Defending a Domestic Position Against Global Entries

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ABSTRACT. The article offers a systematic review of strategic options available to incumbents coping with threats and attacks by a global firm. The framework makes it possible to review and analyze action alternatives based on the entry stage, the attack focus, and defense tactics. Even though the globalization process has exposed domestic incumbents to greater threats, incumbents’ options have also increased. The doors of trade liberalization swing both ways. Opportunities for collaboration increase while anti-globalization movements and national patriotism can be mobilized for effective defense. The framework presented in this article builds on existing strategic theories and concepts in addition to published case studies. It offers a flexible and dynamic approach for reviewing alternative strategies for implementation and research.

KEYWORDS. Defensive strategies, incumbents, global threats, global opportunities, globalization trends

INTRODUCTION

In the age of globalization, many domestic firms are threatened by the entry of global firms (Baker & Ballington, 2002; Beardsley et al., 2002; Roberts, Nelson, & Morrison, 2005; Thoumrungroje & Tansubaj, 2004). Equipped with mega brands, know-how, and economies of scales, global and multinational firms shove aside and even trample local players (Douglast, Quelch, & Taylor, 2004; Meyer & Tran, 2006). However, in recent years, consumers, governments and domestic firms have been fighting back. Nations, today, are more protective of their industries and products and concerned with foreign takeovers and acquisitions threatening the independence and identity of their domestic markets (“Closing the Borders to Business,” 2006; Roberts, Nelson, & Morrison, 2005). Hence, even without legislation that limits such behavior by foreign firms, governments are acting to circumvent or limit their impact. The very vocal and aggressive anti-globalization movement has...
harshly criticized global firms for harming local cultures and traditions as well as for exploiting cheap labor in order to lower production costs (Douglas, Quelch, & Taylor, 2004; “Italian Textile and China,” 2006).

In parallel, a growing segment of customers are finding it difficult to absorb and pay for continuous technological improvements as new technological features and capabilities are touted round the clock (Christensen & Raynor, 1997; Christensen, Raynor, & Anthony, 2003). Lower-priced products that provide the required performance even if they are technologically “inferior” are “good enough” for these consumers (Gadlesh & Vestring, 2006).

Global trade liberalization is now a two-way street. Domestic firms can defend their positions by going on the offensive and penetrating foreign markets. The experience of competing against the “big boys” prepares the incumbent for the fight at home and vice versa. It also creates options for adopting expansion strategies. Successful global companies have begun emerging from developing countries.

The importance of defining and exploring defense strategies is clearly seen in the growing number of papers discussing how firms should defend their market positions (Abdul-Maguid Lotayif, 2004; Gatignon, Robertson, & Fein, 1997; Roberts, Nelson, & Morrison, 2005; Robertson & Gatignon, 1991, Robinson, 1988). Kuester, Homburg, and Robertson (1999) conceptualized the retaliation to a new product entry. Hauser and Shugan’s (1983) “Defender model” provides an analytical framework for how an established firm should adjust its marketing mix in response to a competitive entry. Other models, which also examined the defensive marketing mix, distinguished between dominant and non-dominant brands (Choi, De-Sarbo, Harker, 1990; Gruca, Kumar, & Sudharashan, 1992). However, limited attention has been paid to the opportunities that recent global trends offer and their impact on the defense strategies of domestic incumbents.

This article analyzes and presents a framework for the evaluation of import defense strategies and for action alternatives in cases where a domestic position is threatened by a global player.

The article addresses three major competitive strategic properties that give global firms the advantage when entering new markets: (1) product advantage based on advanced technology; (2) cost advantage that leads to lower prices; and (3) a globally recognized brand name. These strategies are examined across four stages.

### Defense Strategy Options

The framework in Table 1 offers defensive strategies based on the strategic focus of the global entrant and its entry stage. Defensive strategies are classified into the typical categories of Fight, Flee, or Join.

#### The First Stage: Lining Up

This stage takes place prior to any penetration activity. It consists of scanning relevant developments and actions, which can set the stage for entry, or sometimes dissuade the global competitor from entering. Early identification and preparation make it easier to for the domestic company to deal with a potential threat (Rabino & Zif, 1987; Roberts, Nelson, & Morrison, 2005).

#### The Second Stage: Entry

This is a clearly defined stage that is marked by the visible actions of a global firm. A pilot entry can signal that a much bigger plan is being formulated. A strong response by a domestic company can sometimes force the global company to modify its entry plans (Hauser & Shugans, 1983; Robinson, 1988; Scherer, 1980).

#### The Third Stage: Expansion

At this stage, the competitor entered the market, established operations, and gained a growing market share. The domestic firm must now work to inhibit the growth of the global company in the domestic market and explore avenues for future success under the new competitive conditions.

