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Regional organisations in emerging markets

- The case of Volvo CE in the Middle East and North Africa

Jonas Engström and Anders Johansson

Graduate Business School
School of Economics and Commercial Law
Göteborg University
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ABSTRACT

The move towards globalisation among MNCs has shifted the power structure from one of geographical hierarchy to one of a more global business. This move is however counterbalanced by the need for MNCs to be flexible enough to adapt their strategies to local conditions.

In emerging markets, MNCs normally set up regional organisations when the region is becoming too complex, too large and too far away to be handled from corporate headquarters, or that it becomes too different from other parts of the world. Moreover, strategies born in and suitable for mature, slow moving markets of Europe can hardly be expected to work in the fast growing, rapidly changing environments of emerging markets. Hence, strategies as well as organisations have to be adapted to suit to the diverse environments of emerging markets.

In this thesis, the authors examine how companies operating in heavy equipment industries can enhance their competitive advantage by establishing and developing regional organisations in emerging markets. The outcome of the research is a new way of looking at competitive advantage, acknowledging the relationship between strategy, organisation and information in a regional perspective of emerging markets.

Key words: Regional organisation, regional strategy, marketing information, marketing intelligence, competitive advantage

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TABLE OF CONTENTS

1. INTRODUCTION.....	1
1.1 BACKGROUND.....	1
1.2 THE CASE COMPANY.....	2
1.3 PROBLEM STATEMENT.....	4
1.4 PURPOSE.....	5
1.5 DELIMITATIONS.....	6
1.6 DEFINITIONS.....	6
1.7 OUTLINE OF THE THESIS	7
2. METHODOLOGY.....	9
2.1 RESEARCH STRATEGY.....	9
2.1.1 <i>Choice of research strategy</i>	9
2.1.2 <i>Case study selection</i>	10
2.2 RESEARCH APPROACH.....	10
2.3 RESEARCH METHOD.....	11
2.4 DATA COLLECTION.....	11
2.4.1 <i>Secondary data</i>	11
2.4.2 <i>Primary data</i>	12
2.5 QUALITY OF RESEARCH.....	14
2.5.1 <i>Internal validity</i>	14
2.5.2 <i>External validity</i>	15
2.5.3 <i>Reliability</i>	15
3. THEORETICAL FRAMEWORK.....	17
3.1 COMPETITIVE ADVANTAGE.....	17
3.1.1 <i>Resources and capabilities</i>	18
3.1.2 <i>Key success factors</i>	18
3.1.3 <i>Strategy</i>	19
3.1.4 <i>Competitive advantage, organisation and information – the link</i>	19
3.2 GLOBALISATION’S EFFECTS ON ORGANISATIONS.....	20
3.3 REGIONAL STRATEGY.....	21
3.4 REGIONAL ORGANISATIONS.....	23
3.4.1 <i>Regional headquarters</i>	26
3.4.2 <i>The location of a regional organisation</i>	31

3.4.3	<i>Regional organisations as change agents</i>	31
3.5	INFORMATION AS A VITAL RESOURCE IN THE ORGANISATION.....	33
3.5.1	<i>The knowledge based view</i>	34
3.6	MARKETING INFORMATION.....	35
3.6.1	<i>Marketing intelligence</i>	37
3.6.2	<i>Marketing research</i>	42
3.6.3	<i>Internal records</i>	43
3.6.4	<i>Information analysis</i>	43
3.7	ORGANISING FOR MARKETING INFORMATION SYSTEMS.....	44
3.8	INFORMATION FOR COMPETITIVE ADVANTAGE.....	45
4.	EMPIRICAL EVIDENCE	47
4.1	PRESENTATION OF VOLVO CONSTRUCTION EQUIPMENT.....	47
4.1.1	<i>Volvo CE International AB</i>	48
4.1.2	<i>Volvo CE in the Middle East and North Africa</i>	50
4.2	MAPPING VOLVO CE'S MARKETING AND SALES ORGANISATION IN MENA	52
4.2.1	<i>The Marketing and Sales Company in Eskilstuna</i>	53
4.2.2	<i>The Regional Hubs</i>	55
4.3	MAPPING OF VOLVO CE'S MARKETING INFORMATION IN MENA.....	62
4.3.1	<i>Marketing intelligence</i>	62
4.3.2	<i>The other components of marketing information</i>	67
4.4	RESULTS AND REACTIONS OF THE ESTABLISHMENT.....	70
4.5	REGIONAL ORGANISATIONS IN MENA – THE ALFA LAVAL EXPERIENCE.....	72
4.5.1	<i>Alfa Laval</i>	72
4.5.2	<i>Alfa Laval in the Middle East and North Africa</i>	72
4.5.3	<i>Alfa Laval's Marketing and Sales organisation in MENA</i>	72
4.5.4	<i>Location</i>	73
4.5.5	<i>Results and reactions of the establishment</i>	74
5.	ANALYSIS OF VOLVO CE IN MENA	76
5.1	THE MENA REGION – A NEED FOR A REGIONAL STRATEGY?.....	76
5.2	VOLVO CE'S MARKETING AND SALES ORGANISATION IN MENA.....	78
5.2.1	<i>The Marketing and Sales Company in Eskilstuna</i>	79
5.2.2	<i>The regional hubs</i>	80
5.3	DEVELOPMENT OF THE REGIONAL ORGANISATIONS IN MENA.....	87

5.3.1	<i>The regional hubs as change agents</i>	87
5.3.2	<i>Increased presence?</i>	88
5.3.3	<i>Establishing more regional hubs</i>	90
5.3.4	<i>Covering more markets from existing regional hubs</i>	91
5.3.5	<i>Establishing a regional headquarters in MENA</i>	92
5.4	MARKETING INFORMATION IN MENA	95
5.4.1	<i>Marketing intelligence</i>	96
5.4.2	<i>The other components of marketing information</i>	100
5.4.3	<i>Organising for marketing information</i>	102
6.	RECOMMENDATIONS FOR VOLVO CE	104
6.1	NINE RECOMMENDATIONS FOR VOLVO CE	104
6.1.1	<i>Adapt a regional strategy for the MENA region</i>	104
6.1.2	<i>Increase the presence</i>	105
6.1.3	<i>Increase the control of the dealers</i>	105
6.1.4	<i>Add more markets to the existing regional hubs</i>	106
6.1.5	<i>Provide the regional hubs with necessary tools</i>	107
6.1.6	<i>Be open for the RHQ alternative</i>	107
6.1.7	<i>Hire locals</i>	108
6.1.8	<i>Adapt a framework for marketing intelligence</i>	108
6.1.9	<i>Make information accessible to the dealers</i>	111
7.	CONCLUSIONS	112
7.1	REGIONAL COMPETITIVE ADVANTAGE IN EMERGING MARKETS	112
7.1.1	<i>Why important with a regional strategy?</i>	114
7.1.2	<i>Information</i>	114
7.1.3	<i>Regional Key success factors</i>	115
7.1.4	<i>Regional Organisations providing for a regional competitive advantage</i>	117
8.	RECOMMENDATIONS FOR FUTURE RESEARCH	118
	REFERENCES	120
	ARTICLES	120
	BOOKS.....	120
	COMPANY MATERIAL	122

INTERNET	122
INTERVIEWS.....	122
APPENDIX 1: THE MIDDLE EAST AND NORTH AFRICAN REGION (MENA)	125
APPENDIX 2: QUESTIONNAIRES.....	126
APPENDIX 3: VOLVO CE'S PRODUCT GROUPS.....	141
APPENDIX 4: A SIMPLIFICATION OF THE INFORMATION FLOW IN VOLVO CE'S ORDER TO DELIVERY PROCESS.....	142
FIGURES & TABLES	
FIGURE 1.1 OUTLINE OF THE THESIS	8
FIGURE 3.1: THE RELATIONSHIP AMONG RESOURCES, CAPABILITIES AND COMPETITIVE ADVANTAGE.....	18
FIGURE 3.2: INTEGRATION/ RESPONSIVENESS GRID FOR REGIONAL STRATEGY .	23
FIGURE 3.3: INTEGRATION/RESPOSNIVENESS GRID FOR REGIONAL ORGANISATIONS.....	27
FIGURE 3.4: REGIONAL ORGANISATIONS AS CHANGE AGENTS	32
FIGURE 3.5: THE MARKETING INFORMATION SYSTEM.	37
FIGURE 3.6: COMPONENTS OF A MARKETING INFORMATION SYSTEM.....	46
FIGURE 4.1: A CLASSIFICATION OF VOLVO CE INTERNATIONAL AB'S MARKETS.	50
FIGURE 4.2: VOLVO CE'S MARKET SHARE IN MENA	51
FIGURE 4.3: MAPPING OF VOLVO CE'S MARKETING AND SALES ORGANISATION IN THE VOLUME MARKETS OF MENA.....	53
FIGURE 4.4: ORGANISATIONAL CHART OVER VOLVO CE INTERNATIONAL AB ..	54
FIGURE 5.1: BENEFITS OF INCREASED VERTICAL CONTROL OF THE DEALERS.....	86
TABLE 5.1: PROS AND CONS WITH DIFFERENT OPTIONS OF REGIONAL ORGANISATION DEVELOPMENT	94
TABLE 6.1: A FRAMEWORK FOR MARKETING INTELLIGENCE	110
FIGURE 7.1: REGIONAL COMPETITIVE ADVANTAGE IN EMERGING MARKETS.....	113

1. INTRODUCTION

1.1 Background

During the past few decades, a new phenomenon has been witnessed. Through geographical extension of economic activity across national borders and the functional integration of such internationally dispersed activities, the world economy is becoming increasingly globalised. Through the globalisation, multinational corporations (MNCs) are expanding across the globe as the arena for competition grows. Also, many new economies are emerging and MNCs have understood the importance of quickly entering those markets in order to grasp new opportunities.

One region having stayed in the shadow of many other emerging regions is the Middle East and North Africa (MENA). However, the MENA region has become increasingly interesting for MNCs to invest in due to a number of reasons: the prospects for continued expansion of trade through trade liberalisation; increasing globalisation of world financial markets; closer economic links to the European Union; and the obvious possibilities for greater regional stability and closer integration. (International Monetary Fund, 1996) Moreover, many of the countries in this region have enormous natural resources, constituting mainly of oil and gas.

The emerging markets of MENA share a number of common economic goals - the achievement of sustainable high economic growth and improved living standards, a reduction in unemployment, the creation of additional employment opportunities for the rapidly growing population and improvement of the provision of social services. The promising macroeconomic environment together with the structural reforms currently taking place in MENA enables the region to take advantage of the remarkable opportunities of the evolving globalisation of the world economy.

Foreign direct investments have recently picked up speed in the MENA region, and the countries are building up and modernising their infrastructure. These factors have led to an increase of construction- and project activities in several

of the emerging markets in the MENA region. This has been observed by MNCs in the Construction equipment industry, which recently have put more focus on this part of the world and also increased their regional presence significantly.

Many MNCs have established regional organisations in emerging markets. The motives are that the region is becoming too complex, too large and too far away to be handled from corporate headquarters (HQ), or that it is too different from other parts of the world (Laserre & Schütte, 1999). One of the more important questions is what type of regional organisations the MNCs should develop in the emerging markets and what responsibilities the regional organisations should possess. As a consequence of the increased number of dispersed organisational units, it has become increasingly important for MNCs to handle and structure the information flow between the different organisational units in an optimal way. A well functioning marketing information system and especially marketing intelligence system for a region is vital when the marketing and sales headquarters is located far away.

1.2 The case company

An MNC currently facing the issue of how to organise in the emerging markets of MENA is Volvo Construction Equipment (Volvo CE). Volvo CE is one of the world's leading suppliers of construction equipment, with production facilities on four continents and customers in over 100 countries. Volvo Construction Equipment Group's marketing and sales companies are responsible for sales and support in specific geographical regions; Region Europe, Region NAFTA and Region International markets. The commercial entities in each region operate either through company owned facilities, independent distributors ("dealers") or directly to customers.

The region International markets consists of four marketing and sales companies; Volvo CE International AB (Volvo CE INT), Volvo CE South America, Volvo CE Asia markets and Volvo CE Australia PTY LTD. The Volvo CE INT marketing and sales company is located in Eskilstuna and is responsible for several emerging markets, mainly countries in the Middle East

but also African countries and countries in Eastern Europe. Additionally, the company is responsible for sales and marketing in Cuba and New Zealand.

In 1999, a new organisation of Volvo CE INT was implemented. A distinction between “Volume markets” and “Project markets” was made. In the Volume markets, consisting of Turkey, Egypt, Tunisia, Israel, the United Arab Emirates (UAE), Saudi Arabia, South Africa and New Zealand, the aim is to grow business, while in the Project markets the aim is to secure business and potential growth. In the Volume markets, field sales and product support personnel as well as business managers have been relocated from the marketing and sales company in Eskilstuna to regional marketing- and sales support organisations (regional hubs), in order to increase the local presence and push dealer focus and development programs. In MENA, namely in Cairo and Dubai, such regional hubs have recently been established.

Volvo CE’s objectives for the establishment of regional hubs are to build up representation offices in strategic locations in order to develop the dealer and partnership relation with Volvo CE. Priority is given to serve markets where the market potentials are the greatest and to serve dealers having the best ability to develop Volvo CE’s market share. These regional hubs are also being established in order to improve the information flow between the Volume markets and the marketing and sales company in Eskilstuna. Lastly, the objective is to improve Volvo CE’s internal processes, including the interface with the dealer to give access to the company’s systems for routine orders to shorten lead times.

However, it is worth mentioning that these regional hubs still are in a build up phase. What is not yet decided is whether Volvo CE should increase its presence in the region and in such case, how the present regional organisation should be developed.

1.3 Problem statement

Based on the discussion above, a main problem has been formulated:

Main problem

“How can an MNC, operating in a heavy equipment industry, enhance its competitive advantage by establishing and developing regional organisations in emerging markets?”

In order to solve the main problem, two research problems have been identified:

Research problem 1

“How can a company develop existing regional market- and sales support organisations in the Middle East and North African region and what are the benefits of such a development?”

In order to come closer to a distant market, an increasing number of MNCs have established regional organisations. An initial step in building a regional organisation can be to establish a regional market- and sales support organisation. This type of regional organisation is often the first phase for companies that are about to increase their presence in a distant market. One market that many MNCs recently have paid extra attention to is the MENA region, due to factors mentioned earlier.

MNCs already having established market- and sales support organisations in the MENA region will face another problem: Should they keep the present structure of the regional organisation or should they develop it further? The possible developments of a regional market- and sales support organisation, and the benefits of such a development, will be dealt with in order to solve research problem 1.

Research problem 2

“How can a company, through its regional organisation, efficiently organise and take advantage of useful marketing information in order to increase its competitiveness in a distant market?”

Information ties the company’s different units together, and if handled in an appropriate manner, information can support the company to increase its competitiveness. Increasingly, managers are viewing information not just as an input for making wiser decisions, but also a marketing asset that creates competitive advantage. During the past century, many factors have increased the need for more and better marketing information. As companies become multinational in scope, they need qualitative marketing information on distant markets. In today’s rapidly changing environments, managers need up to date information to make timely decisions. This can be achieved through a well functioning marketing information system.

Regional organisations can co-ordinate or assist the information flow between the HQ and the local markets, providing the HQ with necessary marketing information. A crucial part of marketing information is marketing intelligence. Efficient marketing intelligence is considered to play a vital role in the creation of a competitive advantage. (Grant, 1998) What marketing intelligence should be reported internally? How should the information be collected and by whom? How often should the marketing intelligence be reported between dealers, regional hubs and the SC? Additionally, how the information should be used is essential since the information in itself is not necessarily valuable.

1.4 Purpose

The main purpose of this thesis is to explore how a company in the heavy equipment industry can enhance its competitive advantage by establishing and developing regional organisations in emerging markets. Furthermore, we have two sub purposes. Firstly, we will evaluate and prescribe how our case company, Volvo CE, can develop an existing regional market- and sales support organisation in MENA. Also, incentives for such development will be

thoroughly explained and evaluated. Secondly, the aim is to describe Volvo CE's marketing information in MENA and finally, to prescribe how the company, through its regional organisations, could efficiently organise and take advantage of such information in order to increase its competitiveness.

1.5 Delimitations

Even though we use the term *competitive advantage* as a point of departure, our aim is not to explicitly study how competitive advantage can be achieved through differentiation and/or cost advantage. We will neither go into the subject of sustainability of competitive advantage. The study will instead show how developing a regional organisation may create preconditions for achievement of competitive advantage.

Since information may constitute a rather broad area of study we have in agreement with the case company decided to delimit the study of information in this thesis to information needed for marketing and sales decisions, that is, information covered by a marketing information system. Further, among the components of marketing information, the main focus will be on marketing intelligence.

1.6 Definitions

There are several keywords in this thesis, needed to be defined in order to fully understand the meaning of them applied in this context;

Emerging markets imply an economic sector with growth potential; a country that is deregulating its markets, and liberalizing its trade and investment regimes. (Gipson, 1994)

Multinational Corporations (MNCs) imply companies with branches and subsidiaries in several countries from which they derive at least 25% of their annual sales income. (Gipson, 1994)

Regional organisations are defined as organisations responsible for, or covering more than one country. *Regional hubs* are defined as regional market- and sales support organisations. *Regional headquarters* are referred to as regional marketing and sales companies. Finally, local *dealers* imply local distributors.

In our research the region of *The Middle East and North Africa (MENA)* is defined as the region covering the countries from Morocco in the West, to Oman in the East and from Iran in the North to Sudan in the South (see appendix 1).

1.7 Outline of the thesis

The thesis started with a chapter providing the reader with a background to the problem statements. A main problem was formulated, as well as two research problems. Additionally, purposes, delimitations and definitions of the thesis were discussed.

In chapter two the research methodology is presented. Here, we describe the reasons for approaching the problem the way we did. Also, the data collection as well as the quality of our research is discussed. Chapter three presents the theoretical framework, where previous research related to our problem statements is presented. A discussion of competitive advantage opens the chapter, followed by the concepts of regional organisations and marketing information. Chapter four provides the reader with our empirical evidence attained from external and internal company material, interviews and observations. Focus is on Volvo CE's regional organisations and marketing information in the Middle East and North Africa. The chapter ends with a presentation of another Swedish MNC's regional organisation present in the region.

Chapter five comprises the analysis, which is based on our empirical findings and the theoretical framework. Volvo CE's present regional organisations in MENA are analysed as well as the options for developing them in order to increase presence. Also, we will analyse Volvo CE's marketing information in

the MENA region. The next chapter provides the reader with our recommendations to Volvo CE. In this chapter, solutions contributing to solve our two research problems are offered. In chapter seven, a conceptual discussion concerning our main problem is presented. In order to solve the main problem, a theoretical model is created. Finally, in chapter eight we give recommendations for future research that can be of interest for Volvo CE as well as for academia.

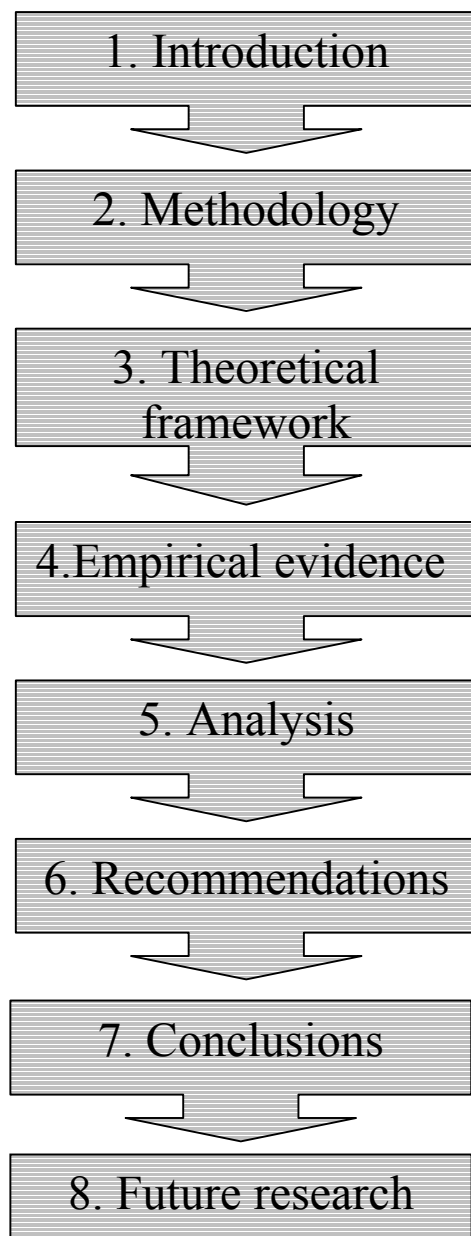


Figure 1.1 Outline of the thesis

2. METHODOLOGY

In this chapter we will explain and justify how we progressed in our research. The objective is to give the reader an idea of how the work proceeded and why certain choices were made. The chapter starts with a description of our research strategy, followed by our research approach. Thereafter follows a description of our research method and the data collection. Finally, the quality of our research is discussed.

2.1 Research strategy

When conducting a research project, the researcher is in need of a strategy for how to conduct such a study. The choice of research strategy depends on what kind of questions are to be answered and on the problem to be solved. According to Yin (1994), there are five different research strategies: experiment, survey, archival analysis, history and case study.

2.1.1 Choice of research strategy

If the research questions are “how”- or “why” based, it is likely to lead to the use of case studies. Since our main problem is “how”-based (*How can a company, operating in the construction equipment industry, enhance its competitive advantage...?*), and we have little or no control about the events being studied, a case study was suitable for our study. A case study is also a relevant research strategy when a phenomenon can be studied in a real life situation. (Yin, 1994). A case study gives a deeper understanding and a more holistic view of the studied research problem, which we aim to achieve. In order to solve the problem, we had to go deeply into a company; consequently, a case study was needed.

However, there are beliefs among the research community that case study is not an appropriate method of conducting research with the intention of generalising the findings. Another possible weakness is that case studies can oversimplify or exaggerate facts, leading to a situation where the researcher draws wrong conclusions about the studied subjects. Finally, since the researcher is the primary instrument of data collection and analysis, both the readers of case

studies and the authors themselves need to be aware of biases that can affect the final product. Despite these possible weaknesses with a case study, we considered this type of a study to be the most suitable for our research.

2.1.2 Case study selection

The interest in our case company, Volvo CE, arose when we read Master theses from previous years' master students at the School of Economics and Commercial Law, Göteborg University. We had a prior genuine interest in international business in general, and in development of regional organisations in emerging markets in particular. Since Volvo CE during the spring 2000 was in the process of developing small regional organisations in MENA, we initiated contact with Volvo CE through our professors and mutual interest for a master thesis occurred. The study we proposed to conduct, about the subject of developing regional organisations, was according to Volvo CE of vital importance for the company. The case study was conducted during the fall of 2000.

Since generalising the results from a case study (Volvo CE) is not always considered appropriate, we decided to conduct an additional case study with a second company in order to increase the quality of our research. We chose Alfa Laval, another Swedish MNC operating in a heavy equipment industry. Factors making Alfa Laval interesting to study are the company's well developed regional organisation in MENA and that the company, in similarity with Volvo CE, operates through distributors as well as through own travelling salesmen. Additionally, Alfa Laval is a world leader within its industry and has turned the business in the region to be the most profitable among all its markets.

2.2 Research approach

We have used an abductive research approach throughout the work of this thesis. An abductive approach is the most commonly used when case studies are conducted. Our point of departure was existing theories within our research field (deductive), which inspired us in our empirical findings. The existing theories, together with the new empirical findings formed the basis for discovering certain patterns. During the research process, the discovered

patterns were adjusted and refined. We chose this approach because it is considered appropriate in a situation when the researchers want a deeper understanding of the research area.

2.3 Research method

We chose a qualitative research method approach for a number of reasons. In order to answer the main problem and our two research problems, we needed data that could not be quantified, e.g. values and attitudes. To receive these data, a qualitative study had to be conducted. The qualitative study provided us with the opportunity to study the selected issues in depth and detail in order to get a deeper understanding, which would not have been possible to manage with a quantitative study. We were however aware of the fact that this method could give both objective and subjective information, and that it reduces possibilities of generalisation, but since it contributed to a more holistic view of the study, we argue that the chosen research method was the most suitable for our study.

2.4 Data collection

In our research work, we collected and used primary as well as secondary data. Below we will explain the differences between the two types and why we used both.

2.4.1 Secondary data

Secondary data is already published data collected for purposes other than the specific research needs at hand; hence, there exists no particular connection to the specific case. This type of data can include articles, books and Internet searches.

The secondary data used in our study was mainly collected from books, articles, the Internet and case company internal and external material, e.g. business plans and annual reports. In order to find the appropriate data, databases (mainly GUNDA and LIBRIS) have been used. The central

advantage of using secondary data in comparison with primary data is savings in cost and time. The secondary data has provided us with valuable background information of Volvo CE's situation, as well as with existing theories regarding the area we have built the thesis on. However, the risk of using secondary data is that it may include a wide range of errors since the researchers have no control of the original information collection. Therefore, it is of vital importance to evaluate every source that has been used for the study. However, since we have used acknowledged sources, we believe that the secondary data sources do not contain any fatal errors.

2.4.2 Primary data

Primary data are data collected specifically for the research. The data can be collected in several different ways, however, the most common is through interviews and observations. (Merriam, 1998)

In our study, primary data was collected through 21 interviews. Additionally, we performed observations. The first interviews were conducted at the Volvo CE Group headquarters in Brussels, in August 2000, where we were introduced to Volvo CE's situation. These interviews were unstructured, meaning that they were more like conversations and consisted of open-ended questions, in order to obtain an initial understanding to the company's situation, hence making it possible for us to continue the study with more structured interviews. The next step in our collection of primary data was to conduct interviews at Volvo CE SC's headquarters in Eskilstuna, where we spoke to the President and the Business development Director of Volvo CE International AB. These interviews were semi-structured, that is, the major part of the interview was guided by a list of questions or issues to be explored, and neither the exact wording nor the order of the questions was determined ahead of time. This allowed us to respond to the situation at hand and to new ideas on the topic. Additionally, Volvo CE staff from the marketing and sales company in Eskilstuna was once again interviewed in a later phase of the Master Thesis research.

In order to get a holistic and deeper understanding of our main problem and research problems, it was of vital importance for us to perform research in the

MENA-region in which Volvo CE has set up small regional organisations. Therefore, a field study was conducted in the United Arab Emirates.

In our field study, we interviewed Volvo CE regional area sales- and product support managers in Dubai, UAE. Additionally, the daily work of these managers was closely observed during a couple of days. The central advantage with our observations compared to the interviews was that it took place in the natural field setting. Besides, our observational data represented a first-hand encounter with the phenomenon of interest rather than a second-hand account of the world obtained in an interview. Moreover, we conducted semi-structured interviews at the local Volvo CE dealer in Dubai. At the dealer we interviewed several positions including the Managing Director, the Marketing Director, the Inventory Operations Manager, the National service Manager, and several Sales Managers. Additionally, we conducted unstructured interviews with two important customers in the region. Finally we performed semi-structured interviews at Alfa Laval's regional headquarters in Dubai, where we interviewed the Managing- and Regional Director and the Finance- and Administration Manager.

We also collected primary data from Volvo CE's regional organisation in Cairo, Egypt. The data was collected through a semi-structured telephone interview and a questionnaire sent by e-mail.

All semi-structured interviews were taped. By using a tape recorder, it was possible for us to pay full attention to the interviewees, and it also made it easier for us to review and process the data attained from the interviews.

Concerning the collection of the primary data, it is important to remember that we, when possible, sent a questionnaire in advance to the interviewees, except for the initial interviews in Brussels. This obviously has its drawbacks, since the respondents could prepare the answers, leading to a risk that we could not attain their spontaneous reactions. Also, when we collected the primary data in UAE at the dealer and at the customers, neither the researchers nor the people interviewed had English as mother tongue. The risk of misinterpreting data could therefore not be neglected, however, since both the interviewees and

ourselves were well acquainted with the English language, we believe that a common understanding of the issues discussed was reached and the information was correctly interpreted.

2.5 Quality of research

When conducting research, it is of vital importance for the researcher to make sure that the study is of the highest quality. The quality is often measured in terms of internal validity, external validity and reliability.

