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Differentiation strategies in emerging markets: The case of Latin American agribusinesses

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ABSTRACT

This study furthers the research agenda on Porter's generic strategies by exploring their implementation by firms that suffer from under representation in the literature. It focuses on agribusinesses based in emerging markets that specialize in high value added products. Relying on information collected through interviews, and a survey with 66 agribusinesses based in eight countries of Latin America, it examines the factors that distinguish firms implementing a differentiation strategy (DS). The findings provide interesting insights for scholars and practitioners alike, illustrating the strategic initiatives that DS firms use to ensure they command higher than average prices.

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1. Introduction

Porter (1980, 1985) stimulates an ongoing academic debate about whether or not generic strategies are an accurate tool to analyze and explain the behavior of companies in the real world (Campbell-Hunt, 2000; Dess & Davis, 1984; Kotha & Vadlalani, 1995; Pertusa, Molina, & Claver, 2009; Robinson & Pearce, 1988). The debate has generated a large body of empirical evidence, but it has focused mainly on the manufacturing and service industries in the US, Europe and Japan (Dominguez & Brenes, 1997). The main objective of this study is to expand the research agenda by examining the implementation of generic strategies by firms operating in sectors and geographic areas that have thus far been under represented. We focus on agribusinesses based in Latin America.

Agribusiness is attracting increasing levels of attention from multi-lateral organizations, policy makers, and civil society for several reasons, ranging from concerns with food security and climate change, to the implementation of shared value strategies (Food and Agriculture Organization, 1999; Garcia, 2005; Porter & Kramer, 2011). Latin America is the leading emerging market region in terms of agricultural exports, and a key supplier for China (Da Silva, Baker, Sheperd, Jenane, & Miranda-da-Cruz, 2009; Rosales & Kuwayama, 2012). Nonetheless,

Latin American agribusiness remain grossly under-represented in strategic management studies (Aulakh, Kotabe, & Teegen, 2000; Nicholls-Nixon, Davila, Sanchez, & Pesquera, 2011).

Given the difficulty of accessing information, many of the studies of emerging market firms limit their analysis to multinational corporations and public companies, which are neither the most common business types nor the type that are likely to diverge the most from Western managerial practices (Khanna & Palepu, 2010). This study furthers the research agenda on emerging market firms that are private and not part of multinational business groups. Gathering new empirical evidence on Latin American firms' implementation of strategic notions originally developed to suit Western companies contributes to strategic management theory development and also provides important insights for managers and entrepreneurs operating or wishing to operate in these markets.

Several studies recommend the use of mixed methods for the refinement of research questions, especially when studying empirical contexts yet to be examined (Bryman, 2006; Hoskisson, Eden, Lau, & Wright, 2000; Robson, 2011; Tashakkori & Teddlie, 1998). Given that there is very little evidence about Latin American agribusinesses and their managerial practices, our research is exploratory in nature and adopts mixed methods to examine the factors that distinguish firms implementing a differentiation strategy (DS) from other firms (NODS) (Eisenhardt, 1989; Yin, 1994).

The paper is organized as follows. Section 2 presents the conceptual model underlying the study. Section 3 describes the methods. Section 4 is a discussion of the results. Section 5 concludes and provides implications for emerging market agribusinesses.

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2. Generic strategies – theoretical background and key dimensions

Strategy at the strategic business unit (SBU) level is defined in terms of a clear strategic direction and positioning. Key direction components include vision, mission, and strategic objectives. Positioning is determined by defining where and how the company competes. Where, relates among other things, to market segments the company serves, the firm's line of products and services, geographic scope and business scope – horizontal or vertical integration and diversification (Brenes & Mena, 2003). How, has to do with the type of generic strategy the company uses to compete (Porter, 1985). Porter (1980, 1985) has pointed out the existence of three kinds of generic strategies: cost leadership, differentiation, and focus. These three generic strategies consolidate into two basic strategies, cost leadership and differentiation, which means that focus generic strategy is actually complementary and is obtainable in both cost leadership and differentiation strategies (Brenes & Mena, 2003; Campbell-Hunt, 2000).

Some authors argue that Porter's generic strategies are a valid construct but that they are not necessarily exclusionary, as companies may implement both cost leadership and differentiation simultaneously (Acquaah & Yasai-Ardekani, 2008; Pertusa et al., 2009). Nonetheless, the idea that generic strategies should be implemented in a "pure" form continues to find support in the literature (Chew, 2000; Jones & Butler, 1988; Porter, 1996; Reitsperger, Daniel, Tallman, & Chismar, 1993; Sashi & Stern, 1995; Treacy & Wiersema, 1995). A study of 2351 firms provides further empirical evidence supporting Porter's theory, showing that firms that have a clear generic strategy (either differentiation or cost leadership), perform better than firms that do not (Thornhill & White, 2007). Despite receiving wide coverage in the relevant literature, the study of generic strategies has thus far mostly neglected agribusinesses, especially those based in emerging economies (Baack & Boggs, 2008; Gopalakrishna & Subramanian, 2001).

