1-1-2011

Can Brazilian Firms Survive the Chinese Challenge: Effects of Globalization on Markets, Strategies, and Performance

Syed H. Akhter
Marquette University, syed.akhter@marquette.edu

Paulo Fernando Pinto Barcellos
University of Caxias do Sul, Brazil

Accepted version. *European Business Review*, Vol. 23, No. 5, (2011), pp. 502-523. DOI.

Can Brazilian firms survive the Chinese challenge: Effects of globalization on markets, strategies, and performance

Syed H. Akhter

Marketing Department, Marquette University
Milwaukee, WI

Paulo Fernando Pinto Barcellos

University of Caxias do Sul
Caxias do Sul, Brazil

Abstract:

Purpose – The purpose of this paper is to apply the structure- conduct-performance theory and the strategic fit concept to examine the effects of globalization on markets, strategies, and performance of business-to-consumer firms in Brazil.

Design/methodology/approach – The paper takes a qualitative approach to answer the research questions. Top decision makers such as president, chief executive officer, chairman of the board, vice president, and director of the companies were interviewed. The elite approach to in-depth interviewing was followed to obtain reliable information from the decision makers.

Findings – Findings indicate that globalization and especially the entry of Chinese firms significantly changed market contexts in Brazil. Brazilian executives responded to changes in market contexts by shifting from production to customer orientation, building brand equity, developing new products, and differentiating offerings. Overall, marketing performance of Brazilian firms was positive, but profitability suffered.

Originality/value – The study contributes to the literature by showing that globalization has changed market contexts in Brazil by developing a new form of competition in which firms from emerging economies are now competing against each other. Findings from this study can provide useful theoretical and strategic insights into the behavior and performance of firms in other emerging markets.

Keywords: Brazil, China, Globalization, Market contexts, Emerging markets, Strategic fit, Competitive pressure, Strategic response, Performance outcomes

Paper type: Research paper

Introduction

Global growth in business has been fueled by the expansionary policies of firms not only from developed but also from emerging economies. Seeking resources, markets, and efficiencies, these globally oriented firms from emerging economies such as Brazil, India, and China, have diversified out of their domestic markets and expanded business into each other's markets. The expansion of these firms into each other's markets has created a new form of competition, pitting emerging economies' firms not only against multi-nationals from developed economies but also against firms from other emerging economies.

In the last two decades, the rapid growth of international business has significantly changed market conditions in different countries, creating new and challenging arenas for all firms (Nolan and Zhang, 2003). Some of the major changes have occurred in emerging economies due to the dismantling of protectionist barriers. The removal of trade and investment barriers, complemented by developments in transportation and communication technologies, has bridged time, distance and attitudinal barriers for conducting business in these economies. As a result, local businesses in emerging economies now face intensified domestic competition from international firms that have entered the market to take advantage of increasing market potential.

As a major emerging economy, Brazil has also experienced a significant influx of foreign firms in its markets. High-growth rates, greater market openness, large population, and consumers with increasing purchasing power have turned Brazil into an attractive destination for firms from other countries. Researchers have argued that the entry of foreign firms in emerging economies affects local firms and industries differently. Daniels (2000), for example, notes that some of the protected firms and industries may find it difficult to survive due to increasing competition, whereas others might grow and internationalize by taking advantage of new opportunities. Garrett (2004) also contends that the move towards greater openness in these economies has not been beneficial to their firms because these firms cannot compete against products from less developed countries that have the cost advantage and against products from developed economies that have the quality advantage.

The evidence from different studies on strategic responses of Brazilian firms to the entry of foreign firms in local markets also shows varied results. In the IT industry, for example, the entry increased competitive pressures, and local Brazilian firms, rather than developing core competencies, responded to this development by setting up contractual arrangements with foreign suppliers of technology and reducing their own research and development (R&D) expenditures (Cassiolato and Baptista, 1996). In contrast, in the retailing sector, the strategic responses of local firms were quite different. They developed strategies to neutralize competitors' actions, establish competitive advantage, redefine markets, and change ownership (Rocha and Dib, 2002). Bhattacharya and Michael (2008) also found that some of the firms in the service sector in Brazil were successfully able to keep multi-nationals at bay.

From the few existing studies on the response of Brazilian firms to the entry of foreign firms, the conclusion that can be drawn is that the entry had varied effects on different sectors and local firms' behaviors. While the finding is important, there remains a knowledge gap on how the entry of foreign firms due to globalization has affected firms in the business-to-consumer (B2C) sectors. In particular, the research is scant on how Brazilian executives perceive the effects of globalization, how they respond strategically to the changes in market conditions, and, more importantly, how these strategies affect marketing and financial performance of their firms. Research shows how executives make sense of their environments and make decisions about competitive strategies have real implications for understanding competitive landscape and strategic behavior (Weick, 1995). Also, Resende (2007) points to the significance of examining firms from emerging economies such as Brazil to gain greater insights into strategic behavior. Ranjan (1997) had also noted earlier the urgency of understanding strategic responses of firms in emerging economies.

This study is in response to the growing need to understand how the perception of changes in market contexts influences strategic responses and performance of Brazilian firms. The study contributes to the literature in three significant ways. First, the study uses the structure-conduct-performance (SCP) theory and the strategic fit concept to examine the perceived effects of globalization in the B2C markets in Brazil, strategic responses of Brazilian executives to market developments, and the effects of these strategies on marketing and financial performance. Second, to examine the substantive questions identified above, the study takes a qualitative approach to collect primary data from top officials such as chairman, chief executive officer, and managing director. This approach is appropriate because there is scant research and it provides accurate and in-depth insights into the phenomenon. Third, the study adds to the literature by focusing on Brazil, an emerging economy whose competitive significance in the global economy has been increasing significantly in recent years.