2.5.1 Internal validity

Internal validity is a measure of how well our research findings match reality. Do the findings capture what is really there? Are we measuring what we think we are measuring? Internal validity is enhanced by triangulation, member checks, long-term observation, peer examination, participatory modes of research, and by clarification of the researchers' biases. (Merriam, 1998)

We believe our study has a high internal validity. In the study, 21 interviews were conducted. Persons in different positions at the case company, customers, and dealers were interviewed. Additionally, we interviewed staff at another Swedish MNC. Thus, triangulation has been achieved. By staying on a site at the case company, we could also build up our own view of what the reality looked like, which enhanced our understanding and created a more accurate picture of the real life situations, clarifying our biases.

Before we conducted the interviews, the questions were sent to the interviewees and when we made the interviews, they were taped. In some cases when we were not sure how to interpret the interviewees' answers, we returned to them by phone or e-mail, asking them to confirm the edited material. Hence, member checks were conducted.

Both the case company and the academic tutors have actively participated in the research process, a form of participatory modes of research, which has strengthened the internal validity. Additionally, our research colleagues have

acted as opponents during the research process, which has further strengthened the internal validity of our thesis through peer examination.

2.5.2 External validity

External validity is concerned with the extent to which the findings of one study can be applied to other situations. How generalizable are the results of our research study? A prerequisite for discussing external validity is to have a satisfactory level of internal validity, which we in previous paragraph concluded we had. In order to enhance the external validity, the study must offer rich, thick descriptions of the typicality of the studied subject and use multisite designs. (Merriam, 1998)

Volvo CE's current situation has been extensively described in the empirical evidence chapter. Therefore, the readers will be able to determine how closely their situations match the research situation. Due to the fact that other heavy equipment companies are facing similar situations, we argue that this study is applicable to other companies within this particular industry. The fact that we looked into Alfa Laval, another company being present in MENA and operating in a similar industry to Volvo CE, increases the external validity. Therefore, we consider this study valid outside Volvo CE and an analytical generalisation can hence be made.

2.5.3 Reliability

Reliability refers to the extent to which research findings can be replicated. If our study was repeated, would it yield the same results? According to Merriam (1998), reliability does not fit qualitative research. The question is therefore not whether the findings will be found again but whether the results are consistent with the data collected. To increase the reliability, the researcher should explain the assumptions and theory behind the study, use triangulation and describe how data was collected.

We have discussed the theories within our research field extensively, which has added to the study's reliability. The fact that we have used inputs from many respondents at different positions through triangulation has helped us to develop a holistic understanding of Volvo CE's situation. It is however not

only important to use input from many respondents, but also to be clear as to how we received the information. In appendix 2 we show what types of questions we asked in order for others to see that we were consistent in the results with the data collected. When conducting interviews there is a risk that the researchers sometimes miss and do not understand the information that the interviewee is presenting. However, through our member checks we believe we have minimised this risk.

3. THEORETICAL FRAMEWORK

In this chapter, we will present previous research, related to our problem statements. First, theories about competitive advantage will be addressed, where we focus on organisational capabilities and information as a valuable resource. The concept of regional organisations will then be thoroughly discussed. In the last part of the chapter, information as a vital resource in the organisation will be discussed with a focus on marketing intelligence. In order to get a holistic understanding of marketing intelligence, we have placed the concept in a broader perspective, that of a marketing information system.

3.1 Competitive advantage

Competitive strategies have changed dramatically since the advent of large numbers of MNC in the 1940s and 1950s. Today, to be competitive in almost any substantial market that is not government-controlled, an MNC must develop strengths that enable it to survive against foreign as well as domestic rivals. (Grosse, 1990) As competition has intensified across almost all industries, very few industry environments can guarantee secure returns; hence, the primary goal of a strategy is to establish a position of competitive advantage for the MNC. There are many existing definitions of competitive advantage, however, one of the most contemporary is Grant's (1998):

"When two or more firms compete within the same market, one firm possesses a competitive advantage over its rivals when it earns a persistently higher rate of profits (or has the potential to earn a persistently higher rate of profit)."

Grant (1998) argues that there is a strong connection between resources, capabilities, industry key success factors and a competitive advantage.

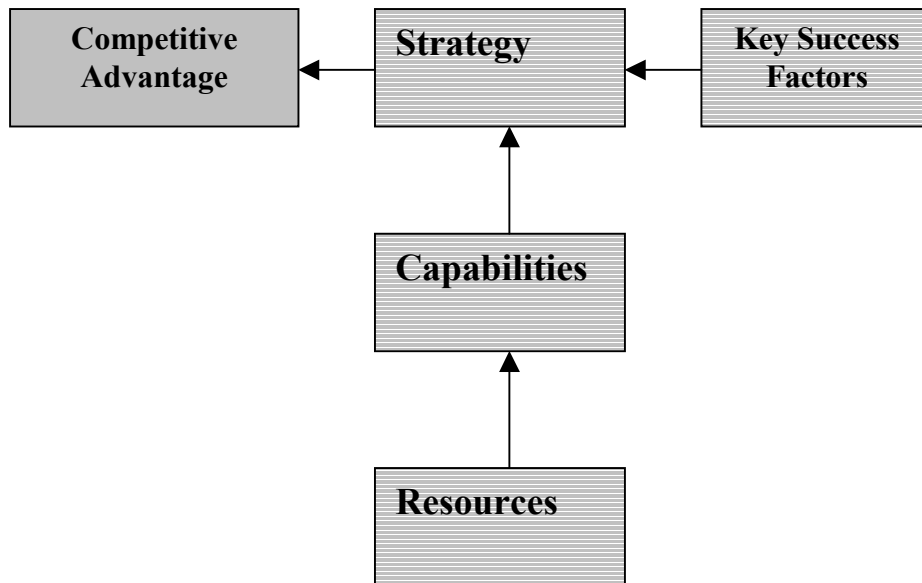


Figure 3.1: The relationship among resources, capabilities and competitive advantage
(Source: Grant, 1998)

3.1.1 Resources and capabilities

A company's resources can be classified into tangible, intangible and human resources. The tangible resources consist of financial and physical assets and are the easiest to identify and evaluate. Intangible resources, consisting of the company's technology, reputation and culture, are harder to evaluate. The third resource is the human. It consists of specialised skills and knowledge, communication and interactive skills, and motivation.

Resources are, however, not normally productive on their own. They have to collaborate closely together in order to achieve a certain activity. Often the term of organisational capabilities is used to refer to a company's capacity for undertaking a particular productive activity. Grant (1998) argues that capabilities per se are not interesting but capabilities relative to other firms are. Establishing competitive advantage requires that a company identifies what it can do better than its competitors.

3.1.2 Key success factors

As the figure above shows, it is not enough to possess the right resources and capabilities; the key success factors are also crucial to consider when striving

for competitive advantage. In Grant (1998), Ohmae argues that two questions need to be asked in order to identify key success factors:

1. What do our customers want?
2. What does the firm need to do to survive competition?

To answer the first question, the company must look more closely at the customers of the industry. This question therefore deals with the demand side of the business. The second question, on the other hand, deals with competition. Some questions the company must ask are how intense the competition is in the industry and the factors that actually drive competition in the industry.

3.1.3 Strategy

Strategy is according to Grant (1998) concerned with matching a company's resources and capabilities to the opportunities that rise in the external environment. In general, the greater the change in a company's external environment, the more likely internal resources and capabilities are to provide a secure foundation for long-term strategy. By taking the resources and capabilities into account, as well as considering the key success factors for the industry, a company could create successful strategies and reach a competitive advantage.

3.1.4 Competitive advantage, organisation and information – the link

A company's organisation is consisted of its infrastructure and is a vital support activity in the value chain. It is impossible to analyse the resources and capabilities of the firm without taking its structure into account. The capabilities of the firm - the primary repositories of its competitive advantage - are totally dependent on the existence of a structure that co-ordinates teams of resources to permit productive activities to be performed. Hence, a well functioning organisation is a prerequisite for achieving competitive advantage. (Grant, 1998)

Organisations increasingly consider information as a vital resource, to be managed like any other valuable resource. How it is used and disseminated can

determine the organisation's efficiency and effectiveness (Harrington 1991). Moreover, responsiveness to the opportunities for competitive advantage provided by environmental change requires one key resource – information, and one key capability – flexibility of response. Information is necessary to identify and anticipate external changes. This is dependent on the company's environmental scanning capability. Companies are today more dependent on “early warning systems” through direct relationships with customers, suppliers and competitors. (Grant, 1998)

3.2 Globalisation's effects on organisations

The globalisation of business has created a host of new and complex strategic imperatives for the MNC. There is widespread agreement that the requirements for global integration continue to grow, but the extent to which requirements for national responsiveness are changing are much less clear-cut. One argument sees the world moving towards pure globalisation while other foresees a continued dependence on national differences. (Birkinshaw, 1994)

Laserre & Schütte (1999) state that during the last 10-20 years, many MNCs have moved to a global approach in managing their operations. The move towards globalisation has shifted the power structure from one of geographical hierarchy to one, favouring the managers in charge of global business. This move is however counterbalanced by the need for MNCs to be flexible enough to adapt their strategies to local conditions. MNCs have become increasingly divided in terms of regional management. Some have retained or built regional headquarters (RHQ) parallel with global products organisations, while others have assigned the supervision of regions to key corporate level executives. Other MNCs have delegated regional management to the global products divisions, hence creating several regional centres within the same corporation.

Jansson (1994) argues that a complete duplication of the global organisation would be inefficient in small markets due to the high establishment costs. The need for a high degree of adaptability to the specific circumstances found in smaller, often emerging markets, creates a strong conflict between global product interests and local interests. Additionally, Laserre & Schütte (1999)

argue that the heterogeneity, strategic distance and specificity of many emerging markets' competitive climates require a regional perspective to enable MNCs to gather intelligence, mobilise forces and focus their energies in the region. Consequently, in order for the MNCs to succeed they need to develop some sort of regional perspective.

Supporting of local interests through a regional organisation can, according to Jansson (1994), increase organisational efficiency. Locating management and marketing activities at the regional level instead of at the global level can reduce transaction costs. Consequently, different types of regional organisations give different weight to local interests. The stronger the local/regional interests play in a global organisation, the more of a two-dimensional form the organisation assumes. The results are normally an increase in bargaining costs, but also a reduction in information and enforcement costs, which will be addressed later in this chapter.

In addition, Jansson (1994) states that the trust in the local subsidiary or distributor could save internal transaction costs by limiting information search and by reconciling global and local interests. However, if information is biased due to the opportunism of the local subsidiary or distributor, transaction costs will not be reduced, since there is a risk that the separate investigations of the market do not result in wiser decisions. Decisions might even be inferior compared with receiving information through the usual channels. Hence, an own representation in the local market can be more efficient due to improvement in the market information and in the control of prices.

3.3 Regional strategy

In times of globalisation, one can ask whether MNCs should conduct a global strategy or adapt their strategies to regional circumstances. Schütte (1997) is of the opinion that for a regional strategy to be justified in a specific region, the region has to be different from the rest of the world and, secondly, that the various parts of the region have to be somewhat similar to each other. Only if both conditions are met could a regional strategy be useful. The assessment of the situation, i.e. if a regional strategy should be pursued, has to be based on

internal as well as external factors. Internal are firm specific and depend on the resources available and the perceptions of the region at HQ as well as the specific product markets in which the company competes.

MNCs' strategies are often born from their specific situation of their environments (Hedlund & Åman, 1984). An external factor shaping the need for a regional strategy, applying to most MNCs and businesses, refers to the growth dynamics in the specific region and the rest of the world. Investing, acquiring, expanding, diversifying and thereby constantly taking risks and progressing comes naturally in some regions, for instance in Asia. This can be put in contrast with thoughts of a typical European branch of an MNC: restructuring, reengineering, and concentration on core businesses, cutting costs and downsizing, getting rid of surplus staff. Strategies suitable for mature, slow moving markets in Europe can rarely be expected to work in the fast growing, rapidly changing environments of emerging markets, in which growth is almost taken for granted. (Schütte, 1997)

Regional strategies somewhat replace the need for local responsiveness with that for regional responsiveness and gives more weight to the pressures of regional responsiveness than to those for global integration. However, regional strategies are only justified when regional concerns are fundamentally different from global ones, and therefore require a modification of management practices. Local needs are not becoming irrelevant, but have to be subordinated to regional ones in the framework of regional strategies. (Schütte, 1997)

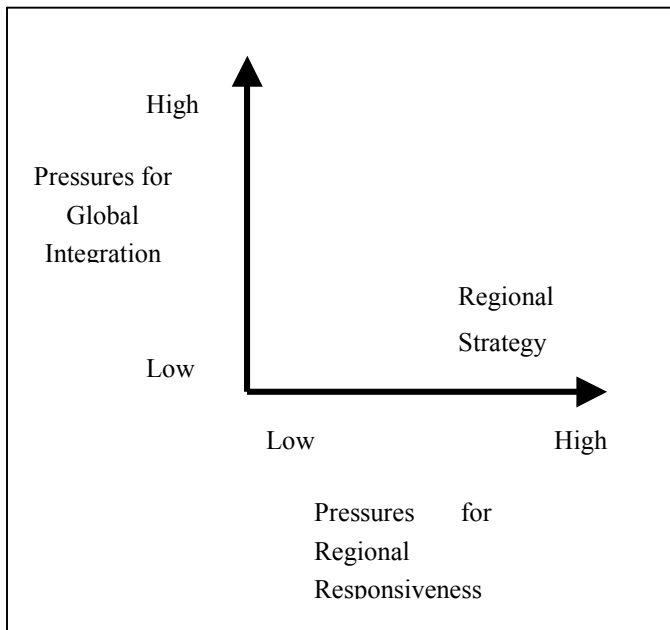


Figure 3.2: Integration/ Responsiveness Grid for Regional strategy
(Source: Schütte, 1997)

3.4 Regional organisations

A regional organisation of an MNC can, according to Jansson (1994), improve the control of local business considerably. Vertical problems can be solved in a more efficient way through the intermediary role of regional organisation, at the same time as vertical co-ordination and control are extended. There are advantages in terms of information costs that are the trade off between reduction in requirements regarding the submission of reports to the top of the MNC or the group, and an increase in requirements regarding submission of reports to the regional office.

Jansson (1994) states that with a regional organisation an MNC can improve the local strategic capabilities, and simultaneously the local organisation can increase its strength, both on the local market and within the group. A regional organisation can be a forerunner for the new multidimensional organisation of an MNC that is based on achieving a balance between corporate, product divisional and local levels and on an increase in horizontal co-ordination. A regional organisation's main function is to co-ordinate, hence, it can effortlessly extend this task to other product divisions.

By establishing a regional organisation, both national responsiveness and the coordination on a regional basis of adoptions made to the different countries' environments increase. Through the development of regional strategies, as discussed earlier in this chapter, the customers' demands could be met more effectively. A well functioning regional organisation reduces both marketing and administrative distance, acting as an intelligence unit for the MNC, being well informed regarding political, economic and technological developments in the region. (Jansson, 1994)

Jansson (1994) outlines three levels of sales and marketing functions at a regional level:

1. To control and co-ordinate sales in the region and also to serve that function either directly or indirectly in those countries, in which the MNC is without representation by sales companies.
2. To participate in marketing and market intelligence activities.
3. To provide the market companies with marketing support.

Important responsibilities of a regional organisation are to provide technical support and, together with distributors, influence customers. This means creating a better balance between two main marketing tasks: those of technical support and those of a more commercial aspect of sales and distribution. (Jansson, 1994)

The possibilities for controlling local activities from a regional office located in the actual region are superior to the alternative to doing so from a European office. Regionally based control improves and rushes the decision process due to the shorter communication channels involved, which yield quicker response to market demands and conciliate the starting of new local business ventures through knowledge and authority being localised in the region. A regional office can be a profit centre and have the total responsibility for the MNCs' businesses in the region. There can also be a service and marketing support centre at such offices. Co-ordination of activities in regions can be necessary for a critical mass to be obtained in terms of operations. Regional organisations

can also allow a cross-fertilisation between units to be achieved through joint management meetings, marketing activities and training. (Jansson, 1994)

Jansson (1994) argues that five types of regional organisations can be found:

1. A separate regional company controlling the market companies or distributors in the local markets
2. A separate regional administrative office with a managing director for the region
3. Regional functions either organised within one of the market companies for all of the market companies together or spread out among them
4. A single regional company that in a natural way has responsibility for the entire region
5. Regional functions being organised from the home base

The above-presented different types of regional organisations are listed in descending order of strength, from the strongest to the weakest. The two first forms are typical of large MNCs with several market companies or dealers in the region, each representing several product companies. Through regional presence, local interests can be given particular weight in dealings with e.g. the product companies.

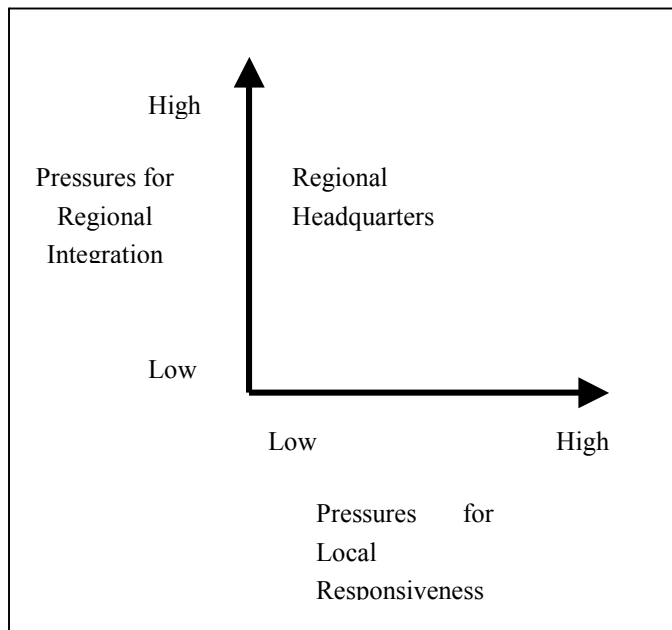
An established *regional company* forms a mini-group within the region, which is on parity with the product companies in the overall organisation of the group. Having a regional company negotiating for the national subsidiaries or distributors imposes greater bargaining power than if individual national subsidiaries or distributors were to negotiate themselves. By the presence of a *regional administrative office*, representation of local interests is often weaker. By having *regional functions* within a global product organisation, the organisation is often put in an intermediate position between the product- and market companies. The last two forms of regional organisations are of more advisory types and the regional functions are regarded as more loosely organised. When having established one of the three first forms of a regional organisation, the main goals for such an organisation are to secure and improve the MNC's permanent presence in the region, to develop new markets, and to improve project organisation performance. (Jansson, 1994)

3.4.1 Regional headquarters

One developed form of a regional organisation is an RHQ. According to Laserre & Schütte (1999), MNCs typically set up an RHQ when the region is becoming too complex, too large and too far away to be handled from corporate HQ, or that it becomes too different from other parts of the world. In those cases, a truly regional presence has to be established and independent country-based operations must be integrated to counter competition on a regional basis. Eventually, a regional organisation has to be set up to initiate change and coordinate operations.

The establishment of an RHQ transfers authority to solve problems in the region, which cannot be handled by the national units, and otherwise would have to be dealt with and acted upon by HQ. The RHQ actively manages the integration and coordination of activities of the MNC within the region, and represents the link between the region and HQ – independently of its location. Also, a representative office, a holding company set up for fiscal reasons, or a regional organisation unit simply providing services and infrastructure on behalf of HQ, could exist and be useful. However, such entities are not considered as RHQs according to Schütte (1997).

Schütte (1997) argues that conceptually, the establishment of an RHQ is justified when the pressures on the MNC for integrating its operations in the region are greater than the pressures for local responsiveness.



*Figure 3.3: Integration/Responsiveness Grid for Regional organisations
(Source: Schütte, 1997)*

If an MNC should establish an RHQ, the benefits of regional integration must outweigh costs for setting up an additional organisational unit. These costs and benefits, however, are often difficult or even impossible to measure. An establishment is therefore often based on the president's "gut feeling". Alternatively, a team may be sent to the region to carry out some trouble shooting, later evolving into a permanent institution with RHQ status. Such ad hoc-ism is probably attributable to the limited initial capital outlays involved, simplifying internal approving procedures. In most cases however, the decision is driven by determined strategies for the region, which need to be implemented with the help of an RHQ. (Lasserre & Schütte, 1999)

Schütte (1996) states that an RHQ is in an ideal position to influence the thinking of the organisation, particularly when located in the region and having accessibility to regional market information. However, even if the RHQ is fully in charge of developing a regional perspective, it will have to involve or consult the HQ to ensure that the outcome of the regional perspective matches and can become part of the MNC's global vision.

According to Hibbert (1997), an RHQ can have the following outline tasks:

- To serve and co-ordinate individual country programs
- To report and liaise with international head office
- To give specific support to business development within the region
- To ensure that the regional management benefits from decentralisation of marketing and control

Laserre & Schütte (1999), claim the RHQ normally has two main sets of roles:

- Strategy development and implementation, which are directed towards HQ: budgeting and control, strategic stimulation, intelligence gathering, new business development, and more generally providing a channel for demands from local operations, and ensuring attention from HQ in competition with other regions.
- Integrative, administrative roles more directly involved with local operations: pooling resources for greater efficiency and effectiveness; benchmarking and spreading best practices; co-ordinating activities across borders and business divisions. The aim here is to achieve synergies and consistency.

Hence, RHQs are in charge of forming the regional perspective in the sense of developing a strategy, initiating new businesses and setting and controlling targets. However, Schütte (1996) argues that the increased importance of the RHQ can meet opposition from the HQ and the national units. The RHQ can therefore contribute to, but need not necessarily be strongly involved in, shaping a regional perspective.

Organising the RHQ

The organising of an RHQ is of vital importance since it often reflects the organisation at HQ and consists of two aspects, that is, the structure in terms of formal linkages specifically between the RHQ and HQ, and the managerial approaches or styles applied to the relationship between the RHQ and the subsidiaries. (Laserre & Schütte, 1999)

Laserre & Schütte (1999) outline three different structures of RHQs, namely Global-, Transnational- and Multidomestic. *The Global RHQ* is characterised by a strong alliance of its staff with the HQ, and is considered as an extension of the corporate HQ, set up for the purpose of convenience in order to be in easier reach of the subsidiaries in the region. The advantage of the global RHQ lies in its simplicity: the organisation is streamlined and focused. A global RHQ can be ideal in a situation where local subsidiaries or dealers have for a long time existed independently without much control and interest from HQ. However, a global RHQ seems best suited to MNCs with a limited product portfolio and a corporate culture, which allows for the clear delineation of tasks within the organisation.

The transnational RHQ poses a strong commitment towards corporate HQ and considers that pressures for the globalisation of businesses are legitimate. The transnational RHQ is a prototype of an organisation exposed to tensions arising from the dual pressures for the integration and responsiveness, but operating at the regional level rather than at the global. The transnational RHQ must have an organisational structure allowing both the global and local forces to exert influence on decision-making at the regional level. This type of RHQ is most suitable for large, experienced and diversified MNCs with mature regional managers.

The Multidomestic RHQ often operates in a geographical environment, which is perceived to be different from other parts of the world. The staff of the RHQ feels strongly committed to the region and is obliged to defend it against pressures for globalisation originating from HQ. The RHQ acts as a representative body of the operating units in the region and of their concerns. It therefore relies heavily on consensus between them and on their support. Its main purpose is to amplify the views of these local subsidiaries or dealers, which individually are too small to carry out weight at HQ. A Multidomestic RHQ is suitable for an MNC needing to build a closer network in the region and win more recognition at HQ. Such a solution may be perfect for MNCs in which the region is not yet fully positioned on the mental map of the world or is still considered peripheral.

Despite what organisational structure for the RHQ is chosen, Laserre & Schütte (1999) argue there is still flexibility in the way an MNC decides to manage the relationship between the RHQ and the subsidiaries or distributors. The RHQ can generally manage its relationship with the national units in three distinct ways; vertically, virtually and horizontally.

Due to the *vertical* RHQ model, direction and control of all activities in the region are derived from the RHQ as an organisational unit. Laserre & Schütte (1999) argue that if the relationship between the RHQ and local units is strictly hierarchical, the reporting lines drawn are clear and no room is left for ambiguity. This poses the greatest advantage of the vertical RHQ. This is confirmed by Jansson (1994), who states that inefficiencies in decision making (high information costs), in the implementation of decisions for markets and distributors (enforcement costs), and those due to conflicts between units within and outside the region (bargaining costs) are reduced by rearranging major controls from horizontal to vertical control of the organisation. The disadvantages of the vertical RHQ are embedded in the classical centralisation-decentralisation dilemma. Too strong centralisation suffocates local initiative and entrepreneurship, while too much decentralisation leads to inefficiencies and a loss of control. (Laserre & Schütte, 1999)

A *Virtual* RHQ relies mostly on input from national units. The RHQ does not, however, exist as a separate organisational unit with its own office and dedicated staff; instead the responsibilities and functions of the traditional RHQ are distributed among existing national units. In the virtual RHQ, some local managers have taken over regional tasks in addition to their jobs in the given country and by that connect with all other units. However, conflicts of interest among the managers concerned are difficult to solve within the framework of a virtual RHQ. The absence of a head as in the traditional RHQ set-up can be compensated for by the appointment of one of the local/regional managers as the regional representative. The non-existence of a physical RHQ office may also raise doubts about the commitment of the MNC to the region, with regard both to external contacts such as government and partners, and to the internal organisation.

The *Horizontal* RHQ is principally driven by the will of the national units. The system operates on a consensus basis, with the authority of the RHQ dependent to some extent on the national units. The horizontal RHQ maintains the integrity of the national units, while simultaneously unifying their activities for the common objectives of the region. (Laserre & Schütte, 1999)

3.4.2 The location of a regional organisation

The regional organisation's location is of great strategic importance, and should therefore be closely evaluated before decisions are taken by the managers of the MNC. To reach an effective solution to the location problem, Laserre & Schütte (1999) point out two issues that must be taken into consideration. The first concerns the extent to which the specific country business is related to the region. Examples of factors that cannot be neglected include the differences in technical standards and the presence of regional customers. Secondly, the importance of the country operation itself for the global success or overall competitiveness of the MNC has to be determined.

Laserre & Schütte (1999) outline four criteria influencing the decision of where to locate a regional organisation:

- Geographic location: In general, a central location is preferred
- Convenience and infrastructure have a direct impact on operations (facilities and staff, supporting services, legal environment, business mentality) and determine the well-being of expatriates (quality of life, language, schooling facilities)
- Costs - although cheaper locations may have drawbacks in terms of convenience and infrastructure
- Proximity to business: regional organisations may be located either where the main market opportunities lie, or, conversely, where the business is limited and vulnerable and needs support.

3.4.3 Regional organisations as change agents

After the establishment, the expansion of a regional organisation can be divided into three main stages, according to Schütte (1997).

- The MNC begins as an *Explorer*, where its regional organisation seeks to exploit local opportunities. The operations are limited and self-contained;

the regional organisations are directed from HQ, whose commitment to the region is irresolute.

- As a *Strategic investor*; this is where many western MNCs are now in most emerging markets, where the need for a more systematic and regional approach have become apparent. Regional organisations are set up to channel initiatives and turn them into action. Founding a regional organisation increases attention on the region, replaces opportunistic activities with a more systematic regional strategy, takes power away from HQ and the national units, and is a reflection of a much higher level of commitment to the region.
- The final stage is as the *Global consolidator*. Once a sufficient regional presence and efficient regional linkages are in place, the regional organisation acts as a decentralised HQ and enjoys more power. However, as globalisation becomes a major driving force, the regional organisations independence starts fading away, and power moves back to the HQ.

Stage	Explorer	Strategic Investor	Global Consolidator
Objectives	<ul style="list-style-type: none"> • Exploit local opportunities 	<ul style="list-style-type: none"> • Build regional presence • Pre-empt 	<ul style="list-style-type: none"> • Balance global portfolio
Operations	<ul style="list-style-type: none"> • Limited • Self-contained 	<ul style="list-style-type: none"> • Regional linkages • RHQs 	<ul style="list-style-type: none"> • Global linkages
Commitment to the region	<ul style="list-style-type: none"> • Ambivalent 	<ul style="list-style-type: none"> • Very high 	<ul style="list-style-type: none"> • High

Figure 3.4: Regional organisations as change agents
(Source: Schütte, 1997)

Another way to look at the establishment process is suggested by Jansson (1989 & 1994). He states that the development of an MNC's operations could be summarised in terms of different stages in the establishment chain; the introductory stage, the sales company stage, the manufacturing stage and

finally the regional decentralisation stage. The establishment chain is completed when the company's business in the area takes off.

