

A Multinational Company Problem: Infiltrating Into the Clusters to Gain Competitive Edge in the Traditional Markets

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ABSTRACT: This paper is concerned with one of the main challenges of the Multinational Companies which they face in the traditional and thus in local markets. Multinational Companies aims to gain competitive advantage through differentiation in terms of their globalization strategy. However, in the local markets where the organic relationship of firms are more designed in local habits, and markets react with stable consumer behaviors, it gets harder to enter into market and drive a competitive edge. This paper aims to understand the reasons of this challenge, the analysis of resistance of traditional markets, successful sample breaking into local market and the strategy around it.

Keywords: Multinational Company; Competitive Edge; Traditional Markets; Clusters

JEL Classifications: M00; M10

1. Introduction

With the evolving technological change, now that companies can source, goods, information, technologic diversity very easily without showing much effort. In theory, more open global markets and faster transportation and communication should diminish the role of location in competition. After all, anything that can be efficiently sourced from a distance through global markets and corporate networks is available to any company and therefore is essentially nullified as a source of competitive advantage (Porter, 1998).

But if the location doesn't matter that much, is it possible to get a funding in Turkey than in US, or vice versa why the cost of capital is much more higher than in New York, than in any other city? Same could be applied to any industry, beer industry in Germany, fashion design sector in Italy, though illegal; human trafficking sector in Thailand.

2. Clusters – The Resistance

This phenomenon has been brought with another aspect by Porter's "clusters" theory: Clusters, according to Porter (1998), are critical masses in one place of unusual economic success in particular fields. He further defined them as 'geographic concentration of interconnected companies, specialized suppliers, service providers, firms in related industries and associated institutions in particular fields that competes but also cooperates' (Porter, 1998:197).

Clusters has been defined by Rosenfield (1997:4) clearly union of firms that are nimble to fabricate synergy because of their geographical nearness and dependency on each other while clustering is characterized by Roelandt and den Hertog (1999:9) as an arrangement of intersecting horizontal and vertical lines of producers of strongly interdependent firms united to each take in front in a value-count production chain. Clusters has been defined by Swann (1998:1) in prudence of geographical and using technology, as a large charity of firms in amalgamated industries at a particular location. The definition has been taken moreover by Swann as a tiny supplementary in his empirical investigations by defining two main cluster strengths as the agglomeration sizes of related-firms and united-firms in the region for a particular industry. Taking the debate for number of definitions

auxiliary Feser(1998:26) said that economic clusters are not just joined and being capable of sustainable industries, but rather related and supporting institutions that are more competitive by virtue of their dealings (Kuah, 2002).

The underlying motive of resistance of customary markets lies within this clusters access: When the competitors are speaking the same level, it is not often a conflict which is generally believed to be the upgrading of a spatially proximate enterprise as advantageous, whereas companies competing in the region of interchange levels of the production chain, such as companies in a supplier – buyer association. Despite this, because of the availability of local facts, information, skills, common physical and organizational structures and facilities, and joint lobby attempts upon policy issues, there is nevertheless some inclusion in regional clustering from a horizontal approach. Thus, industries are led to form the institutional embedding. So it is necessary to distinguish along formal institutions, such as associations, universities, and suppliers, and informal institutions, such as tacit knowledge, or social conventions. If we look at it in a broader perspective we can say that, for companies which act in connected market conditions, the socio-capital plays a crucial role which reaches to their region (Scholz and Stauffacher, 2006).

In this study Roland W Scholz, Michael Stauffacher tried to analyze give an offering to the sustain traditional industries; in summary this study gives a broad clues for the advantageous points for the local industries. As stated in this work's conclusion part: there is a way to cooperation for sustaining traditional industries in AR, these points out the "sociopsychological" level of clustering. Secondly for examples in AR sawmill industry, all forms are collaboration is wanted. And in the research it is stated that "The main argument put forward here is that clustering is desired by local stakeholders an important starting point and prerequisite for any successful clustering project. This leading approach creates the main points of the resistance.

3. Breaking The Resistance: Cola In Iran

In CNN's one of its articles published on its money.cnn.com internet site, it was mentioned that companies in the United States are forbidden to make business relationships in the Iranian territory, however United States Treasury has made some flexibilities for the nourishments. That made an ambiguity and inadequacy in the law which Coca-Cola and Pepsi Co has benefited from it, and were able to transfer lots of concentrated drink into Iranian territory with its cooperative companies located in Ireland.

This brought cola global competition scale into another state, where one part is American's represented sign and the other side was the hardliner religious leaders. Being back to Iranian territory after a small period, Pepsi and Coke had a share more than 50% in Iran where it can be counted as Mid-East's one of the massive beverage markets.

