

Book to be used for cases and short discussions

International Management: Managing Across Borders and Cultures

by Helen Deresky, 7th Edition, Prentice-Hall, 2011.

Some notes on what is expected out of the writing:

- **The paper must be an analysis and not a commentary piece.**
- **If there are three alternative courses of action, list the pros and cons of each ... and, based on these factors, reach a conclusion.**
- **Use short sentences and/or with bullets, avoid long paragraphs**
- **identify question and answer all parts of the question.**
- **Include an introduction, a table of contents, and conclusion.**
- **Quote references (from either academic or business sources)**

5 Short discussions (3 to 6 sentences for each question)

1. How can managers assess the potential relative competitive position of their firm in order to decide on new strategic directions?

Carter and Company has been a very successful business in Brazil. Top management wants to expand into other Latin American countries. How can it evaluate the company's relative position in Argentina?

On page 246 is the following quote:

"The most effective strategic leadership practices in the 21st century will be ones through which strategic leaders find ways for knowledge to breed still more knowledge."

On the same page, knowledge management is defined as:

"The conscious and active management of creating, disseminating, evolving and applying knowledge to strategic ends."

Knowledge management is a relatively new concept. So, is this a major future direction? Should international firms have a Director of Knowledge Management? Or is this another of those academic constructs that results in learned article in leading publications?

2. On page 257, Robert C. Goizueta (former chairman and CEO of Coca Cola Company) states that "There is no permanent organization chart for the world ... It is of supreme importance to be ready at all times to take advantage of new opportunities."

Intuitively, this make sense. However, what do you think is meant by the word "permanent"? Five years ... ten years ... fifty years?

What do you think leads to a change in the organizational structure of an international organization? Does change occur by country? By region? Or by some other criteria?

Let's consider two large New Jersey companies: A and B. They have very similar worldwide sales (of the order of \$20 billion) and have comparable product lines. They are also active in most of the same countries around the world. So, you would expect them to be managed in a similar manner.

Somewhat surprisingly, they are managed very differently. The HQ team at Company A makes all major decisions and then informs local managers. For example, the decision to introduce new packaging for a cake mix in Australia was made at headquarters. By contrast, a similar decision at Company B would be made by the local Australian manager who would then inform headquarters of the planned course of action.

What are the pros and cons of these two distinctly different approaches? Shouldn't one of them be much more profitable/effective?

Kenner & Richards manufacturers cutting equipment in the United States. It is is called the XR34 and each unit costs \$95,000 to produce ... and is sold domestically for \$127,500. At the most recent corporate gathering, the managers of both the German and Brazilian subsidiaries indicated that they would be interesting in introducing the XR34 in their markets.

Heinz Gerhardt, head of K&B in Duesseldorf, has indicated that he would be in direct competition with Schaefer AG whose comparable product sells for \$99,000. Antonio Cuellar, head of the Brazilian operation in Rio de Janeiro, is facing competition from Assesita SA whose model sells for \$114,200.

Linda Napier, Director of International Operations, in interested and is proposing that the XR34 be exported to Germany and Brazil at a transfer price of \$108,000. The divisional manager wants to transfer the units to Germany at \$92,000 and to Brazil at \$132,00.

How would you resolve this issue? What would be the appropriate transfer prices ... and why?

3. What can companies do to avoid the problem of reverse culture shock? What kinds of skills do managers learn from a foreign assignment, and how can the company benefit from them? What is the role of repatriation in a company's global competitive situation? On page 365, there is a quote to the effect that "Nomura has 'a completely domestic culture' ... one based on Japanese customs of employment, and where company loyalty is

strong, decision-making is slow and tolerance for risk is low." Yet on the Nomura website, it states that "Nomura is leading financial services group and the preeminent Asian-based investment bank with worldwide reach."

Aren't these two statements contradictory? How can Nomura become a leading worldwide financial service group with an essentially domestic Japanese culture?

What can companies do to use women as a resource for international management? This is the second half of question #3 on page 375. It sounds faintly sexist. However, it may be an opportunity to think creatively outside the box.

- 4 How would you describe the cultural profile for workers in Mexico? What management style would you use?

How would you explain the theory of contingency leadership? What's the role of culture in that theory?

Do you agree with the quote [of the Russian Middle Manager] on page 383 to the effect that "Westerners can't understand that we need the fork on our neck, not all these nice words and baby techniques. The technique is the fork."

Even knowing (or appreciating) that this is true, would you be comfortable going to Russia as a manager and applying this technique.

- 5 What have you learned from the research on work centrality and the relative importance of work dimensions to people around the world? It has something to do with intrinsic and extrinsic motivators!!