The first stage, the introductory stage, can start with salesmen from the parent company travelling to the area, and visiting a limited number of customers during a week. This is often followed by some kind of representation in the market, usually in the form of an agent or a resident salesman.

The next stage involves the establishment of sales companies. A geographically based organisation is usually founded to control this stage, a regional centralisation of various activities tending to take place. With an increasing number of customers, some kind of representation of the company is normally considered necessary since a large number of customers could not be handled from, for instance, Europe. An own office could also be necessary when the need to control the agents in the area is obvious.

The third stage concerns manufacturing and purchasing. An adequate market size is, generally speaking, considered a prerequisite for investing in production facilities. Moving out production closer to customers can also reduce transaction costs. However, one drawback is the increase in production costs compared with centralising production to one or a few large factories.

A fourth stage could be a regional decentralisation in order to push forward the positions even further. The decentralisation means that the regional organisation becomes more independent. Through this move, MNCs can come very close to their customers, with business being more adapted to local conditions.

3.5 Information as a vital resource in the organisation

In the information age, Rosenö & Nökkentved (1996) argue, an MNC's survival depends on its ability to capture intelligence, transform it into usable knowledge, embed it as organisational learning and diffuse it rapidly throughout the company. In short, information can no longer be abstracted and

stored at the corporate level; it must be distributed and exploited as a source of competitive advantage.

In order for an MNC to adapt its strategy and organisation to an emerging market, gathering information about and analysing the environment in new ways are required. Differences between emerging and mature markets are of such a magnitude to entail very different strategic situations for the MNC, meaning that the entire strategic approach of the company must be changed. In order to know how to compete in emerging and often distant markets the MNC must know what the markets look like, how to compare them, how to analyse their development, how to establish and maintain relationships with various market actors, how to organise business activities and consequently, how to compete and gain sustainable competitive advantage. (Jansson, 2000)

The specific competitive situation prevailing in many emerging markets requires an intimate knowledge of customers, competitors and authorities as well as having the right connections with the system. A true insider position is necessary, something which also places certain demands on the internal organisation. Moreover, good communications of information are vital when there are large distances within the region and to HQ in, for instance, Europe. (Jansson, 1994)

3.5.1 The knowledge based view

Even though knowledge differs from information, they are related to each other since one of the main purposes with information is to increase the knowledge of an organisation. Grant (1998) states that managing knowledge is made complex by its heterogeneity. In particular, different types of knowledge vary in their transferability. The critical distinction is between explicit knowledge, which is capable of articulation and is transferable, and tacit knowledge, which is hard to express and transfer and is manifest only in its application. The ease with which knowledge can be transferred also depends on whether different units of knowledge can be aggregated. The critical organisational task of the firm is integrating multiple types of knowledge while maintaining the efficiencies of specialisation in creating and maintaining knowledge.

The knowledge-based view points to the importance of co-locating decision-making and knowledge. Whether this involves decentralisation or centralisation of decision-making depends very much on the characteristic of the knowledge required.

Nonaka, in Grant (1998) argues that knowledge conversion is the central organisational process through which knowledge is created. This knowledge creation involves a knowledge spiral through which knowledge is converted between the tacit and explicit domains and among individuals, groups, and the whole organisation. There are four key modes of knowledge conversion:

1. Socialisation, which is the sharing of experiences such that tacit knowledge is passed between individuals, from individuals to the organisation e.g. through the development of culture, and from the organisation to individuals. Hence, the knowledge never becomes explicit and it therefore never reaches the organisation as a whole.
2. Externalisation, which is the conversion of tacit into explicit knowledge through its articulation and systematisation within the organisation. Consequently, it is easier shared with others in the organisation.
3. Combination, involving the conversion of explicit knowledge held by individuals and units into explicit knowledge at the organisational level, then subsequent conversion of organisational knowledge back to the individual in different forms. This is the key role of the information systems of the firm.
4. Internalisation, which is the conversion of explicit knowledge, whether at the individual or organisational level into tacit knowledge in the form of individual know-how and organisational routines.

3.6 Marketing information

According to Baker (1994), information should be regarded as a marketing asset, i.e. an intangible, but value-producing resource. Among the advantages of viewing information as a marketing asset, is that it recognises the need to see

expenditures as investments to create and maintain the value of the asset. It makes clear the goal of protecting information resources like any other asset in the business, even though it is intangible.

According to Hutt & Speh (2000), the cornerstone of creative and effective marketing and sales strategies consists of relevant information. Information about the market demand, customers, competitors, dealers and other forces in the marketplace which gathered continuously and organised to support decision making enables the business marketing manager to base decisions on the realities of the marketplace rather than on intuition.

As mentioned, managers increasingly are viewing information not just as an input for making wiser decisions, but also a marketing asset creating competitive advantage. During the past century, many factors have increased the need for more and better information. As companies become national or international in scope, they need more information on larger, more distant markets. In today's rapidly changing environments, managers need up to date information to make timely decisions. Managers frequently complain that they lack enough information of the right kind or have too much of the wrong kind. Regarding the spread of information throughout the company, it can require great effort to locate even simple facts. Subordinates may withhold information that they believe will reflect badly on their performance. Important information arrives too late to be useful, or on-time information is not accurate. (Kotler, 1996)

Kotler (1999) states that every firm has to organise the rich flow of information. Competitive MNCs often study their managers' information needs, and design marketing information systems (MIS) to meet these needs. A MIS consists of people, equipment, and procedures to gather, sort, analyse, evaluate and distribute needed, timely, and accurate information to sales and marketing decision makers.

According to Kotler (1996), the MIS begins and ends with the marketing managers. First, it interacts with these managers to assess their information needs. Next, it develops the needed information from internal company records,

marketing intelligence activities and the marketing research process. Information analysis processes the information to make it more useful. The MIS finally distributes information to managers in the right form at the right time to help them in marketing planning, implementation and control.

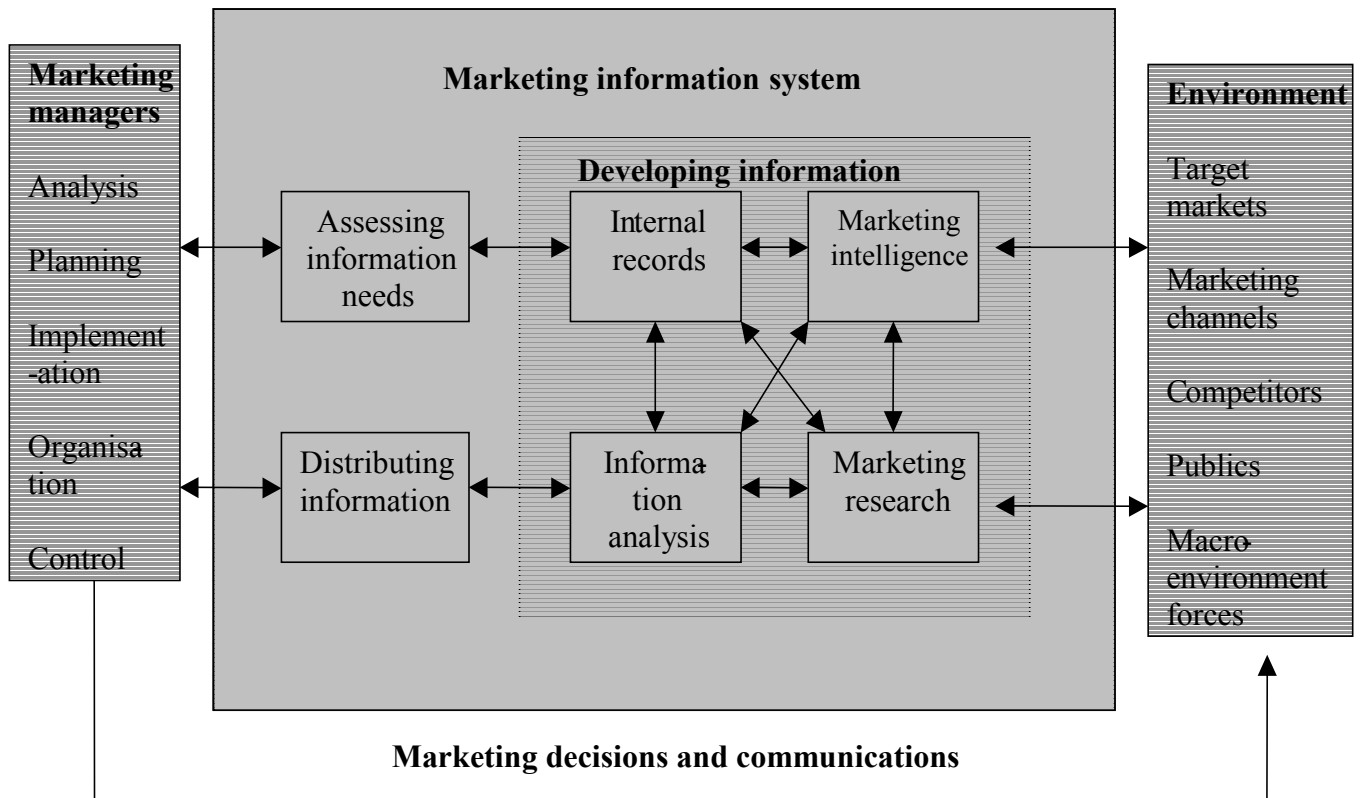


Figure 3.5: The Marketing Information System.
(Source: Kotler, 1996)

Below follows a more in depth description of the four subsystems forming a marketing information system.

3.6.1 Marketing intelligence

One example of the very real practical value that can be created through information and intelligence comes from Herring's (1992) commentary on the operation Desert Storm in the Gulf War. In this campaign, U.S. General Norman Schwarzkopf relied on intelligence data in a number of ways: his strategy was developed from intelligence about the Iraqi enemy; the plans were adjusted during the campaign based on real-time information and intelligence

gathering; and he leaked false intelligence to mislead the enemy regarding his intentions and actions.

A marketing intelligence system is a set of procedures and sources used by managers to obtain everyday information regarding developments in the external environment, and in particular problems and opportunities. In turn, marketing intelligence will help the managers prepare and adjust marketing and sales plans. (Kotler, 1999).

Terpstra & Sarathy (1997) discuss international marketing intelligence and they argue that it encompasses gathering information about the country and region of interest and evaluating comparative information across countries. The first ingredient is the **environment**, consisting of political and economic information. The political dimension of information gathering includes data on the following:

- *Political structure and ideology.* What does the political leadership of the country seek? What roles do major institutions such as business, labour, the educational sector, and religion play in shaping national goals?
- *National objectives.* What are the country's goals for the defence sector, its fiscal, monetary, and investment policy; and the foreign trade sector? What are its industrial and technology policies for new and old industries and its social policy? Is autonomy a goal, does the nation seek to reduce import dependence, and is developing national champions in industries critical?

The economic dimension of information gathering includes obtaining data on economic performance, covering indicators such as GNP, per capita income levels and growth rates, stage of the business cycle, balance of trade and balance of payments, productivity, labour costs, capital availability, inflation rates, employment levels and population demographics. Marketing infrastructure is also of interest, including the structure of wholesaling and retailing, laws concerning pricing and promotion, the physical distribution infrastructure, and the extent of development of consumer protection. Government regulation is a sub-area of marketing intelligence that should be scrutinised, particularly with regard to product and safety standards and barriers to entry.

Jansson (2000) suggests additional external environmental factors that in particular cases could be of importance to analyse for MNCs operating in diverse and dynamic environments. Those are country culture, family/clan factors, business mores, professional and interest associations, and the legal system.

The second ingredient of marketing intelligence is information about **competitors**. Competitor intelligence involves the systematic collection and analysis of public information about rivals for informing decision making. Further, assessing competitors in a distant market involves developing additional levels of understanding since foreign competitors may have distinct and different objectives shaping their strategy and tactics for a specific market.

Grant (1998) outlines four main inputs in a competitor analysis, which encompasses the identifying of the competitors'

- current strategy
- objectives
- assumptions about the industry
- resources and capabilities

Regarding the current strategy of the competitors, it is important to find out how the competitor is competing in the specific market today. That can be identified on the basis of what the competitors say and what they do. When collecting information about the competitors' objectives, it is important to identify the competitors' current goals, and the likelihood of these goals changing. It is further important to attain the competitors' assumptions about the industry since strategic decisions are conditioned by its perceptions and by assumptions concerning the industry in general. It is also important to identify what the competitors' key strengths and weaknesses are in terms of resources and capabilities.

A competitor analysis has according to Grant (1998) three major purposes:

- To forecast competitors' future strategies and decisions
- To predict competitors' likely reactions to a company's strategic initiatives
- To determine how competitors' behaviour can be influenced to make it more favourable

Further, information about **products** is vital. The MNC must understand users, both of its own product and those of its competitors. A paramount consideration is documenting and understanding cultural differences as they affect customer needs, products demanded and purchasing behaviour. A major area of intelligence is product benchmarking or quality comparisons of the MNCs products and its competitors'. This can be used to understand product positioning issues by the competitors, as well as positioning across countries, customer response to new product introductions and the potential for customers purchasing the MNC's own brands instead of competitors'. Also, intelligence should identify market trends for the medium and long term, rather than solely providing information for decision-making on immediate marketing plans and actions. (Terpstra & Sarathy, 1997)

Finally, assessing its own and the competitors' **marketing mixes** are essential for the MNC and can include;

- Distribution channels and those of the competitors.
- Price positioning by all competitors, price elasticities and customer response to different pricing behaviour.
- Available choices of advertising and promotion, and the comparison of competitor choices.
- Media research – useful in determining where to advertise in order to reach target audiences.
- Service quality issues – relative to positioning by competitors and customers' reactions to higher levels of service.
- Logistics and network capabilities and comparative performance of competitors.

According to Kotler (1996 and 1999), marketing intelligence involves the MNC training and motivating the sales force to spot and report new developments. Sales representatives are the company's "eyes and ears"; they are positioned to pick up information missed by other means. The MNC must "sell" its sales force on their importance as intelligence gatherers, train them to spot new developments and urge them to report intelligence back to the company. Sales representatives should know which types of information to send to which managers. Sales representatives could well be independent dealers and do not necessarily belong directly to the MNC's organisation.

The MNC should also motivate suppliers, dealers and other intermediaries to pass along important intelligence. Many MNCs hire specialists to gather marketing intelligence. Retailers often send mystery shoppers to their stores to assess how employees treat customers.

Moreover, MNCs can learn about competitors from what they say about themselves in annual reports, speeches, press releases and advertisements. The MNC can also learn about competitors from what others say about them in business publications and trade shows. Finally, the MNC can watch what competitors do – buying and analysing competitors' products, monitoring their sales and checking for new patents.

A customer advisory panel made up of representative customers can be set up by the MNC. In this panel, they can for instance discuss service issues, new technologies, and customers' strategic requirements. The discussion should be free-flowing, and both parties gain: The MNC gains valuable information about customer needs; and the customers feel more bonded to a company that listens closely to their comments.

Some MNCs have established a marketing information centre to collect and circulate marketing intelligence. The staff at such centres scans relevant publications and the Internet, abstract relevant news and disseminates news bulletins to marketing and sales managers. Further, it develops a file of intelligence information and helps managers evaluate new information. Such

services may greatly improve the quality of information available to managers. (Kotler, 1999)

Baker (1994) is another author describing the importance of marketing intelligence. He argues that marketing intelligence involves a variety of types of data, broadly concerned with “environmental scanning”. The context in marketing intelligence is considered the least tangible of the marketing information system, since environmental scanning of the marketing environment is less focused and constrained than, for instance, marketing research. The scanning enables the organisation to act rather than just react to opportunities and threats. Also, organisational effectiveness is heavily dependent on understanding and coping with environmental uncertainty. However, when gathering the intelligence there is a risk that much of it is composed of “soft” or qualitative data, which are often difficult to integrate into an information system, and also difficult to evaluate in terms of validity or reliability.

3.6.2 Marketing research

Managers cannot always wait for information to arrive in bits and pieces from the marketing intelligence system. They often require formal studies of specific problems and opportunities. A marketing research system gathers, evaluates and reports information on a specific environmental situation facing a company, providing sufficient information to minimise guesswork. It is the function linking the consumer, customer and public to marketer through information. This could take the form of market surveys, experiments or sales forecasts by regions. By conducting marketing research, Proctor (1996) argues that executives will be able to find new customers and adapt products to meet changing customer needs.

Since many people confuse the terms *marketing research* and *marketing intelligence*, Hutt & Speh (2000) argue that it is crucial to understand the differences between the two. Marketing research is narrower in scope; it may be one component of the marketing intelligence system. Marketing research is generally undertaken for unique projects with specific objectives while

marketing intelligence is an ongoing function designed to provide continuous information for decision making.

3.6.3 Internal records

An internal records system contains data on sales, inventories, cash flows etc, all of which can be used to measure current activity and performance and to detect marketing problems and opportunities. It is crucial for the marketing manager to receive up-to-the-minute reports on current sales in order to make day-to-day planning, implementation and control decisions. It is also of vital importance that the sales representatives or dealers can access information about prospects and customers and provide immediate feedback and sales reports as well as reporting on competitor activities. Moreover, the customer service department should provide information on customer satisfaction or service problems. Research studies done for one department may provide useful information for several others. Managers can use information gathered from these and other sources within the company to evaluate performance and to detect problems and opportunities. However, the heart of the internal records system is the order to delivery cycle, a process from which large amounts of useful information could be derived. (Kotler 1996 & 1999)

Kotler (1996) argues that information from internal records is usually quicker and cheaper to get than information from other sources, but it also presents some problems. Because internal information was for other purposes, it may be incomplete or in the wrong form for making decisions. For example, accounting department sales and cost data used for preparing financial statements need adapting for use in evaluating product, salesforce, or channel performance. Additionally, the many different areas of a large company produce great amounts of information, making it difficult to keep track of it all. The MIS must gather, organise, process and index this mountain of information enabling managers to find it easily and access it quickly.

3.6.4 Information analysis

The last component in the marketing information system, the information analysis system, processes the information to make it more useful for managers. This system is a co-ordinated collection of data, systems, tools and

techniques with supporting software and hardware by which an organisation gathers and interprets relevant information from business and environment and turns it into a basis for marketing action. The objective is to help managers make wiser marketing decisions. (Kotler, 1999)

3.7 Organising for marketing information systems

If the information function is to be regarded as an essential part of the management process in marketing and sales, then it requires formal recognition in the organisational structure. According to Baker (1994) attention must be paid to the location of responsibility in the organisation. Further, there is a need to match the structure of the marketing information function with the strategic development of the MNC, and its information technology and infrastructure. Finally, problems of integrating information specialists and technology experts with decision-makers must be solved.

Implementing a marketing information system can be associated with changes in the work procedures, formal reporting relationships, types of reporting, the decentralisation of decision-making, and some reallocation of personnel. Individually such changes may seem small, but collectively they amount to a significant structural adjustment. The development of organisational structure is a strategic issue not least because that structure represents an information processing capacity and the fact that there is a need for both information and organisational strategies in marketing.

The marketing information section started with the view that there is an urgent need for management to actively manage the marketing information function as a key resource. One way to start this task is suggested by Baker (1994) who has outlined a management agenda of developing new ways of looking at the market:

- The marketing information function should be directly linked to the process of marketing planning, strategy formulation and decision-making.
- Manage marketing intelligence – Environmental scanning is a powerful way of challenging our hidden assumptions and organisational myths about the marketplace, therefore it should be actively managed.

- Benchmarking the best competitors in the industry by looking at their distinguishing characteristics and to measure the own performance against these criteria.
- Unhardening the categories – the MNC reporting and classification systems often become rigid, that is how we look at sales, market-shares, competitors, market segments and so on. New technology can help us get new analyses involving different ways of looking at the figures, to see what insights this may generate.
- Internal marketing of new information – Collecting information intelligence and new analysis is not enough on its own. MNCs must find new ways of packaging, communicating and delivering the information to the decision-making manager.
- Challenging the culture – One of the greatest potential gains from managing the marketing information function more actively is to find ways to test our assumptions and ways of dealing with the marketplace.
- Make marketing information a management responsibility – For the information issue to be taken seriously, senior management involvement is required.
- A note of caution – Since information is linked to questions of environmental enactment, culture, the politics of the organisation, and critical processes of planning and strategy generation, changes an MNC make may have fundamental impacts on an organisation.

3.8 Information for competitive advantage

To summarise, Information systems are designed to make it easier to generate and provide information that can assist the smooth operation of the various functions, which they support. Proctor's (1996) view of a marketing information system much corresponds to Kotler's, defining it as a system which scans and collects data from the environment, makes use of data from transactions and operations within the firm and then filters, organises and selects data before presenting them as information to management.

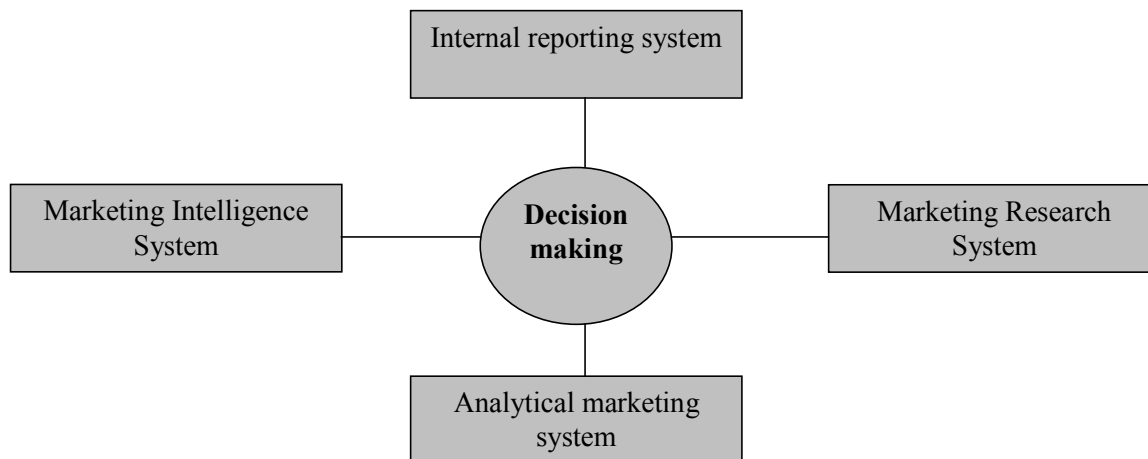


Figure 3.6: Components of a marketing information system
(Source: Proctor, 1996)

The main user of the marketing information system is the sales and marketing management. It requires information to help it allocate the sales force effectively and assess the performance of sales staff equitably. Sales staff or dealers should also be able to access the system easily and get support and information. (Proctor, 1996)

If a marketing information system is implemented successfully, it will have several positive impacts for a company. It has become apparent that such information systems may provide a source of superior customer service and hence an advantage over competitors. Second, the development of marketing information systems has given many companies the opportunity to differentiate on the basis of how they do business. In many cases, marketing information systems transcend normal organisational boundaries and drive the whole order processing, logistics and customer service system. Third, developing marketing information systems may create the possibility of new information-based products to be added to the product-line. Finally, marketing information systems development can alter market structure and competitive relationships in quite significant ways, through increasing the company's competitive advantage. (Baker, 1994)

4. EMPIRICAL EVIDENCE

In this chapter we will present our findings attained from external and internal company material, interviews and observations. In the first part we will give a presentation of our case company, Volvo CE, followed by a mapping of its marketing and sales organisations for the MENA region. Additionally we will map the company's sources and components of marketing information in the region. Finally, we will present another Swedish MNC's regional organisation in MENA.

4.1 Presentation of Volvo Construction Equipment

Volvo Construction Equipment (Volvo CE) is one of the world's leading manufacturers of construction equipment. Volvo CE constitutes one of Volvo Group's five business areas and employs approximately 9.000 people. The company's products are being marketed in more than 100 countries across the globe and the product range comprises around 130 different models of Wheel loaders, Excavators, Articulated Haulers and Motor Graders (see appendix 3). Volvo CE has 11 different production sites on four continents. In 1999, the company had net sales amounting to MSEK 19.295 and an operating income of MSEK 1.736. The operating margin was 9.0%, which was the highest of all business areas of the Volvo Group.

Volvo CE is headquartered in Brussels, Belgium. The company has marketing and sales companies, responsible for sales and support in specific geographical regions; Region Europe, Region NAFTA and Region International markets. The commercial entities in each region operate either through company owned facilities, independent distributors (dealers) or directly to customers. The region International markets consists of four marketing and sales companies; Volvo CE International AB (Volvo CE INT), Volvo CE South America, Volvo CE Asia markets and Volvo CE Australia PTY LTD.

Volvo CE is the fourth largest player in the construction equipment industry, with a worldwide market share amounting to 6%. The greatest competitors are

the Caterpillar from the U.S., with a market share of 27%, the Japanese manufacturer Komatsu (11%) and Case–New Holland Global (8%).

According to Volvo CE the global industry key success factors for the construction equipment industry are manifold. Most crucial are however a strong franchise concept with access to strong, dedicated regional distributors. More key factors for success are to achieve economies of scale for competitive advantage and reduced risk, to participate in the higher growth segments and also, to have a strong and profitable base as a platform for a proactive participation in industry growth and restructuring.

4.1.1 Volvo CE International AB

Volvo CE INT's marketing and sales company (SC) is located in Eskilstuna. The markets served from this office are classified as undeveloped, emerging or established. The markets are those of the Middle East, Africa and countries in Eastern Europe. Additionally, the company is responsible for sales and marketing in Cuba and New Zealand.

Volvo CE INT distinguishes “Volume markets” from “Project markets”. In the Volume markets, consisting of the emerging and established markets Turkey, Egypt, Tunisia, Israel, UAE, Saudi Arabia, South Africa and New Zealand, the strategy is to grow business, while in the Project markets, consisting of undeveloped markets, the strategy is to secure business and potential growth.

The Volume markets are more developed compared to the Project markets in the sense that the productivity of construction machines in these markets have been acknowledged and the market as such demands a certain volume of machines, making it interesting for local dealers to invest in the Volvo CE franchise. In some Project markets however, it is very hard to compete with wheel loaders or excavators, since it might be cheaper to hire large amounts of labour working with simple tools.

Volvo CE aims to increase to focus on the Volume markets, and to develop and support the local dealers in the deal in terms of selling and financing the products. In the Project markets there is an enormous potential for sales growth,

however, there are still financial and political problems, making the company hold back in those markets.

The local dealers in the Volume markets are supposed to do the vast majority in the job of selling the equipment. They represent the company and should have resources, knowledge and competence to handle Volvo CE's deals in the region. In the Project markets however, it is impossible to impose a similar system with all dealers, since the markets are often too small in terms of sales, making it too hard for a dealer to have the entire set-up, which the company requires. At the moment, Volvo CE does not have a dealer set up in Iran, Iraq, Libya, and Algeria. Therefore Volvo CE traditionally takes care of these markets itself, through travelling salesmen based in Eskilstuna.

Different support is required for the different markets; in the Project markets a relatively broad competence is required, whilst in the Volume markets a more narrow, specialist competence is preferred to seal the deals in co-operation with the dealers. Volvo CE INT defines itself as a project organisation, with the task to build up and develop markets, all the way from undeveloped to established, and then find new markets.

In 1999, Volvo CE INT's sales amounted to approximately 5% of Volvo CE Group's total sales. 70% of Volvo CE INT's sales are derived from the Volume markets, hence 30% from the Project markets. The profitability is generally higher in the Project markets since the competition is not quite as fierce, however, the risks involved are higher as well. Doing business in the Project markets is far more complex in terms of e.g. communication, and finance. In Volvo CE INT's Volume markets, the company has roughly a 12% market share, selling approximately 550 machines out of the total 4500 machine market in 1999.

