

## **Analysis of Approaches to TNCs' Strategy Management in the Soft Drinks Market in Terms of Crises**

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### **Abstract**

The purpose of this paper is to evaluate changed approaches to strategy management applied by trans-national corporations (TNC) in time of economic crisis and in the increasingly competitive and aggressive business environment. This paper is based on TNC's that operate in the soft drinks market with a particular emphasis on key leaders in the industry, such as Coca-Cola and PepsiCo. Upon the review of approaches to crisis strategy management used by leading TNCs, we have identified multiple key approaches to strategy management that relate to commercial and organizational aspects of functioning. Among the identified approaches, there are preferences for projects with high net present value (NPV) and threshold internal return rate (IRR), projects with high IRR, but low NPV; Matrix model of business management; shell-type corporations with introduced multi-level decision-making model; strategic alliances; and finally the 2G integrated approach that assumes integrated efforts and involvement of facilities that belong to various corporate business units. The research has also led to the recognition of common aspects in strategy management in TNCs in the CIS market.

**Key-Words:** Trans-national corporations, Strategy Management, High-turnover consumer goods, Soft drinks market, Economic Crises.

### **1. Introduction**

A development and a choice of trans-national corporations (TNC) marketing strategy depend on a need to coordinate structural and infrastructural activities and make decisions on the following: necessary volume of production capacities, distribution of production capacities by type of products, a choice of a system to measure performance indicators, performance incentives, and appropriate processes to develop new products. The TNC's choice of a marketing strategy depends on external and internal environment, whereby TNCs can choose either an opportunistic or a creative type of the innovative strategy, including as a part of their valid marketing strategy. The opportunistic innovative strategies include the defensive strategy, the strategy of innovative imitation, the waiting strategy, and the strategy of a direct response to consumers' needs and demands. Creative innovative strategies include external and internal strategies of innovative integration.



The research is intended to develop a scientific and methodological rationale to enable a TNC to choose and use the most promising and effective approaches to strategy management to increase competitiveness in soft drinks national markets in crisis conditions. In terms of globalization and increased risks and uncertainties, the special attention should be paid to creating conditions for a constant monitoring of used marketing strategies and choosing priority development paths to reduce risks and increase performance in local and national markets. The considerations presented below open up new possibilities for a growth of transnational corporations with a strategic long-term view of their development.

## 2. Analysis and Problem Formulation

In terms of any crisis, the environment becomes the most aggressive, competitive pressures are intensified; business conditions become tougher. A situation in the global market becomes hardly predictable with drastically shortened forecasts intervals [1]. Accordingly, this dynamism influences approaches to strategy management used by today's TNCs, including TNCs in the soft drinks market. According to the Interbrand agency's rating, such TNCs, as Coca-Cola Company, PepsiCo, Danone, and Nestlé demonstrated the most effective and successful crisis management strategies in the last global financial crisis of 2008-2010 (Table 1). Owing to them, they put their brands on the list of top ten world's most expensive brands [2]. For the purpose of the further research, we will review experience of these TNCs.

Table 1. Approaches to TNC strategic management in global financial crisis [3]

TNC	Management approaches	Overall strategy performance
Coca-Cola Company	Strengthening positions in traditional markets, horizontal diversification through expansion of markets and adaptive standardization of the product range	Successful
PepsiCo	Horizontal diversification through expansion of markets in the developing countries; product differentiation and adaptive standardization of the product range, active communications in social networks	Successful
Danone	Horizontal diversification through expansion of markets in the developing countries, adaptive standardization of product range	Successful
Nestlé	Strengthening positions and development in traditional markets, active communications in social networks	Successful

In terms of the research and identification of key approaches to TNC management strategies in the soft drinks market in the global economy crises, it is necessary to take into account the sectoral specifics and specifics of TNCs' operations. Moreover, the new focus of the demand on non-carbonated drinks in the post-crisis time was not without strengthening (Fig. 1).