Although it was cheerful news in the headquarters of Coke and Pepsi, clerics in Iran had a great resistance against this action. As these brands are seen as "Great Devils", the religious leaders wanted from consumers not to buy from those drinks. The underlying of this local approach comes from the belief that the profits are being sent from Iranian's pockets to Israel."Pay each penny to save Israel" was the motto which was declared by Mehdi Minai who was the Public Demands Council's high ranking official. In addition to this Minai suggested Iranians to drink Zamzam Cola. Zamzam is the blessed water of Muslims which the water comes from a well in Mecca, where it is the center of Muslims worship center. Instead consumers can buy from local brands. Clerics became important and powerful elements of local clusters. By also directing the management for service and goods flow they were not only religiously powerful but also has a significant impact on economic activity. In order not to lose power, they wanted the consumers still be tied up with local clusters. This was the underlying motive of the request from consumers to buy from local brands. Those brands are produced by Khoshgozar, licenser of the Coke and Sasan, which owns a franchisee of Pepsi. In one of famous clerics Imam Khamene's website answering to Question 1343: "Is it permissible to buy the products of Jewish, American or Canadian companies if there is a probability that they are supportive of Israel?" fatwa was given that if they contribute to support Israel; those products had not been permitted. (<http://www.khamenei.de/books/ajvab.pdf>)

Despite all these measurements of clerics and government, the required reaction didn't come from youth customer segment. Because, this segment was either not dealing with Palestinian issues or in straits from the government's conflict with United States because of uranium enhancement

program. Also Colas with youthful optimism message had a reputation for hiring of lots of employees abroad, and acts an open job resource for especially in marketing related activities, which made a brand perception to be aligned with the local sensibilities. Also in young customer segment, symbolic values of modernity and affluence have highly positive effect on their perception.

The history of Coke and Pepsi in Iran is as chaotic and complex as the country's politics. Both companies were active here before the revolution, when Pepsi dominated the market through Zamzam. In the 1950s, Coke tied up in Tehran with Sasan (Pepsi's bottler since 2003) and with Khoshgovar, a private company owned by the Yazdi family that controlled distribution in Iran's eastern territory.

Though arriving late, Coke pushed ahead of Pepsi after an ayatollah issued a fatwa, or religious ruling, banning Pepsi because its franchisee followed the Baha'i faith, which is regarded as heretical by Iran's majority Shiite Muslims.

But Coke says it pulled out in 1978 as Khomeini's revolution was building. The following year the Shah was ousted, and then came the 444-day siege of the U.S. embassy, a time when Iranians risked reprisals for even being seen with U.S. products. Washington slapped sanctions on Iran during the hostage drama, but by 1991 they were relaxed enough to allow Coke to return, again with Khoshgovar in the eastern part of the country.

Khoshgovar wanted to capture the Tehran market and bought a brewery in the capital that had been shut down by the tee totaling revolution. But under pressure from the regime, it sold the site to a Tehran investment company, Noushab, which had close links to then-President Akbar Hashemi Rafsanjani, today one of Iran's richest men. In 1994, Coke licensed Noushab to sell its products in Tehran. (<http://money.cnn.com/magazines/fortune>)

By interpreting the past usage we can catch up some real good clues about the strategy of breaking into a local market, or in other words integrating with the clusters. As it can be seen in Pepsi's approach, Clusters represent a new way of thinking about national, state, and local economies, and they necessitate new roles for companies, for various levels of government, and for other institutions in enhancing competitiveness. In looking for the competition inside a new location it has been realized that thinking about competition and strategy has been dominated by what goes on inside the organization. Clusters suggest that a good deal of competitive advantage lies outside companies and even outside their industries, residing instead in the locations at which their business units are based.

In the clusters approach the importance of location is strongly emphasized, in order to create a sustainable strategy it plays a crucial role to use competitive advantage of location Pepsi defined with the brand Zamzam, has upgraded a local context that encouraged appropriate form of investment and a chance to sustained upgrading, and also in the rivalry position, where there will be a vigorous competition among locally based rivals, has made an equal position among them. In 1950s as Coke tied up in Tehran with Sasan, and thus again they managed to great a local context but also took the advantage of related and supporting industries as in the presence of capable locally based suppliers. But also in terms of factor conditions their infrastructure capability will be also be used in terms of local movement, distribution channels but also psychical and administrative infrastructure

Fatwa attack of Coke is a surprising but also a simple movement of their strategy, it first affects the direct the demand conditions, by creating a proper religious and moral demand among the sophisticated and demanding local customers.