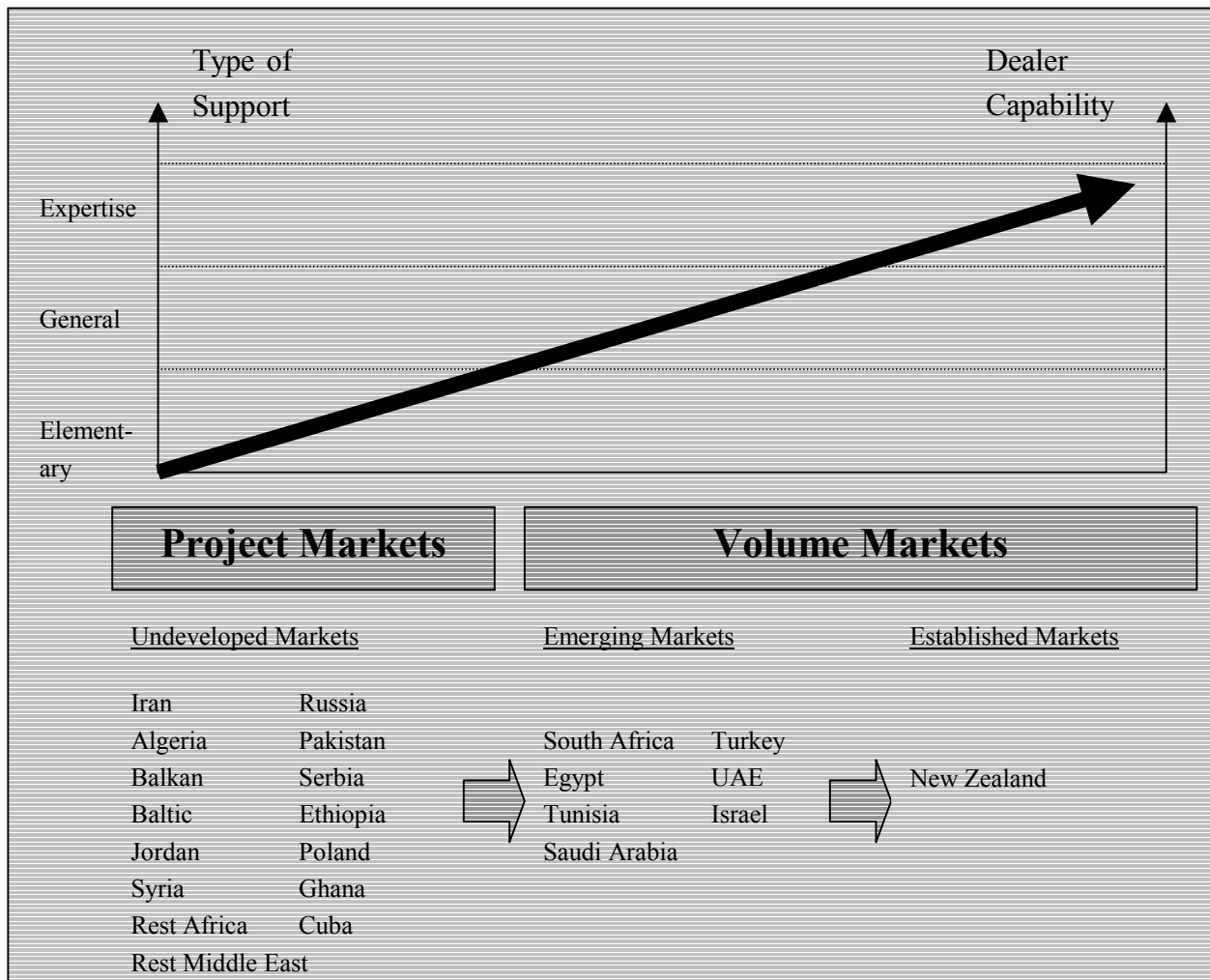


Figure 4.1: A classification of Volvo CE International AB's markets.
(Source: Interviews)

4.1.2 Volvo CE in the Middle East and North Africa

Volvo has been present in the MENA region for about 40 years, ever since the company was named Volvo BM and mainly sold farming equipment. Until recently it has worked the traditional way with an export department for sales to the region. In Volvo CE INT's Volume markets in the MENA region, namely Israel, the United Arab Emirates, Saudi Arabia, Egypt and Tunisia, the company sold slightly more than 200 construction machines during the past year, equal to an average market share of about 12%. Even though the markets of MENA are marginal compared to e.g. the European or the North American market, it is considered to be among the most important of Volvo CE INT's markets. According to the company, this region possesses great possibilities for

further expansion and growth, compared to most other regions in the world. The company intends to increase its market share in the MENA region to around 20% within the next 3-4 years.

As shown in the table below, Volvo CE has a favourable market position in MENA when it comes to articulated haulers while for other product groups, the company has a market share of about 10%. However, what the table does not show is that the total market for articulated haulers in the Volume markets of MENA only amounted to 20 machines last year, while e.g. the total market for wheel loaders and the excavators amounted to 700 machines respectively.

Volume markets of MENA

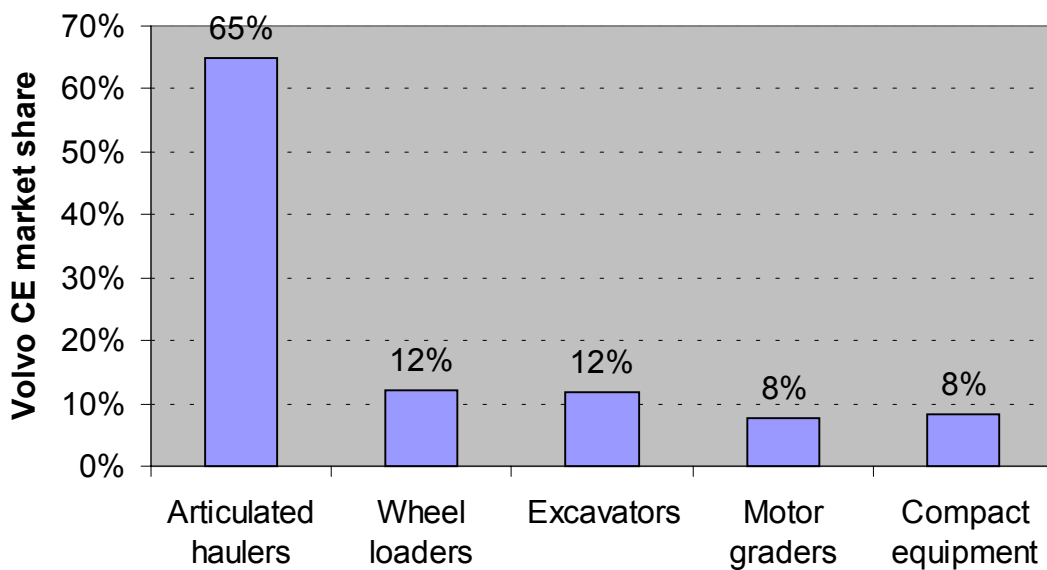


Figure 4.2: Volvo CE's Market share in MENA
(Source: Company material)

All Volvo CE's competitors are present in the MENA region, the largest being Caterpillar and Komatsu. The company considers competition to be fierce since the actors in the industry look upon these markets as surplus markets. Depending on the state of the market, companies can easily deploy more resources to the region, leading to an extreme price pressure. Another characteristic of these markets is the lack of domestic production.

Consequently, the equipment sold is imported from foreign manufacturers, making the arena open to foreign competition as there are no domestic producers to be favoured by governments. The competition is characterised primarily by finance and price, but also by the after sales concepts of support and service. Despite these facts, business in the region is very profitable for Volvo CE.

What adds to the difficulties of doing business in MENA is the fact that customers react rapidly to changes in the environment. This stems from the countries' dependency on oil and dollar prices, which both fluctuate greatly. When the oil price increases, money floods in. Consequently, it affects and triggers investments in the MENA countries, leading to increasing opportunities for construction equipment companies. When the customers have decided to purchase their construction equipment, they often have no time to wait. Therefore, if the dealer does not have the machine in stock the customer might turn to someone else. Currently, Volvo CE does not know how many deals are lost due to this problem. Moreover, since every market in MENA is relatively limited and the order flow is not stable, accurate forecasting is hard to conduct. Even if volumes sometimes amount to over 100 machines in some markets, the machines are divided up among five different product groups, making it difficult to succeed with an accurate forecast. Keeping an optimal stock is therefore a strenuous task for the dealers in the region. Another characteristic of the MENA region is its climate. The extreme heat has impact on the machines, and the durability may be shortened dramatically. Service is needed more frequently and consequently, there is a large demand for parts.

4.2 Mapping Volvo CE's marketing and sales organisation in MENA

In the process of supporting, selling and marketing construction equipment in the MENA region, there are mainly three entities involved; the marketing and sales company in Eskilstuna (Volvo CE INT), the regional marketing and sales support organisations (the Regional Hubs) and the local independent dealers.

These entities will be discussed here, with a focus on the regional hubs in MENA.

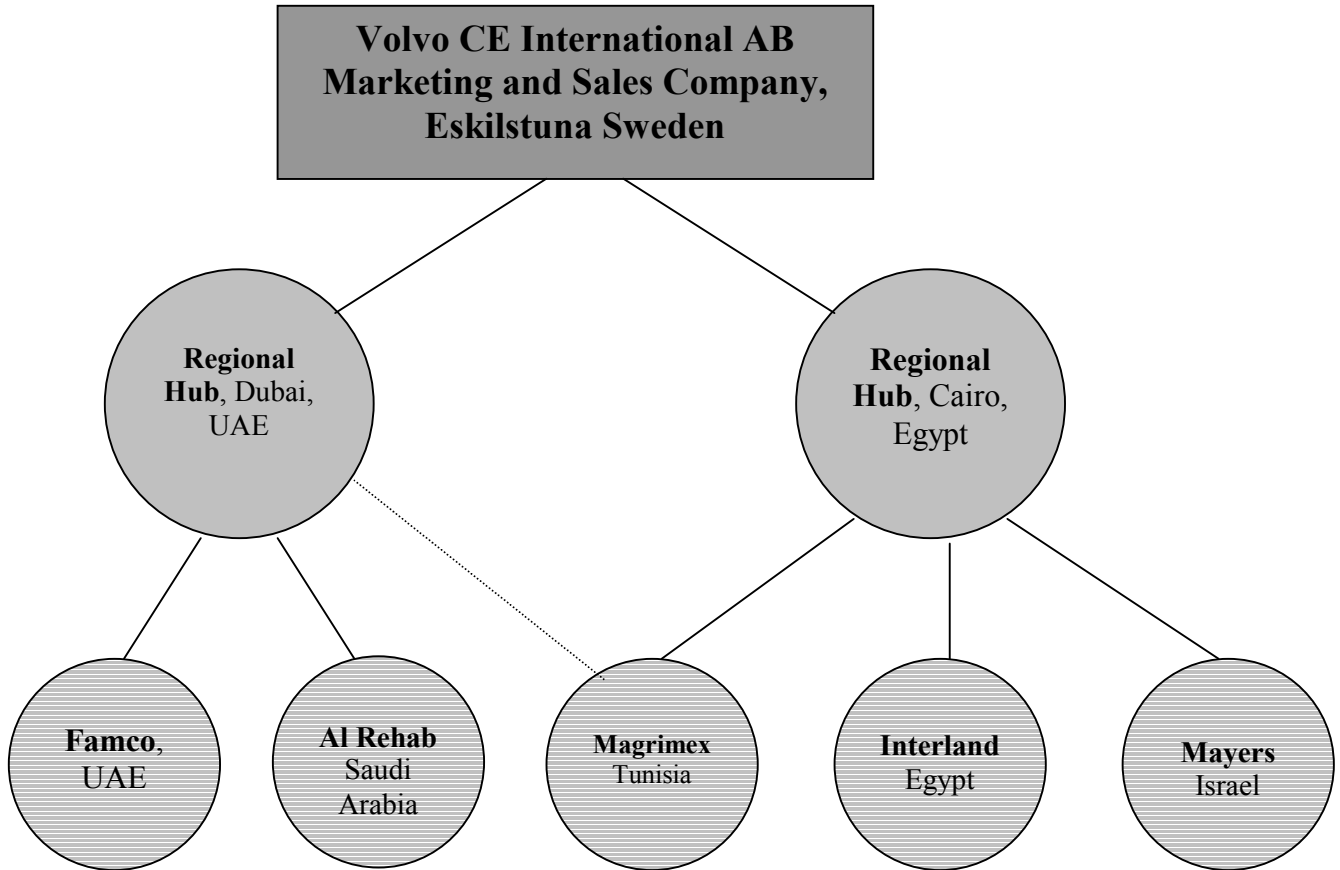


Figure 4.3: Mapping of Volvo CE's marketing and sales organisation in the Volume markets of MENA.

(Source: Interviews and company material)

4.2.1 The Marketing and Sales Company in Eskilstuna

Volvo CE INT is located in Eskilstuna, Sweden. 50 persons are employed at the SC and the entity has the following six functions;

- Business Control, responsible for IS/IT, Market planning, Shipping, Export finance, Accounting and special projects
- Customer Support, responsible for Product service, Parts and order administration, Parts marketing and Customer and Product support. These specialists serve dealers when the dealers are unable to handle a specific situation

- Marketing Sales Area I, responsible for marketing and sales in the Project markets
- Marketing Sales Area II, responsible for marketing and sales in the Volume markets
- Business Development, responsible for programs used by the organisation and/or dealers to support and expand existing businesses. It also includes Market communication, which addresses policies, procedures and other strategic issues.
- Product marketing, consisting of product specialists

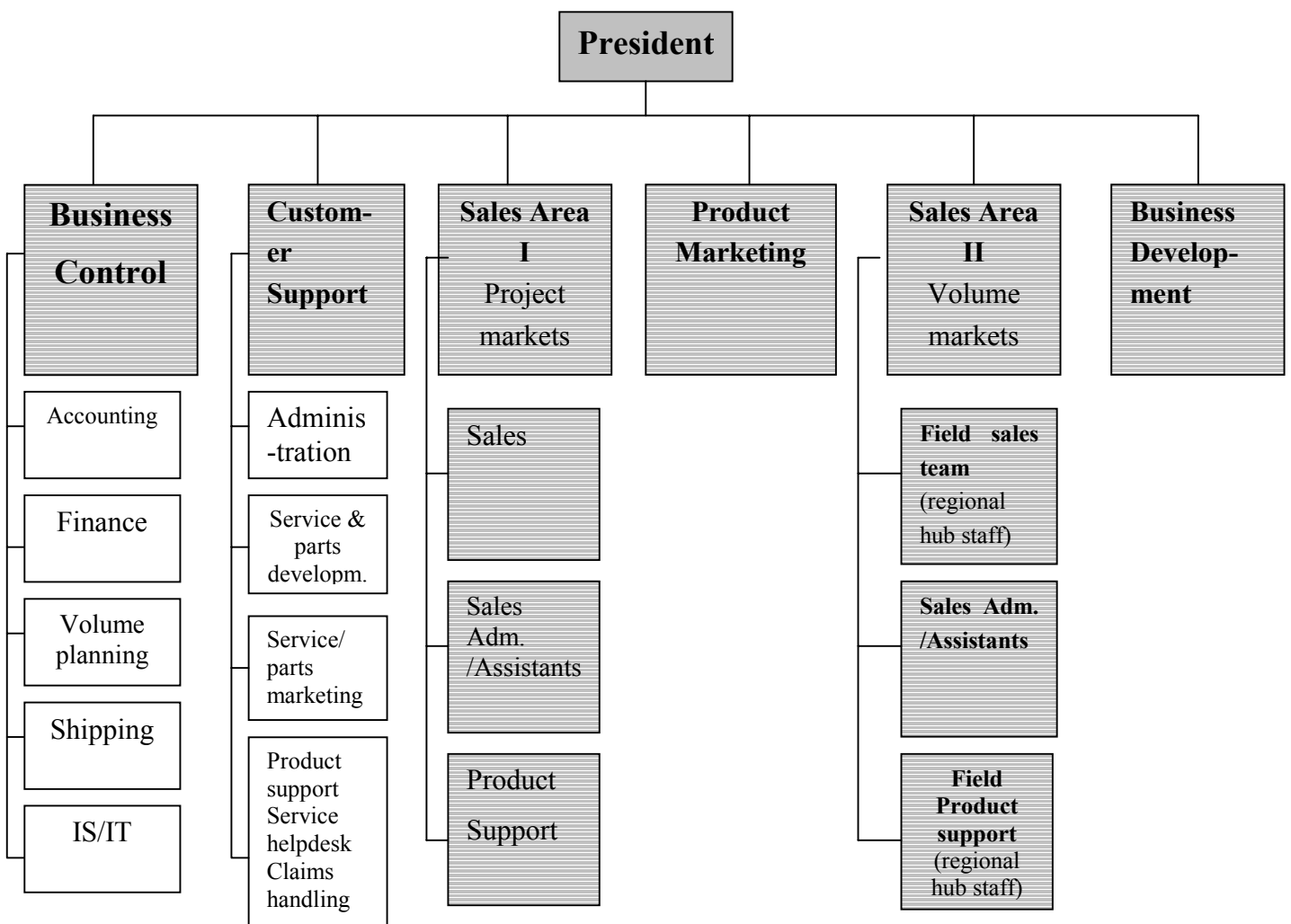


Figure 4.4: Organisational chart over Volvo CE International AB
(Source: Interviews & company material)

The SC in Eskilstuna supports not only all machinery sales but also after market sales i.e. parts and service. Even though the SC is divided into six

functions, it is the business processes that determine the activities the company conducts on the markets. The Sales Area functions have the total business responsibility. Through these channels, the whole deal is controlled, with support from the rest of the functions.

4.2.2 The Regional Hubs

In Volvo CE's Volume markets, field sales and product support personnel as well as business managers have been relocated from the SC in Eskilstuna to regional marketing- and sales support organisations (regional hubs). The main objective was to increase the local presence and push dealer focus and development programs. By doing so, Volvo CE aims to close the distance to both dealers and customers, and understand them better. In MENA, namely in Cairo (Egypt) and Dubai (UAE), such regional hubs have recently been established and are currently under the build up phase. The regional hub in Dubai covers the markets and dealers in UAE and Saudi Arabia, while the regional hub in Cairo covers Egypt, Israel and Tunisia. At the moment however, the Tunisian market is also covered by the staff in Dubai, but will soon be transferred entirely to Cairo's responsibilities. The regional hubs are cost centres solely, what they do is to conduct dealer development and marketing-, sales- and product support. The regional hubs are prolonged arms of Volvo CE; the employees at the hubs are in fact employed at the SC in Eskilstuna, but have moved out closer to the markets.

The decision to establish the regional hubs was much based upon the "gutfeeling" of the Volvo CE management; no SWOT or similar analyses were conducted. Volvo CE was however aware of both pros and cons for setting up the regional hubs and the issue had been thoroughly discussed. When the pros and cons were evaluated, the company saw no other alternatives but to place employees closer to the market. Priority was given to serve markets where the market potentials were the greatest and to serve dealers that had the best ability to develop Volvo CE's market share. Furthermore, these regional hubs were established in order to improve the information flow between the Volume markets and Volvo CE. Also, the objective was to improve Volvo CE's internal processes, including the interface with the dealer to give access to the company's systems for routine orders to shorten lead times.

Before the establishment of the regional hubs in April 2000, Volvo CE had a business manager placed at the SC in Eskilstuna, visiting the dealers in the Volume markets approximately twice a year. Through the establishment of regional hubs, however, the company now has sales people closer to the markets, meaning that they do not have to travel all the way from the SC in Eskilstuna. According to Volvo CE, the company will thereby get quicker and better information from the markets, quicker feedback and consequently, more knowledge about what is occurring on these markets.

The staff transferred to the regional hubs are, according to Volvo CE, people understanding the needs in the markets and able to map the demands of the markets. The regional Volvo CE staff are, as mentioned earlier, not in place in order to make the direct sales but to lead the dealers to an increased market share through ensuring that the dealers have the right competence and the right focus on the deals. Additionally, the regional hubs secure that the dealers are working with the right segment of the markets and that the company provides the right products for the markets.

At the moment two persons are employed at each regional hub in MENA, however, there will be three in Cairo in the near future. Today mainly expatriates employ the regional hubs; however, the company's ambition is to eventually have local representatives at the regional hubs.

One Area Sales Manager and one Area Product Support Manager will in the build up phase employ each regional hub. These people are visiting the customers as well as the dealers more or less on a daily basis.

The Area Sales Manager develops marketing plans and dealer organisations to ensure Volvo CE's maximum machine sales and market share. The position reports directly to the Area Sales Director in Eskilstuna. The Area Sales Manager's major responsibilities are to establish and maintain a sound relationship at each dealership and assisting dealers in the establishment of annual objectives. The position submits machine estimates, ensuring the dealers maintain adequate inventories. The manager is also responsible for assisting in

training the dealers' personnel on company programs and products, and to inform about competitors' products as well as analyse the dealers' performance and coverage, and provide the training needed. The position serves as a communication link between the dealers and Volvo CE INT's SC in Eskilstuna. Administrating together with the Area Product Support Manager the Circle of Excellence (COE) program in order to improve the dealers' performance is another important task as well as working out proposals for sales budget, forecasts, and after confirmation be responsible for budgeted and forecasted volumes.

Moreover, the position is responsible for working out proposals, price strategy and after confirmation be responsible for budgeted and forecasted gross margins. A proposal for operating expense budget for respective dealer's market area should also be worked out. The orders in the region are coordinated by the Area Sales Manger together with the Sales Area Assistant in Eskilstuna. The Area Sales Manager is also responsible for performing competitor analysis for the region and for co-ordinating sales promotion activities. Finally, the Area Sales Manager should inform about ongoing activities and co-ordinate the business in the region.

The Area Product Support Manager develops and supports assigned dealers, ensuring that the Volvo CE customer base receives the highest levels of parts and service support. The position reports directly to the Customer Support director in Eskilstuna.

The Area Product Support Manager's primary responsibilities are to develop dealerships in order to support the needs of the customers, and to analyse problem issues in order to develop innovative resolutions at dealer and customer level. The position assists dealership management with parts and service administration and forecasts, administrates and monitors budgets as well as implementing policies and procedures. Together with the Area Sales Manager, the Area Product Support Manager assists dealers with product promotions through supporting new product launches and parts. Competitor analysis should also regularly be performed. The position is responsible for recommending stock lists to dealers and activities such as subscription,

education and special activities for the region, parts sales, quotations, prices, budgets, gross profit, and operating expenses for the after market. Finally, the Area Product Support Manager is responsible for order and service commitment in connection with machine sales and quality and warranty costs per market with regard to the total business.

Location

The locations for the regional hubs, Cairo and Dubai, were chosen for several reasons. First and foremost, the company wanted to locate one regional hub in a region with Western oriented week schedule, that of Cairo, and one regional hub in a country influenced by the Arabian week schedule, that of Dubai. The latter means working on Saturdays and Sundays. Through the regional presence in the Middle East, Volvo CE saw the potential of being able to keep close contact with the dealers and the market. This was not possible earlier, when the company through the SC in Eskilstuna only could keep contact with the market less than three days a week, meaning that during 50% of the week it was impossible to communicate. By establishing a regional hub in Dubai, Volvo CE is now able to work in the same time zone as Saudi Arabia, UAE and eventually the rest of the markets in the Middle East. Other reasons for choosing Dubai were the large number of airlines connecting the market to the rest of the region, and the role of Dubai as a commercial and trading centre of the Middle East. The quality of life and living standard were also reviewed, with regard to expatriates, and Dubai was considered to be the most appropriate metropolis of the Middle East. One disadvantage Volvo CE saw of locating in Dubai was however the high costs of living there compared to other cities in the Middle East.

Even though not as developed as Dubai, Volvo CE argued that Cairo fulfilled many common basic functions as described above and therefore was considered to be the most suitable location for a North African regional hub. Additionally to the reasons mentioned above, the two locations were chosen due to these markets' relative high importance for Volvo CE.

Controlling the dealers

Working through one strong independent dealer organisation constitutes one of Volvo CE's main strategies. The local dealers play a crucial role in selling Volvo CE's machines to the customers. However, during some circumstances the company itself must act as the seller, especially when conducting business in undeveloped markets, or markets where it is hard to find appropriate dealers. In some emerging markets, where independent dealers are hard to find, Volvo CE has set up its own dealerships. Those dealerships will however be divested after fulfilling their strategic purpose.

Volvo CE utilises one dealer in each market, which in turn may use subdealers. The company must approve subdealers, hence, the same concept has to apply to the subdealer as for the dealer. When Volvo CE chooses the dealers, it uses a manual in order to recruit the very best.

To be eligible, a dealer must show strong commitment and possess a sound vision, inherit vast industry knowledge and be locally bound to the country. Furthermore, the dealer must be well established on the market and be financially strong, show performance and have a willingness to invest in the Volvo CE franchise and, consequently, be prepared to take the risks involved. Also, the dealers are not allowed to market any of Volvo CE's direct competitors' products, instead they should have a strong Volvo CE focus with Volvo CE as the dominant franchise at the dealership. The objective is a 65% share of mind, that is, the amount of attention that is paid to Volvo CE products compared to other product that the dealer markets. In those cases where the dealers market other Volvo companies, such as Volvo Trucks and Volvo Buses, a 65% Volvo Group share of mind at the dealers should be reached. Lastly, the company requires the dealers to possess the adequate competence and employees, appropriate education, and the right tools. Each dealer should conduct a yearly business plan for each market, and if actions and activities within this plan are not fulfilled, Volvo CE evaluates whether or not to keep the dealer.

There is a tendency among the dealers in MENA to focus on deals maximising the profits in the short run, for example by concentrating on the brands or

products that momentarily give the highest margins. The short-sightedness of the dealers is one of the most crucial points Volvo CE is dealing with currently. Through the establishment of regional hubs, Volvo CE aims to control the dealers in a more efficient way. Hitherto, business plans and central plans have served as tools for controlling and developing the dealers, however, the plans are not enough according to Volvo CE since gaps between such plans and the reality are still vivid according to Volvo CE.

As a tool for enhancing the control and the development of dealers, Volvo CE recently introduced the Circle Of Excellence (COE) program in the MENA region. COE, which has been in use in other parts of the world for several years, is a dealer development program as well as a tool for controlling the dealers. The COE program provides an opportunity for dealers to measure and improve their own performance against defined benchmarks. The program focuses on each dealer's performance in the following four categories, each of which carries an assigned point of value:

- Customer Satisfaction
- Customer Support
- Sales/Marketing
- Finance/Administration

In the spirit of COE, the Area Sales Managers and the Area Product Support Managers at the regional hubs work together with the dealers to jointly set standards and targets, review progress, and measure performance and results. By implementing COE, Volvo CE aims to define the standards by which dealers are measured and guided as they set and achieve marketing and operational goals. The COE should also create opportunity for open, constructive dialogue between the dealer and Volvo CE, and the program should provide the vehicle for the continuous improvement process.

When Volvo CE introduced the COE program in the MENA region, the dealers were reluctant. For instance, some of them thought the program was introduced in order to put pressure on them and some dealers did not want to be compared with other dealers. However, the program has become increasingly accepted

and most of the dealers now believe it is a well-structured way to develop their business.

The dealers in UAE (Famco), Israel (Mayers) and Tunisia (Magrimex) are the most developed dealers in the MENA region, each with a high profitability. This can according to Volvo CE be explained by their long history as Volvo CE dealers as well as their long record of representing Volvo trucks and Volvo Buses. Additionally, these dealers are financially strong, since they are parts of large multifranchise conglomerates, representing everything from clothes, toys, diapers and automobiles to construction equipment. For instance, Famco is a part of a trading company (Al Futtaim) also representing IKEA.

Famco, Mayers and Magrimex are subsidiaries of their respective trading companies, marketing heavy industry equipment such as heavy trucks, bulldozers and compressors, in addition to construction equipment. Hence, when calculating Volvo CE's share of mind at the dealers, only the subsidiary that markets construction equipment is considered. Concerning the Volvo CE share of mind at the three most developed dealers, it amounts to approximately 30% in UAE and Tunisia, while at the dealer in Israel, the share is less than 10%.

The dealers in Egypt (Interland) and Saudi Arabia (Al Rehab) are not as developed as the dealers in UAE, Israel and Tunisia, since they recently became Volvo CE dealers. Hence, they do not have a long record of selling construction equipment and according to Volvo CE they lack knowledge about the market and the products. Since these dealers are relatively new, return on their investments in the Volvo CE franchise has not yet been obtained. The Volvo CE share of mind at the dealer in Saudi Arabia is 100% since that dealer does not market any other products, while Volvo CE's share of mind at the dealer in Egypt amounts to around 20%.