To achieve the research goals, the paper is divided into the following four sections. In the first section, we cover the globalization of the Brazilian economy and the expansion of Chinese business in Brazil. In the second section, we discuss the conceptual frameworks used to answer the research questions identified above. In the third section, we cover issues related to sampling, data collection, and findings. In the fourth section, we discuss theoretical, managerial, and public policy implications and provide directions for future research.

Globalization and Brazilian economy

Brazil, the largest Latin American economy, shares membership with Argentina, Uruguay, and Paraguay in the *Mercosur*, the Southern Cone Common Market. The country has successfully transitioned from the era of hyperinflation that plagued it during the 1980s to a more stable economic environment in recent years. Its gross domestic product (GDP) increased from $200 billion in 1978 to $1.63 trillion in 2008, making it the eighth largest economy in the world. Its imports increased from $15.1 billion in 1978 to $173 billion in 2008. The inflow of foreign direct investments (FDI) was $2.1 billion in 1978 and $45 billion in 2008. Brazil's international involvement, as reflected in the ratio of exports and imports to GDP, increased from 13.8 per cent in 1978 to 22.6 per cent in 2008 (see Table I for more data on the globalization of the Brazilian economy).

[Table 1]

The effects of globalization in Brazil are seen in changing bilateral trade relations. Although the USA, Argentina, and Germany continue to be important trading partners of Brazil, China now enjoys a special place in trade relations by becoming Brazil's largest trading partner. China's involvement in international trade and investment took a major turn after 1978 when it realized that internal economic growth and external political influence could not be achieved without a firm footing in the global economy. The country developed trade enhancing polices and implemented institutional changes to promote the internationalization of its firms. Chinese firms, motivated by the need to acquire resources, expand exports, develop overseas markets, and escape the competitive disadvantage of domestic markets, aggressively increased FDI in different regions, including Brazil in South America (Wu and Chen, 2001; Buckley *et al.*, 2007; Boisot and Meyer, 2008). Chinese FDI in Brazil from 2001 to 2006 was close to $65 billion, making it one of the largest investors in Brazil (Souza, 2008).

Chinese firms, capitalizing on their cost advantage, have also expanded exports significantly (Brouthers and Xu, 2002). Their exports to the newly opened markets were successful because of the few entrenched brands or less established brand preferences among consumers in these markets (Arnold and Quelch, 1998). Chinese firms thus exploited their internal cost advantage and favorable market conditions in countries such as Brazil to establish and strengthen market positions. Exports from China to Brazil increased from $1.4 billion in 2001 to $11.4 billion in 2007. While China's earlier exports to Brazil consisted mostly of machinery and chemicals, recently exports of electronics, textiles, shoes, and plastic goods have increased. For Brazilian firms, these developments pose the Chinese challenge in domestic markets due to globalization.

Conceptual framework

Globalization has extended the scope of markets and created structural changes in the marketplace by introducing new players, products, and strategies and changing consumer preferences. These structural changes are also occurring in emerging economies where domestic firms now confront a new form of competition characterized by increasing competitive intensity and greater environmental uncertainty (Hafsi, 2002). In responding to these developments, executives look for ways to find a good fit between competitive environments and strategies to achieve organizational goals (Beer *et al.*, 2005). How executives perceive these market developments influences the strategies they develop, which, in turn, affect the performance of their firms in the marketplace (Hambrick and Mason, 1984; Weick, 1995).

To examine executives' perception of market developments resulting from globalization and their strategic responses to these developments to improve marketing and financial performance, this study uses the logic of the SCP theory (Bain, 1956; Porter, 1979) and the strategic fit concept which shows the relation between market developments and strategy (Andrews, 1980; Schwartz and Davis, 1981). The SCP theory contextualizes strategies as responses to structural changes in the relevant market and performance as outcomes of these strategies (Lipczynski and Wilson, 2004). In the SCP theory, market-related developments play a crucial role in shaping strategies, whose essence is to defend the firm against competitive forces or turn these forces in the firm's favor (Porter, 1980).

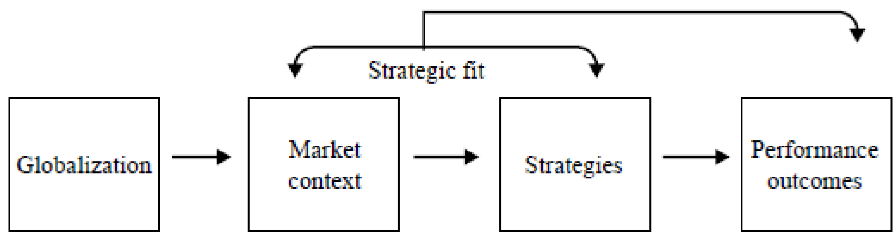
The strategic fit concept is defined as the process of aligning the firm to its marketplace, and the process of alignment defines the firm's strategy (Miles and Snow, 1994, p. 12). The concept delineates strategies as responses to market developments, but argues that performance is contingent upon the efficiency with which firms are able to align their capabilities with market conditions, and upon the effectiveness with which they implement strategies. Strategic responses of firms are viewed as the result of structural changes in the market associated with the number of buyers and sellers, product differentiation, entry barriers, industry's technology, regulatory decisions, and basic demand and supply conditions (Teece, 1984).

Although the SCP theory delineates the directional link from market structure to strategy and provides meaningful concepts to understand markets, entry barriers, firms, and strategic groups, it does not specifically cover the strategic behavior of firms and its consequences on performance (Smith *et al.*, 2007). In contrast, such guidance for strategic behavior is central to the strategic fit concept, which argues that the better the fit between structure and strategy, the better the performance (Beer *et al.*, 2005). Therefore, according to the strategic fit concept, firms that are able to align their organizational resources and capabilities with opportunities and threats in the market place achieve superior performance (Venkatraman and Prescott, 1990).