#### The Fourth Stage: Entrenchment

The foreign firm has gained a substantial position in the domestic market. The domestic firm may have lost a leading position but wants to improve or at least maintain its relative market
TABLE 1. A Framework for Analyzing Global Entry Into a Domestic Market

<table>
<thead>
<tr>
<th>Entry Phase / Strategic Focus</th>
<th>Better Product</th>
<th>Lower Price</th>
<th>Global Brand</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lining up</td>
<td>Direct Fight: Technological improvement</td>
<td>Direct Fight: Signal defense commitment</td>
<td>Direct Fight: Signal defense commitment</td>
</tr>
<tr>
<td></td>
<td>Indirect Fight: Market blocking</td>
<td>Lowering prices</td>
<td>Communicate with focus on domestic culture and tradition</td>
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<tr>
<td></td>
<td>Counter-offensive: Expansion into foreign markets</td>
<td>Indirect Fight: Cultivate government intervention</td>
<td>Join: Production agreements</td>
</tr>
<tr>
<td></td>
<td>Price competition</td>
<td>Direct Fight: Theme defense commitment</td>
<td>Join: Brand licensing</td>
</tr>
</tbody>
</table>

| Entry                         | Direct Fight: Product service improvement | Direct Fight: Attack weaknesses | Direct Fight: Enhance local brand image |
|                              | Indirect Fight: Control of distribution | Reduce price | Join: Introduce licensed brand |
|                              | Counter-offensive: Expansion to foreign markets | Indirect Fight: Brand differentiation | |
|                              | Price competition                        | Enhance service and increase switching cost | |
|                              |                                         | Cultivate government intervention | |
|                              |                                         | Join: Production agreement | |

| Expansion                     | Direct Fight: Continue product improvement | Direct Fight: Price matching | Direct Fight: Brand variation |
|                              | Indirect Fight: Lower prices              | Indirect Fight: Differentiated marketing | Flee: Private label agreements |
|                              | Cultivate government intervention         | Cultivate government intervention | Brand variation |
|                              | Flee Move to other product/segment        | Join: Production agreement | Join: Joint venture with global brand |

| Entrenchment                  | Flee: Niche strategy                      | Flee: Niche strategy | Flee: Private label agreements |

share and search for opportunities for survival and growth.

Classification of Defense Strategies

Fight

The domestic firm confronts its competitor. This could be a direct confrontation (counterattack) based on the same control variable used by the attacking firm, i.e., product or price (Kuester, Homburg, & Robertson, 1999) or an indirect confrontation based on a different control variable. Alternatively, it can be a preemptive strategy, i.e., blocking access to distribution, or a flank move such as attacking in other markets (Porter, 1980).

Flee

The defender accepts that it is going to lose the battle or that the cost of fighting is too high to justify the effort. The fleeing–withdrawal strategy (Gatignon, 1990) could be limited to certain products; it could also be fleeing to a different segment or a less competitive market.

Join

Is based on the idea that “if you can’t beat ’em, then join ’em.” One option is to team up with the attacker in one form or another, for example, by producing for its brand or co-opting it as an official partner. Another option is to join forces with another competitor.

The proposed framework is related to existing frameworks and theory. The classification of
defense strategies as Fight, Flee, or Join is similar to the choices of Retaliation, Withdrawal, and Accommodation in the conceptualization of Kuenster et al. (1999), Gatignon (1990), and Porter (1980). The entry phases of Lining up, Entry, Expansion, and Entrenchment have been presented by Rabino and Zif (1987). Others have talked of entry deterrence and actual entry, or pre- and post-entry (Kuenster et al., 1999). The strategic focus of the global entry is based on key elements of the marketing mix and is discussed as part of entry deterrence options (Bunch & Smiley, 1992). Theoretical concepts of product innovation and competitive response, including the notion of “good enough,” have been argued by Christensen and Raynor (2003). The notion of Direct versus Indirect fighting is similar to the notions of Reciprocal versus Nonreciprocal retaliation and the Domain of reaction (Kuenster et al., 1999).

**Evaluating the Global Entrant’s Strategic Focus and Threat**

Global firms use a variety of strategies when entering new markets. Some of the most damaging ones in terms of domestic market leaders are improved products or services, lower prices and relying on a global brand name (Gatignon, Weitz, & Bansal, 1990; Roberts et al., 2005; Robertson & Gatignon, 1986; Timmor & Zif, 2005; Zou & Cavusgil, 2002).