4.3 Mapping of Volvo CE's marketing information in MENA

One of the major objectives with the establishments of the regional hubs in MENA was to improve the information flow between the markets in the region and the SC in Eskilstuna, especially in terms of marketing intelligence. Before the regional hubs were established Volvo CE had problems staying informed, sensing the market and quickly responding to changes in the environment. Today still, a major part of the information flows in a non-formalised way, and the collection and flow of marketing intelligence is not as structured as Volvo CE wishes. Due to the low technical standard in some of the countries in MENA, absence of sufficient communications between the different organisational units has initially been a problem for the company. In this section we will map Volvo CE's marketing information in MENA with a focus on marketing intelligence

4.3.1 Marketing intelligence

Before the establishment of the regional hubs, everyday information regarding developments in the external environment in the Volume markets of MENA to the SC in Eskilstuna was hard to attain. With no representation in these markets of growing importance, Volvo CE much relied upon the insufficient marketing intelligence sporadically reported from the dealers. However, through the regional hubs Volvo CE now has better possibilities to systematically gather and report useful marketing intelligence.

In order to improve the marketing intelligence, the Area Sales assistants at the SC in Eskilstuna have contact regularly with the dealers and the regional hubs in MENA. The regional Volvo CE staff occasionally gathers and reports relevant political and macroeconomic information through various sources. The information is then reported in the quarterly budget reports. These reports also include information about the market development, the economy of the countries, competitors (e.g. their pricing), large tenders and plans for launching new products. Changes in the macroenvironment of vital importance are quickly reported to the SC in Eskilstuna. Such information is reported from the regional hubs to the SC mainly through fax or e-mail.

The regional hubs are the main responsible for collecting information about competitors in the MENA region. Intelligence about competitors is often based on hard facts, like import statistics, as well as on soft facts, like rumours and local contacts and customers. Much of the competitor information is however collected on an ad-hoc basis; hence, it is not systematically collected. Additionally, intelligence about competitors' strategies and objectives for the region/market is not actively collected.

The customers are the major sources when collecting competitor information in MENA. Volvo CE's regional staff and the local dealers often attain information concerning competitors' products, soft products and logistics from the customers in the deal negotiation process. When it comes to the competitors' distribution channels, the local dealers occasionally manage to gather intelligence and provide Volvo CE with such information. Moreover, when competitors are promoting a new machine etc, the dealers or the customers are on occasion sent out to gather intelligence. Also, since the markets of MENA are relatively limited, Volvo CE regional staff sometimes meets the competitors and discusses common issues.

Concerning competitors' pricing, the regional Volvo CE staff gathers price information from many different sources in order to get a reasonable correct figure. Often, the best sources of competitor pricing intelligence are the customers. In the cases of public tenders, the customer is obliged to submit competitors' pricing to all bidders. Regarding dealing with the private customers in MENA, the local dealers often opt for written proof of the competitors' bids, however, these customers are not always willing to hand out the exact bids of Volvo CE's competitors.

The price between Volvo CE and the dealers is normally fixed for each machine and is revised once a year. The dealers are responsible for setting the prices towards the customers and the decisions about pricing very much rely on marketing intelligence, especially intelligence about competitors' pricing. It is solely up to the dealers to decide what margin he wants. When specific changes in a market occur, the dealers in agreement with Volvo CE try to quickly respond in the pricing. After establishing the regional hubs, the price of Volvo

CE's machines to the customers has in fact varied in every deal, and consequently, the price between Volvo CE and the dealers has also been flexible.

The intelligence responsibility to sense and detect market price changes belongs to the newly established regional hubs. For instance, if Volvo CE has a target set for the dealer to reach a 15% market share and the dealer instead starts to lose market shares to competitors, the regional Volvo CE staff must react. Another problem is that the sales to the dealers are normally conducted in dollars. Since the dealers, on the other hand, normally make sales in their local currency fluctuations in the value of the dollar can hit them hard. Hedging is not a common practice by the dealers in MENA; hence Volvo CE must be prepared to cover for currency exposure.

Generally, the local dealers in MENA play a rather drawn back role in the process of gathering and reporting marketing intelligence. Today, the dealers in UAE, Israel and Tunisia are considered to be the most developed regarding providing the SC in Eskilstuna with marketing intelligence in the form of lost sales reports, sales updates and information about competitors' activities, pricing and performance. The dealers in Egypt and Saudi Arabia, on the other hand, are not as developed concerning collecting and reporting marketing intelligence whilst the dealers in the Project markets of MENA hardly provide any marketing intelligence at all to the SC in Eskilstuna.

Information on lost sales is an important ingredient in a well functioning marketing intelligence system. Some dealers in the Volume markets of MENA try to conduct lost sales reports. The quality of these reports differs greatly between the different dealers. Generally, lost sales reports based on public tenders are considered satisfactory, while lost sales reports on private deals naturally often are of lower quality. Volvo CE is currently not attaining any lost sales reports from the Project markets in the MENA region.

The lost sales reports from the most developed dealers are sent to the SC in Eskilstuna each time a deal is lost and include facts about what price the customers required and what price the dealers offered, to what competitor the

deal was lost and what price the competitor offered. The major reasons for the dealers in the Volume markets of MENA losing deals are listed below and can be regarded as examples of lost deal reasons given in a lost sales report:

1. Standardisation of the customers' machine fleet (the customer often wants to stick to one brand). - If Volvo CE cannot offer a complete package, a competitor with a wider product range may be selected.
2. Price - Volvo CE markets its products at a premium price, but the resale value is relatively low (except for articulated haulers).
3. Delivery time/availability – Volvo CE often takes longer to deliver new machines as well as parts, than its competitors in the region.
4. Warranty – Sometimes, competitors can offer more extensive warranties.
5. Performance of the machine – generally the performance of Volvo CE machines are excellent, but there have been problems with for example transmissions and air conditioners in the cabs.

Within the framework of the COE program as discussed earlier, the dealers are awarded if they stay informed about current market conditions, trends and technological advances in equipment, competition and overall market potential. The COE program is intended to encourage dealers to formulate plans and objectives, which are supported by demographic and industry data, well-considered strategies and tactics that fuel growth and development. However, the program was recently introduced in the Volume markets of MENA, and after the first evaluation of the dealers in the region in year 2000, the scores were in general low.

A salesman tool named Sales and Customer Support system (SACS) was recently introduced in Volvo CE's most developed markets. SACS is a Volvo CE driven dealer development initiative in place to support the Volvo CE dealers in their development. The SACS tool empowers the salesmen of the dealers to manage customer relationships, identify their needs and offer them solutions from a full range of products and services. However, the SACS is not yet introduced in any of Volvo CE INT's markets due to a number of factors. The system was recently developed and since there is a lack of resources, Volvo CE has to prioritise what markets should be equipped with the system

initially. The only region equipped with the system currently is Europe. The second region will be NAFTA, and not until that is achieved will the region International markets get access to the system. The system will according to Volvo CE not only be a great tool to support the dealers in the sales process but also to collect and report marketing intelligence, therefore it will be briefly described here.

SACS includes three distinct areas of functionality which are covered by:

- Account management
- Sales opportunity management
- Quote and configuration system

Regarding the account management, dealers are expected to identify their markets qualitatively on a segmented/profile basis and formulate a comprehensive list of customers and prospects according to customer classification i.e. size, application, fleet, service and parts sales. The dealer should also have an active customer database covering at least 80% of all potential prospects within the territory.

The Sales opportunity management module in conjunction with Account management and the Quote system is an integrated way of tracking and responding to sales opportunities. According to the Sales opportunity management module, the dealers should have a sales opportunity management system, which incorporates a complete sales opportunity list, where at least 80% of all machines sold are tracked. The dealers should keep Volvo CE informed about competitive pricing and promotional activities, such as special sales and retail financing programs, and to create monthly management reports that track sales calls made and lost sales, which are used to create future sales opportunities. Lastly, regular updates on customer profiles and equipment ownership lists should be performed.

The SACS Quote and configuration module should be linked with information from the dealer and Volvo CE factories system. It should be customised for the typical processes in the construction industry and integrated with a sales opportunity and customer relationship management system. The dealers should

have this system in place and also available for the sales force in the field. Moreover, the dealers should keep the system updated with product information and competitor product information.

4.3.2 The other components of marketing information

Marketing research

No dealer in the region is currently conducting customer surveys that Volvo CE takes part of. However, some of the dealers conduct their own surveys for internal use. One example is the dealer in UAE, which conducts customer surveys every two years to all its construction equipment customers. Moreover, customers in the MENA region are in general reluctant to participate in customer surveys, making it hard to conduct marketing research and attain useful results.

However, a decision has recently been taken by Volvo CE to introduce a standardised Customer Satisfaction Survey in all markets by the year 2001. The purpose of this survey is to measure the level of satisfaction a customer has with the products and services, provided through attaining actionable feedback, identifying dissatisfied customers, providing indication of customer loyalty. Volvo CE will develop the survey and as soon as the survey is introduced, the dealers will not be allowed to make their own customer surveys regarding their construction equipment customers. Local marketing research companies will be hired in order to conduct the survey and the collected data will be stored and analysed in a database at the Volvo CE group's headquarters in Brussels. The results from the survey will be reported back immediately to the dealers so that action can be taken quickly. The customer satisfaction survey will be performed on each customer directly after having sold a construction machine. Moreover, a survey will be performed for measuring the customer satisfaction in the sales and marketing process as well as in the service and parts process regularly every 2-4 years after the sale has taken place.

A Dealer Satisfaction Survey will also be conducted on a regular basis to measure the satisfaction in the relationship between the dealer and the SC in Eskilstuna. There will be multiple respondents at the dealership; the dealer

principal, head of marketing, head of service and head of parts will be questioned. The regional hubs will take an active part of this survey by translating the questionnaire to dealer needs and local issues. The regional hub will be responsible for submitting the survey to the dealers in their region as well as following up and collecting the answers, translating comments and sending the results to the corporate database in Brussels. The dealer satisfaction survey will be conducted twice a year.

Internal records

A vital source of internal marketing information is derived from the order to delivery process. When a customer wants to purchase a construction machine, he turns to the independent dealer, which is Volvo CE INT's representative in the market. The dealer can, when he has the machine in stock, handle the order by himself. However, most often the dealer does not keep the machine in stock and therefore, it must often be ordered through the SC in Eskilstuna. The machines are ordered either by e-mail or fax. In larger markets, like Europe, dealers place their orders directly with the product companies (PCs), through the Machine administrative system (MAS), an online ordering system. However, the system is not yet in use in the MENA region. Today, the dealers send an inquiry to the market assistants in SC in Eskilstuna, which co-ordinates the orders to the PCs. The PC then predicts when the dealers will get the machine. The regional hubs do currently not directly take part in the order to delivery process, however, through supporting the dealer, they indirectly have a role in this process. The order to delivery process takes roughly 3-4 months if the dealers do not have the machine in stock. The competitors are often quicker in this process.

Through the order to delivery process, Volvo CE attains important marketing information on sales, inventories, etc (see appendix 4), which is used to measure current activity and performance of the region, as well as detecting both marketing problems and opportunities. Information derived from this process is also used for e.g. business plans and forecasting.

The dealers in the Volume markets of MENA provide the SC in Eskilstuna with reports consisting of retail orders, retail sales and shipments to customers

and information about the current inventory on a weekly basis. Additionally, Volvo CE requires that the dealers update their own volume forecasts monthly. This information should be delivered to the SC in Eskilstuna in a formalised manner. The information is then used for sighting trends and making sales budgets and forecasts. In turn, the information is used for three-month trends used by the PCs. Volvo CE conducts forecasting four times a year, both on a twelve-month spectrum and a five-year spectrum for each product group.

Information analysis

Volvo CE possesses most systems, tools and techniques needed for processing and interpreting marketing information. Marketing intelligence and other marketing information from the MENA region is reported from the regional hubs to the market assistant at the SC in Eskilstuna, who put together and report the information to the Sales area managers in Eskilstuna who then uses the information in making market reports and business plans. The information is then and reported to the President of Volvo CE INT. Marketing information also plays a crucial role in sales forecasting.

Volvo CE has tools for storing and analysing information. One such tool is the company's database, where it is possible to add as well as to attain information. The regional hubs have access to the databases at the SC in Eskilstuna, as well as to Volvo CE Group's databases in Brussels, while the dealers do not have such access. However, in order for the staff at the regional hubs to obtain information from the databases they must connect to the Internet. Hence, the company is somewhat restrained due to the lack of sufficient telecommunications in the MENA region as well as prohibition of coding in many of the markets. Hitherto, the content in the database has been focused on hard facts such as sales volumes and total market volumes, much derived from internal records information.

Some dealers in the MENA region have their own databases, however Volvo CE does not currently have access to them. For example, the dealer in UAE has a rather developed database where information on approximately 80% of all potential Volvo CE customers in the country is stored.

4.4 Results and reactions of the establishment

After the regional hubs were established, the communication between Volvo CE and dealers has improved significantly, and dialogues have become more open. Volvo CE has improved the dealer follow-ups, since all dealers in the Volume markets now are submitting weekly and monthly reports to the SC in Eskilstuna. The results of the relocation of Volvo CE staff to the region has led to more focus on the Volume markets, enabling Volvo CE to more quickly respond to changes occurring in these markets. Also, a better market understanding has been achieved through the relocation of Volvo CE staff to the region.

After the establishment of the regional hubs all dealers in the Volume markets of MENA have achieved their sales prognosis. Some have even noticed an increase in sales. For instance, the dealer in UAE only sold two machines during the first six months of year 2000. During the second half of 2000, 30 machines were already sold by mid October.

The establishment of the regional hubs in April 2000 led to different reactions among dealers and customers in the Volume markets of MENA. There were mostly positive reactions among the dealers in Saudi Arabia and Egypt, which are considered the two least developed dealers in the Volume markets of MENA. These dealers appreciated the possibilities to extended contact and thereby the improvement of communication between them and Volvo CE. Additionally, the quicker responses attained on questions were highly appraised.

Among the three most developed dealers in the MENA region, there was a negative response initially. In UAE for example, Volvo CE's decision to establish the regional hub in the country was not anchored at the dealer. In the beginning, the dealer was suspicious of Volvo CE's establishment of the regional hub and looked upon it more or less as espionage, Volvo CE checking their margins, getting too involved in how they were running their business. The dealer in Tunisia felt more connected to Europe than the MENA region, and was hence skeptical to the establishment of the regional hubs. The opinions of these dealers have however gradually changed over time and today, they

have more or less understood and accepted the support they obtain from Volvo CE in the region. The dealers now feel they receive more attention and according to both parties, closer co-operation between them has been achieved. What all dealers appreciate is that Volvo CE now gives more weight to the deals and can promise the customers certain conditions the dealers alone are not able to render. Also, the relocation of Volvo CE staff to the region has been appreciated since it facilitates quicker closures of the deals.

The customers have appreciated the establishment of the regional hubs, since they now feel they get more attention from the company. Also, the customers attain quicker response to their questions in the bargaining process, due to the presence of the regional Volvo CE in the sales negotiations. Before the establishment, the dealers acted as intermediaries in some respects, since they often had to contact Volvo CE in Eskilstuna in order to reach a settlement with the customer.

4.5 Regional organisations in MENA – The Alfa Laval experience

Another successful Swedish MNC, having a regional organisation in the MENA region, is Alfa Laval. What makes Alfa Laval interesting to look at is the fact that the company is operating in a heavy equipment industry and has grown significantly in the MENA region during the past decade. What further makes the company interesting is that in the MENA region, it operates through distributors as well as with own travelling salesmen as in the Volvo CE case. The company is a world leader within its industry, has a well-developed regional organisation in MENA, and additionally, has turned the business in the region into the most profitable among all its markets. The above-mentioned circumstances make Alfa Laval an excellent benchmark for how Volvo CE could develop the regional organisations in MENA.

4.5.1 Alfa Laval

Alfa Laval, which is a part of the Tetra Laval Group, has a world-wide coverage through 110 subsidiaries in 50 countries, and is represented by distributors and agents in additionally 45 markets. Alfa Laval has 11.300 employees and had in 1999 a turnover amounting to \$1.600 million. The company offers products, systems and services in fluid separation, heat transfer and fluid handling techniques.

4.5.2 Alfa Laval in the Middle East and North Africa

Alfa Laval holds high market shares for all its product groups in the MENA region; between 60%-85% for most of its products. The company's aggregated turnover for the region was approximately \$35 million last year. The region is considered to be the most profitable among all of Alfa Laval's markets, much due to the region's large share of after sales and parts sales in the region, where Alfa Laval's margins are exceptionally high.

4.5.3 Alfa Laval's Marketing and Sales organisation in MENA

Alfa Laval has a regional Marketing and Sales headquarters located in Dubai, UAE. The regional headquarters covers 18 markets in MENA, from Libya in the West to Pakistan in the East and from Afghanistan in the North, to Yemen and Sudan in the South. The largest markets for Alfa Laval are Pakistan, Iran, Saudi Arabia and Egypt. UAE, in which the RHQ is located, is actually a rather

limited market for Alfa Laval, but offers a central location in the MENA region.

Agents, as well as own travelling salesmen, are utilised by Alfa Laval in the region. In some of the countries, for instance in Pakistan, Iran and Saudi Arabia, Alfa Laval has discarded the agents and set up their own companies handling the sales and in particular the after sales and service. In the rest of the MENA countries, the agents have been evaluated and those not satisfactory have been dismissed and the market has been taken over by the RHQ in Dubai.

The RHQ in Dubai encompasses the Finance- and administration functions for all the companies in the region as well as the service function with travelling engineers. Moreover, the RHQ provides sales support and after sales support to those markets operated by agents. Finally, the RHQ has sales managers and own salesmen for the whole region.

Alfa Laval has in total 55 people employed in the region, whereof 27 are situated at the RHQ in Dubai. At the RHQ, six persons are expatriates, contracted from the Alfa Laval main HQ in Sweden. There are 13 different nationalities employed at the RHQ. The RHQ has a Managing- and regional director with a secretary. There is also a Finance- and administration manager, a chief accountant with an assistant accountant, one person responsible for public relations and one receptionist. The remainders are sales managers, salesmen and service engineers.

4.5.4 Location

Alfa Laval has been present in MENA since mid 1950's. By then, the company had a RHQ in Sweden and ran businesses in the MENA region through local agents. As long as the market was relatively limited, the utilisation of agents was an adequate solution, but as soon as the market grew, Alfa Laval set up their own regional company. In 1969 Alfa Laval established a regional office in Lebanon. The regional office was then moved to Jordan in 1975, as the civil war became more intense in Lebanon. In 1978 the regional office was moved to Riyadh in Saudi Arabia, much due to a large tender the company obtained there. In 1982, the regional office was moved once again, to Cairo. In 1983 the

regional office was moved back to Jordan and in 1990 the office was relocated to Cyprus because of the Gulf War. Finally, in 1993, the regional office was moved to Dubai in the UAE.

Prior to the relocation 1993, Alfa Laval saw two alternatives, Bahrain or Dubai. Dubai was at that time somewhat more liberal, and the prices were lower, consequently Dubai was the natural choice for the establishment. Alfa Laval considers Dubai to be a hub for the whole region, and most markets can easily be reached from there. Dubai is a suitable place to invoice from, due to the well functioning banking system. The telecommunications are not satisfactory, but still among the best in the region. However, Alfa Laval sees at least one disadvantage of locating in UAE; the mandatory sponsorship by a domestic company or agency required by the government. The company though believes that this system will eventually diminish, as the pressure from the WTO becomes stronger.

4.5.5 Results and reactions of the establishment

Alfa Laval has experienced that the effects of building up an RHQ in MENA have been enormous in terms of sales volumes. When the regional office in Dubai was established in 1993, the organisation only comprised three employees. Since then, the organisation has grown steadily together with the sales volume and has developed in to an RHQ. Actually, since the establishment of the regional office in Dubai in 1993, the sales in the region have increased threefold.

Alfa Laval believes that a regionalisation is absolutely necessary for MNCs doing business in MENA. It is important to be as local as the market permits. Alfa Laval is of the opinion that when the organisation grows, increases in sales volumes will come automatically, since the customers in the MENA region appreciate local presence and the closer customer contact achieved by a regional organisation. Moreover, the company believes it is crucial to activate the distributors and agents through a regional presence since they in many cases have proven to be indolent and short-sighted in the MENA region, trying to maximise short term profits. Naturally, when Alfa Laval started to build up its RHQ in Dubai, the company faced resistance from its agents and distributors,

who did not appreciate the increased influence by the company. However, the increased pressure on the distributors has contributed to the increase in sales and maximised profits for Alfa Laval as well as for the distributors in the region.

5. ANALYSIS OF VOLVO CE IN MENA

Based on our empirical findings and the theoretical framework, we will in this chapter analyse Volvo CE's regional presence in MENA. The focus will be on analysing Volvo CE's present regional organisations in MENA and the options for developing them in order to increase presence. Also, we will analyse Volvo CE's marketing information in the MENA region.

5.1 The MENA region – a need for a regional strategy?

There is no doubt that the MENA region has become increasingly interesting for Western companies as the region has progressed more liberally to foreign trade and the economies are developing in a speedy manner. The more these markets develop, the more similar to the Western countries they will become in terms of economy, government and possibilities for trade. We can also conclude that the MENA region has a huge market potential for construction equipment companies, as the intensity in construction is increasing in many of the markets. Therefore, this region possesses great possibilities for further expansion and growth for Volvo CE, compared to most other regions in the world. Although most markets of MENA are small surplus markets for MNCs, it is hazardous to neglect their great potentials for growth. Gaining a high market share is of vital importance in order to become a relatively large player when the growth picks up speed.

One problem regarding the MENA region is that today, relatively limited volumes of construction machines are shipped to the diminutive markets of MENA from Volvo CE's PCs around the world, e.g. from Canada, USA, South Korea and Sweden, making it expensive and lengthy to supply the markets. The lead-time from e.g. South Korea to a MENA market amounts to 3-4 months, which many customers do not accept. As noted earlier, the customers react quickly due to the countries' great dependency on oil and dollar prices, which fluctuate greatly, making the region different from many other regions. Hence, lead-times are crucial for MNCs operating in MENA in order to keep current customers as well as finding new ones.

The region is also located far away from the SC in Eskilstuna. Not only does the region belong to a different time zone but additionally, many of the countries in the region adhere to the Arabic working week. Consequently, it complicates the information flow to and from the region and the SC in Eskilstuna. Since the SC in Eskilstuna is located far away from the region, difficulties in receiving up to date information about the marketplace and getting to know the markets appears to be a problem. What adds to the difficulties is the way of doing business in the region. The power distance is high and most businesses are operated through a strong vertical control. Each employee has narrow responsibilities; before a decision can be made, clearance is needed from a superior manager and own initiatives are not allowed. This could explain the short-sighted way of doing business, especially on the individual level in companies in the region. Also, the fact that many emerging markets are mixes of both Western and traditional economic and centrally planned systems could serve as an explanation of the short-sightedness.

The climate in the region is harsh, with extreme heat and a dusty and sandy environment. Moreover, the customers in the region often hire cheap, unskilled personnel to operate the construction machines. Hence, there is a larger wear of the machines, making especially the after sales market different from other parts of the world. We see both threats and possibilities with the larger wear. The threats first and foremost regard the warranties. Since the machines tend to break down earlier in the region compared to for example Europe, a breakdown that falls within the time span of the warranty can be costly to Volvo CE. Therefore, negotiating warranty periods are in our opinion as important as the price negotiations with the customers. Here we noted short-sightedness among the local dealers. The dealers seemed to prioritise the price and use extended warranty times in the bargaining procedure with the customers. This strategy might prove costly in the long run.

The opportunity with a high wear of the machines however, is the great potential for the after sales market, where margins are high. Additionally, customers in MENA appear to prefer repairing their equipment to a greater extent instead of purchasing new. Alfa Laval, a Swedish MNC in another heavy equipment industry, is an example of a company having succeeded with its

after sales concept. The MENA region is Alfa Laval's most profitable market, much due to the large after sales where the company's margins are exceptionally high. Generally, in order to attain such large after sales revenues, a high market share is of greatest importance.

Volvo CE's after sales in the MENA region, i.e. parts and service, are not considered satisfactory. The dealers in the region generally do not keep as high parts availability as Volvo CE and the customers require, and Volvo CE is not able to deliver parts within the timeframe the dealers require. Also, in many cases customers in MENA believe that purchasing parts from the local dealer is too expensive. Some customers have therefore built up a buffer through an own inventory consisting of the most common parts paralleled imported directly from Sweden, using sea freight instead of air cargo as in the case of the dealers. That way, the customers can get the same parts sometimes at half the price of the dealer. Moreover, the low parts availability could be one explanation to the low resale value of Volvo CE machines in the region.

All of the above are factors motivating a regional strategy for the MENA region. Theory argues that a regional strategy is justified only when the region is different from the rest of the world and the various parts of the region are somewhat similar to each other. Possible key success factors to consider, such as the lead-times, the importance of receiving reliable marketing information, the importance of after sales and controlling the short-sighted dealers, are common for the whole MENA region and hence, opt for a regional MENA strategy.

5.2 Volvo CE's marketing and sales organisation in MENA

A regional strategy is best supported and implemented through a regional organisation. The main responsibility at Volvo CE for the marketing and sales in the MENA region today lies with SC in Eskilstuna, which is located far away from its markets. However, a first step to increase the regional and local presence and support the local dealers in MENA has been carried out through the relocation of Volvo CE staff to the region, employing the regional hubs.

5.2.1 The Marketing and Sales Company in Eskilstuna

The SC in Eskilstuna, Volvo CE International AB, differs from the other SCs of Volvo CE, since it covers several markets across five continents. Hence it does not fall under the theoretical definition of an RHQ. However, the markets covered by the SC in Eskilstuna are complex, and undeveloped or emerging in contrast to most other Volvo CE markets and consequently very different from other parts of the world.

Since the markets covered by the SC in Eskilstuna are relatively limited, it appears that it is necessary to have one SC collecting such diminutive markets under one roof, taking care of the co-ordination of orders and shipping, marketing and sales support, service, parts and finance. However, since the SC in Eskilstuna is located far away from all its markets, several problems are vivid.

An apparent problem with one SC covering over 50 rather limited, scattered markets is the lack of resources to put a sufficient focus on each market. Being responsible for a vast number of markets makes it more or less impossible to get to know them thoroughly and hence be able to exploit each market's potential to the fullest. By dividing the markets into Project and Volume markets, the SC in Eskilstuna has succeeded in separating the most important markets from the rest. However, we feel that the focus on most Volume markets is still rather low in relation to the great possibilities they pose. Additionally, some of Volvo CE's Project markets have great potentials for further growth, which might be missed by the company if those markets are not paid more attention.

The fact that the SC in Eskilstuna covers countries from Cuba in the West to New Zealand in the East makes the problem of time differences present. Markets in especially continental Africa, but also in North Africa and the Middle East, are lagging behind regarding telecommunication infrastructure, complicating the communication with these markets. Additionally, since the contact with many of these markets is weak, it appears to be hard to understand and sense the market characteristics as well as to attain up to date information about changes in the marketplace. We noted that marketing decisions often are

taken on an ad hoc basis at the SC in Eskilstuna, sometimes with vital information lacking. Despite the great potential in many of Volvo CE INT's markets, the distance appears to be an obstacle for the company to react rapidly and adjust to the changing conditions in these emerging markets. These problems can in turn constrain Volvo CE to increase its market share in these markets.

5.2.2 The regional hubs

We found that Volvo CE's decision to establish the regional hubs in MENA was much based upon the management's gut feeling; hence the costs and benefits in exact figures were not closely evaluated in advance. Literature claims this to be the most common way when deciding to establish a regional organisation, since it stresses the difficulties of measuring the costs and benefits for setting up an additional organisational unit. The way the decision was taken obviously imposed some risk; however, many of the results are yet to be seen.

Since the MENA region is characterised by heterogeneity in many respects, and has a special competitive climate as discussed earlier, a regional perspective is supported by the literature in order to enable Volvo CE to gather intelligence, mobilise forces and put more focus on the region. Volvo CE, through the establishment of the regional hubs, seems to have developed a new and well-needed regional perspective.

As only a few people currently are employed at Volvo CE's regional hubs in the MENA region today, these small organisations are flexible and could relatively easily be moved if Volvo CE considers the relocation of staff closer to the markets fruitless. Since the staff at the regional hubs is mainly expatriates belonging to the SC in Eskilstuna, it appears that the company does not need any further measurements for controlling them in the present structure.

Location

According to the literature, a central geographic location for a regional organisation is preferred. Volvo CE has obviously chosen two centrally located cities for the regional hubs in MENA; Dubai is considered the centre for Middle East and Cairo the centre for North Africa. Additionally, the working

schedules of the two cities complement each other. The second factor suggested by theory concerns the convenience and infrastructure. Again, two cities with a relatively well-developed infrastructure were chosen.