In Figure 1, we combine the two theories to address the research questions. The linkages in Figure 1 follow the basic premise of the SCP theory; and the strategic fit concept shows that performance is also affected by strategic fit. The framework shows globalization as an antecedent of changes in market context. Market context in this study is defined as the market space where the firm competes and which is influenced by globalization. Three aspects of changes in market contexts due to globalization are included: changes in competitive intensity and pressure, industry structure, and uncertainty in the environment. In this study, it is the executive's perception of developments in these three aspects of market context due to globalization that forms the basis of strategies. And the strategies they develop, in turn, influence marketing and financial performance.

The SCP theory and strategic fit concept, as shown in Figure 1, are conceptually linked as the SCP theory argues that performance is the outcome of strategy influenced by structure, whereas the strategic fit concept argues that the fit between market condition and strategies has performance implications for firms (Hoffer, 1975). These two concepts have previously been applied to the study of competitive behavior, strategic change, competitive positioning, marketing strategies, and performance (Feigenbaum and Thomas, 1990; Feigenbaum and Thomas, 1995; Smith *et al.*, 1997; Xu *et al.*, 2006) and are considered relevant for examining the research questions posed in this study. The complementary relation between the SCP theory and the strategic fit concept provides the theoretical foundations for examining strategic behaviors and performance of firms in response to changes in market contexts in Brazil.

Figure 1. The conceptual model



Market contexts in Brazil will change due to globalization. Increasing market opportunities in Brazil, for example, will persuade international firms to enter the Brazilian market. Luo and Tung (2007) propose a "springboard" perspective to explain why firms in emerging economies such as China, will engage in opportunity and market seeking behavior and exploit their competitive advantages in other emerging economies such as Brazil. More specifically, Chinese firms will exploit their internal cost advantage to enter different export markets, leveraging their country-based image of low price, which they built over time (Brouthers and Xu, 2002).

As the entry of international firms in Brazil change the local market contexts, it will motivate strategic responses from Brazilian firms to defend and improve market positions. As the number of firms increases in the market, competitive intensity will be expected to increase, putting pressure on profitability. The entry of new firms will also affect the perception of uncertainty in the market, leading firms to try out different strategies. Faced with increasing competition, local firms will be expected to respond by becoming more customer oriented. They will attempt to become not only more price competitive, but also to build brand equity to improve performance. The goal of achieving a good fit with the new market contexts will result in the development of multiple strategies (Ranjan, 1997; Knight, 2000).

Method

Sampling

One of the difficulties in conducting qualitative business research is obtaining access to decision makers. The executives are extremely busy people and are often reluctant to grant interviews to academic researchers. We were able to gain access to top executives of Brazilian firms in Rio Grande do Sul. The state is the fourth largest in Brazil and mirrors the Brazilian national economy with farming and cattle raising comprising 11.2 per cent, manufacturing 27.5 per cent, and service 61.2 per cent of the state economy. For the overall Brazilian economy, the percentages are as follows, 5.92, 27.34, and 61.2 per cent, respectively (IBGE, 2008). The per capita GDP of the state is about 15 per cent higher than the Brazilian average (FEE, 2009/IPEA, 2009).

We gained access to executives with the help of The Federation of Industries of the State of Rio Grande do Sul (FIERGS). We contacted the president of FIERGS and explained to him that two universities (one in Brazil and the other in the USA) were collaborating on a joint research project to study the effects of globalization on Brazilian firms, the strategic responses of these firms to competitive developments, and the consequent marketing and financial performance. FIERGS agreed to support our research and prepared a letter of introduction. The technical research department of FIERGS identified 25 firms that were the most representative of their industries and mailed a letter to these firms explaining the purpose of the study and its importance. A follow-up call was made to set up the interview time. In total, 11 top executives from consumer products firms agreed to be interviewed. The firms represented the following five industries: furniture, shoes, plastics, electronics, and cutlery. All five industries are economically significant to Brazil, employing approximately 44.3 per cent of the state's labor force (MTE, 2009).

Interviews

This study takes a qualitative approach to understand how executives perceive the competitive environments, how they strategically respond to them, and how these strategic responses, in turn, affect marketing and financial performance. These relations are examined in line with the linkages proposed in the SCP theory and the strategic fit concept. The underlying rationale is that individual perceptions and beliefs affect strategic decisions which, in turn, affect market outcomes (Weick, 1995). Therefore, a systematic process of data collection through in-depth interviews was followed (Alam, 2005). Interviews were conducted with top executives (chairman, chief executive officer, and managing director) in their offices. The "elite interview" approach (King, 1994) involving top executives provided more reliable data and a richer understanding of the phenomena.

Among the different methodologies in qualitative research, case studies are considered appropriate when the questions cover the why and how and when the phenomenon under study is not very well defined (Yin, 1994). In such cases, in-depth personal interview, as a constituent of case studies, is regarded an effective method to approach the research questions (Yin, 1994). Although the use of in-depth interviews is an expensive and time-consuming enterprise, it was considered a more effective approach because of the goal of obtaining rich data in a personal setting that is conducive to detailed and frank discussions.

An interview protocol was developed (Appendix) to maintain consistency in data collection and to improve reliability (Yin, 1994; McCracken, 1988). Before starting the interview, a brief introduction about the project and researchers and their affiliations was made. The executives were informed that the research project was conducted jointly at two universities, one in Brazil and the other in the USA, and that the purpose of the study was to understand the effects of globalization on market conditions in Brazil, the strategic responses of local firms to these developments and the consequent performance. Following this introduction, the interview was conducted. After questions about the company characteristics were covered, the interview focused on the effects of globalization, strategic responses of the firms, and performance outcomes. The in-depth interviews used a semi-structured format in which the interviewer provided details about the questions and also sought clarifications on responses. In such a semi-structured environment, the interviewer is able to manage the interview process more effectively and obtain more relevant information (Thomas, 1995). Each interview lasted close to 90 minutes. The executives were assured that in reporting the findings of the research their responses will remain anonymous.