**Better Product versus Good Enough**

“Firms innovate faster than our lives change to adopt those innovations” (Christensen & Raynor, 1997). Management theories in, for example, industrial organizations (Porter, 1980, 1985) and resource-based organizations (Barney, 1991; Cooner, 1991; Lado, Boyd & Wright, 1992) contend that product or service innovations have a strategic advantage in a competitive environment (Cavusgil & Zou, 1994; Gatignon, Robertson, & Fein, 1997; Gatignon, Weitz, & Bansal, 1990). During the past decade, product/service innovations and improvements have primarily been based on technologies that require substantial investments (Drennan & Kennedy, 2003; Timmor & Rymon, 2007; Varadarajan & Jayachandran, 1999). Technological intensity facilitates the entry of new firms and increases the threat to incumbents (Gatignon, Robertson, & Fein, 1997; Scherer & Ross, 1990; Von, 1990). Hence, global firms such as Sony, Erikson, and HP, which conduct extensive R&D, threaten many domestic leaders in several industries. Gatignon et al. (1997) found that many managers of domestic firms believed that a new market entrant’s innovativeness and technological intensity impact their defense strategies negatively. However, when a new product is the focus of a global entry, two distinct stages can be identified based on disruptive innovation theory (Christensen, Raynor, & Anthony, 2003):

1. The domestic product is not “good enough” for many customers.
2. The domestic product is “good enough” for most customers.

At the early stages of new product introduction, the existing domestic product is frequently not good enough. Customers will expect product improvements and be prepared to pay for them. Accordingly, the competition will concentrate on product policy and technological improvements. Beyond this point, customers are reluctant to pay more for improvements they cannot absorb and utilize. As a result, the competition shifts from product policy issues to other issues such as pricing, promotion and distribution. At this junction, then, an important business opportunity for low cost disruption of the market by domestic leaders arises. This is the time to introduce “good enough” products at lower prices.

Local culture and education can affect customers’ readiness to adopt improved or new products, especially technology-based products (Parasuraman, 2000; Timmor & Rymon, 2007). In many cases, consumers’ income and existing norms could also slow adoption. If the potential adoption is slow, the domestic incumbent has time to find ways to upgrade to a “good enough” level. In addition, customers’ switching costs due to different technologies and the time that they must spend on adopting a new brand can increase customer loyalty to the domestic brand. The domestic player that recognizes this
should consider low price disruption and loyalty programs.

**Economies of Scale versus Different Quality**

The cost leadership strategy (Porter, 1980) is identified with large and global firms (Baker and Ballington, 2002; Cavusgil & Zou, 1994; Timmor & Zif, 2005; Zou & Cavusgil, 2002). These firms have cost advantages due to numerous reasons: (1) economies of scale and scope that result from manufacturing various products in high volumes in different markets; (2) manufacturing in countries with cheaper labor and raw materials; (3) reduction of inventory to sales ratios; and (4) using standardized products and promotions in several markets (Johanson & Vahlne, 1990; Walter & Toyne, 1989; Zou & Cavusgil, 2002). Such firms can use price as a very effective marketing tool to retaliate against any competitor's countermeasures (Ramaswamy, Gatignon, & Reibstein, 2001). When asked for their assessments of defense strategies when a new firm enters their domestic market with low prices, managers evaluated the likelihood of success in defending the incumbent position as low (Gatignon, Robertson, & Fein, 1997).

When threatened by a new entrant offering a lower-priced product, domestic incumbents need to examine whether this advantage is due to economies of scale or is derived from producing in countries with cheaper or less skilled labor. When it is associated with exploiting people, the domestic company can use this negative feature in a public relations campaign that will decelerate customers’ responses and slow the newcomer’s entry.

When products differ in quality and perceived reliability, the effect on customers’ decision making can be used to the domestic firms’ advantage. This is particularly important when product safety and/or durability are critical considerations. Note, for example, the American “China Free” advertising campaign following quality problems with toys and food products in 2007. The perceived association between low price and low quality can be exploited when applicable.

When the global entry based on low prices has a negative impact on domestic employment, a firm may be able to activate government help or interference. In an August 1, 2007, article titled “Economists against Protectionism,” which appeared in the *Wall Street Journal*, it was suggested that: “Over the past several months protectionism has reached a fever pitch with lawmakers in both US houses clamoring to attach their names to as many as 50 anti-trade bills.”

**Global Image versus Tradition and Experience**

“To firms, brands represent enormously valuable pieces of legal property that can influence consumer behavior…” (Kotler & Keller, 2006). Hence, it is important to understand what sort of factors and values linked to a competitive brand may affect consumer utility and behavior.

Global brands enjoy cost savings by using the same brand across markets. Their international reputation is broadened by today’s great population mobility and international communication channels (Aaker & Joachimthaler, 1999; Boze & Patton, 1995; Hollensen, 2001; Levitt, 1983; Quelch, 1999). A distinction can be made between consumer and industrial products. While for the former, global image and prestige can be highly influential, in B-to-B and industrial products, purchase decisions are more frequently affected by trust and experience with the supplier and long-term relationships.