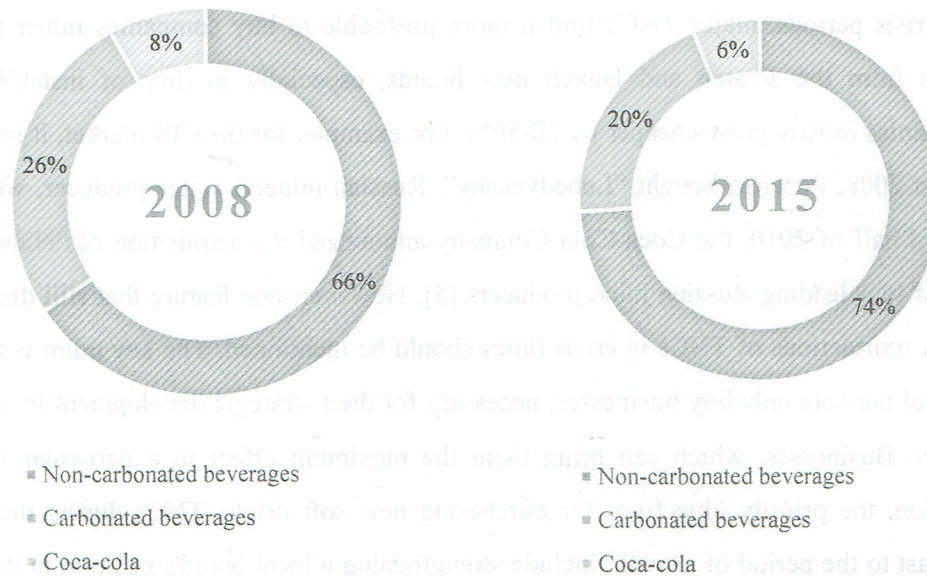


Fig 1. Global dynamics of soft drinks sales [4]

The specifics of the soft drinks market and its participants is that available TNCs work as headquarters and bottlers. Headquarters are focused on ensuring product availability in the market, advertising and control over bottlers' activities. Bottlers, in their turn, deal with imports and national sales. Therefore, TNC headquarters usually use some typical strategic approaches to management.

**2.1 NPV maximizing approach with kept IRR**

*Preference to projects with high net present value (NPV) with a threshold internal return rate (IRR), and projects with high internal rate of return, but lower NPV.* In other words, in crisis time, present-day TNCs are more interested in a business growth, than in higher profitability as such. This approach is achieved with international merger and acquisition (M&A) mechanisms used by TNCs. Thus, taking into account the selected specifics and examples of successful TNCs (Table 2), let us review in detail the approaches to the strategy management.

Table 2. Levels and tools of TNCs to interact with global actors

Level	Tools	Interaction aim
Supranational	Multilateral international contracts	Compliance with rules of competition and free trade
Trans-national	Two-sided investment contracts	Investment protection and compliance with international standards
Intrastate	National legislation	Regulation of TNCs' branch and subsidiary activities



In crisis periods, major TNCs find it more profitable to buy companies rather than build plants from the scratch and launch new brands, especially in time of instability, when companies mostly grow cheaper by 30-50%. For example, for the CIS market, it may be said that in 2008, PepsiCo bought “Lebedyansky”, Russian mineral water producer, while in the second half of 2010, the Coca-Cola Company announced the acquisition of “Nidan Juices”, one of four leading Russian juice producers [5]. However, one feature that still distinguishes M&A transactions of TNCs in crisis times should be mentioned. The key point is that TNCs in local markets only buy businesses, necessary for their strategic development in a particular region. Businesses, which can bring them the maximum effect in a particular market. In addition, the priority objectives for purchasing new soft drinks TNCs during the crisis, in contrast to the period of growth, include strengthening a local brand's position in the national market, whereas in stability times, TNCs traditionally develop exports.

## **2.2 Strategic alternatives based on matrix approach**

The follow-up for the mentioned management approach will include matrix business management models used by TNCs. Such models are not so much focused on project management as on creating the context and a control over the environment. The best example of these introduced models assumes the usage of strategic benefits from diversification in related and unrelated sectors to get strong competitive positions and reduce sectoral risks, increased in instability periods. Owing to the matrix management, TNCs have begun to enter the related sectors, a kind of strategic fit. In response to the demands of the crisis soft drinks market to reduce the prices of drinks and have a new focus on the consumers' health as well as growing environmental protection requirements, the companies invested significant funds in local companies to reorient production on inexpensive non-carbonated and bottled water in the period of crisis

## **2.3 Multi-level decision-making approach**

The need in cost optimization has led to the fact that TNCs use the innovative approach to their strategy management. It assumes introduction of the multi-level decision-making model through establishment of shell-type corporations. This approach provides a transfer of business functions, especially production functions, to the third-party contractors, while the headquarters themselves focus on transactional business components [6]. The multi-level decision-making model assumes differentiation, adjustment, and coordination of participants' interests through the introduced extensive decentralized system to delegate powers to special-purpose coordination groups. The advantages of this approach are the following: higher



corporate elasticity, the focus on priority areas of specialization, significantly reduced costs, a low level of employment, joint networked activities with the best partners. However, there are also disadvantages of this innovative approach worth to be mentioned. These are company's contractors as competitors, an inability to control over the manufacturing quality. There is a significant risk of trademark duplication. In addition, due to the established shell-type corporations, boundaries between headquarters and bottlers disappear, traditional distinctions between internal and external members of the organization, own and foreign resources disappear too.