On page 400, there is the quote from Nancy McKinstry with regard to applying an American, bottom line leadership style.

"There isn't that one-size-fits-all approach, not even within Europe. If you have a product or customer problem in France, there might be an approach that works extremely well. But if you took that same approach and tried to solve the exact same problem in Holland, you might fail".

Do you agree or disagree? What can you learn from a text entitled International Management: Managing Across Borders and Cultures if you need a totally different approach when dealing with two countries whose capitals are only 267 miles apart?

2 Cases (questions for the cases are provided in the book)

Case 1. Carlos Ghosn: Multicultural Leader as CEO of Nissan and Renault (page 420)

Case 2. Ratan Tata: Leading The Tata Group into the 21st Century (page 405).

An example of how the case should be handled

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Introduction

Hypermarkets are giant stores as big as four or more football fields. Part supermarket and part department store, they feature a wide array of product categories such as groceries, toys, furniture, fast food, and financial services. All these product categories are combined under a single roof.

Hypermarkets have flourished in Europe for more than three decades. France’s Carrefour SA opened the first hypermarket in 1963; with help from the French government, zoning laws ensured that competing stores would be kept from the vicinity.

Over the past 40 years, Carrefour has grown to become the world’s most global retailer with 15,000 stores in dozens of countries. Carrefour has established a strong presence in three major markets: Europe, Latin America, and Asia. Additionally, the group is speeding up the pace of global expansion as it has recently opened new stores in large markets including China, Brazil, and India.

José Luis Duran, former CEO of Carrefour, said “Carrefour has a proud history as the most international retailer, planting its flags in many countries. But I am not putting my banner anywhere, at any price.” The

group sees strong potential for further international growth in the future. However, the expansion plan of Carrefour is limited to some countries.

What is the biggest competitive threat facing Carrefour as it expands in global markets?

According to our textbook, Carrefour stores in Europe face competition from Aldi and other so-called “hard discounter” chains that feature private-label brands at lower prices. As Carrefour expands in global markets not only does it need to focus on local needs but also place a strong emphasis on prices to meet the needs of the local customers.

Carrefour’s global strategy:

- Changed the names of hundreds of Promodes’ Pryca and Continent stores in Spain and France to Carrefour
- Purchasing locally and selling private labels (positioning in terms of low prices)
- Carrefour has pulled out of Japan, Mexico and South Korea while establishing a presence in markets with stronger potential such as China and Brazil
- High quality and balanced product ranges (grocery and non-grocery)

Carrefour’s focus on local needs:

- Standardization versus adaptation approach
- “Think globally, act locally” and “Think locally and act globally”

Carrefour’s focus on price:

- Carrefour maintains a sharp focus on its pricing
- Carrefour is always vigilant to competitive prices
- Prices are set to match or be lower than competitive prices

Carrefour’s price strategy has been leveraged by three key strategies:

- Purchasing synergies
- Price positioning
- Improved product presentation

(http://www.carrefour.com/docroot/groupe/C4com/Pieces_jointes/RA/Carrefour%20GB%20corporate%203rd%20part.pdf)

Research shows that Carrefour followed WalMart’s strategy of “low prices everyday” by implementing across-the-board low prices. Price plays a big role in Carrefour consumer’s acceptance. Therefore, when Lars Olofsson became chief executive of Carrefour SA, he restored the “low price strategy” in hypermarkets, which also enabled the company to fight cheaper rivals and deep discounters such as Germany’s Aldi.

As more competitors copied the concept of “low prices”, Carrefour opted to differentiate itself by purchasing locally and selling private labels. Purchasing locally was a key strategy as it pleased the local

authorities and met the needs of the local consumers. It also allowed Carrefour to maintain its positioning as a leader in every fresh product department. Private labels offered value-for-money to consumers as Carrefour offered private labels of equal technical quality as compared to national brands at a price that was often 15 to 30 percent lower than other brands (http://www.people.hbs.edu/dbell/Globalization_of_Retailing.pdf).

In my opinion, the biggest threat that Carrefour faces as it expands in global markets is competitive rivalry in general. Continuing intensification of competition within more developed markets can demand Carrefour a greater need for innovation and price reduction. I can imagine that as more technological gadgets become available, the major rivals of Carrefour will develop ambitious international expansion plans. For this reason, Carrefour will have to develop enriching plans that will offer more benefits to customers in terms of convenience, price, environment, and anything that can make the purchasing experience more attractive to the customers.