Cost leadership is one of the most common generic strategies of agribusinesses. Firms achieve cost leadership via various means depending on specific agricultural activity. Non-exclusive common devices help reduce costs which may be structural, performance-related, and/or external (Brester & Penn, 1999; Ketelhöhn, Brenes, & Pérez, 2012). Companies implementing cost leadership strategies tend to specialize on certain products and/or services, they constantly invest in cutting-edge technology and equipment, they are skilled in process design and re-design, and they use distribution channels that generally contribute to reduce their costs. Additionally, their structure and organization ensure tight cost control, the existence of frequent and detailed reports, allocation of highly-structured responsibilities, and generally, a package of incentives based on quantitative performance (Ketelhöhn et al., 2012; Porter, 1980, 1985).

The generic differentiation strategy is achievable by different means; non-exclusive common criteria also contribute to success (Porter, 1980, 1985). These criteria may be either of signal or use. Signal criteria can include price, brand image, packaging quality and time in business (Sporleder & Liu, 2007). The price of a product for a company that decides to compete through a differentiation strategy should be higher than that of its competitors. Price indicates that the product or service is truly differentiated by whatever means. Consumers who try the product or service and are not satisfied will not use it anymore. That is why price is considered as a signal factor that must be sustained over time (Porter, 1980, 1985).

Use criteria include product or service quality and features, breadth of product line, technology used, customer service, delivery time and an effective distribution system. Characteristics of firms implementing a differentiation strategy include being strong on marketing, product and service engineering, creative instinct, research and development, quality, and cooperation with distribution channels (Porter, 1985). To attain success they require strong coordination between research and development, product and service development and marketing,

qualitative incentives and highly trained creative staff (Porter, 1980, 1996).

Fig. 1 presents the conceptual model developed to study the implementation of generic strategies by Latin American agribusinesses. The model dimensions summarize the key strategy topics in the literature (Anand, Brenes, Karnani, & Rodríguez, 2006; Baker, Wysocki, House, & Batista, 2008; Boehlje, Gray, & Detre, 2005; Brenes, Mena, & Molina, 2008; Gibson, Brenes, & Barahona, 2011; Pearce & Zahra, 1991; Porter, 1980, 1985; Robinson & Pearce, 1988; Skarzynski & Gibson, 2008; Sporleder & Liu, 2007). To build the model, we combined the strategy literature with qualitative information collected via interviews with the senior executives of 17 Latin American agribusinesses. We then validated the model by discussing it with the executives in a second round of interviews (Creswell, 2009; Robson, 2011).

The strategic dimensions include: Management Quality, Innovation Capability, Agribusiness Scope, Marketing Skills, and Operations Skills. The components of each dimension are described below.

Management Quality refers to the ability to formulate, operationalize, and implement business strategy (Anand et al., 2006; Brenes et al., 2008; Robinson & Pearce, 1988). Management Quality begins with the agribusiness firm's ability to formally define strategy and its review and adaptability to environmental changes (Boehlje et al., 2005). Skills in the field of corporate social responsibility (CSR) and responsible environmental management are also relevant components. Company's ability to operationalize strategy requires management to be able to observe and use best management practices, invest in training and implementing information technologies. Finally, strategy implementation is largely dependent on the presence of a formal board and a high-quality management team with strong human resources skills (Pearce & Zahra, 1991).

Innovation Capability relates to senior management support to innovation and research and development and the company's willingness to develop open innovation (Gibson et al., 2011; Robinson & Pearce, 1988; Skarzynski & Gibson, 2008). Leadership is shown in the firm through internal ability to innovate, the willingness to invest in innovation taking greater risks and the effective development of new products and processes on a regular basis every year. Another key component is the firm's ability to undertake the search of new ideas through open innovation where, in addition to its own research and development it shares its activities with academic institutions (Baker et al., 2008), among others.

Agribusiness Scope includes two key components, geographic scope and the degree of vertical integration (Anand et al., 2006). In relation to geographical scope it is important to evaluate where different agribusiness firms compete, how they compare to each other, and if their positioning provides a typology. The degree of vertical integration must be compared, too, taking into consideration the use of distribution and logistics services through third parties, as well as the existence of company's own points of sale.

Marketing Skills comprises general marketing skills vis-a-vis competitors. This identifies skills in areas such as advertising, promotion and others (Porter, 1985). The second component, market intelligence, includes knowledge of customers and the level of use of information technology in external relations. The third component is product line; this component includes the use of own brands, breadth of product line and use of origin (place, country, or region) as a marketing tool (Robinson & Pearce, 1988; Sporleder & Liu, 2007). The fourth component is domestic and international certifications; the fifth is distribution skills.

Operations Skills have to do with relations with suppliers, degree of processing, production quality, and investment levels (Porter, 1985). The first indicates the quality of supplier relationships and relative prices the company pays to suppliers versus its competitors. The second relates to the degree of processing which varies, either as primary production (no processing,) simple processing (cleaning and sorting) and complex processing (cutting, mixing, cooking, pasteurization, canning,

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