sweet Air Fare

It can sometimes be economical to transport mass market chocolate candy by air. Following the stock market crash of October 19, 1987, and the subsequent devaluation of the dollar versus the yen, the Japanese desire for U.S. products increased substantially. In order to meet the sudden demand, M&M Mars started airlifting M&Ms to Japan. They flew in close to 200,000 pounds weekly for over six months, bringing the total close to five million pounds. This was phenomenal market growth, considering that fewer than 14 million pounds of U.S.-made chocolate were exported to Japan during all of 1987.

In contrast to the other major players, Hershey does not rely on a few hard core, global products to build market share in new markets. In Mexico, particularly, Hershey abandoned the standardization strategy when the company entered into a 50-50 joint venture with Nacional de Dulces in 1966. The joint venture produced 12 Hershey products and Hershey International exported an additional 14 brands. Product consistency may have suffered, however. Mars' approach of direct control of manufacture and reliance on only a few standardized products has been more successful in markets worldwide.

Global Location of Value-Added Activities

Another critical choice in global strategy for any industry concerns the location of value-added activities. A traditional "multidomestic" approach reproduces key portions of the value chain around the world. For example, a company may maintain production facilities in many nations. In contrast, a global strategy approach concentrates functions that provide competitive advantage in a small number of countries, and often locates different activities in different countries. To date, though, the major chocolate producers have not taken a global strategy approach to manufacturing.

Hershey, however, may be well positioned to do so since the company already manufactures in 11 plants in the United States (several of which were obtained in acquisitions), four in Canada, and one in Mexico. On the other hand, non-U.S. sales account for less than 10 percent of the total. In the past, the company focused on reducing its costs through the consolidation of its manufacturing capacity rather than through establishing production facilities around the world. In 1988, for example, Hershey focused on integrating the production facilities of newly-acquired Peter Paul/Cadbury with the rest of the division, closing one antiquated facility.

One of Hershey's corporate goals is to move toward world market leadership. Whether the company will take the approach of building new plants in key foreign markets or of further consolidation of the facilities is not yet clear.

Jacobs Suchard is definitely trying to reduce costs by concentrating production. Since 1987 the company has closed more than half of its twenty plants worldwide. For the past two years, most of the company's energy has been directed toward its "Vision 2000 Project"—a push for concentrated production in Europe. By the end of 1990, Jacobs Suchard, acting under the direction of Philip Morris, plans to have reduced its plants in Europe from twenty to six. These consolidations are intended to result in economies of scale and to make the company more competitive in world markets.

M&M Mars has world-class production facilities in Hackettstown, New Jersey. From there, it ships its candies across the country and the world. But Mars manufactures in several other countries, including Mexico and several European locations.

Nestlé has the most dispersed manufacturing operations. It produces chocolate in twenty-three countries. Surprisingly, most of its non-Swiss plants are in Latin America. The chocolate factories are medium-sized, and highly automated, each employing about 250 people. The company explains its multinational focus: "The company could not have achieved a reasonable rate of growth simply through exports, since many countries protect their own manufacturers by erecting customs barriers." Nestlé sells its product in over 360 countries on all five continents, many of which are Third World countries that are very protective of their markets.

Global Marketing

In multidomestic strategy, marketing is tailored for each country and usually developed locally. In a global strategy, a common marketing approach is applied around the world, although not all elements of the marketing mix need to be the same.

Before acquisition by Philip Morris, Jacobs Suchard took a more global marketing approach than its

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Why Is the Hershey Bar Flat?

Answer: Because a great many of them can be piled on top of each other in a shipping carton. With a shelf life of one to two years, and of low value relative to weight, mass market chocolate bars are relatively easy to ship. This fact explains why flat chocolate bars enjoy a competitive advantage. An exception that proves the rule is the triangular Toblerone chocolate bar, which is also shaped to maximize packing space.

competitors. The company emphasized "global brands" in all countries. For example, Milka and Toblerone were promoted and advertised using the same approach in each market. The company was also highly centralized; strong control of all functions, including marketing, came from Suchard corporate headquarters. Jacobs Suchard is divided into three divisions:

- The core business—chocolate and coffee operations in Europe and South America.
- Trading and financial business for commodities.
- North America.

The country managers reported directly to the president of their division. Country managers were encouraged to be entrepreneurs, and to develop unique marketing campaigns. Philip Morris marketing will very likely transform Suchard.

Nestlé, too, makes extensive use of global marketing. In almost all cases it uses the same brand names and general appearance across all markets. The company does encourage each country unit to develop its own promotional campaigns. But each campaign has to adhere to a broad regional or global marketing strategy that is established by a product director and the country manager. In a *Harvard Business Review* article, John A. Quelch and Edward J. Hoff commented that Nestlé could centralize its marketing function even further. "With greater central coordination of the marketing function, Nestlé [can] reduce costs through economies of scale in marketing and employ proven ideas more effectively throughout the world."

M&M Mars also tends to use global marketing. For example, Mars was so confident of the similarities between the European and U.S. markets that it recently introduced one of its European brands, Bounty, into the United States without any prior test marketing. Insiders in the chocolate industry suggest that this quickie introduction was possible because Bounty is a "me-too" product. The company uses the same packaging and similar advertising for the two brands. Packaging across markets is standardized for the most part. The company's M&M candies slogan, "It melts in your mouth, not in your hands," is also used successfully across markets. Most recently, the company used this theme to introduce M&M candies in Mexico.