Some product categories require availability of support and service systems. This creates an opportunity for domestic firms to base their defense on their local infrastructure or to join forces with a global firm that needs a local partner (Kumar & Selavan, 1997; Leonidou & Katsikeas, 1996).

As globalization continues, nations are increasing their efforts to save their unique cultures and values (Naisbit, 1994; Taylor, 2000). Moreover, many studies have called for sustaining cultural and taste differences and stereotypes among countries, all of which affect consumer behavior (Lotz & Hu, 2001; Papadopoulos & Heslop, 1993; Sriramesh, Kim, & Takasaki, 1999; Whitelock & Pimblett, 1997). Efes Turkish beer is an example of a local brand that
is barely recognized globally, but is able to maintain a leading position at home.

Defense Strategies

The choice of strategy is influenced by the stage of competitive entry, the firm’s resources, the assessment of the competitor’s relative strengths, the opportunities for response, and the competitor’s attractiveness to domestic customers. The discussion below follows the line of reasoning of the proposed framework. In each cell of the framework, there is more than one defense option; if one option fails, a company might be more successful with another strategic option. An unsuccessful effort to deter a competitor in an early stage will usually require a modified strategy in a later stage.

GLOBAL ENTRANT STRATEGIC FOCUS: BETTER PRODUCT

Phase I: Lining Up

Many studies have addressed the importance of a quick response to the threat of a new potential entrant before and along its entry into the market (Gatignon, Robertson, & Fein, 1997; Porter, 1985; Rabino & Zif, 1987; Roberts, Nelson, & Morrison, 2005). In this phase, the local company has to identify the potential threat. Market intelligence that includes analysis of the potential competitors’ moves is critical in this phase. A potential entry can be inferred, for example, from a global entry into countries with a similar profile.

The incumbent must determine whether its existing product is “good enough” for most customers. If it is “not good enough” for most customers, the potential threat of a better product is likely to be high. The best defense in this situation is to upgrade the existing product. This can be achieved by additional investment in R&D, if there is sufficient time prior to the expected global entry. A possible alliance with a potential global competitor is an option, although it may lead to sharing of control.

When introduction of a better product requires a major educational and promotional effort, the domestic company can convince customers to wait for a better solution by the reliable and well-known domestic supplier. A strategy of convincing customers to delay purchasing while the company is upgrading its product/s can be used (for example, see the Barco Projection Systems Harvard Business School cases).

The Chinese government recently decided to make its markets more competitive for both local and foreign companies. Anticipating substantial entry efforts by foreign competitors, Brilliant Auto, a subsidiary of China Brilliance Group, established alliances with foreign automotive companies such as BMW, Renault, Austin, and Toyota (see www.china.org.cn/english2002/May/33573.htm).

Market blocking may include expansion of market coverage, customer service and points of product availability. It could also include long-term supply contracts with retailers or distributors. For example, Aroma, a local Israeli café chain, opened many new attractive coffee shops just before Starbucks opened its first shop in Israel. Following market saturation by Aroma, Starbucks withdrew from the market after a relatively short period.

Domestic companies can also use the globalization movement as a trigger for changing their strategic scope. “The best defense is a strong offense.” Instead of concentrating on the convenience of a domestic market, the potential growth and expansion opportunities in the global market become more appealing when the existing strategy is threatened. In recent years a number of companies from developing countries (e.g., Cemex of Mexico, Lenovo of China, Khanna & Palepu, 2006) have become successful global companies. They have moved from a strong domestic position threatened by global competitors to being global players themselves.

Moreover, the expansion into foreign markets can be both a defensive as well as offensive move (Ayal & Zif, 1979). A modest tactic such as an indirect defense against a competitor could, if successful, become an engine for growth. For example, the statement made by the management of Koc Holding of Turkey: “We thought we would learn a great deal by competing against the best in the world on their home turf and better prepare ourselves to defend our domestic market share against the likes
of Bosch and Siemens” (Quelch & Root, 1997, p. 8).

**Phase II: Entry**

The entry phase is either a continuation of the Lining Up Phase or the first stage if no preliminary signaling and other actions are taken by the global invader. The question now is not how to avoid or postpone the global firm’s entry into the market; rather it is how the domestic incumbent can block the foreign invader’s expansion. There are varieties of tactics and strategies that the local incumbent can adopt. However, if the new global player offers better products that appeal to most segments, a direct fighting defense strategy should be based on product/service improvement (Porter, 1990; Robertson, Nelson, & Morison, 2005).

SAP, Europe’s biggest software company, is a German-based company. Its main rivals in Germany and elsewhere are the U.S.-based PeopleSoft and Siebel Systems. SAP was able to successfully block the expansion of the American companies into its traditional markets by raising customer satisfaction and upgrading its technology (http://ecition.cmm.com/2003/Business/o4/SAP/index.html CNN.com “SAP wins customer from rivals”).