Other threats that Carrefour faces as it goes global include:

- Economic problems in South America may lead to downturn in trading environment
- Greater legislation in emerging markets to limit influence of foreign-owned large stores
- Potential hostile takeover due to low share price

After reviewing Carrefour's background, I'm positive they have two essential instruments on their side: a lot of experience and a great capacity for innovation. The combination of these tools might aid the firm to maintain its leading position in all the countries in which the brand has established a presence. Having failed to localize its stores in countries such as the United States, South Korea, Mexico and Japan has certainly taught Carrefour some lessons on the importance of responding to the needs and preferences of local customers.

As long as Carrefour continues learning about its customers and keeps an eye on its competitors, it will maintain its competitive advantage not only to keep loyal customers but also entice "new customers" from different parts of the world.

When Lars Oloffson became chief executive of Carrefour, one industry observer described the position as "one of the most difficult assignments in the industry." Why do you think the job is so challenging?

The case notes that when Lars Oloffson became chief executive of Carrefour he assumed a challenging position as the company had lost its focus on European consumers (Keegan and Green, p. 380). An industry observer of the Wall Street Journal described the position as "one of the most difficult assignments in the industry."

In different interviews, Oloffson expressed his views in relation to the main challenges he encountered:

- "If Carrefour had some difficulties in the last 10 years or so, it is because they lost focus on the consumer. Not everywhere—in my view, we're best-in-class internationally—but in Western Europe. Then new laws in France basically forbade retailers to compete by

price. So Carrefour went for quality, which I think was good for the image of the company but negative in terms of its price reputation”

(<http://online.wsj.com/article/SB10001424052748703746604574463211734976756.html>).

- o “Carrefour had lost track of being client and consumer focused and lost a certain track of price competitiveness”

(http://www.nytimes.com/2010/06/04/business/global/04retail.html?pagewanted=all&_r=0).

- o “Carrefour wasn't consistent in the execution of its strategy. There has been this ambiguity between going for the bottom line or for the top line, and that means the whole organization hasn't been aligned in one clear direction”

(<http://online.wsj.com/article/SB10001424052748703746604574463211734976756.html>).

A customer centric business puts its customers as their number one priority and performs its strategies and day-to-day operations accordingly. First, let's discuss the importance of being consumer focused in any business.

Some of the benefits of being customer centric are listed below:

- o A profitable customer base
- o Clear understanding of how to grow your business and profits, based on a deep knowledge of your customers
- o An ability to respond quickly to your customer needs and changes in your business environment
- o A faster, more efficient organization, as everyone beats to the same drum
- o Better protection in downturns, due to more loyal customers

(http://www.ysatisfy.com/customer_focus/customer_focus.html)

Although many companies have a clear mission and vision statement, as time progresses some of them lose their focus on the consumer. I think it is vital for companies to keep in mind that consumers' preferences are constantly evolving, and more so worldwide. As Olofsson noted in an interview, “The hypermarket hasn't changed significantly since Carrefour invented it 47 years ago, but consumers have” (Keegan and Green, p. 380).

When Olofsson arrived at Carrefour, he had a formidable reputation as a former Nestlé executive, and yet a challenging task to turn around the brand. He had to redefine a strategy to put Carrefour's new profile into light. It was clear to Olofsson that in order to make Carrefour the “preferred retailer”, he needed to build a plan where understanding the customer was at the center of every activity.

In 2009, Olofsson began executing his plan to win the customers back. After evaluating the needs and expectations of its customers, employees and partners, Olofsson created an action plan based on three key commitments: being an excellent store to shop at, an excellent place to work at and an excellent neighbor. Each commitment was expressed in specific, straightforward and practical promises such as “no more long check- out lines,” “opportunities for professional development” and “commitments to local producers.”

(<http://rapport-interactif.carrefour.net/static/cdc/rapport-interactif-2011/en/transformation-2-lars-olofsson.html>).

Other challenges Olofsson confronted are listed below:

- o Difficult trading environment
- o Battle with cheaper rivals and big discounters
- o Reduction of operating and purchasing costs in tough economic conditions

Despite all these conflicts, Olofsson believed in his leadership skills and started his new role. In the beginning of his term he stated, “And for our customers leadership is about building a bond that makes all the difference between a brand, a great brand and a preferred brand.”

(<http://rapport-interactif.carrefour.net/static/cdc/rapport-interactif-2011/en/transformation-2-lars-olofsson.html>).

After analyzing the challenges that poor Lars Olofsson had to undergo, I can agree with the industry observer who described Olofsson’s position as “one of the most difficult assignments in the industry.”

Suppose you are a consultant to the chief executive of Carrefour China. What recommendations would you make to encourage Chinese shoppers to spend more money?