Data

Information on changes in three aspects of market contexts due to globalization was obtained in the following three areas: changes in competitive intensity and pressure, industry structure, and uncertainty in the environment (Courtney, 2001; Oxelheim and Wihlborg, 1991). Executives indicated whether competitive intensity and competitive pressure had increased during the last ten years due to globalization. The coverage of ten years was premised on the idea that competitive situations change over time, and thus a longitudinal perspective provides greater strategic insights. Effects of globalization were also covered with respect to changes in industry structure which included market growth potential, rivalry, entry barriers, power of suppliers, and power of buyers (Porter, 1980). Furthermore, as changes in market contexts include uncertainty, changes in the level of uncertainty in the economic, regulatory, technological, customers, and competitive environment due to globalization were also covered (Miller, 1993).

Following the examination of the perception of changes in market context, the interview focused on strategic responses. The responses covered areas such as cost leadership, differentiation, and niche marketing. Executives also provided information on marketing strategies such as segmentation, targeting, positioning, market penetration, market development, product development, and diversification.

Performance outcomes were measured in two areas: marketing and finance. The metrics were adopted from existing works (Chakravarthy, 1986; Venkatraman and Ramanujam, 1986; Hult *et al.*, 2007). For marketing performance, the metrics included market share, customer satisfaction, and total revenue. For financial performance, the metrics included return on investments and assets, cash flow, and profitability. Executives indicated whether performance on these metrics improved, deteriorated, or stayed the same.

Findings

In this section, findings by industry are presented in the following order: executives' perception of changes in market contexts due to globalization, strategic responses to these changes, and marketing and financial performance resulting from these strategies. Of the 11 executives interviewed, four were from the furniture industry, three from the shoes industry, two from the plastics industry, one from the electronics industry, and one from the cutlery industry. As these firms sold their products through retailers and not directly to consumers, the use of the term buyers in the following discussions refers to retailers. To protect the identity of firms, alphabetic designations are used. A table summarizing the findings of each industry is also presented. It should be noted that the tables do not capture the complexity of the findings discussed below, but provide an overview of the major findings across firms and industries.

Furniture industry

Firm A

For firm A (Table II), globalization had "no significant commercial effect" and neither competitive intensity nor competitive pressure had changed significantly. However, globalization positively affected the competitive environment by influencing firms to "improve product design and incorporate new technology." Although Chinese firms had entered the market, the executive did not see their entry as a threat because of the Chinese practice of selling "standardized products at very low prices." Their entry into the market, however, contributed to competitive uncertainty as they could initiate strategic changes after gaining a foothold in the market. Channel uncertainty had also increased significantly, as it was moving from multi-brand and large department stores, which competed on price, to specialized and exclusive stores and franchised stores, which competed on quality. Globalization created rivalry among firms because of increased capacity, but it also improved growth potential of the industry. Suppliers and buyers concentration was increasing, which increased their power.

In response to market developments and changing buyer behavior, the firm imported production technology from Europe and made new product development its primary focus and initiated a plan to improve product design and quality. The executive indicated that "innovation was a constant" and that the firm "sold nothing it sold ten years ago." Furthermore, "while production, with an emphasis on efficiency, continued to remain important, there was recently a shift to emphasize marketing and customer satisfaction." To its high-end and premium-priced products, it added low-end products to compete on price. The addition of low- end products further improved the image of high-end products. To keep the two segments distinct, the firm sells the high-end products through exclusive stores and the newly added low-end products through multi-brand stores that compete on price.

[Table II]

Strategic responses yielded favorable results for the firm. Marketing metrics were positive. Total revenue, customer satisfaction, and market share increased. Financial metrics were also positive. Return on investments, return on assets, and cash flow increased and the firm was profitable.

Firm B

For firm B, both competitive intensity and competitive pressure increased moderately due to globalization. In the executive's view, "China posed a big challenge due to its lax labor laws, which made its products price competitive." Regulatory uncertainty had increased due to government policies related to tax and labor. There was also an increase in suppliers' concentration which increased their power; power of buyers was also beginning to increase due to concentration. Globalization improved the "growth potential of the industry but created rivalry among firms because of increased capacity." A major shift in the market was the increasing importance of builders who began buying in bulk to furnish the houses they were building.

The firm developed its strategy on the principles of honesty, trust, customer satisfaction, and after-sale service. It targeted only the top segment and positioned its brands on "quality and differentiation." To meet the special needs of its high-end segments and builders, it employed architects and skilled workers to provide unique pre- and after-sale consulting services.

The firm significantly improved its market share position, total revenue, and customer satisfaction. Its financial metrics such as return on investments, return on assets, and cash flow were all up significantly, but the firm was not profitable.

Firm C

For firm C, globalization did not have an impact on competitive intensity and pressure. Rivalry in the market was the result of cost differences. The executive felt that the potential of the industry was stable due to overcapacity and that the economies of scale had created entry barriers. The firm found regulatory and customer uncertainty to be high "as policy makers had not made clear the directions they were going to take in formulating trade and labor policies, and as buyers did not place orders in advance, they created uncertainty about the demand situation." Supplier power had increased due to concentration, and buyer concentration was emerging as well.

The firm responded to the above market developments by making product and market development its primary focus and targeting both domestic and foreign markets. It strengthened its upscale high-priced brand, emphasizing differentiation and customer service, and distributing the brands through exclusive stores. Anticipating strong competition from low-priced Chinese products, it developed a new line of products to avoid being "eaten" by China. It positioned these new brands on price/value and adopted an intensive distribution strategy.

Marketing performance improved. Metrics such as market share, total revenue, and customer satisfaction were all positive. In the financial area, the firm also did well by increasing profitability, return on investment, return on assets, and cash flow.

Firm D

For firm D, both competitive pressure and intensity increased due to globalization; however, globalization had also created growth potential in the industry. There was greater uncertainty in the competitive environment due to exchange rate fluctuations and competition from China. Uncertainty had also increased with respect to buyers who, the executive thought, "had not developed and were stuck in the past," failing to adapt to the new competitive environment. Concentration of suppliers and buyers was also occurring, which increased their power.