An indirect defense could include market blocking by controlling distribution channels as well as price reductions. The Haier Group, a $12.8 billion Chinese white goods maker, developed a strategy to defend its domestic position from relatively low quality and cost imports. After mergers and consolidations, it engaged in contract manufacturing for major western retailers and learned the business along the way. As a result, it secured its market position and contributed to a worldwide price drop of 8% to 12% for low- to mid-end refrigerators. A price war can also postpone customers’ decisions to switch products and delay an entrant’s expansion (Porter, 1980). In 2003, Cadbury entered the Israeli market and threatened the domestic incumbent Elite’s hegemony in the chocolate market. Elite responded by blocking the market channels through exclusive agreements, clogging shelf space, and reducing prices. After less than a year, Cadbury withdrew from the market.

**Phase III: Expansion**

In this phase, the foreign invaders expand their position within the domestic market. The foreign competition’s market share is increasing, sometimes at an accelerated pace. Incumbents face a critical strategic dilemma at this stage: do they continue the fight, flee to a different product or segment, or join forces with another firm?

Consider the response of Comerci, a Mexico City–based retailer with 225 stores. After Wal-Mart had invested heavily and expanded in central Mexico, Comerci’s profits plunged. In response, Comerci launched its own version of everyday low prices, discarding the sales and contents it once used to lure shoppers (http://www.businessweek.com/content/o2, September 16, 2002.)

Another example, Ningo Bird Co., a Chinese manufacturer of cellular phones, went up against Motorola International. Ningo Bird boosted its production capacity by opening two new factories, achieved economies of scale, drove down the prices of low-end phones, and successfully stopped any further growth of Motorola’s sales in this segment (Einhorn, Dechter, & Roger, 2003).

The liberalization of markets, global village conditions, and modern communication channels make cooperation with foreign firms more feasible and attractive than before. The reality of losing an existing position is frequently a strong stimulant to search for partners. Although a joint venture or a strategic alliance means losing full control, in many situations the potential economic gain will justify the trade-off (for example, Elite of Israel, a leading food company, went into partnership with Lavazza and Pepsi/Frito-Lay).

**Phase IV: Entrenchment**

This is the phase when the global entrant competitor is well established in the local market and some domestic firms would have already exited their respective industries. Alternatively, some domestic incumbents will have already been merged into, or been bought by, the global invader. Survivors need new strategies. However, in developing markets, domestic
firms, often owned by families used to controlling the market, find it hard to relinquish their identity and traditions. The best defense for such businesses is to concentrate on a specific niche where their knowledge and care of a select segment can be a competitive advantage. For example, an old leather goods company with eroding sales due to cheap imports from Latin America developed a successful baseball glove line and at present sells leather gloves to four U.S. Big League teams at a premium price with the slogan “Catch the Day” (Gwyne, 2007).

GLOBAL ENTRANT’S STRATEGIC FOCUS: LOWER PRICE

Phase I: Lining Up

In many cases, a domestic incumbent can assess whether the potential global entry will price its product substantially lower than its own. If this happens, the incumbent can signal its intention to defend its position by lowering its prices (Kuester, Homburg, & Robertson, 1999; Kumar & Sudharshan, 1992). However, a different strategy may be called for if the presumed price level is derived from economies of scale, efficient manufacturing, or is based on a penetration strategy aimed to gain a quick market share in order to expel the incumbent, even when it involves short and medium term losses for the global entrant.

In preparation for a global entry, a sophisticated incumbent can do an in-depth analysis to predict consumers’ responses to the expected attack. A disaggregated analysis makes it possible to assess consumers’ responses to different elements, and potential changes in the marketing mix. A study of this kind was carried out for the dominant paint company in Israel, Tambour. The analysis made it possible to assess the potential damage in market share posed by a global entry and to explore preemptive moves to reduce the potential loss. John Roberts reported a similar effort on behalf of Telstra, the state-owned Australian telecommunications company (Roberts, 2005). An interesting component of the reported strategy was the classification of customers based on the two parameters of Vulnerable and Valuable. Based on an economic analysis and segment identification, Telstra devised a general selective pricing plan that gave the knowledgeable “valuable and vulnerable” customers an attractive deal that the “valuable-not vulnerable customers” were not likely to take. The success of Telstra’s selective pricing, supported by heavy advertising, made it difficult for customers to determine which service was cheaper, following the global entry with average lower prices.

Another example of preparation for competitive entry by a Japanese firm with a cost advantage based on a highly automated factory was carried out by the American Connector Company in the early 1990s. The American company began by revamping its own manufacturing system; it placed more emphasis on customized designs and improved communication with customers and then initiated selective price cuts. The competitive entry was barely profitable 4 years later (Hayes & Upton, 1998).