One challenge that Carrefour has faced within the Chinese culture is to persuade Chinese consumers to spend more on a regular visit. In contrast to Western consumers who spend an average of \$31 per visit, the typical hypermarket shopper in China spends less than \$10 per visit (Keegan and Green, p. 381).

Research provides several key insights about Chinese shoppers:

- o Modern trade shoppers make fewer trips to the store but spend more per trip, with the average price per item increasing.
- o E-commerce is experiencing rapid development and explosive growth, although shoppers are increasingly using online sites to track down cheaper prices in a few higher-priced categories.
- o China’s shoppers tend to be repertoire shoppers in most categories. They prefer to choose from a range of brands in a particular category for the same need or occasion instead of being loyal to a brand. The swift expansion of modern trade is helping to fuel the trend toward repertoire behavior by offering a wide variety of brands and promotional activities. It’s a trend that will favor retailers because consumer goods companies will be increasing investments in point-of-sale activation to encourage new shoppers to choose their brands over competing brands on the shelf.
- o Despite the extensive choices offered by modern trade, it’s only the top brands and SKUs that contribute the majority of retail sales, according to our analysis. That means retailers that strive to increase listing fees by adding SKUs may actually be tying up shelf space and working capital with low-selling SKUs.

- Grocery retailing in China still is largely a local, city-based business, given the vast differences in consumer tastes and behavior. Leading retailers combine an extensive local footprint designed to achieve broad penetration with an effective retail model that motivates shoppers to make repeat visits and increase their basket size.

(<http://www.bain.com/publications/articles/what-retailers-can-learn-from-chinese-shoppers-behavior.aspx>)

Assuming I am a consultant to the chief executive of Carrefour China, I would make the following recommendations to encourage Chinese shoppers to spend more money:

- Add a broader range of categories to offer the Chinese shoppers the opportunity to choose from a range of brands.
- Increase investments in point-of-sale activation to encourage new shoppers to choose their brands over competing brands on the shelf.
- Encourage e-commerce and offer online coupons for in-store purchases, particularly for the products that Chinese prefer, which include “cosmetics, skin care and baby categories such as diapers and infant milk powder”
(<http://www.bain.com/publications/articles/what-retailers-can-learn-from-chinese-shoppers-behavior.aspx>)
- Establish strategic alliances with top brands and offer coupons (with limited time offer) to customers to encourage them to make frequent visit.
- Increase food demos to *increase* sales and *increase* shoppers' knowledge/awareness.
- In addition to slotting allowance, I would suggest Carrefour China to advertise more the products of their less-known brands, particularly those that come up with premium products for babies, children, youth, etc. Chinese shoppers will think it is worth to pay for it and most importantly it will give them a chance to try the product. Make extensive use of advertisement (online and in-store catalogs).

Hopefully by keeping all these recommendations in mind and executing them, Carrefour will succeed in its attempt to increase the basket size of their Chinese customers.

Conclusion

Over the past 40 years, Carrefour has grown to become the world's most global retailer with 15,000 stores in dozens of countries. Carrefour has established a strong presence in three major markets: Europe, Latin America, and Asia. Additionally, the group is speeding up the pace of global expansion as it has recently opened new stores in large markets including China, Brazil, and India.

An overview of some challenges faced by Carrefour in Lars Oloffson's point of view, CEO of Carrefour, is listed below:

- o “If Carrefour had some difficulties in the last 10 years or so, it is because they lost focus on the consumer. Not everywhere—in my view, we're best-in-class internationally—but in Western Europe. Then new laws in France basically forbade retailers to compete by price. So Carrefour went for quality, which I think was good for the image of the company but negative in terms of its price reputation”
(<http://online.wsj.com/article/SB10001424052748703746604574463211734976756.html>).
- o “Carrefour had lost track of being client and consumer focused and lost a certain track of price competitiveness”
(http://www.nytimes.com/2010/06/04/business/global/04retail.html?pagewanted=all&_r=0).
- o “Carrefour wasn't consistent in the execution of its strategy. There has been this ambiguity between going for the bottom line or for the top line, and that means the whole organization hasn't been aligned in one clear direction”
(<http://online.wsj.com/article/SB10001424052748703746604574463211734976756.html>).

Carrefour appears to have a great reputation as it has proved itself to be a dynamic brand on its growth markets, with three key factors to its success: expansion, innovation, and the creation of strategic partnerships. However, it has faced many challenges along the way. For example, one challenge that Carrefour has faced is concerning the difficult mission they have to persuade Chinese consumers to spend more on a regular visit.

Despite the challenges encountered in the multiple international markets where Carrefour has a presence, Carrefour remains optimistic on the prospects for the hypermarket business model. This firm is speeding up the pace of global expansion.

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