The third factor to consider when locating a regional organisation is the costs. A city with a low cost level is often preferred, however, such a city often has its drawbacks. Dubai is today one of the most expensive cities in the whole MENA region, thus being a disadvantage to locating there. Cairo, on the other hand, is less expensive. A fourth factor to consider is the city's proximity to business. Both UAE and Egypt are relatively important markets for Volvo CE in the region, with great opportunities. Hence, having the theory in mind, Volvo CE's choice of locating the regional hubs in Dubai and Cairo seems logical. Our second case company, Alfa Laval, has gone one step further and located a regional marketing and sales headquarters in Dubai. The company used similar arguments as Volvo CE, meaning that Dubai is a developed commercial hub for the whole MENA region and most markets can be reached easily from this central location.

Functions and responsibilities

The regional hubs are currently very small regional organisations and are directly controlled from the SC in Eskilstuna. These organisations are limited to mostly dealer development and sales- and product support functions. Thus, the regional hubs can with theory in mind be seen as weak types of regional organisations.

The major functions of the regional hubs are to provide the local dealers with marketing-, sales- and product support. Pushing dealer focus and development programs are other important tasks, as well as collecting and reporting marketing information. Having the theory in mind, this much corresponds to the last two sales and marketing functions at a regional level suggested by Jansson (see section 3.4). At the present structure of the regional hubs, these functions seem to be appropriate. However, we also see the possibility for a future regional Volvo CE organisation in MENA to fully control and coordinate sales in the region directly or indirectly, depending on where Volvo

CE utilises dealers or own travelling salesmen, an issue we will come back to further on.

The responsibilities of the regional Volvo CE staff appear to be reasonable with the current size and coverage of the regional hubs in mind. However, we noted that the staff at the regional hubs conducts more tasks than their assigned responsibilities require. First, the regional hubs appear to address customer concern, through frequent visits to new as well as old customers. This seems to have been highly appreciated by the customers, since they have not always been satisfied with the contact and support received from the dealers in the region. Second, the regional hubs tend to play an important role in the dealers' negotiations with customers at the same time as some dealers, on the other hand, appear to be more passive in the negotiation process. After the establishment of the regional hubs, some dealers (for instance the one in UAE) have in fact been supported by the regional Volvo CE staff in every deal. Even though contrary to Volvo CE's aims of less involvement in direct sales, our study shows that both customers and dealers seem to have appreciated this method.

Our research showed that customers in the MENA region have generally been positive to the establishment of the regional hubs. In our opinion, there are many reasons. By the relocation of Volvo CE staff to the region, the customers enjoy more attention through the company's increased national responsiveness, and by having "Westerners" assisting in making the deals, the customers appear to feel more important and appreciated, taken more seriously today than earlier. The customers today also tend to see Volvo CE as a more serious player, since the company put efforts into increasing its presence. Consequently, the customers' trust in Volvo CE and the dealers seems to have increased. The customers also appear to enjoy the closer contact with regional Volvo CE's staff, representing the company. We noted indications that the customers feel that the company now, through the closer contacts, better understands their problems. This corresponds to our findings in the Alfa Laval case, where customers highly appreciated the company's increased presence through the establishment of its regional organisation. Furthermore, quicker deals can be sealed and the customers appreciate the quicker responses they get in the

negotiation process. By assisting the dealer negotiating with the customer, most deals are today sealed without the dealers having to contact SC in Eskilstuna for a price or a guarantee settlement. All these factors could explain the customers' positive reaction to the regional hubs and in several of the MENA markets there has been a noted sales increase.

The disadvantages of Volvo CE' regional staff being present in the negotiations between the dealers and the customers is the double work performed and the obvious risk that the dealers get used to Volvo CE's participation. It seems that the solution of having Volvo staff present in negotiations with customers is beneficial in the short run, since it facilitates the sales process, however, we wonder if this is an optimal solution in a longer perspective.

Controlling the dealers

Literature states that the possibilities for controlling local activities from a regional office located in the actual region are superior to the alternative of doing so from a European office. We have recognised that in those markets of the MENA region where dealers are utilised, there seems to be a need to control them to a larger extent than today in order to get more attention on Volvo CE's franchise. Proof is that the Volvo CE share of mind at the dealers is low compared to Europe and North America. However, by the establishment of the regional hubs Volvo CE has better possibilities to achieve an increase of control.

We found that vertical problems, e.g. conflicts between Volvo CE and the local dealers, now are being solved more efficiently through the intermediary role of the regional hubs. The information flow, which we will come back to later, has also improved significantly. Simultaneously, the vertical co-ordination and control have been extended. An example is that now all dealers controlled by the regional hubs in MENA have agreed to perform standardised reporting regarding sales, orders and inventory to the SC in Eskilstuna, something that was more or less impossible to attain before the regional hubs were set up. The regional Volvo CE staff has also put pressure on the dealers by forcing them to reorganise in order to reach a higher focus on the Volvo CE franchise. The

dealers in the region are now assigning salesmen and managers dedicated solely to Volvo CE's franchise.

Even though the regional hubs were recently established, and still are rather small in terms of size and power, we noted that local interests, e.g. the interests of the dealers, now are given more weight by Volvo CE, which seems to be highly appreciated. The Dealer Satisfaction Survey, which currently is under development, will be performed by the regional hubs and give further attention to the interests of the local dealers. At a first glance an increase in bargaining costs for Volvo CE with e.g. local dealers and customers seems obvious, however, through the increased presence of Volvo CE we also noted an increased vertical control of the dealers and hence a reduction of bargaining costs. Volvo CE seems also to be gaining from the initiative by the reduction in information and enforcement costs as discussed. Our findings hence confirm Jansson's theory (see section 3.2).

After the regional hubs were established, the communication between Volvo CE and dealers in the MENA region seems to have improved. The regional Volvo CE staff obtains a better sense of the specific market characteristics and we believe a better understanding between Volvo CE and dealers has been achieved. The dealers and Volvo CE now work closer and the company can often submit answers to the dealers' questions quickly. Before, the dealers had to contact Eskilstuna every time they had a question and sometimes they had to wait a long time to get an answer. Theory supports these findings, since it argues that regionally based control improves and rushes the decision process. Furthermore, through the regional hubs, the company now operates on the same days as the dealers, which obviously facilitates communication between Volvo CE and the market.

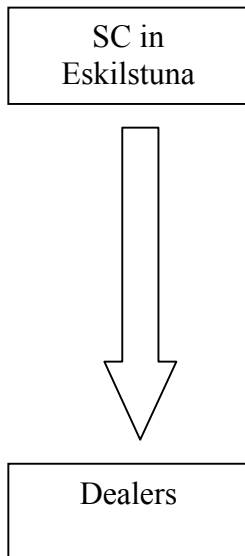
We have however recognised that Volvo CE and the dealers in MENA to some extent seem to have different goals. A difference between the two parties is the dealers' short-sightedness, that is, they try to maximise the profit in the short run while Volvo CE appears to be striving for maximising the long-term profits. What further led us to the conclusion of short-sighted dealers was that our second case company, Alfa Laval, also seemed to experience similar

problems in the region. Pulling in the same direction will most likely be difficult with the dealers' and Volvo CE's different views. Also, in our study we noted a gap between Volvo CE's ambitions and the dealers' possibilities. That is, Volvo CE has far reaching plans for developing the dealers, but at the moment the dealers in MENA lack many of the resources and capabilities to be able to meet Volvo CE's demands. Having a strong regional presence in MENA seems necessary in order to get the dealers to focus on Volvo CE's franchise.

Volvo CE also seems to have problems with the dealer's spare parts policy; that is, high spare part pricing and low spare parts inventory. The customers demand certain spare parts to be on the shelf, which today sometimes cannot be accomplished. By having a regional office near the dealer, however, such problems could more easily be diagnosed and eventually solved.

The recently implemented dealer development program, COE, seems to have improved the company's vertical control of the local dealers. The COE program appears to have the potential to help the dealers achieve higher standards of service to the customers, create consistent dealer product support, build closer relationships between the dealer and Volvo CE and create better understanding of dealer- and market needs and requirements. We believe the program to be a necessary well-structured way to develop the business in the region, however we feel that there might be problems implementing the COE program in the MENA region. The dealers could be wrongly or unfairly evaluated since the program was once developed for well-developed markets as Western Europe and North America. Furthermore, the dealers might not appreciate being compared with others. Hence, we perceive an obvious risk with the program in these markets since it does not act as a stimulus for the dealers but instead could deject them. Since the COE program was developed for the markets of Western Europe and North America it can in our opinion not simply be applied to emerging markets, which pose totally different preconditions. The scores the dealers in the MENA region reach in the COE program are much lower than their counterparts in the developed markets, and the dealers in MENA lack many of the tools needed in order to be able to develop their business and thus obtain a higher COE score.

Before the establishment of regional hubs



After the establishment of regional hubs

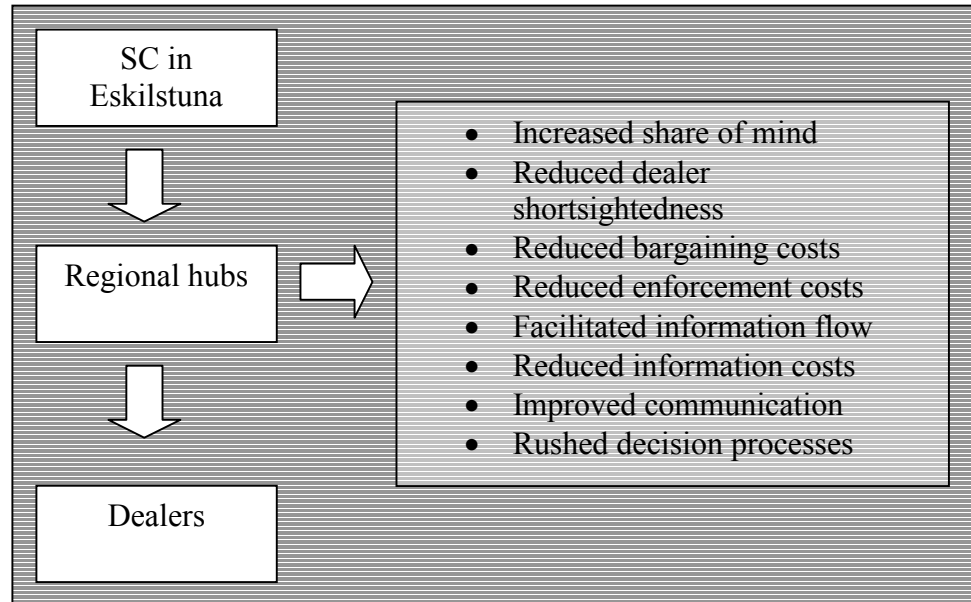


Figure 5.1: Benefits of increased vertical control of the dealers
(Source: Own)

The reactions among the dealers

The establishment of the regional hubs led to divergent reactions among the different dealers in the MENA region. For instance, the dealers in Saudi Arabia and Egypt were mostly positive to the establishment, a rather logical reaction since it appeared that these dealers were relatively weak and undeveloped, lagging behind in many respects and hence appreciate all help they could receive. An increased regional presence by an MNC generally leads to an increased control of its dealers. By the presence of a regional Volvo CE organisation some dealers appeared to appreciate the increased control through the support and extended contact they received. Also, the dealers' bargaining power in negotiating with customers, appears to have been increased in the MENA region through the support and back up of the regional Volvo CE staff.

It is less obvious why the three most developed dealers in the Volume markets of MENA (the dealers in UAE, Israel and Tunisia) were negative initially. One

reason could be that the decision to establish the regional hubs in MENA was not anchored at the management of the dealers. For example we found that some dealers felt more independent before the establishment of the regional hubs, meaning that Volvo CE did not control the dealers to the same extent. Moreover, at the dealer in UAE we noted a difference in opinions between different managing positions. Most negative was the managing director, while salesmen, sales directors and marketing directors seemed more positive. This reaction might be explained by power distance. The managing director appeared to feel that the establishment of the regional hubs infringed on his jurisdiction, while the lower managers with narrower responsibilities only saw the benefits of the regional Volvo CE presence. When Alfa Laval established its regional organisation in MENA, the company also faced resistance from its distributors initially, opposed to Alfa Laval's increased influence on them. Today however, both Alfa Laval's and Volvo CE's dealers have become more positive to the presence of regional staff; suspicion has turned into appreciation, most likely due to the better understanding, communication and noted sales increase.

5.3 Development of the regional organisations in MENA

5.3.1 The regional hubs as change agents

We believe it is important to spot in what stage of expansion Volvo CE is in the MENA region through its newly established regional hubs. By the establishment, we perceive that Volvo CE through its increased local presence has started to further exploit local opportunities in selected markets of MENA. The company is forcing its dealers to refocus and restructure, capturing Volvo CE's intentions, making them understand that they share common goals. The operations of the regional hubs are however still relatively limited, mostly focusing on various dealer support activities. Moreover, the regional hubs' operations are more or less directed from the SC in Eskilstuna. There is no doubt that the commitment by the SC in Eskilstuna is resolute, since these Volume markets in MENA represent a significant part of Volvo CE INT's total sales. In the larger perspective of Volvo CE Group however, these markets are considered as marginal and we perceive the Group's commitment to this region

as vague. Hence, seen from Schütte's conceptual view, Volvo CE's regional organisations in MENA can be categorised as being in the Exploratory stage (see section 3.4.3).

When applying the same theoretical framework however, we noted that Volvo CE, although only recently established in the region, is about to enter the Strategic Investor stage in the MENA region. The need for a more systematic and regional approach has indeed become apparent since the importance of these markets has increased. The need for dealer development and dealer support is vivid, as well as increasing the local presence. As competition is becoming fiercer, it is crucial to be able to quickly respond to changes in the marketplace. Systematic gathering and reporting of marketing information is hence required. Also, through the regional hubs, Volvo CE has indeed increased the attention on these markets.

We have observed that Volvo CE appears to be replacing opportunistic activities with more of a systematic regional strategy. A proving example is that the company now, through working closer with the local dealers, is making them realise the benefits by investing in the Volvo CE franchise in the long term. We feel that Volvo CE is reengineering the way dealers look at doing business, who in this region earlier have been known for their short-sightedness. However, we have not yet seen proof that these regional hubs are somewhat near to shifting power away from the SC in Eskilstuna, and the commitment to the region is still rather low seen from Volvo CE Group's perspective. Too many major functions are missing at the regional hubs in order to consider them strong regional organisations. Hence, we believe that the regional hubs are somewhere in between the Explorer stage and the stage of a Strategic Investor, however the present structure is not sufficient to fully complete the latter stage.

5.3.2 Increased presence?

As discussed earlier, and by having the Alfa Laval experience in mind, MNCs often gain from increasing the presence in emerging markets. In the case of Alfa Laval, building up its regional sales and marketing headquarters in MENA, the company strongly believed that an increased presence was

necessary in order to increase sales. Alfa Laval was undoubtedly successful. We believe that it could be hazardous for Volvo CE just to sit back and await higher sales volumes to motivate a larger presence in emerging markets. We have found that the demand for construction equipment certainly exists in the MENA region. Thus, the market is there. Further, the potential is enormous compared to the matured markets of Europe or NAFTA. Consequently, a stronger focus on the region might enhance Volvo CE position to exploit the opportunities. However, benefits of an increase of presence must outweigh the costs involved. Even though the customers seem to appreciate a closer presence by Volvo CE, one must also be aware that the customers may perceive that they are paying for the increased presence.

Although Volvo CE's regional hubs were just recently established, the company has already expressed its interest in developing these organisations, and by that increase its presence, in order to utilise the potential the whole MENA region possesses. However, the company has not yet decided how to develop the regional presence. The two regional hubs only cover five markets although the region encompasses more than twenty. For instance, one travelling salesman based in Sweden handles the markets of Iran, Iraq, Libya and Algeria, although the demand for construction equipment within these markets occasionally explodes. The risks of missing opportunities by having the salesmen located far from markets with great potentials are obvious. Fast changes in the environment of these markets are common, which requires Volvo CE to be able to react quickly in order to grasp new opportunities. A prerequisite is to have the correct and up to date information, which is difficult to attain when the sales force is located in Sweden. Moreover, Volvo CE utilises dealers in several Project markets in the MENA region, dealers, which today are not covered by the existing regional hubs. The SC in Eskilstuna handles contacts with these dealers and visits them about once a year. The majority of these dealers are undeveloped when it comes to the Volvo CE franchise, and there appears to be a great need for development and control of these dealers.

We see at least three different options for Volvo CE to develop the current regional hubs and by that increase its presence in the MENA region. These are:

- More regional hubs could be established in those Project markets, where the potential is greatest
- More markets could be added to the responsibilities of the existing regional hubs
- A sub region could be developed, through building up a regional marketing and sales company; an RHQ

Below, we will evaluate each option and explain the pros and cons for each alternative.

5.3.3 Establishing more regional hubs

One possible alternative for Volvo CE is to establish more regional hubs in the MENA region. In some Project markets, e.g. Iran, Iraq, Libya and Algeria, extreme growth occurs occasionally. At the moment, Volvo CE has 1100 machines in current standing offers in Iraq. Such potential could justify the establishment of an additional regional hub.

The major advantage with this option is that Volvo CE would close the distance to the markets that today are covered from the SC in Eskilstuna, increasing the possibilities to react faster to changes in the market. The customer focus in these markets would increase greatly, as well as the dealer focus (in those markets where dealers are utilised). The possibilities to control the dealers would reduce bargaining costs. Moreover, Volvo CE could spot and develop new dealers in those Project markets where dealers are not currently utilised. Since new regional hubs would be small in terms of size the organisational flexibility would still be very high, since the regional hubs could easily be moved or removed if the results of the establishments prove to be unsatisfactory.

There are also certain disadvantages by establishing more regional hubs. Few locations in the MENA region, except from Dubai and Cairo, are appropriate for a regional hub set-up; the hardship is remarkable in many of the countries. Hence, Volvo CE would most likely have difficulties in finding skilled expatriates willing to move to many of these markets. Setting up regional hubs in new locations conveys establishment costs. Furthermore, the establishment of more regional hubs would require more competence being transferred from the SC in Eskilstuna, similar competence that already exists in the present regional hubs. Despite the enormous potential in these Project markets of MENA, they are still relatively limited in terms of volume, which could make more regional hubs redundant if sales do not pick up speed. Finally, establishing more regional hubs would not be an optimal solution for developing and implementing a common regional strategy since the regional presence would be spread out instead of concentrated in the MENA region.

5.3.4 Covering more markets from existing regional hubs

Another possible option for Volvo CE would be to enlarge the existing regional hubs in MENA to cover more markets, since the region is rather limited and concentrated. The regional hubs today only cover the five largest markets in the region, the so-called Volume markets. It appears that both the managers at the SC in Eskilstuna and the staff at the regional hubs in MENA are positive to such an enlargement.

The greatest advantages with this option are that the staff at the current regional hubs could relatively easily and with very short in advance reach the markets in MENA, which currently are covered from the SC in Eskilstuna. Although not to the same extent as with the establishment of more regional hubs, this alternative will lead to a greater dealer- and customer focus in the region. The control of dealers in these markets would increase due to closer presence. Additionally, since regional hubs are already established, the establishment costs of this alternative would be marginal.

However, if this option becomes reality, additional staff would probably be needed since Volvo CE already seems to exploit the full capacity of the regional staff. Therefore, if more markets were to be covered from existing

regional hubs, requiring more regional staff, the current flexibility of the regional hubs would most likely decrease.

5.3.5 Establishing a regional headquarters in MENA

If more markets are added to the regional hubs, or more regional hubs are being established in the region, the question of turning the MENA region into a sub region and building up a marketing and sales headquarters (RHQ) will arise sooner or later. A crucial factor is, naturally, the volume of sales. Without the required volume, the costs for such an additional unit would outweigh the benefits. However, the fact that MENA is a geographically concentrated area with relatively good communications linking the countries together, and similarities in culture, religion, language and business mores, makes the countries a naturally secluded region for an RHQ. Also, as mentioned earlier, the region encompasses a very specific competitive climate. Our discussion is supported by the literature, which argues that an establishment of an RHQ is motivated when the region is becoming too large or too complex to be handled from the existing HQ.

A Volvo CE RHQ establishment in the region would easier accomplish regional strategy development and implementation, which we found necessary for the MENA region. Also, locating management and marketing activities to a regional level could reduce Volvo CE's transaction costs. The potential to give specific support to business development within the region would increase, facilitating the development of the dealers in the region. An RHQ would also be able to control all dealers in the local markets. A Volvo CE RHQ could control and co-ordinate sales for the whole MENA region as well as having their own travelling salesmen reaching out to those markets where dealers are not yet utilised. Such RHQ could just as in the Alfa Laval case be a profit centre and have the total responsibility for the company's business in MENA. By establishing an RHQ in the region, the markets could gain more attention from the Volvo CE Group's headquarters, and the accessibility to regional market information could increase significantly.

In order to conduct such a reorganisation, several basic functions would probably have to be relocated or built up in the region, which today are located

centrally in Eskilstuna. Administrative functions such as accounting, finance and shipping, as well as co-ordination of orders to PCs and product- and marketing support, are examples of functions that eventually have to be relocated to the region if this option is chosen. Distributing such functions over several regions imposes high establishment costs, hence requiring large volumes of sales. The flexibility of an RHQ would be much lower compared to the other discussed options of increased presence.

Our study has shown that there is an obvious need for controlling the dealers further in this region. An RHQ significantly enhances the possibilities for increased vertical control. Also, by establishing an RHQ, inefficiencies in decision making and in implementation of decisions for dealers could be reduced. Moreover, our study shows that already through the small regional hubs existing today, conflicts between customers, dealers and Volvo CE are more easily solved. However, as the dealers in this region are becoming more developed, the need for vertical control will probably decline in the long run.

If Volvo CE considers an RHQ to be the optimal solution for the region in the future, the structure in terms of formal linkages specifically between the RHQ and the HQ in Brussels must be defined. Out of the three types described in our theoretical framework (see section 3.4.1), it seems that no type is directly suitable for Volvo CE; instead there seems to be a need for both a global- as well as a multidomestic RHQ structure. A global RHQ would be suitable with regard to its simplicity, since it is streamlined and focused. Moreover, many of the local dealers in the region have for a long time acted more or less independently without much control or interest from Volvo CE. Also, the company has a relatively limited product portfolio, which is more or less standardised worldwide. Factors that however motivate a multidomestic RHQ are that the MENA region differs from other parts of the world, and is considered peripheral and hence needs to win more recognition at the HQ in Brussels as concluded earlier. Also, since we in our study noted that Volvo CE is in need of building closer ties and networks with dealers, customers and other stakeholders in the region, a multidomestic RHQ appears suitable.

In order to visualise the pros and cons with Volvo CE’s different options regarding the development of regional organisations in MENA, we have created table 5.1.

	+	-
Keep the present structure	<ul style="list-style-type: none"> ▪ Relatively low costs involved ▪ High flexibility ▪ Easy to control the regional hubs ▪ Today’s key markets in the region covered 	<ul style="list-style-type: none"> ▪ Difficult to implement a regional strategy ▪ Not all markets in MENA covered ▪ Relatively low customer- and dealer focus ▪ Risk to be bypassed by competitors
More regional hubs	<ul style="list-style-type: none"> ▪ Closer the distance to markets ▪ Very high customer- and dealer focus ▪ Very high possibilities to control dealers ▪ Potential to spot and develop new dealers ▪ High flexibility 	<ul style="list-style-type: none"> ▪ Few appropriate locations for regional hub set-ups in MENA ▪ High establishment costs ▪ Ineffective duplication of competence in the region
More markets covered from existing regional hubs	<ul style="list-style-type: none"> ▪ Easy to reach more markets from current locations ▪ High customer- and dealer focus ▪ High possibilities to control dealers ▪ Low establishment costs 	<ul style="list-style-type: none"> ▪ Requires more staff ▪ Decreased flexibility
RHQ	<ul style="list-style-type: none"> ▪ Facilitates implementation of a regional strategy ▪ Low transaction costs ▪ High overall control of all dealers in the region ▪ Low enforcement costs ▪ Low information costs ▪ The region gains more attention from HQ 	<ul style="list-style-type: none"> ▪ Very high establishment costs, which requires larger sales volumes than today ▪ Low flexibility ▪ Shifts power away from HQ

Table 5.1: Pros and cons with different options of regional organisation development (Source: Own)

5.4 Marketing information in MENA

As discussed initially in this chapter, the MENA region consists of emerging markets with a very specific competitive situation. In order for MNCs to develop a regional strategy, it is of crucial importance to be able to collect information about the customers, competitors and the surrounding environment. Moreover, theory argues good communication of information to be essential when there are large distances within the region and from the region to the HQ.

In the case of Volvo CE, there is a remarkably large distance between the markets of the MENA region and the SC in Eskilstuna, hence adequate information, and to properly collect and report the information, is of vital importance. One of Volvo CE's objectives with the establishment of regional hubs in MENA was to enhance the information flow to and from the region, and after the establishment, improvements have been noticed. Still however, there are large gaps to fill and much of the current information appears to flow in a non-formalised way.

Relevant information is the cornerstone of creative and effective marketing and sales strategies. In the fast growing and rapidly changing environment that characterises emerging markets, managers need up to date information in order to make timely decisions. By relocating managers from the SC closer to the markets of MENA, we noticed that Volvo CE's decisions now are more based on facts rather than on guesswork. Also, decisions now appear to be based on more up to date information than earlier.

Through the establishment of the regional hubs, it seems that the dealers' possibilities to make wise decisions have increased. This can be explained by the closer presence of Volvo CE, through which the dealers easier get access to important information. Also, the regional Volvo CE staff often submits answers to the dealers directly, instead of having the dealer contacting the SC in Eskilstuna. Through the local presence, Volvo CE appears to understand what information the dealers might have use for.

In our study, however, we noted an urge by the SC in Eskilstuna for more and better marketing information from its distant markets. In the process of mapping Volvo CE's marketing information in the MENA region, we used the theoretical framework of a marketing information system. Not surprisingly, it appeared that it was first and foremost structured marketing intelligence that Volvo CE lacks from the region. Volvo CE has great resources when it comes to collecting and reporting hard facts like quantitative data, and tools for analysing and storing various types of information. Marketing intelligence, however, is much based on soft or qualitative data, and is therefore much harder to integrate in a market information system, and hence more difficult to evaluate. Therefore, we will put the main focus on marketing intelligence in our analysis.

5.4.1 Marketing intelligence

A well functioning regional organisation should according to theory act as an intelligence unit for the MNC. Before Volvo CE's establishment of regional hubs in MENA, marketing intelligence was not sufficiently attained by the SC in Eskilstuna. Therefore, the need for marketing intelligence to be collected and reported systematically was obvious. Through the establishment of regional hubs, the preconditions for well functioning marketing intelligence have increased considerably. Still, however, the marketing intelligence seems not to be as systematically gathered and reported as preferred.

The marketing intelligence components

Regarding environmental intelligence, hard facts are reported on a quarterly basis from the regional hubs. The dollar price, oil price, interest rates and GDP growth seem to be the most important macroeconomic factors for the construction equipment industry in the MENA region, information that probably is easily accessed despite the location of an organisational unit. Sporadic political information appears to be collected and reported from the region, mainly by the regional hubs, and reported only when important changes occur. This seems logical since only information about changes affecting the industry are useful.

In theory, four main inputs in a competitor analysis are suggested. By gathering information about the competitors' current strategies, objectives, assumptions about the industry and, finally, about their resources and capabilities, an MNC would be able to forecast competitors' future strategies, to predict their likely reactions to the company's strategic initiatives and to determine how their behaviour can be influenced. Such information seems to be adequately collected and analysed at the central level of Volvo CE, however, this is not done in a regional perspective, which might appear useful for a regional strategy. Even though one of the regional hubs' assigned responsibilities is to perform competitor analyses, it appears that no systematic way for gathering competitor intelligence on a strategic level is used, nor any structured framework for reporting it. The most probable reason is the difficulties in collecting such information.

Intelligence regarding competitors on a more tactical and operational level in the region seems today to be collected on an ad-hoc basis. The regional hubs were recently established and are still in the build-up phase; hence intelligence gathering has obviously not been prioritised. We noted that information of competitors' marketing mixes are not actively collected in a systematic way; the dealers and the regional Volvo CE staff rather come across such information mainly in negotiations with customers and can therefore be seen as occasionally collected and reported.