A firm’s determination and signaling of a commitment to its market are important in two respects. First, the signal indicates to the global firm that intends to enter the market that entering is not going to be easy (Robertson, Eliashberg, & Rymon, 1995; Heil & Walters, 1993). For some potential entrants, this may be a consideration in deciding to postpone entry or to ally itself with the domestic incumbent in order to avoid antagonism and government interference. Second, price reduction by the incumbent may also affect consumers and raise their loyalty and solidarity. However, the decision to reduce prices must recognize the possibility of a negative reaction by consumers who feel that they were previously deceived, and also the possible damage to the product’s perceived quality. A gradual move and special offers such as upgrading old products may be effective in countering negative responses.

If the competitive product is inferior, the domestic incumbent can defend its position by using quality-based differentiation. However, if the expected global entry is “good enough,” the domestic incumbent will need to offer a competitive “value for money” product by reducing production costs, possibly by increased automation,
outsourcing, or foreign production (Christensen, Raynor, & Anthony, 2003).

An important development related to the globalization of markets is the movement against globalization. Cultivating governmental preferential treatment can be an effective strategy if one can demonstrate the need to defend local industry’s independence and survival, as well as ensure local employment. The French government reacted with unbridled hostility to Mittal Steel’s bid for Arcelor, a steel producer formed by the merger of leading steelmakers from France, Luxemburg and Spain. The French government has no stake in Arcelor nor has it any regulatory role to play. Nevertheless, it still considered Arcelor a corporate jewel that had to be protected (“From the Global Agenda,” 2006).

Phase II: Entry

Some of the defensive activities of the previous stage are likely to continue: price reduction, cultivating government intervention, and seeking production agreements. However, at this stage a more powerful response is required to defend market position and block the invader’s expansion. If the global entrant’s product or service is of lower quality, then attacking its weaknesses can be effective. A good example is the backlash against the poor quality of Chinese imports—real or alleged—that is encouraged by manufacturers in the US and Europe (Piracy and Counterfeiting of China, 2006).

Brand differentiation can be also advantageous to domestic incumbents in two regards. First, it increases the perceived quality gap between the domestic and the newly launched product. Second, it can enhance brand loyalty and customer rationalization when paying more for the domestic product. An example of staving off the continuous decline of the textile industry is found among North Carolina textile manufacturers. The group, which has banded together for their own advantage, is developing a non–labor-intensive, environmentally friendly, near-perfect textile to compete with cheap, lower-quality imports. This is being achieved through nanotechnology production techniques. Quality and environmental protection are being used as selling points for this product (Kenan-Flagler Business School, 2005).

When the entrant’s product is lower priced but is also “good enough,” outsourcing production or possibly producing or importing a less expensive product could be useful. Enhancing service and increasing switching costs could also be effective, at least in the short term (Roberts, Nelson, & Morrison, 2003). El Al Airlines, confronting the massive entry of global freight companies to its domestic market following the new policy of “open skies,” extended its preflight service as well as the extra bonuses and benefits to loyal customers.

Phase III: Expansion

When the new global player continues to gain market share, it is likely that its product is at least “good enough” for a large number of customers. Direct fighting continues by price reductions by the incumbent and a vigorous effort to find ways to reduce cost. Joint efforts in production or moving production to other countries are more urgent at this stage. For this reason, Italians own about 1,500 textiles and clothing factories and 1,000 footwear factories in Romania and employ around 200,000 people there (“Italian Textile and China,” 2006).

Since the impact of the global competitor is much greater and more visible in the expansion stage, efforts to slow the process are likely to get a more favorable hearing from government.

A market differentiation strategy can be implemented successfully when there is substantial heterogeneity among segments and their needs. Different product variations can be targeted to segments that are not served optimally by the global competitor. Consider the American men’s footwear market that currently is dominated by imports. Not so long ago, Florsheim Shoe Group Inc., a leading maker of men’s dress shoes, experienced a dramatic drop in its sales. Their differentiation strategy was to launch new models aimed at the casual shoe market and younger consumers, including its Frogs golf shoes (http://www.answers.com/topic/men-s-footwear?caat=biz-fine&print=type).
Phase IV: Entrenchment

This is a more stable stage, but with reduced market share and profits. The incumbent is not likely to be satisfied; therefore, a move to a niche strategy could be productive. Shoemaking companies in the Czech Republic have experienced the rapid growth and entrenchment of foreign competitors—many of them Chinese firms. Novesta, a Czech company, adopted a niche strategy in order to survive. Today they specialize in the production of rubber boots targeted at hunters and workers (Kuchar, 2001). Whereas Italy’s traditional industries, such as clothing and footwear, are reeling in the face of global competition, Tod’s is an example of a company adopting a successful defense strategy. The secret of the firm’s success lies in two decisions: it has gone determinedly for the luxury end of the market, and it has invested heavily in its own brand (“Putting the Boot In,” 2006).