The firm implemented a combination of strategies, which included product development, market development, and diversification. It emphasized product development because of the "product life cycle becoming shorter." It added more products to complete the product line and meet the needs of different segments. The executive indicated the firm was not very active in marketing.

Their feeling was that the reputation the firm had built gave assurance to buyers about reliability and service. A major initiative focused on reducing the number of buyers and concentrating on those with whom the firm could form "reliable alliances" to increase market share. It was also forming alliances with Chinese firms, thinking that if you "cannot beat them, join them."

With respect to marketing performance, its market share declined slightly, but total revenue and customer satisfaction increased. In the financial area, return on assets and cash flow increased, but profitability suffered.

Shoe industry

Firm E

For firm E (Table III), both competitive intensity and pressure had increased due to globalization. The executive found that buyers who had visited fairs and trade shows in China came back highly price conscious and expected to buy in the domestic market at the same low price. Furthermore, economic uncertainty had increased because of the "invasion" of Chinese products, and regulatory uncertainty had also increased due to the government's exchange rate policy. Market rivalry had increased due to competition with Chinese products in the low-price range; however, brand image of local products created entry barriers in the high-end product category. Globalization had stabilized growth potential. Both suppliers and buyers had increased their power, the former by threatening forward integration and the later by increasing concentration.

[Table III]

Strategically, the firm combined market penetration, market development, and product development to strengthen its competitive position. It divided the market into two segments based on age, over and under 35, and adopted a two-pronged positioning strategy: brand differentiation for high-end products and price competitiveness for low-end products to meet the Chinese challenge. It further differentiated itself by providing "fast delivery" of orders and improving service.

With respect to marketing performance, market share and total revenue declined, but revenue from new products and customer satisfaction increased. In the financial area, the firm was not profitable. Information on cash flow and return on investments and assets was not provided.

Firm F

For firm F, both competitive intensity and competitive pressure increased significantly due to globalization. A strong Brazilian currency increased imports from China, which enjoys a cost advantage due to low labor cost. Imports from China found an attractive market among Brazil's low-income segments. Competitive uncertainty was increasing because China was beginning to enter the market with "good quality, high priced, branded shoes." The government created regulatory uncertainty with its tax policies, "collecting in excess and spending badly." Economic uncertainty had decreased compared to the past. Growth potential of the sector increased due to globalization. Economies of scale and high tariffs created some entry barriers, and suppliers and buyers were not seen as a threat.

A combination of strategic approaches was adopted to meet competitive challenges. The strategies focused on product differentiation, premium pricing, cost containment, and improving efficiency to compete against Chinese imports. As buyers expected more varieties, the strategic emphasis was also on product development, product line expansion, and a commitment to selling products that the firm produced itself. Selling what it produced itself gave the firm more control over production and enabled it to provide better customer service and make it more "agile."

With respect to marketing performance, the firm saw an improvement in all metrics such as market share, customer satisfaction, and total revenue. In the financial area, return on investments, return on assets, and cash flow increased, but the firm did not consider itself to be profitable.

Firm G

For firm G, both competitive intensity and competitive pressure increased significantly as globalization "had a significant commercial effect on the footwear industry in Brazil." The exchange rate policy was also having a detrimental effect on the industry by making imports cheaper. The pressure was mostly coming from China, which had a cost advantage because of low labor cost. Overall, competitive uncertainty had increased due to competition, mostly from Asia. Furthermore, local tax laws penalized Brazilian producers who were finding it difficult to compete against imports. The executive saw the potential of the industry in Brazil as declining, as the footwear industry was "migratory" and moved to places where "labor cost is cheap." A major change had occurred in consumer expectations, as they had become "more demanding."

In response to market developments, the firm focused on its competency in marketing. It made product development its primary focus. It sold only one brand 20 years ago; ten years later it added another brand; and currently it has seven brands, competing at different price points. It solidified its competitive advantage by further strengthening the integrated production chain. A major strategic decision the executive took was to outsource to China to become price competitive.

With respect to marketing performance, the firm saw an increase in market share and customer satisfaction, but not in total revenue. In the financial area, return on assets, return on investments, cash flow, and profitability had increased.

Plastics industry

Firm H

For firm H (Table IV), both competitive intensity and competitive pressure increased. Competitive uncertainty had also increased due to imports from China where "labor cost was lower" than in Brazil. This was also encouraging Brazilian firms to increase their outsourcing activities in China. Globalization, however, had improved growth potential, and brand image created some entry barriers. Concentration among buyers and suppliers had also increased, which increased their power. A major shift had occurred in consumers who were now "more informed" and expected "value for money."

The firm responded by focusing on R&D and launching new products. It made product design an integral component of differentiation and developed its marketing strategy around brand positioning and distribution management.

The firm did well on all marketing metrics. Market share, customer satisfaction, and total revenue increased. In the financial area, return on investments, return on assets, and cash flow increased, but profitability suffered.

[Table IV]

Firm I

For firm I, both competitive intensity and competitive pressure had decreased as the government had imposed anti- dumping duties on Chinese imports. The executive expected this scenario to change with the expiration of duties, which would prompt a major "Chinese invasion" of "low priced, poor quality products" into Brazil. There was uncertainty in the regulatory environment due to a lack of clarity on how the government would respond to market developments. Overall, the industry potential was declining because of globalization, especially due to outsourcing. There was excess capacity in the industry, which increased rivalry among firms, and supplier and buyer power had also increased. Brand image provided some entry barriers in the industry.

To respond to the above developments, the firm integrated product development and made marketing its primary focus. It developed "new products for new segments." To compete on price against Chinese and domestic competitors, it began importing components from China with the goal of providing quality at a competitive price. It also expanded its distribution and emphasized product differentiation.

With respect to marketing performance, market share and total revenue increased, but customer satisfaction did not change. In the financial area, return on investments, return on assets, and cash flow increased, but the firm did not consider itself to be profitable.