#### **2.4 Strategy of alliance making and M&A transaction settlement**

*To achieve an equilibrium in crisis periods, TNCs, on the one hand, had to pursue the austerity strategy.* On the other hand, to ensure further development, along with making shell-type corporations they actively used M&A in their strategic management and the optimization approach that assumed their involvement in strategic alliances. An exchange of technologies within strategic alliances of TNCs is more mobile than in case of mergers and acquisitions, while prompt establishment of alliances to solve specific production problems enables their participants to share intellectual resources and all the benefits of the alliance quickly between all the participants [7]. Expanding their product ranges in 2008-2010, such TNCs, as PepsiCo and Coca-Cola, owing to alliances saved approximately 14-20 months to launch new manufacturing facilities and decreased the total cost to learn to use new technologies by 50-70%. Along with this, the product quality reached the level of 93-99% [8]. The key to success within this approach is that it enables to have compatible global business concepts for partners' development, regulate rights of ownership and control, and ensure perfect autonomy. Participating in the network of strategic alliances, in the period of instability, TNCs managed to achieve the economy of scale, which gave them a chance to adjust quickly to the changing environment at a lower cost, through the used systems of knowledge and competencies that complemented each other. Each of the world's leading TNCs on the Fortune Global 500 list, present in the soft drinks market, is on the average a participant of 3 to 5 alliances [9].

#### **2.5 Approach based on joint efforts of different business units**

*Taking into account that the crisis phenomena may influence national markets differently, which in their turn are a priori different in terms of sustainability, their capacity and ability to overcome crises phenomena and avoid imbalances in regional development, the TNCs under conditions of instability and turbulence used the 2G (Group Goals) integrated approach.* This approach allows TNCs to achieve the objectives defined by the corporate strategy, when abilities of separate corporate units do not comply with the strategic objectives,

but at the same time, these units have a certain potential to solve other problems. According to this approach, the main objective in TNC management is to establish flexible connections between several units to combine their efforts to achieve the synergy effect. Management tasks predetermine the benefits of this approach to TNC strategic management [10]. There are, firstly, identification and control over market trends by headquarters, including trends in local markets development in times of crisis. Secondly, ensuring the development of competitive advantages of TNCs and their bottlers' local units taking into account possible market instability. Thirdly, coordination of corporate local units' activity based on long-term plans.

### 3. Results

Thus, the completed review allows to conclude that to overcome crises phenomena in the global economy, headquarters of the largest TNCs combine traditional (matrix management model, M&A) and innovative (shell-type corporations, 2G integrated approach) approaches. It is clear that this combination has a clear anti-crisis focus and is mostly aimed at resolving the existing problems. Similarly, to TNCs' headquarters in the soft drinks market, in crisis periods, the bottlers have also significantly changed their approaches to strategy management, as resources, SCM, functions of their structural units, and business processes have become more and more significant. Therefore, strategies of TNC bottlers' behaviour in terms of instability have been transformed towards cooperation with local suppliers to buy necessary raw materials from them to reduce costs, including transportation and SCM.

#### 3.1 Approaches to strategic management

So, the main approaches to strategic management of TNC bottlers are as follows.

*Externalization*, i.e. license agreement sales to local producers, sales of rights to use the company's brand name by means of franchising, management contracts and other ownership titles that generate profit and include the sale of a technology itself instead of a product, in which it is embodied [11]. Externalization is widely used in the very market of soft drinks as, firstly, it is easy to copy TNCs' products and the sale of specific knowledge not essential in terms of an ability to survive in competition helps to protect manufacturing facilities against unfair competition and industrial espionage. Secondly, under the circumstances when TNCs have more skills of technology development than in manufacturing and marketing of final products and the technology is not protected with a patent, the corporation may lose the benefits from using the technology, unless the competitors want to buy it under a contract.