Gathering intelligence about the competitors' products and product specifications is critical for any MNC. We found this especially applicable in MENA, since the harsh climate in the region for instance requires more levels of options regarding specifications of the machines. An example can be derived from Volvo CE, which offers closed cabs with air condition that many customers appreciate. However, if the airconditioner breaks down, which happens occasionally, the extreme heat in the region makes machines with closed cabs impossible to operate until the damage is repaired. Therefore, many customers in MENA prefer open cabs. Several competitors have adjusted to such circumstances and can offer what the customers demand. Hence, a need to systematically map what product ranges and product specifications the competitors market in the region appears vivid. Reporting such information to

the SC in Eskilstuna and eventually to the PCs could in turn be useful inputs for what products and specifications Volvo CE should focus marketing on in the region as well as for research and development purposes at the PCs.

What however may be even more important for MNCs in heavy equipment industries is to gather information about the competitors' after sales, such as spare parts and service. In most heavy equipment industries, the margins on the after sales products and services are tremendous. Moreover, the level of service and parts availability at local dealers might directly judge whether or not the customers will choose an MNC's machines over the competitors'. In our case study, we noted that both dealers and customers were dissatisfied with the part side. One customer, for instance, expressed his desire for the Volvo CE machines, but the spare part problem made him consider choosing a competitor instead.

Monitoring price developments in the MENA region is obviously of greatest importance, since exchange rates and oil prices to a high degree influence customers' purchasing power in this part of the world. Volvo CE's intelligence about pricing in the region seems to be functioning rather well, especially the prices concerning public tenders. However, the focus on prices actually may even be too strong, since it is only one of many aspects to consider. Intelligence about the other components in the marketing mix is just as important. Furthermore, soft products, and especially financing, tend to be an increasingly important issue in heavy equipment industries. Heavy equipment is generally expensive; thus, the issue of financing constitutes a crucial sales argument in the negotiations with customers. To closely monitor the competitors' financing solutions could therefore lead to more competitive offers.

Customer intelligence is probably the most important piece of information. The most useful information about customers is perhaps information on why they chose one competitor over Volvo CE. By finding the underlying reasons for lost orders, Volvo CE is able to spot the strengths of the competitors and gain knowledge about what has to be done in order to win an order next time. The fact that not all Volvo CE dealers conduct lost sales reports means that the company does not know for sure if an order was lost due to for instance an

inferior product assortment, too high price or insufficient service back up; information that would be extremely valuable to attain in order to increase competitiveness. At the moment only the most developed dealers try to conduct such reports. One must however have in mind that some of the dealers in the region are new Volvo CE dealers, who take time to build up.

Tools and sources for marketing intelligence

Volvo CE appears to be in need of mapping all current and potential customers in the region and their construction equipment population. Important here is to understand why the competitors' customers did not choose Volvo CE. It is of crucial importance to find the underlying reasons in order to be able to determine what it takes to win the competitors' customers. Only Volvo CE's most developed dealers have put effort in trying to gather such information. Conducting customer surveys in the MENA region, which currently is not performed in a structured way, would further exploit the opportunities to obtain useful customer intelligence. We will however come back to the latter further on in this chapter.

There is no doubt that the best sources in the collection of most marketing intelligence in the MENA region are the customers. Volvo CE now has excellent possibilities through its regional presence to exploit this opportunity to a greater extent than before the establishment of regional hubs. Since the customers are the major sources in the collection of competitor intelligence, it is essential that the information collected from them is reliable, and up to date. It is also important to note that information is a perishable; hence, obsolete information can in many cases harm more than favour MNCs. We have found, in accordance to theory, that the greatest tool for collecting the intelligence is the sales force, which could be explained by their daily interaction with the customers. In our case, the sales force can imply Volvo CE's local dealers. In our research, however, we noted that the dealers in MENA do not fully take advantage of their front position to the customers with regard to collecting marketing intelligence. One probable reason is that since most of them are multi-franchise companies, they do not feel obliged to "do Volvo CE's work". Again, this might be explained by short-sightedness, focusing on the business where the dealers through minimal efforts can obtain the highest short-term

return. Also, it appeared that in the limited markets of MENA, Volvo CE collects intelligence about the competitors by in some cases actually meeting and talking to them. Hence, having a regional presence seems to be crucial for Volvo CE in order to retrieve competitor intelligence. We found that both Volvo CE and the dealers desire more and better information about the competitors, however, neither of them seem to act in order to improve the gathering of marketing intelligence.

5.4.2 The other components of marketing information

Marketing research

Hitherto, Volvo CE has not performed any customer surveys in the MENA region. In our research we detected that some dealers in the region actually perform their own customer surveys on their construction equipment customers, but we also surprisingly found that Volvo CE does not take part of the results of these surveys. We perceive that as an obvious weakness. The few dealers who are actually conducting customer surveys are using it for internal use exclusively. By using such surveys, literature argues that executives can adapt the products to meet changing customer needs. Hence, with the lack of information about the markets of the MENA region, there seems to be a need for Volvo CE to start conducting marketing research, a need that during the time of our research was acknowledged by the management of Volvo CE.

As mentioned in chapter four, Volvo CE recently decided to introduce a Customer Satisfaction Survey in all markets of MENA, beginning the year of 2001. Since the company will develop the survey in a standardised manner, the survey will most likely facilitate comparisons. As the Customer Satisfaction Surveys will be performed regularly to all customers they can, according to theory, be seen as an ongoing function designed to provide continuous information for decision making and hence perhaps rather fall in under the definition of marketing intelligence.

Since this initiative is underway but not yet in place, a further analysis will be redundant. An evaluation after the introduction of the survey in the region would however be useful. Thus, we noted in our study that customers in this

part of the world are not used to customer surveys, and extensive and useful answers may therefore be difficult to receive. Hence, it is important to be aware of the difficulties in having the customers in MENA taking part in customer surveys and not depend too much on the results attained from such surveys.

Internal records

An internal records system includes data on sales, inventories and cash flows, the heart of the system being the order to delivery process, where much information can be derived. Volvo CE seems to have no problems evaluating its performance and the company appears to be well aware of where its largest problems in the region lie. The dealers in the Volume markets of MENA immediately provide feedback and sales reports to the SC in Eskilstuna, with the assistance of the regional hubs, which regularly sends information about sales volumes, prices and margins on the products. We can hence conclude that the reporting of hard facts is functioning rather well.

Accurate forecasting seems however to be difficult to perform, especially in the MENA region with extreme volatility of sales. The customers of Volvo CE complain about the delivery times, often amounting to at least 3-4 months. Although some of the problems can be derived from aspects belonging to production and logistics, it seems like a more effective use of information also can contribute to shortening the order to delivery cycle. Accurate forecasting could consequently reduce lead-times considerably. However, since this subject is out of the scope of our research, the issue will not be further analysed.

Information analysis

We found that Volvo CE possesses the necessary resources and capabilities, including systems, tools and techniques, for processing and interpreting relevant marketing information. Thus, this is not where the problem lies. Attaining the correct information from the MENA region systematically, especially in terms of marketing intelligence and then reporting it in a structured way, appears to be the main issue. If that can be achieved, analysing and using the information will be relatively easily achieved.

However, the use of Volvo CE's database to store information could be improved. Today, the dealers are not permitted to take part of Volvo CE's database, and it is not yet decided whether the dealers should have access to this database in the future. It hence appears that Volvo CE does not use the full potential existing databases may provide.

5.4.3 Organising for marketing information

The literature states that marketing information is an essential part of the management process in marketing and sales strategies, and that information deserves a formal recognition in the organisational structure. Also, the location of responsibilities within the organisation is of vital importance. Today, the lack of clearly stated responsibilities for who should collect and report such information at Volvo CE is apparent.

We believe that problems of attaining tacit knowledge are larger in emerging markets, since often the small regional organisations of an MNC initially encompass expatriates. Locals can easier attain information and turn it into knowledge since they are more familiar with the environment than expatriates, who are often contracted on a short-term basis and do not stay long enough to become fully acquainted with the system. Also, locals often know where to find the necessary marketing intelligence through personal relations and networks. In the case of Volvo CE, the company has mainly expatriates employed at the regional hubs, which complicates the collecting of necessary marketing intelligence.

As mentioned, we noted that the hardest part regarding marketing information is to attain marketing intelligence. By agreeing that the main use of marketing information is to increase the organisations' knowledge about a market, leading to better decisions taken, the difficulties of attaining marketing intelligence can be explained by the problems in transferring tacit knowledge into explicit (externalising). According to theory, the two most critical steps in the knowledge conversion are in fact the transformation from tacit to explicit and the other way around (internalising).

We feel that much of the tacit knowledge, for instance knowledge about business mores and the religion, is often more useful on a local or regional level than on a central, hence it does not need to be reported outside the region.

Too much information can damage more than favour an organisation since information in itself is not valuable. Therefore, being selective in reporting information seems to be of vital importance. Only information that is of strategic importance needs to be reported outside the region and turned into explicit knowledge. A development of a regional organisation in a region consisting of emerging markets is not a guarantee for enhancing the marketing information but can rather be seen as a prerequisite.

6. RECOMMENDATIONS FOR VOLVO CE

In this chapter we will present our recommendations for Volvo CE. Through the recommendations, we will also give more specific solutions contributing to solve our two research problems:

“How can a company develop existing regional market- and sales support organisations in the Middle East and North African region and what are the benefits of such a development?”

“How can a company, through its regional organisation, efficiently organise and take advantage of useful marketing information in order to increase its competitiveness in a distant market?”

6.1 Nine recommendations for Volvo CE

As the markets of Western Europe and North America are maturing, it is important to spot where the future opportunities lie. There is no doubt that the MENA region can be turned into a key region in terms of profits for Volvo CE. By looking at Alfa Laval, it is easy to understand that through putting the right focus on MENA, great success can be reached. From our research, we have come up with nine practical recommendations for Volvo CE, which may enhance the company's competitive advantage in the MENA region. Many of our recommendations demand that the region wins recognition at the Volvo CE HQ in Brussels. We believe it is important to place the region on the mental map of the managers and that sufficient resources are deployed in order to exploit the region's opportunities to the fullest.

6.1.1 Adapt a regional strategy for the MENA region

Volvo CE has not thought of the Middle East and North Africa as one secluded region. The MENA region is very different from the rest of the world, but at the same time the markets within the region share many common characteristics. We therefore recommend Volvo CE to adapt a regional strategy for the MENA region, since through the development of a regional strategy, the customers' demands could be met more effectively and Volvo CE could react more quickly

to changes that affect the competitive situation in the market. Moreover, a regional strategy would give these emerging markets the attention we believe they deserve.

6.1.2 Increase the presence

The MENA region will most probably become increasingly interesting for Volvo CE in the future, since the region poses great potentials for growth. We believe the potentials are of such magnitude, that it is hazardous for Volvo CE to wait for increasing sales figures before increasing its presence. Our study has shown that an increased presence in emerging markets often leads to better control of dealers, higher appreciation from customers, better understanding of the market and enhanced information flow. All these factors may in turn lead to increased sales and market shares. Therefore, we strongly believe that Volvo CE would gain from an increased presence in the MENA region. Additionally, by putting stronger focus on the region, Volvo CE would be in a great position to exploit the future opportunities. Thus, we recommend Volvo CE to act instead of react, in order to not fall behind its competitors in the region.

6.1.3 Increase the control of the dealers

We believe Volvo CE needs to control the dealers to a larger extent than today in the MENA region. Many dealers are too independent and the Volvo CE share of mind is generally low. The situation in the Volume markets of MENA seems to have improved, however, further improvements are necessary. In the Project markets, the need is urgent. Thus, by controlling the dealers to a larger extent than today, Volvo CE can support the dealers in their necessary development and additionally, the company can eliminate the dealers' short-sightedness in the region. Increasing the presence in the region is a prerequisite for the ability to monitor and control the dealers, and by that also gain a higher share of mind. Further, we believe that Volvo CE has to make the dealers understand that they share the same customers and that Volvo CE's efforts in the region will benefit both parties. Thereby, it would be easier to convince the dealers that they actually share the same goals.

We perceive Volvo CE's implementation of the COE program in the region as an adequate step for developing the dealers at the same time as increased

control of them can be achieved. However, since the program was once developed for western markets, we recommend the company to adapt the COE program more to the region's special circumstances in order to be successful and gain the needed recognition among the local dealers. This way, the program will become more accepted among the dealers, and more satisfactory results can be attained.

6.1.4 Add more markets to the existing regional hubs

We already concluded that an increased regional presence in MENA appears necessary for Volvo CE. Out of the different options for development of Volvo CE's regional organisations in the MENA region discussed in chapter five, we believe the company would benefit the most by choosing to add more markets to the responsibilities of the existing regional hubs. Volvo CE could, with relatively low costs involved, add more markets to the existing regional hubs. For instance, the regional hub in Dubai could in a first phase be extended to include the neighbouring countries Oman, Yemen, Kuwait, Bahrain, Syria, Iran and Iraq, while the regional hub in Cairo could incorporate Morocco, Algeria, Libya, Jordan and Sudan into its responsibilities. These markets should be of interest to Volvo CE and many of them pose great future potential.

In order to cover more markets, additional staff probably has to be relocated from the SC in Eskilstuna to the region. Depending on how many additional markets to cover, it might be necessary to employ additional area Sales- and Product support managers at the existing regional hubs. As a first step we recommend Volvo CE to relocate the travelling salesmen currently handling the markets without dealers, that is, Iran, Iraq, Libya and Algeria, to the existing regional hubs in MENA. We believe that having their own salesmen closer to the markets constitutes a prerequisite to exploit the full potential these markets poses. Hence, if Volvo CE should be competitive in markets like Iraq, where extreme growth occurs occasionally, a closer presence seems mandatory. These salesmen could also assist the current regional staff in supporting the local dealers in the region. By choosing this alternative Volvo CE could control and coordinate all sales in the region from the two existing regional hubs and also serve that function in the markets where dealers are not utilised.

6.1.5 Provide the regional hubs with necessary tools

The SACS system, which is not in use in any of Volvo CE INT's markets yet, can in our opinion become a very useful tool for the company as well as for the dealers in the MENA region. In this region, Volvo CE's business is still relatively marginal compared to many other regions and consequently, each dealer has only a few salesmen dedicated to the Volvo CE business. Thus, the salesmen at the dealers must possess a broad knowledge of the whole Volvo CE product range, while e.g. in Europe and NAFTA, each product group has its specific sales team, focusing on only one product group, and hence possesses a deeper knowledge about the products. SACS would therefore be a useful tool to introduce in the MENA region in order to assist the salesmen, since it provides them with all necessary information including technical data, the possibilities to make calculations and turn them into offers, and finally an active use of a customer database. We believe that the regional Area Sales Managers should be equipped with the system first, and then in a later phase educate the dealer on the system when it has been thoroughly tested in the region. Moreover, the system appears to be a useful tool for collecting and storing marketing intelligence about customers and competitors.

Co-ordination of orders appears to play a crucial role for Volvo CE, meaning to structurally handle the orders to the PCs. Currently, neither the regional hubs nor the local dealers in MENA can place direct orders to the PCs, which unfortunately means unnecessary long- and inefficient processes. Thus, we recommend that the ordering to the PCs should be handled directly from the MENA region, since we strongly believe that Volvo CE could gain from bypassing the SC in Eskilstuna. Bypassing the SC will probably lead to quicker and more efficient processes, with time- and cost reductions, as well as reduced lead-times as a result. As a first step, the regional hubs should be equipped with Volvo CE's order processing system, MAS, enabling them to place the orders directly to the PCs. As the dealers are becoming more developed, they could gradually take over the responsibility of placing orders directly to the PCs.

6.1.6 Be open for the RHQ alternative

We believe that as the markets in the region grow, Volvo CE must be prepared to set up an RHQ for the entire MENA region. A development of an enlarged

regional hub into an RHQ seems to be the most natural way. Currently, however, the markets of MENA are too marginal for such an establishment, but we believe a development similar to Alfa Laval's is highly possible. Therefore, we recommend Volvo CE to be fully open for such a development and be prepared to grow with the market.

6.1.7 Hire locals

Currently, mainly expatriates are employed at the regional hubs. We recommend Volvo CE to employ more locals in a larger future organisation, and we advise the company to already at this point look closer into this possibility. This is also a common standpoint among other MNCs, since it is cheaper to hire locals compared to having expatriates employing a regional organisation and as locals in general possess a superior knowledge about the environment, the mentality and the cultures of the markets. Also, to be able to understand and speak the Arabic language facilitates doing business in the MENA region, a capability that the current Volvo CE staff lacks. Hence, marketing intelligence could easier be attained from the markets and tacit knowledge could easier be externalised and shared within Volvo CE. The relation to, and understanding of, the local dealers would also be enhanced. Even though some expatriates still would be needed in the future regional organisation, the majority should be locals.

6.1.8 Adapt a framework for marketing intelligence

Regarding marketing information, Volvo CE should mainly focus on marketing intelligence since this appears to be the area the company first and foremost needs to improve. By collecting and reporting the needed marketing intelligence regularly and frequently, Volvo CE could foresee both long- and short-term trends in the MENA region as well as detect early warning signals from the marketplace and react quicker to changes. We recommend Volvo CE to clearly state what intelligence the company wishes to attain and who should be the main responsible for gathering and reporting the intelligence. Also, how often different components of marketing intelligence should be reported, who will use it, and for what purposes, are crucial factors for Volvo CE to determine.

We propose Volvo CE to put the regional hubs in MENA as the main responsible units for gathering and reporting most of the marketing intelligence since they are located close to the markets. However, the SC is in a better position for collecting and reporting some of the intelligence and should hence be responsible when applicable. Even though the regional hubs should be the responsible units for most of the marketing intelligence, the dealers should conduct much of the actual gathering. This is motivated by the fact that the local dealers are located even closer to the markets than the regional hubs and consequently has better possibilities to understand the markets. Therefore, Volvo CE has to push the dealers harder in this matter. The dealers then report to the regional Volvo CE staff, hence, the regional staff should serve as a coordinator of intelligence for the whole region.

Below, we will present our suggestion for a marketing intelligence framework for Volvo CE. The framework we suggest will help the company collect and report the marketing intelligence in a systematic way, making sure all necessary intelligence is collected. It is important to note that some intelligence is intangible, hence difficult to integrate into an information system and thus not possible for Volvo CE to report structurally. Volvo CE's primary use of this framework should be to map and understand which factors that are of importance and ensure that all necessary intelligence is actually attained.

Table 6.1: A framework for marketing intelligence

<u>Marketing intelligence</u>	<u>Main source</u>	<u>Gathering responsible</u>	<u>Reporting responsible</u>	<u>Frequency</u>	<u>Main User</u>	<u>Main Usage</u>
Environment						
-Political factors	Various media	Regional hubs	Regional hubs	When changes occur influencing the industry	SC	Business plans Forecasting
-Macro economic factors (e.g. dollar price, interest rates, GDP, oil price)	Acknowledged statistics	SC	SC	Daily	SC HQ PCs	Business plans Forecasting
Competitor intelligence						
-Product specifications	Customers, tradeshow, Competitors' distributors	1)Dealers 2)Regional hubs	Regional hubs	Regularly*	SC PCs	Business plans R&D, Benchmarking
-Price	Customers, public tenders, Competitors' distributors	1)Dealers 2)Regional hubs	Regional hubs	Regularly	SC Dealers	Price positioning
-Financing	Customers	1)Dealers 2)Regional hubs	Regional hubs	Regularly	SC Dealers	Soft products concepts
-Warranties	Customers	1)Dealers 2)Regional hubs	Regional hubs	Regularly	SC	Soft products concepts
-Parts & Service	Customers	1)Dealers 2)Regional hubs	Regional hubs	Regularly	Volvo CE Parts Dealers, SC	Improving logistics, service warehousing, parts availability
-Logistics	Competitors	1)SC 2)Regional hubs	SC	When changes occur	SC, HQ	Improving logistics, warehousing
-Distributors	Competitors Competitors' distributors	1)Dealers 2)Regional hubs	Regional hubs	Regularly	Dealers SC	Dealer development, support
Customer intelligence						
-Lost sales	Customers via lost sales reports, Public tenders	1) Dealers 2) Regional hubs	Regional hubs	Each time a deal is lost	HQ, SC, PCs, Dealers	Depending on the reasons (See section 4.3.1)
-Potential customers	Potential customers, Public tenders	1)Dealers 2)Regional hubs	Regional hubs	Regularly	Dealers, SC	Marketing activities,
-Machine population of current and potential customers	Customers, Potential customers	1)Dealers 2)Regional hubs	Regional hubs	Yearly	Dealers, SC	Marketing activities, Business plans
-Customer satisfaction	Customers via Customer Satisfaction Survey**	Local marketing research companies	Local marketing research companies	Monthly	Dealers, SC, HQ, PCs	Adapt to customer needs
Dealer intelligence						
-Dealer satisfaction	Dealers via Dealer Satisfaction Survey**	Regional hubs	Regional hubs	Every six months	SC, PCs	Dealer development, -support, -relations
-Dealer performance	Dealers via Circle of Excellence (COE)	Regional hubs	Regional hubs	Yearly	SC	Dealer development, -support, -relations

* Regularly reporting of the intelligence imply as frequently and continuously as possible.

** The customer- and dealer satisfaction surveys are Volvo CE's own initiatives. They are not yet implemented nor evaluated, but we believe such surveys are useful inputs in a framework for Marketing intelligence.

Table 6.1: A framework for marketing intelligence. (Source: Own)

The main sources of marketing intelligence should in most cases be the customers, explained by the fact that they have the best contact with the competitors and additionally, the customer needs must determine Volvo CE's actions. The main user of the collected and reported marketing intelligence should be the SC in Eskilstuna since the strategic marketing and sales decisions are taken there. However, it is important to note that being selective when collecting and reporting intelligence is of crucial importance, since too much information is impossible to handle in an efficient way. Most marketing intelligence reported should be used as important inputs for marketing and sales strategies, but also for other purposes, e.g. forecasting.

6.1.9 Make information accessible to the dealers

We believe it is important that dealers have access to the marketing information and intelligence analysed and structured by Volvo CE. By storing information from marketing intelligence, internal records and marketing research into a collective database accessible to all dealers, the possibilities for managers at the local dealers to make better decisions will most likely increase. Alternatively, Volvo CE could make parts of the database available to the dealers since only information that the dealers really need should be available for them. Volvo CE must realise that information cannot simply flow in one direction; instead the company must turn the information into knowledge and share it within the organisation and with its local dealers.

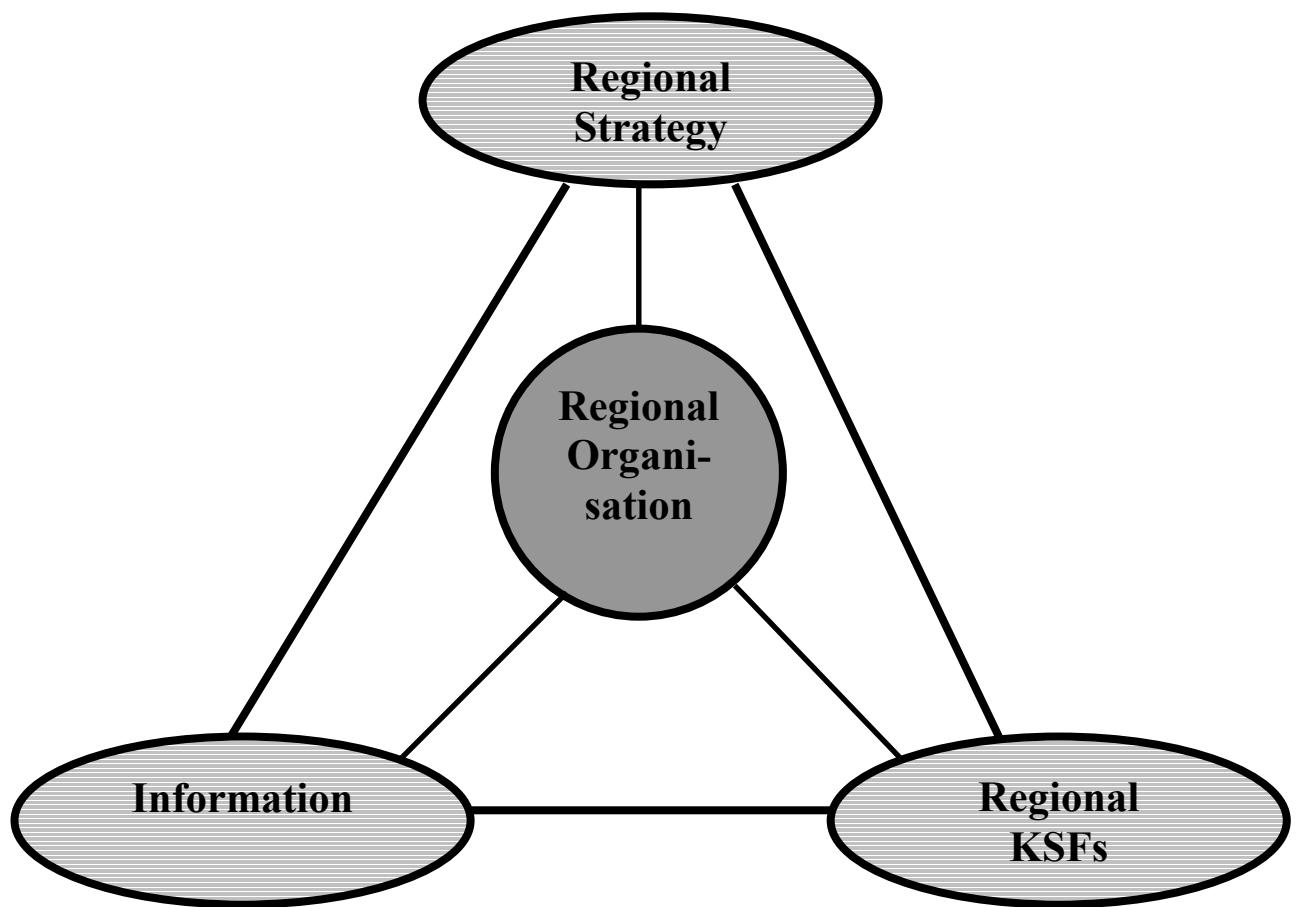
7. CONCLUSIONS

In this chapter we will provide the reader with a conceptual discussion regarding our main problem. In order to solve the main problem, we have created a theoretical model, which the whole chapter is based upon. The model presents how an MNC operating in a heavy equipment industry can achieve regional competitive advantage in emerging markets through establishing and developing a regional organisation.

7.1 Regional competitive advantage in emerging markets

In order to answer our main problem, “*How can an MNC, operating in a heavy equipment industry, enhance its competitive advantage by establishing and developing regional organisations in emerging markets?*” we have created a conceptual model labelled “Regional competitive advantage in emerging markets”. The reason for creating the model is that no previous research, known to us, has acknowledged the relationship between strategy, organisation and information in a regional perspective of emerging markets.

The cornerstones of the model are Regional strategy, Information and Regional Key success factors. The spider in the web is the Regional organisation, which through development enables and intertwines the other factors, as well as being influenced by them. The model should be looked upon as an ongoing process that could enhance an MNC’s regional competitive advantage. Thus, it is not a “one-way”-model; the MNC must instead continuously go back and forth in order to revise its needs. The objective of using the model is hence to achieve regional competitive advantage in a specific region consisting of emerging markets.



*Figure 7.1: Regional competitive advantage in emerging markets
(Source: Own)*

In short, our model can be explained by the following:

- A regional organisation best absorbs relevant information in the region.
- Correct and up to date information about the market is vital for developing and implementing a regional strategy.
- By collecting relevant information, the MNC can judge what the key success factors for the region encompass.

- The regional strategy should, to a large extent, be based upon the regional key success factors.
- A regional organisation enhances the possibilities to understand what the key success factors are for the region.
- A regional strategy is best developed and implemented through a regional organisation.

Below we will more in detail explain the components of our model contributing to the achievement of regional competitive advantage.

7.1.1 Why important with a regional strategy?

Regions consisting of emerging markets are very different from the rest of the world, but with the various parts of the region being somewhat similar to each other. Investing, expanding, and taking risks are often prerequisites in order to succeed in emerging markets while restructuring, reengineering and cutting costs are more appropriate for mature markets. Thus, business strategies developed for the Western world would probably not work well in emerging markets. We therefore strongly believe that adapting a regional strategy and organisation to a region consisting of emerging markets is necessary. However, the regional strategy must be adjusted to what phase the MNC is in the establishment process in the region.