Hershey does not use uniform marketing. The company has allowed foreign marketers to tailor their marketing campaigns as well as their products. In South Korea, for example, new products unique to the market were launched in 1988. In Canada, a likely opportunity for standardization, the American brand BarNone is named Temptation.

Global Competitive Moves

In classic multidomestic strategic fashion, managers in each country make competitive moves without regard for what happens in other countries. In global strategy, competitive moves are integrated across countries. The same type of move may be made in different countries at the same time or in a systematic sequence.

The major chocolate producers are generally quick to see competitive moves as global issues, but only in terms of countering each other's country expansions and acquisition bids. For example, Nestlé, Jacobs Suchard, and M&M Mars are strongly targeting Japan. However, as yet the companies do not seem to be using the more complex forms of cross-country counters. With their centralized management, M&M Mars and Jacobs Suchard are both able to make more use of globally integrated competitive moves than Nestlé. Of course, Hershey's limited international participation gives it little leverage to make such moves.

Benefits of Global Strategy

Use of global strategy can potentially achieve one or more of four major categories of benefits.

Reduced costs:
- Gaining economies of scale from pooling production or other activities.
- Moving to lower cost countries.
- Exploiting the flexibility of a global network.
- Enhancing bargaining power with governments, unions, and suppliers.

Improved quality:
- Focusing resources on a smaller number of products and programs.

Enhanced customer preference:
- Increasing global availability, serviceability, and recognition.

Increased competitive leverage:
- Combining global resources.
- Using more locations for attack and counter-attack.

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As Exhibit 5 shows, each competitor uses the various elements of global strategy to differing extents. Hershey is the most consistent, being primarily a multidomestic marketer. The other three companies generally employ a more global strategy, but not consistently so.

Global Strategy: What Chocolate Makers Could Learn from Each Other

A global strategy analysis can reveal the potential for globalization in a particular industry. It can also compare how competitors use global strategy. In the chocolate confectionery industry, the forces that drive the industry toward globalization vary in intensity. Market drivers are particularly strong, and cost drivers relatively weak. In addition, the major competitors have very different types of international strategy, and each takes a different approach to it. At the same time, each competitor is highly profitable.

This doesn't mean that global strategy is unimportant. In any industry where some globalization drivers are strong and others weak, there is more room for successful diversity in global strategy. But the key is to identify the right opportunities for globalization and to implement them effectively.

Each of the competitors could benefit from using some of the global strategic approaches of the others. Nestlé could learn how M&M Mars and Jacobs Suchard operate with just a few factories around the world. M&M Mars could learn how Nestlé exploits its strong local presence. Jacobs Suchard could profit from Nestlé's balance of central coordination and local autonomy. Hershey could learn from the others how to expand internationally. The others could learn how Hershey has become the leader in the world's largest market.

Lastly, bear in mind that global strategy is only part of a business' total worldwide strategy. A rigorous look at each company's core strategy, analyzing strengths and weaknesses, opportunities, threats, and other competitive dynamics, is also needed before any one of the competitors can take a much bigger bite of the world market.

This case study uses concepts and frameworks first published as "How to Take Your Company to the Global Market," by George S. Yip, Pierre M. Loewe, and Michael Y. Yoshino, Columbia Journal of World Business, *Winter 1988; and "Global Strategy...in a World of Nations?" by George S. Yip,* Sloan Management Review, *Vol. 31, No. 1, Fall 1989.*

LESSONS LEARNED

1. **Don't assume that industries are either global or not global.** The chocolate confectionery industry, like other world industries, has some drivers that favor globalization and others that do not. Its market drivers, for example, are quite strong, and its cost drivers are relatively weak. Applying the analysis of industry driver strengths used in this case to other industries would likely reveal quite different patterns.

2. **There are many ways to use global strategy.** Each competitor in this industry case has found some ways in which to benefit from global strategy. These differences depend in part on the variations in the backgrounds of the competitors. But more important, in an industry where some globalization drivers are strong and others are weak, as in the chocolate confectionery industry, there is more room for successful diversity in global strategy. The key is to identify the right opportunities and implement tactics accordingly.

3. **Each competitor can learn from the others.** Each of the competitors in this industry case could adapt some of the global strategy employed by the others. Nestlé, for example, could learn how M&M Mars and Jacobs Suchard can operate with fewer factories around the world. M&M Mars could learn how Nestlé exploits its strong local presence. Jacobs Suchard could take a lesson from Nestlé on balancing central coordination and local autonomy. Hershey should study its competitors' successful international expansion, and they in turn could benefit from observing how Hershey maintains leadership in the U.S., the world's largest market.

4. **The popular business adage, "Think global, act local" is wrong. The correct motto should be, "Think and act global and local."** This case shows how the leading chocolate candy producers have been able to build their strong worldwide positions and enjoy high levels of profitability by adopting global strategies to some degree, and also by adapting to local market conditions where necessary.

5. **Adopting global strategy does not obviate the need for individual country and regional expertise.** A company with a global strategy cannot afford to disregard the distinctions involved in individual country and regional marketing. These chocolate companies, for example, achieve significant competitive advantage through their skill in getting their products imported, satisfying local food regulations, and adapting products and marketing to local customers.

6. **Global strategy is only part of a business' total worldwide strategy.** Each company must take a rigorous look at its own core business strategy—analyzing strengths and weaknesses, opportunities and threats, and other competitive dynamics before it can attempt to take a larger bite of the world market. □

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