*Under conditions of saving and cost reduction, approaches to bottler strategic managing have got signs of innovations* as innovations are not sensitive to cyclical economic



fluctuations and allow companies to maintain competitive advantages even under conditions of uncertainty and turbulence. Among the bottlers for such giants, as Coca-Cola and PepsiCo, the most common approach is the approach of distributed technological development to the strategic behavior management in the market. It is based on the use of national branches' potentials to develop innovations not only for the local market, but also to promote these innovations in other markets, which eventually allows combining innovative resources of all subsidiaries within a single project [12].

### 3.2 Behavior in crisis conditions

In crisis times, the TNCs' management strategy in the soft drinks market should not only include the usage of integrated information systems, decision-making systems, and expert systems, but also the following:

- creating the integrated information environment that consists of databases, a pool of techniques and models, which allowing necessary managerial decisions in the shortest time that meet corporate needs and neutralizing a negative impact from the external environment;
- cooperation with business partners in terms of making joint information systems and/or an electronic supply chain;
- choose scopes of activity to be a priority in informatization. We believe that the best system so far has been the information system called Comarch EDI. It operates at three levels: operational, analytical, and cooperative [13].

Summarizing the specifics of bottlers' strategic management in periods of crisis, we should mention that, similarly to TNCs headquarters, they are not limited to a sole direction, but implement a combination of traditional and innovative approaches that help them to avoid potential losses and ensure the achievement of specified development indicators.

We conclude that the reviewed approaches to TNCs' strategy management in the soft drinks market under conditions of global crisis phenomena have surely proved to be effective and allowed the most TNCs to achieve their objectives. However, given that over time, the crisis phenomena acquire new features and active globalization processes increase the distribution rate of contaminating influence, the methods and techniques to ensure financial stability and operational efficiency, which used to be effective 5-7 years ago, by the time of the next crisis will no longer be able to ensure adequate effectiveness and returns. Therefore, according to the authors, in addition to the urgent and antishock approaches intended for selective problem resolution, it is necessary to develop the adaptive approach allowing systematic improvements to performance, functionality and sustainability of TNCs during financial turmoil.

## 4. Discussion

### 4.1 The first aspect

So let us describe the enlarged aspects of the integrated approach to TNC strategy management in the soft drinks market. As the world experience evidences and as it follows from the mentioned research, in a fight with crisis phenomena, TNCs mostly use their own and market opportunities with global management tools, though they miss a need to support the two-way communication with national and supranational actors. On the one hand, this view is quite reasonable as the checks and balances system valid in today's global economy, as well as the ratio of national, intergovernmental and supranational components have turned to be inefficient and vulnerable to the global economic recession. The economic crisis has exacerbated the problem of institutional incompleteness in the global integration model, emphasizing, in particular, the available imbalance of economic and political integration, and the legitimacy crisis among supranational structures [14]. On the other hand, given that the role of TNCs, growing today, it causes a divergence of interests between trans-national corporations and states, this contradiction has a negative influence on both the national economic situations, and positions of TNCs themselves. Thus, it is absolutely clear that the system of anti-crisis measures should not be limited to the measures taken by TNC themselves.

So, the authors believe that stable operations of TNCs cannot be achieved without agreed trans-national anti-crisis measures to make the crisis influence weaker. Currently, there are several challenges faced by TNCs as global actors. The main of these challenges is to ensure economical efficiency with high social standards and the high consumption level [15]. So if TNC uses particular anti-crisis approaches to management without considering national and regional requirements, it will finally lead to negative consequences, firstly for TNCs themselves, as uncoordinated and uncontrolled measures may destroy the market, where only local manufactures will afterwards be able to operate.

The authors fully agree with Sol Picciotto, who believes that TNCs should not be interested in a reduced role of the state and that the causes of lost internal and external sovereignty of an individual country are rooted in declined public confidence in liberal reformism instead of changes to the universe structure, caused by the growing importance of TNCs [16].

### 4.2 The second aspect

The risks are known to be present in all types and areas of business and at all levels of TNCs' activities. During each crisis, the most risks are intensified; some of them reach an



unacceptably high level [17]. Taking into consideration the global nature of TNCs' activities and specifics of the soft drinks market, it seems that the integrated approach to strategic risk management at TNCs must necessarily include an integrative paradigm of risk management. This model allows TNCs to minimize risks through a combination of two tools of the management influence. On the one hand, there is an achievement of strategic and cross-cultural conformity in cases of international mergers and acquisitions. On the other hand, there is a consistent presentation of key investment problems at a risk-related area associated with investment components, a choice of applications for funding and budgeting tracking. This risk management paradigm focus on harmonization of TNC national, global, and corporate interests is its undoubted advantage compared to other approaches in terms of the previously mentioned need to reconcile interests of corporations and individual states.