Electronics industry

Firm J

For firm J (Table V), competitive intensity and pressure did not change due to globalization. Product certification required by the government worked as "a barrier to entry" of foreign firms. The executive, however, expected China to become a major threat as globalization resulted in greater openness. Regulatory uncertainty was high due to the ambiguity in the role of the government in protecting the industry. Globalization, however, had declined the manufacturing potential of the industry because of outsourcing and offshoring to China. Concentration of suppliers increased and buyers increased their power by sourcing internationally. A major concern was that globalization had increased the significance of innovation, and the executive felt that this was a problem because his firm was a "technology follower."

In response to the market developments, the firm focused on maintaining product quality and reducing cost. It targeted small- and mid-sized retail outlets through intensive distribution with emphasis on value (cost/benefit) positioning. For one product line, it pursued market penetration, for the other, it pursued market development. To maintain margins and to remain competitive, it also began importing products.

In terms of marketing performance, market share declined slightly, but customer satisfaction and total revenue increased. In the financial area, return on investments, profitability, and cash flow increased, but return on assets declined.

Cutlery industry

Firm K

For firm K (Table VI), competitive intensity and competitive pressure had increased mostly because of competition from China. Customer uncertainty had increased because of declining loyalty, and competitive uncertainty had increased because of outsourcing and offshoring to China, India, and Vietnam. Regulatory uncertainty was also high because of "sudden policy changes" by public policy makers. An increase in buyer and supplier power was occurring and cost differences in the industry had also increased. Economies of scale and brand image, however, provided some entry barriers. Although globalization had increased the growth potential of the industry, it also led to the acquisition of local firms by multi- nationals.

[Table V]

In response to market developments, the firm not only consolidated its domestic market position but also expanded internationally. The firm made "quick changes in product design and style" to remain competitive. It strengthened its national coverage by building distribution centers throughout the country, assigning each distribution center a specific territory. It increased the range of products for its customers and positioned them on quality and innovation. As the executive mentioned, the change from a "cost focus" to a "differentiation focus" was a major factor behind the firm's growth, and it resulted from a "qualitative evolution" of products.

With respect to marketing performance metrics, total revenue, market share, and customer satisfaction increased. In the financial area, return on investments, return on assets, and cash flow increased, but profitability suffered.

[Table VI]

Discussion

Discussion of the findings

Our qualitative research findings provide a comparative view of the effects of globalization on firms in five different B2C sectors in Brazil. They show what the Brazilian executives perceived, what they did, and what they achieved. Findings suggest that executives' perceptions of the effects of globalization converged on the unifying theme of increasing competitive pressure and intensity from Chinese firms. China was a common source of anxiety for the executives interviewed, and the general perception was that the Chinese practice of selling low-priced standardized products had the potential to capture a large market share and pose a major competitive threat. Furthermore, their expectation was that the current threat in the low-end market would move up to the high- end market, when Chinese firms gained market experience and upgraded their products. Executives also felt that the competitive pressure that labor-intensive industries such as furniture, shoes, cutlery, and plastics were facing would later be experienced by other sectors such as electronics, when regulatory barriers come down due to globalization.

While globalization was perceived as increasing competitive threats, it was also seen as a positive development because of its effects on strategic responses of firms. Globalization motivated firms to introduce new technologies and add new products to improve competitive positions. The introduction of new brands at different price points met the needs of different segments with wider market coverage. The firms achieved strategic fit between market developments and strategic responses by relying on price competitiveness, brand differentiation, and a niche focus. In some cases, they combined both price and brand differentiation, creating a hybrid strategy. To contain cost and remain price competitive, some firms began outsourcing and offshoring to China. Firms also leveraged their relationships with buyers to create barriers for new entrants.

A significant attitudinal change was the shift from production orientation to customer orientation. The change was further manifested in the recognition that strategies needed to improve competencies in different areas of marketing such as segmenting, positioning, brand building, and customer relationship management. The firms adopted a multi-pronged approach to strategy development and execution, supporting the idea that in any given market there is not a single strategic path to success. Bhattacharya and Michael (2008) also found that successful local firms in emerging economies followed multiple strategies and executed them well, "closing the gaps in technology, capital and talent" (p. 95).

Performance on marketing and financial metrics varied both within an industry and across industries. In the furniture industry, the firms improved marketing performance, except for one firm which saw a decline in market share. Financially, the firms did well on all metrics except for profitability. Two of the four firms in the furniture industry were not profitable. In the shoes industry, firms did well on marketing metrics, but one of the firms experienced a decline in market share.

Financially, profitability came under pressure as two of the three firms were not profitable. In plastics, both firms did well on marketing and financial metrics, but were not profitable. In electronics, market share for the firm declined, but profitability increased. In cutlery, the firm was able to increase market share, but not profitability. Judging from the key metric of profitability, most of the firms came under profit pressure due to globalization and increasing price pressure from Chinese goods. It would have been insightful to compare the reported performance outcomes with financial results from annual reports, but these firms do not publish annual reports, as they are privately held.

What then are the strategic options for Brazilian firms, given the expected increase in competitive intensity resulting from globalization and the growing involvement of firms from emerging economies such as China? Brazilian executives will need to make both product and process innovation a key element of strategic thrusts. This will allow them to stay ahead of the competition and move away from competing in the commoditized market where price is a critical determining factor for customers. Given the cost advantage of not only Chinese firms but also of firms in other emerging economies such as India, the focus on innovation will help local firms climb up on the value-added scale to compete on non-price elements. This approach can be combined with a focus on building brand equity. The symbiotic effect of innovation and brand building will not only help local firms in enhancing their domestic positions but also prepare them to expand internationally.