After the instable condition of political situation, as the boundaries has been set much more ago in the local context rivalry, the games has played with its own rules. The social-economic positions of the elites such as Koshgovar or Hashemi Rafsanjani designed and also protected the situation of local cola segmentation efforts of the Coke industry.

Also the entrance mode of the Cola producers shows us the insights for the following as an international entry or country differentiation:

There are two broad constructs that drive firm performance in international entry: firm differentiation and country differentiation. Within firm differentiation, two key constructs are firm strategy and firm resources. The most important strategies in international entry are entry mode and entry timing. We measure firm resources with one key variable, firm size.

Within country differentiation, the key construct is host country characteristics. Among these characteristics, the two that identified as important are country openness and country risk.

In addition to these constructs, firm and country differentiation together shape host-home location. Two variables of this latter construct that are most extensively discussed in the literature are cultural distance and economic distance.

As mentioned earlier, after years of alienation, economic restrictions between United States and Iran, some industries had found a way to infiltrate into local clusters of Iran. The ways for infiltrating were various: Export by back channels, licensing, direct trade for the products which are not subject to restrictions by the federal government of the United States. In the entry mode, in order to increase control, there are five main classes.

3.1. Direct Export: home market sells the product by pass a corporation in the target country.

3.2. License and Franchise: a formal permission or right offered to a firm or agent located in a host country to use a home firm's proprietary technology or other knowledge resources in return for payment.

3.3. Alliance: in the target country there was a cooperative agreement between the firm in the local market and the firm in the home market.

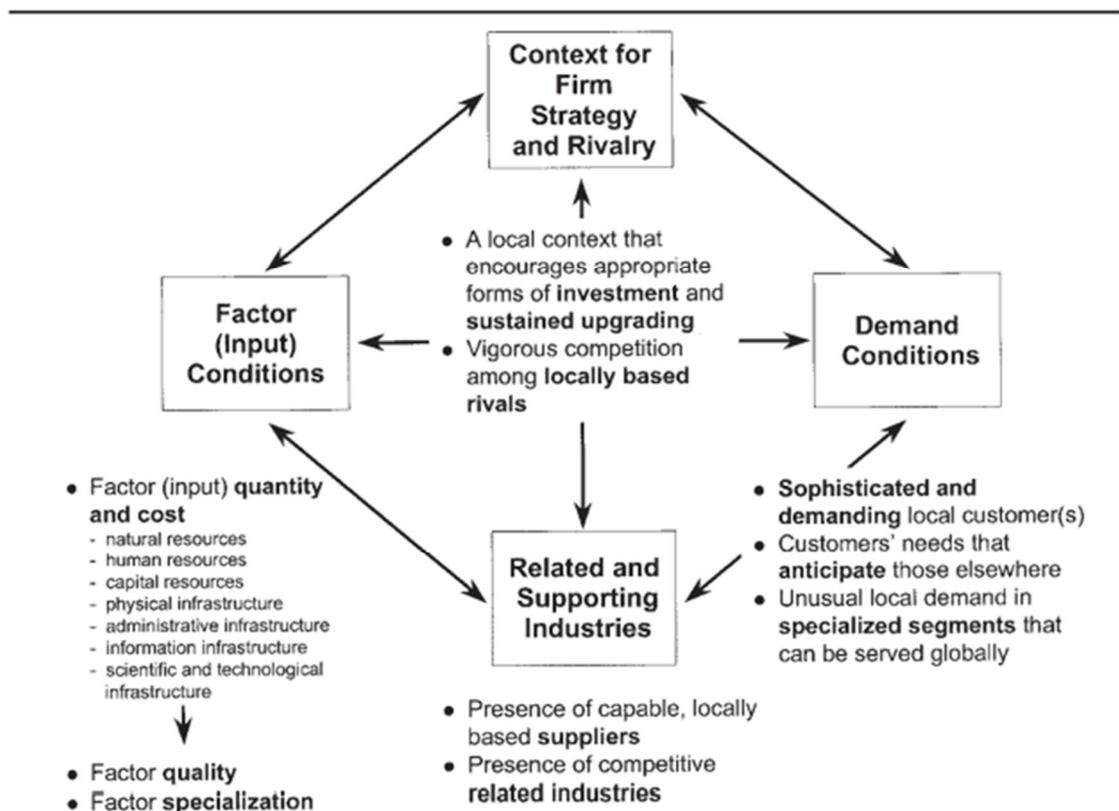
3.4. Joint Venture: in the target market there is a firm which is to be owned by the firm in the target market and one of them is at the home market..

3.5. Wholly Owned Subsidiary: takeover of an entity with its whole rights, where the profit is sent to the home country where the main company is located at.