GLOBAL ENTRANT’S STRATEGIC FOCUS: GLOBAL BRAND

Phase I: Lining Up

When a global firm with a known brand is about to enter a market, domestic incumbents have two major alternatives: develop or strengthen their own brands or get a license for a competing global brand. In all events, it is important that the firm signal its commitment to defend its market position. Anti-globalization and preservation of culture campaigns increase the domestic incumbents’ opportunities to develop their own brands, emphasizing tradition, originality and patriotism (Baker & Ballington, 2002; Papadopoulos & Helsop, 1993; Roberts, 2005). Domestic firms can gain the support of local authorities using the argument that they are defending local industry and preventing unemployment, and even promoting local traditions. The “Australian Made” campaign was re-launched in 1999 (after being used first in 1986) with the support of the Australian Chamber of Commerce and Industry and the Commonwealth Department of Industry. The aim was to encourage Australians to buy Australian-made consumer goods and to prevent import penetration. A survey conducted in 2000 by the campaign’s founders discovered that 60% of the respondents had the most confidence in the “Australian Made” trademarks as compared with other symbols that signify the origin of products (Baker & Ballington, 2002).

Brand licensing is a different strategy that domestic incumbents can adopt, especially when the global firms’ brands stand for originality and special appeal (i.e., McDonald’s for fast food, Godiva or Kinder for chocolate, Sony for electronics, and Seiko for watches). Moreover, while globalization has increased the threats of new competitors for domestic markets, it has also opened up opportunities for joint ventures and brand licensing of international brands. In some cases, global firms, looking to expand their brands and sales, are waiting for a chance to enter new markets. In other cases, global firms attempt to maintain a competitive balance with a global entry by a competitor. These global firms view the potential of many developing countries, but come up against cultural and regulatory barriers. A local partner can open the doors for them. Carlsberg expanded their business in Asia and Eastern Europe by cooperating with local brewers and brands (Meyer & Tran, 2006).

Phase II: Entry

When the global brand has entered the market, the domestic incumbent could highlight the uniqueness of the local brand, frequently basing it on domestic culture and tradition. Local brands enjoy high levels of recognition and awareness in their home markets. The argument could concentrate on the “best fit” to the needs of domestic customers. Efes, the leading Turkish beer, focused its positioning on its origins in and suitability for the local audience. Another example is American Eagle Outfitters, a clothing retailer that successfully developed a lifestyle apparel collection, aimed at the American 15 to 25 years old demographic groups. Their positioning approach to these groups can be described as preppy, athletic and casual (http://www.answers.com/tooc/American-eagle-artf;Hers?cat=biz=firm&print=true).
The licensing of a different global brand (joining strategy) may become more feasible once a global competitor has entered the market. A global entry could highlight the opportunity and the competitive interest in entering the market in some form by other global firms.

**Phase III: Expansion**

If the global firm continues to expand, one strategic option is brand variation along with greater product assortment. By extending its product assortment, the domestic firm may cater to segments that are motivated by the need for distinctiveness (Timmor & Katz-Navon, 2008). Following the expansion of the global brand Pantene by L'Oreal in the Israeli market, a leading domestic producer launched a new line of shampoo using international actors as endorsers in order to strengthen the global appeal of its brand among domestic consumers.

In a joint venture with other global brand producers, the incumbent can fortify its product lines with a greater variety and extend its brand utility by offering a global brand as an alternative to its local one. A global competitor, on the other hand, can benefit from an established and in-place marketing system, distribution channels, and experienced sales force that can reduce its costs and shorten its entry time.

Lion Nathan Ltd. is an Australian beer and wine group that was losing market share to foreign competitors. Its survival strategy was to establish a joint venture with one of the largest foreign competitors—Bacardi-Martini Ltd. The new joint venture markets and distributes a range of ready-to-drink and alcoholic beverages in Australia (“Australia’s Lion Nathan Sign JV with Bacardi-Martini,” Vitorovich & Newswire, 2003).

A third strategy alternative is based on the premise that the firm opts out of engaging in an ongoing confrontation, and commences producing for the private labels of major store brands. The increase in the market share of private labels opens new opportunities, especially for firms that find it hard to make their own brands “good enough” to compete with global ones (Dunn & Narasimhan, 1999; Timmor, 2007).

