CHAPTER – 11

TYPES OF STRATEGIES

STRATEGY TYPES FOR LATIN AMERICA: FROM SHAPERS TO INTEGRATORS

In environments characterised by uncertainty and rapid technological change, companies have tended to follow either shaping or adapting strategies.

SHAPERS

Shapers strive to reduce uncertainty by driving change in an entire industry or one of its subsectors. A classic early example of shaping strategy was Microsoft’s effort to promote its MS-DOS (and later Windows) operating system as the industry standard. Other shapers redefine the basis of competition with innovation of product, service, or business system. Fedex, for instance, radically changed the package delivery business with “absolutely, positively there overnight” concept. Although shapers tend to emerge in innovation–driven industries, they can also be low technology companies.

The body shop reversed the conventional wisdom in the cosmetic industry (heavily promoted artificial products) and pioneered its “green” line of natural recyclable products, with no initial advertising beyond its point–of-sale brochures. It has now been limited by all major players with their own lines of organics.

Other shapers restructure their competitive landscape with aggressive mergers and acquisitions. At a time, when the normally stable banking sector was fluid in Latin America due to privatisations and market liberalisation, major Spanish banks reshaped their industry by merging among themselves as well as making extensive acquisitions in Latin America. Foremost among those were Banco Santander and Banco Bibao Vizcaya, which became almost over night the largest foreign bankers in the region and created a “Latin banking world” with their transatlantic holdings.
ADAPTERS

Adapters, on the other hand, do not attempt to change their industry structure radically, but thrive within its confines by leveraging their resources and differential advantages. This strategy is especially appropriate when a first-mover advantage is not evident, as in the case in the internet sector. Even in a relatively mature market such as the United States, it is not obvious that early shapers such as Amazon or Yahoo! have created a workable business model. What is already clear is that winners, if any, in the Latin world will be bricks-and-clicks players such as Telefonica or the Abril and Globo groups and their Internet arms.

SPECIALISTS, INTEGRATORS AND REGIONAL

Depending on the scope and nature of their resources, adapters further subdivide into specialists, integrators, and regional. Specialists may focus on one part of the value chain or on an industry sub-sector. They have assumed more importance as new technologies have led to disaggregation of the value chain. In the automotive sector, for instance, Delphi was spin-off from its parent company and now operates as an autonomous manufacturer of auto parts. An example of value chain specialist that became a shaper is Cisco, which focused on an early stage of the Internet value chain (i.e. router that enables the switching of data and voice communication between networks). Cisco gained dominance, first by heavy investment in technology, then by a massive wave of acquisitions. It can be qualified as an industry shaper because it is redefining telecommunications through its dominance of a narrow industry “sliver” the router market.

In Latin America, specialists can also be found in various industry sectors. In aviation, Brazil based Embraer occupies a niche similar to that of its Canadian competitor Bombardier. By contrast with Boeing and its full product line, Embraer focuses on regional civilian jets and military aircraft. Its basis of specialisation is not a part of the value chain, but rather, an industry sub-sector. Although specialists often start operating on a regional basis due to their initially limited resources, they can globalise successfully. Embraer dominates the Latin America military market, but it has worldwide customers for its regional civilian jets.
Due to their worldwide scope and broad portfolios, most large multinationals have adopted integrator strategies, often through cross-border acquisitions, which deepen their scale and market access advantages. They often, but not always, own or control the entire value chain in their industry. Agribusiness companies such as Cargill or Archer Daniels Midland, for instance, claim that their operations extend from dirt to dinner. Integration is especially prevalent in the primary sector, including energy and construction. Oil companies from Exxon to British Petroleum globalised the entire value chain rapidly by controlling every stage, from exploring and production to shipping, refining, and retail distribution.

The last type of adapter is the regional company, which historically dominated the region in the form of family-owned conglomerates. These were the most appropriate structure in closed markets, where an inadequate legal system was a barrier to going public. They remain fairly prevalent in the region. Even in new economy sectors such as media, private groups have a dominant position. Their challenge, in the coming decade, will be to retain their home market advantage in terms of brand strength, customer and supplier relationships, while expanding globally to reduce their vulnerability to regional turbulence.