7.1.2 Information

We agree with existing theory that information should be regarded as a marketing asset creating competitive advantage. Our study showed that this is especially true in emerging markets since their development is more dynamic and much harder to predict than in the mature markets. The specific competitive situation prevailing in these markets demands an intimate knowledge about customers and competitors. Therefore, gathering information about and analysing the environment in new ways are essential in emerging markets.

In emerging and often distant markets, the MNC must know what the markets look like, how to compare them, how to analyse their development and how to establish and maintain relationships with various actors, in order to achieve and sustain competitive advantage. With the discussion above in mind, we argue that a regional organisation facilitates the collection, structuring and reporting of marketing information, acting as an intelligence unit for the MNC, and by that decreasing the information costs for the MNC. The more developed the regional organisation becomes, the easier it is to use the marketing information properly. For instance, decisions regarding the region could be more based upon up to date information and hence, they would be based on facts rather than on guesswork. Furthermore, the presence of the regional organisation increases the distributors' possibilities to make wise decisions, since a regional organisation faster can support the dealers with information needed for decision-making.

We argue that information is relatively difficult to collect without the right connections in emerging markets, thus, taking advantage of distributors, customers and even competitors as sources in the collection of marketing information is of vital importance. Distributors, for example, who often interact with customers on a daily basis, are well positioned to collect information about them and provide the regional organisation with the marketing information. Also, an increased regional presence increases the MNCs' interaction intensity with the customers, who consequently lead to more accurate information received; this is further enhanced by hiring locals.

Finally, by managing marketing information efficiently, the evaluation of the regional key success factors is facilitated. Consequently, important inputs for forming a regional strategy are gained.

7.1.3 Regional Key success factors

We believe it is important to note that the key success factors applying to an industry on a global level might not directly be applicable to an emerging market. Even if they are, it is crucial to evaluate what the specific regional key success factors are in order to develop a regional strategy, since emerging markets often differ considerably from other parts of the world. Below we will

give examples of key success factors in emerging markets applying to companies in heavy equipment industries.

Although many emerging markets are small surplus markets for MNCs, it is hazardous to neglect their great potentials for growth. Gaining a high market share early is of vital importance in order to be a relatively big player when the growth picks up speed. Most emerging markets are located far away from western MNCs' headquarters, making it hard to sense and getting to know the markets thoroughly from the home base. Developing a regional organisation, however, makes it possible to attain information about, and thus understand, customers, distributors, the competitive climate and the environment as such in a better way.

In the introductory stage, when MNCs decide to enter new markets, they often start with travelling salesmen from the parent company, which often is followed by some kind of representation in the market, probably in the form of an agent, distributor or resident salesman. Even after some time of presence in the region, most MNCs in heavy equipment industries utilise distributors or agents in emerging markets. In emerging and often distant markets, the local distributors have for a long time existed independently without much control and interest from the MNCs' headquarters. Therefore, increased vertical control of these dealers is of vital importance, since bargaining costs and enforcement costs could be reduced. Moreover, in emerging markets, local dealers seem to possess a vast short-sightedness, which through an increased control from the MNCs can be eliminated. The development of a regional organisation, we argue, will solve such problems.

For MNCs operating in heavy equipment industries in emerging markets, having well functioning after sales is of great importance. Not only do MNCs achieve high margins on such products, but also, there is an even larger need and potential for service and parts in emerging markets. By having a regional presence through a regional organisation, parts and service issues can be more easily solved and solutions can be optimised. Also, in emerging and often distant markets, the lead-times are of high importance. Such markets are often heavily dependent on volatile oil and dollar prices, and a quick order to

delivery processes is vital. Hence, delivering equipment faster than the competitors might be decisive in order to gain competitive advantage.

7.1.4 Regional Organisations providing for a regional competitive advantage

Our study has shown that there are further essential benefits with a regional organisation. A regional presence enhances quicker responses to market demand and rushes the decision process since both distributors and customers attain quicker answers to their questions. Thus, the customers seem to appreciate a closer presence of the MNCs, and more trust is created. The possibilities for developing new markets and distributors within the region increase and the marketing and administrative distance will be reduced. Developing a regional organisation can enhance and support the specialisation of the sales force and service staff at the dealers. The control of current local activities will be enhanced, and information costs, enforcement costs and bargaining costs can be reduced. As a consequence, the increased presence of an MNC in emerging markets by a regional organisation can lead to an increase of sales and consequently a higher market share. Moreover, a development of a regional organisation could secure and improve the MNC's permanent presence in the region and at the same time the Group's attention to the region will be strengthened.

For an MNC to achieve competitive advantage in a region consisting of emerging markets, the study has shown that a regional strategy is necessary. Adequate marketing information and being aware of the regional key success factors, as well as being able to respond to them, are required. Consequently, a regional organisation provides for, enhances and intertwines the factors that facilitate the achievement of a regional competitive advantage. To conclude; by taking our conclusions into consideration, an MNC operating in a heavy equipment industry in an emerging market can through the development of a regional organisation achieve competitive advantage.

8. RECOMMENDATIONS FOR FUTURE RESEARCH

During our research, we came across several interesting fields of study, which could be of interest for both Volvo CE and academia.

Locational aspects

Where to locate a regional organisation is an important issue we touched upon in our study. As Volvo CE's regional presence in MENA increases, we believe that a closer evaluation of where to locate a larger regional organisation/RHQ is essential. What location in MENA would be the most optimal with regard to for instance legal-, social-, governmental- matters and geographical proximity?

A warehouse in MENA

Another interesting field of study is whether Volvo CE would benefit from locating a warehouse in MENA. Generally, keeping stock is not perceived as an optimal solution since construction equipment is bulky and expensive. However, one must have in mind that the dealers in MENA are reluctant to keep their own stocks and that the customers are complaining about Volvo CE's long lead-times. Customers in the region are sensitive to changes in the environment, such as oil and dollar prices, and quick deliveries are vital. Currently, Volvo CE does not know how many deals are lost due to the long lead-times. The costs of locating a Volvo CE warehouse in the region must be closely weighted against the positive effects in terms of shortened lead-times to the customers a regional warehouse would imply. Additionally, If Volvo CE considers a warehouse in MENA necessary, then the issue of location would be an interesting topic for future research.

Parts

How Volvo CE can improve the spare part side is an interesting question. In heavy equipment industries, the after sale is often very important since margins are generally high. Further, improvements in parts can make companies more competitive in the market, since customers demand parts to be available instantly when the equipment breaks down. Moreover, having high parts availability is considered to increase the resale value of the equipment. Today,

Volvo CE complains about the dealers' low parts-availability. The dealers, on the other hand, complain about the long delivery times from Volvo CE Parts in Eskilstuna. Some ten years ago, Volvo CE was considered among the best in the industry on the parts side. What went wrong and how can the problems be solved? Volvo Trucks and Volvo CE share many spare parts, but as Volvo Trucks invoices in SEK and Volvo CE invoices its parts in USD, dealers are ordering such parts from the supplier, which momentarily offers the most beneficial prices on the parts with regard to the exchange rates. An interesting topic is how Volvo Group could solve this problem.

Forecasting

Finally, volume forecasting is not functioning adequately for the Volvo CE Group. During our research, we noticed that this is especially true in the MENA region, where the forecasted volumes often differ considerably from the actual sales volumes. How to improve Volvo CE's forecasting is certainly of great importance, since it can reduce lead-times as well as lead to a better resource allocation. An interesting study could be to evaluate how the company can improve its forecasting in general and forecasting in the MENA region in particular. In the volatile markets of MENA, is it meaningful to try to conduct forecasting at all? If so, what should be the leading indicators?

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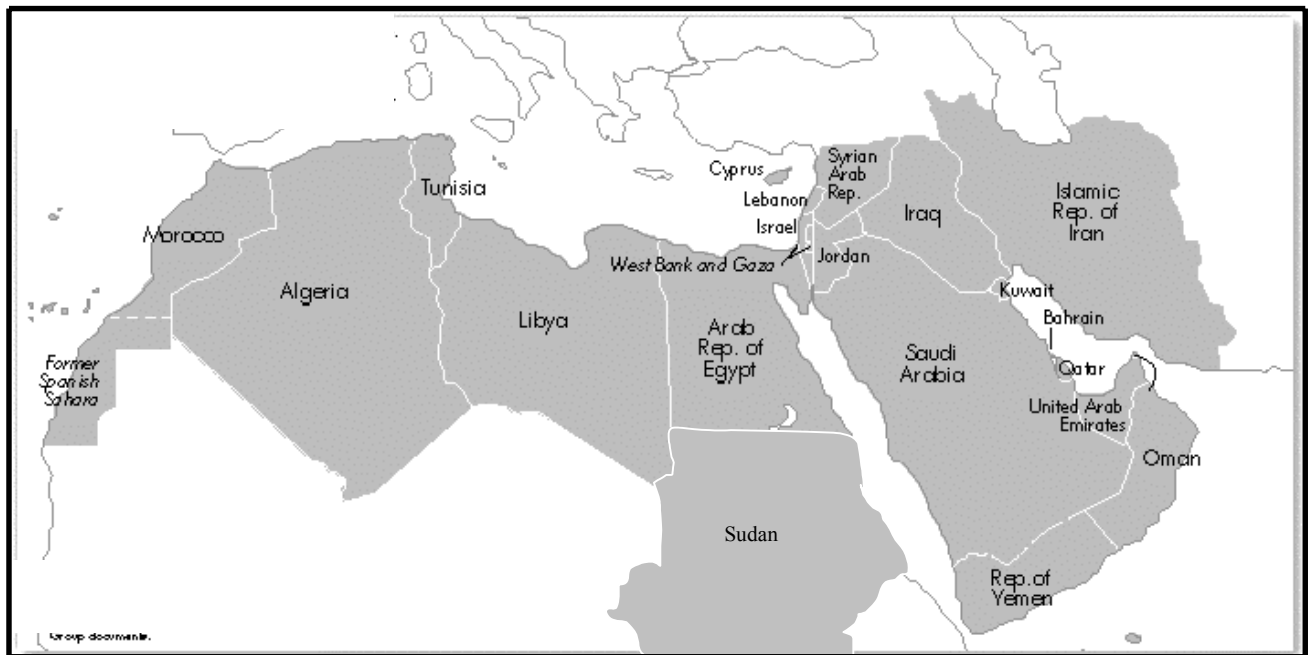
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APPENDIX 1: The Middle East and North African region (MENA)



APPENDIX 2: Questionnaires

Questionnaire for the interview at Volvo CE INT's headquarters in Eskilstuna

1. Hur ser konkurrenssituationen ut i MENA-regionen (Middle East, North Africa), jämfört med andra regioner?
2. Hur länge har ni varit närvarande i MENA regionen?
3. Hur stor försäljning har ni i regionen idag?
4. Hur stor marknadsandel har ni i regionen?
5. Hur har försäljningsutvecklingen sett ut sedan ni etablerade er?
6. Hur ser er lönsamhet ut i regionen? Jämfört med konkurrenterna? Jämfört med andra regioner?
7. Vad har ni för mål uppsatta för regionen?
8. Hur stor är er "market dependency" av regionen? (VCE group, VCE international)
9. Vilka är huvuduppgifterna/funktionerna/ansvarsområdena idag för huvudkontoret i Eskilstuna, regional hub och för dealers?
10. Vad krävs (vilka kriterier måste uppfyllas) för att ni skall knoppa av en hub, d.v.s. bilda en sub region eller ett regional headquarter?
11. Hur lång tid tror ni det tar innan denna utveckling blir verklighet?
12. Hur starka vill ni att "hubsen" ska bli?

13. Vilka tjänster/positioner finns på ”hubsen” idag? Vilka planeras att tillsättas?
14. Hur många anställda planeras att ha på respektive hub?
15. Nationalitet på personalen? Expatriates?
16. Varför har ni valt att ha ”dealers” och inte egna försäljare?
17. Efter vilka kriterier väljs era ”dealers”?
18. Hur klassificerar ni er organisation (i Eskilstuna)?
19. Planerar ni att addera nya marknader till respektive ”hub” i MENA-regionen?
20. Finns era dealers på fler än ett ställe i varje land i MENA-regionen?
21. Nämn några troliga framtidsscenarioer för ”hubsen”
22. Hur styr ni ”hubsen”
23. Hur styr ”hubsen” dealers?
24. Hur löses intressekonflikter/maktkamper mellan olika delarna (huvudkontoret-hubs-dealers)?
25. Har ni olika strategier för olika marknader/regioner? Vad är er strategi för MENA?
26. Vilka var huvudorsakerna till etableringen av ”hubs”
 - Har fördelar ställts mot nackdelar eller har ”gut-feelingen” gällt?
27. Vad avgjorde lokaliseringen av hubsen i MENA?

28. Hur ser informationsflödet ut i dag (Eskilstuna-regional hub-dealer)?
Vilken information rapporteras till/från "hubsen" idag?
29. Saknar ni någon information från hub/dealer?
30. Hur rapporteras informationen idag?
31. Vad är "hubsens" funktion vad gäller koordineringen av information?
32. Hur ser order to payment processen ut i enkla drag?
33. Hur gör dealern sin beställning av produkter?
34. Hur gjordes detta innan "hubsen" upprättades?
35. Från vilka källor erhålls information som används för att upprätta försäljningsbudgeten/forecast för regionen? (t ex dealers eller Regional managers?)
36. Prissättning- Vem tar ut vilka priser? Vem gör påslag? Är "hubsen" inblandade? Kan de bli inblandade?
37. Vart lagras informationen som kommer från hub/dealer? Vart lagrades den innan hubsen var etablerade?
38. Använder ni / hur används databaser för regionen?
39. Görs någon konkurrentanalys?
40. Gör Ni, "hubsen" eller "dealern" några kundundersökningar?
41. Vem använder informationen som samlas in? Till vad används informationen?
42. Hur ofta uppdateras informationen?

43. Hur samlades information in innan ”hubsen” fanns?

- vad blir skillnaden med ”hubsens” inträde?

44. Vilka informationssystem använder ni idag?

- Kommer några nya informationssystem att tas i bruk i och med etableringen av ”hubs”?

45. Anpassas produkterna efter förhållanden i olika regioner? Hur samlas information för sådana anpassningar in?

46. Hur behandlas informationen rörande service/reservdelar?

Questionnaire for the interview with Volvo CE's Area Sales- and Area Product Support managers at the regional hubs in MENA

1. Tell us about your normal working week and the tasks involved.
2. How often do you meet:
 - Dealers?
 - Customers?
3. How (in what ways) do you assist/support dealers? How have the dealers reacted upon the establishment of the regional hub?
4. Do you feel that they appreciate your presence in the region?
5. What do you think constitutes the largest obstacles today to overcome between Volvo CE and the dealers in the region?
6. What, in your opinion, have improved since the regional hub was established?
7. How has the establishment of the regional hub influenced the sales in the region; have you noticed any improvement?
8. Do you think that the establishment of the regional hub will make any difference for the customers? How?
9. How is Volvo CE's share of mind measured at the dealers? How large is Volvo CE's share of mind at the dealers?
10. What do you think about the location of the regional hubs?
11. What are your assigned responsibilities in your markets?
12. Is it possible to fulfill all your assigned responsibilities?

13. Do you think that more persons are required at the hubs in order to take care of the assigned responsibilities?

14. Would you like to have more responsibilities than you possess today?

15. Do you think Volvo CE would be in favour of enlarging the regional organisation in Dubai/Cairo, to encompass more functions? What functions could be useful to relocate from Eskilstuna to Dubai/Cairo?

16. How do you think your role (the regional hub) will develop/change in the future?

17. What are the major problems regarding the information flow as you see it today?

18. Do you think that the information flow to and from the market has improved after the establishment of the regional hubs?

19. What is your function in the information flow from the dealer to headquarters?

20. What do you report to Eskilstuna? How often?

21. How is information reported (what types of communication is used) between HQ-hub-dealer?

22. Do you have access to, and do you use any Volvo CE or dealer databases? In such case, for what purposes?

Definition of marketing intelligence: *The everyday information regarding developments in the external environment. It could be information about political and economical issues, as well as information about the markets and competitors.*

23. Do you gather and report political and macroeconomic information? How?

24. Do you gather and report information about trends in the market for construction equipment in the region?

25. If you are conducting any competitor analysis, how is information about the competitors collected? Do you use any framework for collecting information about competitors?

26. What information about the competitors is collected?

- Do you collect information about the competitors' products and how they are specified (level of options), in the region? How?

- Do you collect information about the competitors' distribution channels? How?

- Do you collect information about the competitors' pricing? How?

- Do you monitor competitor's choices of advertising and promotion? How?

- Do you collect information about competitors' soft products such as support, service and financing? How?

- Do you collect information about the competitors' logistics and network capabilities? How?

27. Is SACS (Sales and Customer Support) in use in the region? If not currently in use - do you see a potential for a successful implementation of the system at the dealers?

28. Are customer surveys performed in the region? How? How is such information used?

29. Describe how you are involved in the Circle of excellence (COE) program?

30. Describe how well the COE program is working in the region? What are the main problems in your opinion?

Questionnaire for the interview with the Managing- and Marketing directors at the dealer in Dubai

1. When did you start your business; can you give us a brief history background?
2. How is your organisation structured?
3. For how long have you been a Volvo CE dealer?
4. Rank the best things of being a Volvo CE dealer.
5. How large share of your aggregated turnover is derived from Volvo CE products? What other products/services do you market, aside from Volvo CE's?
6. How often are you visiting Volvo CE International AB's headquarters in Eskilstuna?
7. How often is Volvo CE's regional staff visiting you?
8. What do you think about the establishment of the regional hub, i.e. the relocation of Volvo staff to the region?
9. How do you perceive the cooperation/relationship between you, the regional Volvo Staff in Dubai and Volvo CE INT headquarters in Eskilstuna?
10. In your opinion, what has been improved since Volvo CE's regional hub was established?
11. How are the regional Volvo CE staffs supporting you?
12. Would you be in favour of more and closer support, than you receive today from regional Volvo staff?

13. How do you place your orders to Volvo CE?
14. What do you feel Volvo CE can improve in the order to delivery process?
15. How important is it that the Volvo CE machines arrive on time?
16. Do you use any warehouse in Dubai/? How large of a buffer do you keep?
17. What are the most important criteria for a Volvo customer buying a new machine?
18. What are the most common complaints by your construction equipment customers?
19. What do you report to Volvo CE's headquarters in Eskilstuna? How often do you report?
20. What information do you need from Volvo CE, which you today are lacking?
 - What can Volvo CE do better in the information process?
21. Who do you perceive are your largest competitors in terms of selling construction equipment?
 - Do you know how they are organized?
 - Do you collect any intelligence about them?
22. How do you monitor competitor's pricing of construction equipment?
 - How important are competitors' pricing when setting your own prices?
23. How do you keep in touch with Volvo CE INT headquarters and the regional Volvo staff?

Definition of marketing intelligence: *The everyday information regarding developments in the external environment. It could be information about*

political and economical issues, as well as information about the markets and competitors.

24. Do you actively try to collect marketing intelligence about the environment?

25. If you are conducting any competitor analysis, how is information about Volvo CE's competitors collected?

- Do you use any framework for collecting information about Volvo CE's competitors?

26. What information about the competitors is collected?

- Do you collect information about competing construction equipment products in the region? How?

- Do you collect information about Volvo CE's competitors' distribution channels? How?

- Do you collect information about Volvo CE's competitors' soft products such as support, service and financing? How?

- Do you collect information about Volvo CE's competitors' logistics and network capabilities? How?

27. Do you normally evaluate the major reasons that you sometimes lose a deal?

28. Can you think of making a lost sales report to Volvo CE, where it says why a customer was lost?

- Is such information possible to attain?

29. Are customer surveys for construction equipment customers performed? How? How is the information used?

30. What do you think about Circle of Excellence?

- What improvement can be made on COE?
- Do you know why Volvo CE is using it?
- Has it helped you improving your business, increasing your sales?
- Are the targets too hard to reach?
- What is the most difficult?

31. Do you use any customer databases?

32. Do you have access to information from Volvo CE databases? Would you like to have such access?

33. How do you look upon the future? The market for construction equipment, your future sales, market shares etc?

Questionnaire for the interview with the Managing- and Finance and administration directors at Alfa Laval's regional organisation in Dubai

1. Hur definierar ni er regionala organisation?
2. Vilka marknader (länder) täcks in av er regionala organisation?
3. Vilka är huvudfunktionerna i er regionala organisation?
4. Vilka tjänster finns och vad är huvuduppgifterna?
5. Hur många anställda har ni? Varav expatriates / lokalt anställda?
6. Hur länge har ni varit närvarande i regionen, d.v.s. haft någon form av försäljning?
7. När etablerade ni er regionala organisation?
8. Vilka var huvudorsakerna?
9. Hur etablerade ni er och hur har organisationen växt och utvecklats sedan dess?
10. Varför etablerade ni er just i Dubai?
11. Använder ni er av återförsäljare i regionen?
12. Hur stora marknadsandelar har ni i regionen?
13. Hur stor är försäljningen i regionen?
14. Hur har försäljningsutvecklingen sett ut sedan ni etablerade er regionala organisation?
15. Hur lönsam är regionen, jämfört med andra regioner?

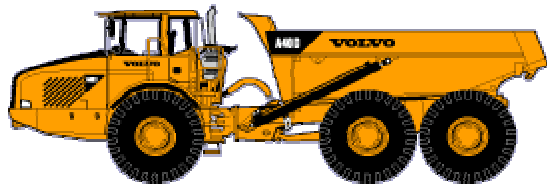
Questionnaire for the interview with the President of Volvo CE INT

1. Vad förväntade ni er med etableringen av hubsen? Har detta uppfyllts? Motivera!
2. Har ni sett någon försäljningsökning sedan hubsen etablerades i MENA, förutom i UAE? I vilka länder?
3. Använder ni MAS i Eskilstuna för att lägga order till PC? Vad säger ni om möjligheten att låta hubet eller t.o.m. dealern göra detta?
4. Behövs fler folk på hubet? Tror du fler marknader kan täckas in av hubsen utan att mer personal tillsätts?
5. Duger konkurrentinformationen som skickas från hubet? Vilken information är det framförallt som saknas?
6. Vi vet att Famco idag försöker upprätta och rapportera lost sales report? Är det någon annan av dealers i MENA som försöker att göra liknande? Hur är kvaliteten på de lost sales reports ni erhåller?
7. Hur stor Volvo CE share of mind uppskattar ni att följande dealers har?
 - Famco (UAE)
 - Al Rehab (Saudi Arabien)
 - Mayers (Israel)
 - Interland (Egypten)
 - Magrimex (Tunisien)
8. Vilka egenskaper är det framförallt som skiljer mellan bästa och sämsta dealer i MENA?
9. Vilka är de största hindrena mellan Huvudkontoret och Dealer som måste överbryggas?

10. Är det svårare att införa Circle of Excellence i MENA regionen än i andra regioner?
11. Varför används inte SACS av INT? Tror du det finns någon potential för SACS i MENA området? Vad är det största hindret för att införa SACS?
12. Använder ni er av dealers även i era ”project markets” i MENA? I vilka?
13. Famco i UAE använder sig av en customer survey. Får ni ta del av dessa?
14. Gör andra dealers i MENA liknande surveys?
15. Har ni funderat på att standardisera customer surveys och låta samtliga dealers genomföra dem med kunderna?
16. Vem analyserar den marknads information i Eskilstuna som erhålls av hubsen och dealers i MENA? Till vad används information?

APPENDIX 3: Volvo CE's product groups

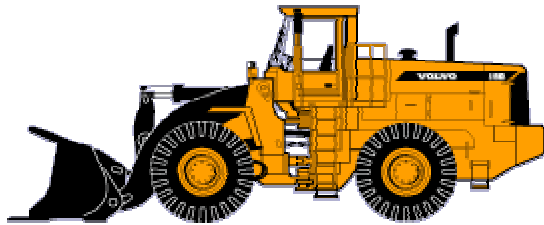
Articulated haulers



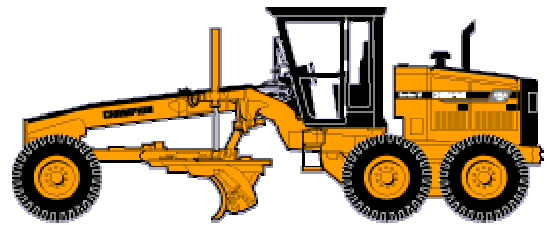
Excavators



Wheel loaders



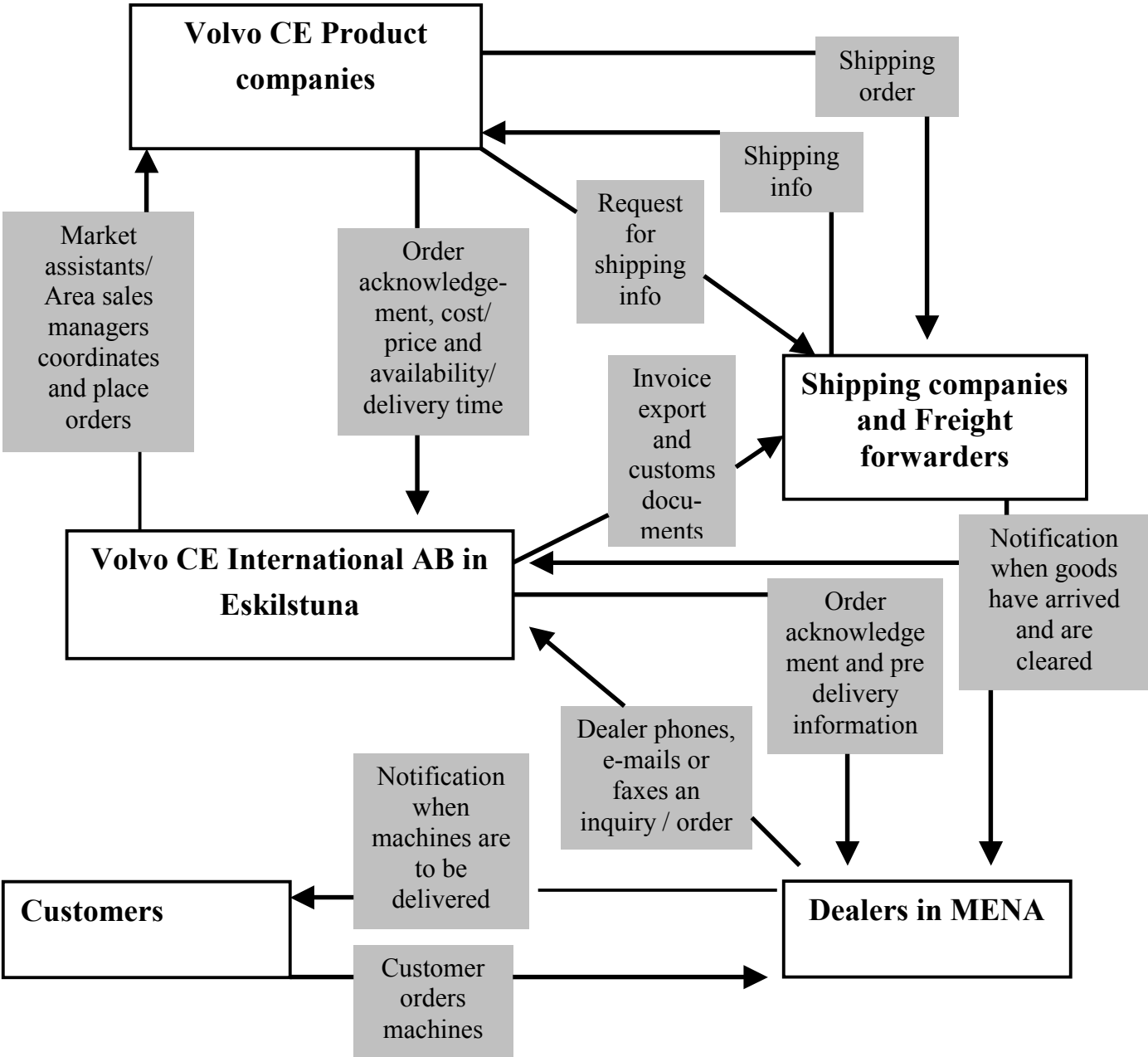
Motor graders



Compact equipment



APPENDIX 4: A Simplification of the information flow in Volvo CE's order to delivery process



(Source: Interviews and Volvo CE material)