**Phase IV: Entrenchment**

Despite the popularity of the global firm’s brand and large market share, the domestic firm may decide to stay in the business and in the market. The decision to do so is typically due to its tradition, producing experience and facilities. In such a case, the firm can manufacture for private labels, thereby reducing its promotional costs and gaining access to retail chains. It can even look for opportunities to manufacture for overseas private labels (Timmor, 2007). An alternative way to stay in the market is by differentiating the brand from the global ones by focusing on specific segments and supplying specific utilities. Competing with international chains such as Wendy and McDonald’s, Mos Burger of Japan differentiated its product as well as brand perception. Thus, for example, Mos Burger focuses on themes such as “freshness” and “speed” of service. Its stores are decorated and styled as family restaurants. Menu boards as well as tables and chairs are made from wood, projecting a fashionable image (http://indo.toenglish/netnihon/food/fast.ht).

**CONCLUSIONS**

The article offers a systematic review of strategic options for incumbents coping with threats by a global firm. The proposed framework makes it possible to review action alternatives based on the entry stage, attack focus, and defense tactics. The inertia of a convenient past must give way to the realization that the domestic market is changing and new initiatives are required. Researching, developing and perfecting a new strategy require investing time, effort, and money. It is, therefore, better to take action at the earliest stage of lining-up. At this juncture, the company has more options and resources, since the negative impact on sales has not yet started.

It is important to assess the attractiveness of competitive products. The rapid introduction of new technologies into global markets can overshoot the ability of customers to absorb products containing innovations. The article makes the point that incumbents do not always have to
counter imports with similar superior products. Rather, they can successfully serve the home market with “good enough” products with lower prices.

Rigorous analysis can be useful in development of a defense strategy. The qualitative analysis could consider the strategic focus of the anticipated attack, based on similar actions in other markets and the strengths and weaknesses of the potential global attacker. The quantitative analysis could estimate customers’ responses to possible strategies by the incumbent as well as by the attacker. Segmentation schemes could take into account the relative importance of current customers, their perceptions, and their switching likelihood. This kind of analysis could also prepare the incumbent for a realistic assessment of the potential losses in market share and profits when choosing different options.

A major contribution of this article is the identification and articulation of the means of changing defensive moves in the various stages of competitive entry. The notions of “fight, flee, or join” take on different meanings based on the success of the initial foreign entry and the reassessment of future losses and opportunities.

The new global realities impact significantly on incumbents’ options. First, liberalization is being forced upon even the most reluctant markets and it must be remembered that its doors open both ways. Firms from developing countries are becoming global players and firms in developed markets are being forced into a defensive posture. Domestic firms are getting an opportunity to test the competition on their own turf as preparation for defending themselves at home. They can also cultivate strategic options for niche markets on a global scale. Second, globalization offers rich options for creative collaboration. Joining a global player, by licensing, joint venture, or other forms could be a profitable defensive move. And, third, action generates reaction. Globalization generates anti-globalization moves. A domestic incumbent can take advantage of this phenomenon and utilize advertising, public relations, and government support in developing a successful defense.

The rationality for employing a portfolio of strategies in order to enhance the firm's competitive position has been discussed in previous studies (Brugel & Murray, 2002; Morrison, 1990). The discussion in the article here concentrated on specific situations and related defensive moves; nevertheless, one needs to consider the effectiveness of combining strategies. Elite, the leading Israeli producer of coffee and chocolates, is an example of a company that successfully used defensive strategies based on adaptation and a combination of moves. Nestlé’s “Taster’s Choice” coffee, a global competitor, was imported for many years by local importers. In 1995 Nestlé decided to enter the market by buying 10% of Osem, the leading domestic firm for staple products such as pasta, soups and snacks. A few years later Nestlé increased its share of Osem to 51%. By 2002 another global threat came from Cadbury.

Elite used several defensive strategies along the different phases of Nestlé’s entrance. First, it announced its commitment to maintaining its leading position in the market and its service to its customers. The company initiated aggressive spending on marketing advertising, sales, and price promotion and emphasized domestic tradition, local taste, and originality of its products. Nevertheless, Nestlé succeeded in increasing its sales, especially in the medium and high segments. In response, Elite accelerated its developing process, came out with a new line of freeze dried, and roasted coffee. New brands were launched and later on, the company consolidated all its premium products under the “Platinum” brand label. Thus, the company promoted two brands: Elite coffee with the tradition and local appeal for the common market, and the Platinum brand with a global positioning for the higher end. The competition with Nestlé contributed to a substantial increase in Elite’s capabilities. Following a merger with a leading dairy company, Strauss, successful expansion to a number of foreign markets was undertaken.

In the chocolate category, threatened by Cadbury, Elite extended its traditional brands by introducing new varieties, and by aggressive sales promotions and control of distribution channels. Following Elite’s forceful response, Cadbury withdrew from the market.

The framework presented in this article offers a flexible and dynamic approach to organizing and reviewing alternative strategies. It also
shows the benefits of assessing and changing managerial strategies following developments over time. A follow-up empirical study to monitor defensive actions and the competitive outcomes associated with defensive moves in different countries is needed.

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