Conclusions and theoretical implications

The SCP theory and the strategic fit concept guided the examination of the substantive issues covered in this paper. Findings from the study show support for the following propositions. First, the experiences of Brazilian firms parallel the finding in a recent study that show that the most prevalent strategy for Chinese exporters is the low-price strategy (Brouthers and Xu, 2002). As expected, Chinese firms mostly competed on price in Brazil by exploiting their advantage in cost structures. This strategy also fits well with the springboard approach (Luo and Tung, 2007) and the image that Chinese products have cultivated over time, and which Chinese firms continue to exploit in international markets.

Second, globalization and the entry of Chinese firms not only created opportunities for firms to improve their competencies and performance, but also increased competitive intensity in the local markets and applied pressure on profitability of some of the firms. These findings are in line with the view that globalization can have both beneficial and detrimental effects on local firms (Daniels, 2000; Garrett, 2004).

Third, faced with stiff competition from Chinese firms, Brazilian firms responded by becoming more customer oriented, and by developing brand equity and differentiating their products on non-price elements. They also expanded the product lines to meet the needs of different segments and launched new products at different price points. The responses of Brazilian firms show that pressures from globalization may induce businesses to move up on the value chain by being responsive to evolving market changes (Knight, 2000).

The strategies reflected executives' sense of the changes in market context and their response to find a good fit with these developments. They also show that as market contexts change due to competitive and environmental developments, firms respond by developing new strategies and taking corrective actions, conforming to emergent strategies (Mintzberg *et al.*, 1998). While these strategies impacted different metrics of performance, it was difficult to isolate a one-to-one correspondence between strategy and a specific outcome because multiple strategies were implemented and multiple performance metrics were measured.

Furthermore, the difficulty also stems from the fact that executives adopted similar strategies such as new product development, but experienced different outcomes. This is not at all surprising as market data regularly show that performance outcomes vary for new products. Some products fail, some succeed. This further strengthens the contention that fit between market contexts and strategy is crucial to success. For most firms, strategies yielded favorable marketing outcomes, but not profitability. One reason for this could be that price pressure lowered profit margins and marketing investment increased cost, which together adversely affected profitability.

Public policy implications

Globalization puts forth two key questions before public policy makers: how quickly should they move towards a higher level of economic globalization, if at all, and to what extent should they pursue the goal of globalization. The first issue deals with speed and the second with depth. With regard to speed, considering that Brazilian firms posted mixed financial results due to globalization, public policy makers should move towards more openness cautiously. Globalization, if pursued hastily, can shock the system and cause severe socioeconomic dislocations. The same prescription is applicable to managing the depth of globalization. The different industries are at different levels of competitiveness, and thus need to be treated differently. Labor-intensive industries such as furniture and leather products are more vulnerable to price competition and thus may not be able to cope effectively if trade barriers are reduced quickly and significantly.

In addition to the increase in competitive pressures from globalization, a common perception was that the heavy tax burden imposed by the government reduced the competitiveness of local products by making them more expensive. This is an issue that public policy makers need to look into. Furthermore, most of the executives felt that regulatory uncertainty was high and increasing. Such perceptions can have deleterious consequences on domestic investments in R&D and business expansions. Public policy makers, therefore, should take initiatives to make the regulatory environment more predictable and stable to encourage more investment and growth.

Research directions

The research in the area can be extended by addressing some substantive issues related to the links between structure, conduct, and performance and strategic fit. First, globalization has mostly been viewed as a phenomenon shaped by corporations from developed countries. Recent data, however, suggests that firms from emerging economies are expanding their international operations and changing the structure of global markets. This new role is affecting both the scope and depth of globalization. In particular, the increasing involvement of firms from emerging countries is having an impact on global value chain activities. Research can explore how firms from emerging countries are contributing to globalization, changing competitive structures in developed economies, and affecting the performance of local and international firms in these economies.

Second, the expansion of international business activities of firms from emerging economies has increased mergers and acquisitions. Future research can explore how such mergers and acquisitions affect the newly created firms and delineate the factors that contribute to their success. Furthermore, future studies can also explore the effects of such mergers and acquisitions on marketing decisions affecting segmentation, product line expansion or contraction, targeting, and brand positioning. Third, as firms from emerging economies are expanding business into each other's markets, research can take a consumer-oriented perspective and examine how beliefs, attitudes, and perception of price-value tradeoffs influence their behavior and how their behavior is affecting the performance outcomes of these firms.

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Appendix. Interview protocol

Stage 1

The interviewer introduced himself, identified his affiliation, stated the purpose of the study, and indicated that all the responses in the interview will be kept anonymous.

Stage 2

Before beginning the interview, the interviewee indicated that the questions were open-ended and that both the interviewer and the interviewee would be able to ask questions for clarification.

Questions covered the following key areas:

- Effects of globalization on the domestic market.

- Strategic responses of the firm to changes in market contexts.
- Effects of strategic responses on marketing and financial performance.

Stage 3

Before concluding the interviewee, the interviewer informed the interviewee that if he had any questions, he can direct them to either of the two authors. He then thanked the interviewee and departed.

Corresponding author

Syed H. Akhter can be contacted at: syed.akhter@marquette.edu

Table I. Brazil's economic indicators (in $ millions)

	1978	1980	1985	1990	1995	2000	2008
FDI inflows	2,180.3	1,910.2	1,418.4	988.8	4,405.1	32,779.2	45,058.2
FDI outflows	124.2	366.5	81.1	624.6	1,095.6	2,281.6	20,457.1
Total GDP	200,254.3	236,299.9	223,807	465,003	768,951	644,729	1,638,639
Exports	12,659	20,132	25,639	31,413.8	46,506.3	55,085.6	197,942
Imports	15,084.3	24,992.1	14,333.2	22,522.2	54,137.4	55,783.3	172,975
Exports + imports/GDP	0.1385	0.1910	0.1786	0.1160	0.1309	0.1720	0.2264

Source: Exports – Euromonitor International from International Monetary Fund (IMF), International Financial Statistics; FDI inflows – UNCTAD; FDI outflows – UNCTAD; imports-Euromonitor International from IMF, International Financial Statistics; total GDP – Euromonitor International from IMF, International Financial Statistics (accessed 4 June 2010); © 2010 Euromonitor International