#### 4.3 The third aspect

As global experience evidences, in crisis times, larger corporations with multi-level management and their complicated structure are not the most flexible and effective. They most efficient are those that transform their organizational structures from pyramid-type to flat ones with a minimal number of levels between top management and employees. On this basis, the authors believe that within the framework of the integrated approach to TNC strategy management, any TNCs should generate new high-quality structural and organizational changes using modern meta-comparate management approach. This approach provides for:

- establishment of semi-autonomous or autonomous divisions, strategic business units;
- increasing the value of newly introduced activities at TNC divisions, focused on new products and technologies production and promotion with their own efforts, the main principle for which will be the *principle of high-risk funding*;
- enhancing the status of information and human resource integration tools in comparison with technocratic and structural integration.

The main differences between the traditional corporate management model and the suggested meta-corporate management approach are given in Table 3.

Table 3. Comparative analysis of traditional and meta-corporate approaches

Object	Traditional approach to TNC management	Modern meta-corporate approach to TNC management
<i>Organization:</i>	Hierarchy	Networks
<i>Main principle of organizational activity:</i>	Functional specialization	Mostly horizontal integration
<i>Crucial factor of competitive</i>	Tangible and financial assets (capital)	Intellectual assets (knowledge)

Object	Traditional approach to TNC management	Modern meta-corporate approach to TNC management
<i>advantage:</i>		
<i>Organizational structures of management:</i>	Structures of vertical subordination	Adaptive (natural) structures
<i>Corporate staff:</i>	Officials	Potential resources
<i>Key actors:</i>	Specialists	Groups, first of all, virtual ones
<i>Staff expectations:</i>	Satisfying current needs	Qualitative growth
<i>Management style:</i>	Authoritative	Coordinative, democratic
<i>Power source:</i>	Function	Knowledge
<i>Activity:</i>	Individual	Group
<i>Status of units within production and management structure:</i>	Isolated and self-sufficient units	Definite resources available to everyone
<i>Markets:</i>	National	Global
<i>Benefits:</i>	Cost	Time
<i>Corporation focus:</i>	Profit, production efficiency enhancement	Meeting needs of a specific consumer group
<i>Respond to environment changes:</i>	Reactivity	Proactivity
<i>Quality:</i>	Achievement of assigned tasks	Uncompromised achievement of any and all

The use of this approach, therefore, will provide TNCs with an opportunity to establish strategic management, which will then, due to corporate consolidation, enable to resist and respond effectively to the economic crisis.

#### 4.4 The fourth aspect

The authors believe that apart from organizational, risk and regulatory aspects, which should be taken into account in the integrated approach to TNC management strategy in the soft drinks market in global economic crises, the information aspect is particularly essential, namely, the control over how the TNC uses the information in strategic planning. Informatization should play a key role in TNC management strategy, especially for those functions and processes that affect the added value, which is especially important in times of global turbulence and instability [18].

As it is evident from the findings of previous research, in terms of crisis in global economy, global competitive strategies of TNCs in the soft drinks market re based on specialization of individual business units, which are geographically dispersed in countries with low production costs and which are highly integrated. Close cooperation requires full coordination of managerial actions [19].

## 5. Conclusion

Thus, summing up, we can make the following conclusions. In recent years, researchers of global economy have paid much attention to different developed and implemented approaches to TNC strategy management, including in the soft drinks market. They have been a focus of



intellectual efforts between managers from leading world corporations. The economic crisis of discredited world economic trends.

Management approaches to the bottlers' strategy management in crisis times, similarly to TNC headquarters, have also faced significant changes. As a result, bottlers actively used externalization and the approach of distributed technological development. The findings allow saying that in terms of global economic crises, TNCs in the soft drinks market combine traditional and innovative approaches to strategic management. These circumstances, in our opinion, precondition a need to develop the universal, adaptive and integrated approach to improve performance, efficiency and sustainability of TNCs in global financial shocks. The integrated approach includes the specific structure of institutions in charge of trans-national anti-crisis measures and the system of relations between them, the risk management system, the mechanism of structural and organizational shifts, approaches to corporate governance, and IT penetration. The findings are the proposals to improve TNC strategy management systems in the soft drinks market in terms of the global economic crises.

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