From those, Coca Cola's system was to license bottlers which are wholesalers in Iran market that buys its syrup concentrate and then carbonate, bottle and sell it to retailers in the local Iran market. Also Pepsi followed the same way where it made a licensing agreement with Sasan.

Also it can be seen in the below figure that sources of local competitive advantage was used with its all contexts to sustain the entry strategies' supplementary of Coke and Pepsi. Choosing licensing approach, normally the licensor has less control over the licensee than over its own production and sales facilities so when the license contract ends, there will be a facing of a strong opponent created in the local market, however Cola as its part of a strategy supplies product ingredients and components.

Figure 1. Sources of Locational Competitive Advantage



Source: Porter (2000).

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It is not a far fact that the experience which Cola used in Asian countries can be applied to Iran. Iran has used to have a long term attractiveness when first decided by Coke to enter in, despite this, Iran could have been a high risk environment for Coke companies as the entrant companies, both because the political instability and governments attitude towards United States beverage industry. Also Iran had used to have fast implementing economical program.

Unlikely as of 1956, after gaining the recognition of Satanic Brand, another handicap that the cola industry had faced problem in Iran was the banning of advertisement. However cola companies are powerful on the distribution programming as well as marketing strategy. With its full market coverage approach, Cola companies managed to serve all customer groups with all the products they needed. Being a very large firms Coca-Cola managed to undertake a full market coverage strategy. In addition it was the mass marketing strategy experience they had benefited from. With this strategy, they managed to create largest potential for the market, thus it led to lowest cost, and turned as a higher margin. With this attack also, Coca-Cola managed to turn the disadvantage of marketing banning, and resistance of clerks with its another powerful line, the distribution programming.

Figure 2. A 1956 Coca-Cola print ad in Tehran.



In <http://www.coca-colacompany.com/> website it was reminded due to Nowruz celebrations.

Although for example Coca-Cola wanted to play locally, the basic universal principles of Coca-Cola remained unchanged which are bold simplicity, real authenticity, the power of red and a familiar yet surprising nature. Given the creative nature of the design, and perception management of the brand played a great role highly attracting the especially the younger segments in Iran. So its design penetrated all aspects of its strategic program which was a silent marketing with just the brand itself thus all design aspects worked together. In addition to this Coca-Cola as the packaging strategy, its one side was the original Coca-Cola typology, and the side behind was designated to be written in Persian language, which aimed to attract not only young segment but also the traditional.

Although Coca-Cola employ both push and pull strategies through the global market, in Iran because of the marketing ban, they had to change their strategy into one as a form of push strategy. As there is no loyalty they made the chose to be done in the store where they made the product as an impulse item, and made the product benefit to be well understood. In order to apply this, they used their own sales force and promotion activities to reach end users.

Another advantage of cola industry was the knowledge of easiness to infiltrate into Iranian market by smugglers. As the American products reputation is high among the consumers, those products will find its way to enter into the market. Masoud Mohajer, an economic columnist who writes for Iranian newspapers and journals confirmed this approach, as stated in one of The Huffington Post articles dated 14.09.2012: "If there is a government restriction for the products, smugglers will find a way to take those products inside the country". As Iran Government guesses, this will create tax loss, grey economy and the decline of the social welfare.

Figure 3. Coca-Cola sold in Iran today



Being very far away from mobile marketing due to regulations in Iran, yet Cola industry can have a lot of benefit from the smart phone applications marketing where Apple and Samsung has a great mobile industry in. Although had the reputation has a Satanic Brand in Iran, still the consumers are heavily owning those high tech American products.

Besides those approaches the determined and courageous company decisions made a strategy sustainable. For example in the past Pepsi has experienced boycotts supporting lesbian and gay causes however they continued to advertise to the gay community. Like this approach, Pepsi's strict decision making mechanism and the culture that was created because of it had led the way not to give up from Iranian local market.

4. Conclusion

Clusters are concentrations of highly specialized skills and knowledge, institutions rivals, related businesses and sophisticated customers in a particular nation or region. Proximity in geographic, cultural and institutional terms allows special Access, special relationships, better information, powerful incentives and other advantages in productivity and productivity growth that are difficult to tap from a distance.

Yet as they are highly concentrated where on local contexts, they also create a high sophisticated entry barrier for the companies which would want to break into the market where they are highly effective. In the sample of soft beverage industry of Iran the main drivers of breaking the cluster has been enlightened within the theories of gaining competitive advantage in the local markets. Also the offering was made: in order to gain the edge, giving samples from Cola companies who managed to infiltrate successfully into the local Iran market by over 50%. Other MNC's would require the strategy creation in terms of theoretical approach of strategic involvement, alliance with locals, and make it a sustainable placement by building and furthermore creating local demands.

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