Table II. Furniture industry: brief summary of findings

	Firm A	Firm B	Firm C	Firm D
Competitive effects				
Competitive intensity	No increase	Moderate increase	No increase	Moderate increase
Competitive pressure	No increase	Moderate increase	No increase	Significant increase
Uncertainty				
Technological	Low	High	Low	Low
Economic	Moderate	Low	Moderate	Low
Regulatory	High	High	High	Low
Customer	High	Moderate	High	High
Competitive	High	Low	Moderate	Moderate
Market conditions				
Growth potential	Improved	Improved	Stable	Improved
Rivalry	Yes – increased capacity	Yes – increased capacity	Yes – cost differences	–
Entry barriers	Yes – economies of scale	Yes – high tax burden	Yes – economies of scale	Yes – brand image
Supplier power	Increased	Increased	Increased	Increased
Buyer power	Increased	Increased	Developing	Increased
Strategic response				
	New product development	Targeted top segments	New product development	Channel consolidation
	Improved product design	Premium pricing strategy	Service	Product development
	Channel diversification	Service differentiation	Brand differentiation	New segments
	New segments		New segments	Targeted specialty stores
Performance				
Marketing				
Market share	Moderate increase	Significant increase	Moderate increase	Moderate decrease
Customer satisfaction	Significant increase	Significant increase	Moderate increase	Significant increase
Total revenue	Moderate increase	Significant increase	Moderate increase	Moderate increase
Financial				
Profitability	Moderate increase	Not profitable	Moderate increase	Not profitable
ROI	Moderate increase	Significant increase	Moderate increase	No increase
ROA	Moderate increase	Significant increase	Moderate increase	Moderate increase
Cash flow	Significant increase	Significant increase	Moderate increase	Moderate increase

Table III. Shoes industry: brief summary of findings

	Firm E	Firm F	Firm G
Competitive effects			
Competitive intensity	Moderate increase	Significant increase	Significant increase
Competitive pressure	Significant increase	Significant increase	Significant increase
Uncertainty			
Technological	Low	Low	Very low
Economic	Significant increase	Decreased	Moderate
Regulatory	Significant increase	Very high	Significant increase
Customer	Significant increase	Low	Low
Competitive	Moderate	Increasing	Significant increase
Market conditions			
Growth potential	Stable	Improved	Declining
Rivalry	Yes – imports	Yes – imports	Yes – imports
Entry barriers	Yes – brand image	Yes – tariffs	Yes – brand image
Supplier power	Increased	Not a threat	Increased
Buyer power	Increased	Not a threat	Increased
Strategic response			
	Product development Service differentiation Segmentation Market development	Product development Cost containment Product differentiation Premium pricing	Product development Outsourcing Market penetration Brand extension
Performance			
Marketing			
Market share	Moderate decline	Moderate increase	Moderate increase
Customer satisfaction	Moderate increase	Moderate increase	Significant increase
Total revenue	Moderate decrease	Moderate increase	No increase
Financial			
Profitability	Not profitable	Not profitable	Moderate increase
ROI	No information	Moderate increase	Moderate increase
ROA	No information	Moderate increase	Moderate increase
Cash flow	No information	Moderate increase	Significant increase

Table IV. Plastics industry: brief summary of findings

	Firm H	Firm I
Competitive effects		
Competitive intensity	Moderate increase	Significant decrease
Competitive pressure	Significant increase	Significant decrease
Uncertainty		
Technological	Low	Very low
Economic	Low	Moderate
Regulatory	Moderate	Moderate
Customer	Low	High
Competitive	High	High
Market conditions		
Growth potential	Improved	Decreasing
Rivalry	Yes – imports	Yes – excess capacity
Entry barriers	Yes – brand image	Yes – tariffs, brand image
Supplier power	Increased	Increased
Buyer power	Increased	Increased
Strategic response		
	New product development	New product development
	Product design	Product differentiation
	Brand positioning	Distribution management
	Distribution management	
Performance		
Marketing		
Market share	Moderate increase	Significant increase
Customer satisfaction	Moderate increase	No change
Total revenue	Moderate increase	Significant increase
Financial		
Profitability	Not profitable	Not profitable
ROI	Slight increase	Moderate increase
ROA	Moderate increase	Moderate increase
Cash flow	Slight increase	Moderate increase

Table V. Electronics industry: brief summary of findings

	Firm J
Competitive effects	
Competitive intensity	No increase
Competitive pressure	No increase
Uncertainty	
Technological	High
Economic	High
Regulatory	High
Customer	Low
Competitive	Moderate
Market conditions	
Growth potential	Declined
Rivalry	Imports
Entry barriers	Product certification
Supplier power	Increased
Buyer power	Increased
Strategic response	
	Product quality
	Cost competitiveness
	Small/mid-sized retail outlets
	Cost/benefit positioning
Performance	
Marketing	
Market share	Declined
Customer satisfaction	Moderate increase
Total revenue	Moderate increase
Financial	
Profitability	Moderate increase
ROI	Moderate increase
ROA	Moderate decrease
Cash flow	Moderate increase

Table VI. Cutlery industry: brief summary of findings

	Firm K
Competitive effects	
Competitive intensity	Increased
Competitive pressure	Increased
Uncertainty	
Technological	Very low
Economic	Very low
Regulatory	High
Customer	High
Competitive	High
Market conditions	
Growth potential	Improved
Rivalry	Cost pressure
Entry barriers	Yes – economies of scale, brand image
Supplier power	Increased
Buyer power	Increased
Strategic response	
	Market penetration
	Product design
	National coverage
	Brand differentiation
Performance	
Marketing	
Market share	Moderate increase
Customer satisfaction	Moderate increase
Total revenue	Slight increase
Financial	
Profitability	Not profitable
ROI	Slight increase
ROA	Moderate increase
Cash flow	Moderate increase

